

search result

Surname	area	information	V. date
Babbel GmbH (formerly: Lesson Nine GmbH) Berlin	Accounting/ Financial Reports	Consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019 Correction of the publication from January 5, 2021	09/10/2021

Babbel GmbH (formerly: Lesson Nine GmbH)

Berlin

Amended consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019

Lesson Nine GmbH
(since April 1, 2021: Babbel GmbH),
Berlin

Changed group management report 2019**I. Fundamentals of the Group****A. Changes to the Group Management Report 2019**

The group management report for the financial year 2019, authorized for issue on June 5, 2020, was amended on June 17, 2021 as follows:

Changes to information in Sections II.D. "Financial Position" and II.E. "Assets" including the respective prior-year figures due to the change in the disclosure of rental deposits in the consolidated balance sheet from the item "Cash and cash equivalents" to the item "Other financial assets".

B. General and business model

The Lesson Nine Group, hereinafter referred to as the "Babbel Group", develops and operates a global web and mobile app for learning foreign languages under the Babbel brand. The primary focus is on the development of products for private customers that can be offered to a broad audience online via browser and mobile applications. In addition to the main business with private customers, the second focus is on corporate customers, who are given the opportunity to offer their employees the opportunity to learn foreign languages online as a further training offer.

The business model for these two areas is based on subscriptions, which means that customers use the product via a clearly and transparently defined price model, which enables them to learn one or more languages at the individually desired time rhythm. Babbel sells these subscriptions both on its website and in the usual app stores.

The third business area is language travel. It's still a fairly new area that will be further expanded. The area is closely linked to the core business of subscriptions. The customer is offered the opportunity to learn languages in a different way or even to combine the experience of a language trip with their subscription.

The goal of Lesson Nine GmbH is to provide customers with the best possible and most efficient experience in the field of language learning, as well as a leading market position in the most important markets (private customers & B2B) for online-based self-learning apps for foreign languages through internationalization to achieve or to expand the market-leading position that has already been achieved.

In the 2019 financial year, the Group is presented as follows:

- Lesson Nine GmbH, Berlin
(parent company)
- Babbel Inc., Wilmington, Delaware, USA
(100% subsidiary)
- LingoVentura GmbH, Berlin
(100% subsidiary)

Lesson Nine GmbH as the parent company is the operational and strategic control unit of the group. Babbel Inc. is the local and national sales unit for the North American market. The business field language travel is bundled in the 100% subsidiary LingoVentura GmbH. Strategic and operational decisions are made in accordance with the parent company's objectives.

C. Research and Development

Research and development activities continue to be very important for the group and underline the group's claim to be a pioneer for learning-based apps and applications. Therefore, the expenses for research and development represent a significant cost factor in addition to the sales costs.

The product was further developed and promoted in the financial year with the clear goal of further consolidating Babbel's position as the first choice (defined by sales strength¹) for app-based language learning offers. To this end, work was carried out on specific product extensions and improvements in order to provide customers with an even better user experience. The didactic improvement of the learning content was pushed forward, and the look & feel of the product was further improved. Researchers from Yale University and Michigan State University provided independent evidence of Babbel's efficiency². In the medium term, Babbel is focusing on bundling its products as a "guide" that is intended to actively accompany and support the user in choosing the right language learning offers.

In the 2019 financial year, expenses totaling €20,902 thousand (€19,300 thousand in 2018) were incurred for research and development. The costs mainly include personnel costs. As of December 31, 2019, Lesson Nine GmbH had 235 employees (181 as of December 31, 2018) in these departments.

Further developments and new releases for the product are also planned for 2020. Since software and product development is a heuristic approach that is not determined ex-ante, a binding, quantified division into the areas of research and development as well as maintenance and care of the respective systems cannot be made. For this reason, no capitalization of self-created software and product developments will be carried out.

II. Economic report

A. Macroeconomic and Industry Environment

The general economic conditions worldwide are currently to be assessed as negative. The curfews or restrictions imposed by the Corona crisis are having a negative impact on overall economic development. Irrespective of the effects of the corona virus, Lesson Nine GmbH still comes to the conclusion that the industry-related framework conditions for learning and online-based technologies will continue to develop positively. The Group's business performance so far in 2020 confirms this trend.

The value of the global language learning market is estimated at US\$50-60 billion³. Most of this market is moving more and more from offline (print and schools) to digital. Digital is growing at 20% annually⁴. The total market is approximately 1.2 billion language learners worldwide, of which approximately 600 million speak one of Babbel's 14 current display languages (the primary reference language used in Babbel's applications). Given these developments and its already market-leading position with millions of subscribers, Babbel's management sees an exceptional opportunity for further global growth.

Languages have been taught in a physical classroom with a human teacher and paper workbooks and homework for centuries. The recent digitization of the industry has provided an opportunity for new companies to redefine language learning. The use of digital end devices and the consumption of digital content are - not only among younger people - more and more present in everyday life and at the same time offer customers continuous and unrestricted use even in times of crisis (Corona). As a result, the market for private online learning continues to develop at a high level on both the provider and customer side.

While the vast majority of the industry are small local language schools and publishers, there are a handful of larger global players including Babbel. Babbel, on the market since 2009, was/is the first major language app to launch a subscription with a product preview instead of free or freemium models. This pioneering role gives the company a significant advantage. Babbel performs better than its digital competitors when it comes to monetization. Many other apps are still developing their monetization strategies. Due to its many years of experience, Babbel already monetizes via several channels: not only via app stores, but also directly via desktop and mobile web.

A large number of small providers are still pushing into the market in the private customer sector, but only a very small proportion of companies have reached a relevant size. Learning communities and free offers struggle with monetization problems, traditional providers such as publishers and language schools have serious problems developing adequate products for the app market. This makes consolidation more likely in the coming years. Compared to the previous year, the competition has become somewhat more intense, since the first competitors have also started to monetize their services and are thus in direct competition with Babbel.

B. Business Development

The positive sales trend of the past few years continued in the past financial year. Overall, sales revenues increased again significantly from €106,422 thousand to €123,932 thousand. This corresponds to an increase of 16% compared to the previous year. An important indicator for evaluating sales is the status of internationalization. Germany's share of total sales this year was 29% (previous year: 30%) and sales in this market increased by 10% in the same period. Babbel thus maintained its position on the home market and was able to further expand it.

Another important and strong growth driver in the past fiscal year was the US market. There, the group was able to record sales growth of 60% (previous year: 105%). An outstanding value in view of the size of the market and the already high sales in recent years. The share of the US market compared to total sales was already 24% in the past financial year (previous year: 18%).

Other key growth markets in Europe and the rest of the world also delivered sales growth.

In the financial year, further investments were made in the expansion of the B2B area, so that sales growth of 55% was achieved compared to the previous year and the sales threshold of €1,000 thousand was exceeded for the first time.

The sales forecast of the previous year was achieved by 70%, in return the planned annual result was exceeded by far (+111%). In addition, it was possible to implement internationalization more effectively than planned and to reduce dependency on the home market. In connection with the expansion of the Travel and B2B business areas, business development in the 2019 financial year can be assessed as positive overall, even if the sales forecast for the previous year (growth of 22-28%) was not quite achieved. The deviation in sales from the forecast is mainly due to weaker than originally expected demand in individual markets.

Further important steps in our strategy with regard to internationalization are the expansion of regional marketing activities in important growth markets and brand strengthening.

Through strong, often very locally oriented marketing activities, Babbel was able to significantly increase its level of awareness and counts as a "household brand" in many of its markets. With local pricing, all relevant information and parameters are included and taken into account in the consideration, calculation and subsequent determination, so that an optimal sales price can be determined at any time.

Despite the increase in sales, the group managed to reduce selling expenses compared to the previous year. This circumstance is a result of the higher efficiency of the marketing campaigns carried out and external services used, as well as the resulting increase in brand awareness.

In the course of expansion, it is necessary to constantly review and optimize the organizational and team structures in order to be able to ensure further dynamic growth. In the financial year, selected departments in the areas of administration and sales were downsized. Furthermore, in the course of the year under review, an expansion of capacities, especially in the area of research & development and dedicated sales channels, was pushed ahead. The adjustments made will enable a more effective allocation of human resources in the future.

The group continues to value an international composition of the individual teams. Employees from over 50 nations work in the company.

The Contribution Margin⁵ improved significantly in the 2019 financial year compared to the previous year. In relation to sales, it was 38% (previous year: 27%). With an increase in the absolute contribution margin of 63%, the previous year's forecast (increase of approx. 50-55%) was exceeded.

Due in particular to the above-mentioned effects of the increase in sales and above all the marketing efficiency as well as other economies of scale achieved, the previous year's target for the group annual result (increase between 10% and 20%) was significantly exceeded.

Consolidated comprehensive income increased by 76% compared to the previous year and thus exceeded the previous year's forecast.

1. Funding Measures

No financing measures were carried out in the 2019 financial year due to the positive liquidity situation.

2. Employee development

The average number of employees increased from 465 employees in 2018 to 567 employees in 2019.

Broken down by functional areas, the following picture emerges:

designation	2019	2018
distribution	246	205
Research & Development	229	169
administration	92	91

designation	2019	2018
total	567	465

C. Results of Operations

in €	2019	2018	Change in %
revenues	123.932.266	106.421.615	16%
cost of sales	(13,388,911)	(13.143.703)	2%
Gross profit on sales	110.543.355	93.277.912	19%
marketing effort	(81.767.046)	(77.209.323)	6%
Research & Development Expenditure	(20,901,690)	(19.300.083)	8th%
administrative burden	(9,821,725)	(8,807,148)	12%
Other company income	1,201,273	809,983	48%
Other Operating Expenses	(1,805,443)	(1,184,024)	52%
EBIT	(2,551,276)	(12,412,684)	79%
<i>EBIT margin in percent</i>	(2%)	(12%)	
financial result	(32,481)	37,801	(186%)
income taxes	(421,538)	(68,690)	514%
Other result	44,436	18,740	137%
Group comprehensive income	(2,960,859)	(12,424,833)	(76%)

In the financial year, the group generated total sales of €123,932 thousand, exceeding the previous year's figure by 16%. Deferred revenue increased by 7% compared to the previous year.

The cost of sales item consists mainly of commissions from the app stores, which are incurred when the product is sold. The development in the financial year is very strongly influenced by the development of sales in the financial year. On the one hand, the share of web sales has increased. On the other hand, app sales included a higher proportion of subscription renewals, which incur lower costs.

The individual functional costs have increased mainly due to the general growth of the group and the increased number of employees. Marketing expenses rose by 6% compared to the previous year and thus at a lower rate than sales. The main reason for this was the increased efficiency in the financial year. This is also reflected in the development of administrative expenses, which fell by 12% in the financial year. A significant effect within the administrative expenses in the financial year compared to the previous year results from the reduction in the areas of administration and sales mentioned. Provisions of €1,297 thousand were made for this in the financial year.

Income taxes essentially include tax expenses from Germany and the USA.

D. Financial Condition

Cash and cash equivalents were sufficient at all times during the past financial year, so that the group was always able to meet its payment obligations.

in €	2019	2018
Cash and cash equivalents at the beginning of the financial year*	25.208.404	27.181.740
Cash inflow (previous year: cash outflow) from operating activities*	8,630,207	(1,131,367)
Cash outflow from investing activities	(1,138,116)	(860,708)
Cash outflow from financing activities	(2,215,198)	0
Exchange rate-related changes in value Cash and cash equivalents	44,436	18,740
Cash-effective change in cash and cash equivalents*	5,276,893	(1,992,075)
Cash and cash equivalents at the end of the financial year*	30,529,733	25.208.404

The financial year closed overall with a positive cash flow of €5,277 thousand*, which essentially results from a positive cash flow from operating activities (+€8,630 thousand)*. Due to special features of the business model (mainly an increase in contract liabilities within the meaning of IFRS 15) and recognized non-cash expenses (mainly provisions, depreciation), there is a significant difference between the cash flow from operating activities and the consolidated comprehensive income. The outflow of funds from investing activities in the financial year resulted primarily from investments in hardware and purchased software.

E. Assets

Assets (in €)	12/31/2019	Portion	12/31/2018	Portion	change
Capital assets	5,483,070	8th%	2,386,800	4%	3,096,269
Other non-current assets*	24,745,894	35%	20.720.180	35%	4,025,714
Short-term performance requirements	3,116,694	4%	3,289,758	6%	(173,064)
Other current assets*	7,743,899	11%	7,706,488	13%	37,411
means of payment*	30,529,733	43%	25.208.404	43%	5,321,329
Total assets	71.619.290	100%	59.311.631	100%	12.307.659
Liabilities (in €)	12/31/2019	Portion	12/31/2018	Portion	change
Equity capital	2,219,380	3%	1,036,303	2%	1,183,078
other long-term provisions	24.035.361	34%	20,044,949	34%	3,990,413
long-term trade and other liabilities	499,428	1%	44,239	0%	455,188
other short-term provisions	2,712,149	4%	1,510,292	3%	1,201,857
short-term trade and other liabilities	7,201,378	10%	4,541,939	8th%	2,659,439
other current liabilities	34,951,594	49%	32.133.909	54%	2,817,685
Total liabilities	71.619.290	100%	59.311.631	100%	12.307.659

Fixed assets increased by a total of €3,096 thousand in the financial year. The reason for this, in addition to investments made - mainly in hardware and software - is above all the additions for rights of use as part of the first-time application of IFRS 16.

* Changes to the group management report 2019, see explanations in section IA "Changes to the group management report 2019"

The increase in non-current other assets by €4,026 thousand* results from increased compensation claims against the shareholders from the employee participation program. The decrease in current assets is mainly due to a decrease in prepaid expenses as of the balance sheet date. The increase in cash is explained under the item financial position.

Equity increased in the financial year by €1,183 thousand to €2,219 thousand. The composition of the consolidated comprehensive income and allocation to the reserves is shown in the consolidated statement of changes in equity. The increase in long-term provisions by €3,990 thousand mainly relates to the addition to the obligation from the employee participation program. The increase in non-current trade and other liabilities by €455 thousand is also due to IFRS 16. Current provisions increased by €1,202 thousand, in particular due to higher personnel-related provisions.

The capital structure has improved compared to the previous year. The equity ratio as of December 31, 2019 is now 3% (December 31, 2018: 2%). However, due to the Group's business model, the generation of financial resources is not to be regarded as endangered.

F. Financial Performance Indicators

The Group's key financial performance indicators are sales and the Group's overall result. Essential measures for controlling the group can be derived from both variables. Revenue is the central unit for evaluating the Group's growth. Cost factors can also be included in the overall consolidated result.

G. General statement on the economic situation

Taking into account the business and other framework conditions, the management assesses the development of the group's net assets, financial position and results of operations as positive.

Overall sales increased by 16% compared to the previous year. In addition, the forecast increase in the contribution margin and overall group result was exceeded in the financial year. Due to the prescribed sales accruals (increase of 7% compared to the previous year), there is a large sales potential for the future in addition to the further growth of the group.

* *Changes to the group management report 2019, see explanations in section IA "Changes to the group management report 2019"*

III. Opportunity and risk report as well as forecast reporting

The risks and measures are shown separately in this report. No financial instruments were used to hedge risks in the reporting period.

The risk report deals with the business risks to which the Babel Group was exposed in the 2019 financial year or on the balance sheet date up to the final preparation of the consolidated financial statements and covers a forecast period of at least one year.

A. Market and Competitive Risks

In general, market risks primarily arise from competitors who are or will be active in the markets on which Babel focuses. These risks are countered by continuously monitoring the relevant KPIs, such as search engine rankings and iOS and Android rankings and downloads. Another important measure to minimize risk is the constant development of high-quality content. In addition, it is important to closely monitor the competition for relevant advertising space in order to minimize unnecessary price increases. For this purpose, precise monitoring is used and a continuous analysis of the most important influencing factors is carried out. The risk of free offers and the entry of competitors into monetization is countered by product innovations and appropriate positioning in marketing. Since the product is also sold via app stores (in particular Apple and Google), there is a sales risk due to changes in the specifications or criteria used to determine the ranking in the respective store. This risk is minimized through close contact with the respective partners and the diversification of our sales channels. The Babel Group is exposed to risks from external (economic) developments as well as from internal company processes, in particular the uncertainties caused by the Corona crisis. According to data from the Federal Statistical Office, German gross domestic product (GDP) shrank by 2.2 percent in the first quarter of 2020 compared to the previous quarter (-1.9% compared to the same quarter of the previous year). According to calculations by the Leibniz Institute for Economic Research Halle (IWH), economic output is likely to fall by an additional 7.2% in the second quarter of 2020. For the third quarter of 2020, however, the IWH expects growth in economic output of 10.7%. According to calculations by the Leibniz Institute for Economic Research Halle (IWH), economic output is likely to fall by an additional 7.2% in the second quarter of 2020. For the third quarter of 2020, however, the IWH expects growth in economic output of 10.7%.⁶ However, a second virus wave could nullify this forecast. The federal government, on the other hand, expects an overall GDP decline of more than six percent this year.⁷ These numbers show the high volatility in forecasts from government and economic institutes. Based on this database, the management of Lesson Nine GmbH does not see itself in a position to make a reliable assessment of future economic developments. The Corona crisis has exacerbated the uncertainties prevailing worldwide, and thus also in Germany. A slowdown in consumer spending by private households could have a negative impact on the Group's revenues. The exit restrictions imposed by Corona in Germany also pose enormous challenges for the group within the company with regard to the organization of work processes.

Management is aware of all the risks and challenges presented. Appropriate risk minimization measures have been taken. Overall, the management assesses the risks for the group as moderate. There is no risk of a situation threatening the existence of the group.

B. Legal Risks

Significant legal transactions are subject to review by management. Such legal transactions are reduced to unavoidable risks in cooperation with internal and external specialized lawyers.

There is a risk of copyright infringement in the area of media use within the product. There is also the risk of patent infringements for the use of sales platforms. To minimize this risk, there is an internal legal review process that identifies and appropriately manages media ownership rights.

There are risks for the Babel Group from ongoing legal proceedings arising from the Group's operational activities. Provisions were formed for legal disputes pending as of the balance sheet date based on an estimate of the respective probability of occurrence. The actual utilization of these provisions depends on whether and to what extent the risks materialize. The amount of the provisions for legal disputes is of minor importance.

C. Technical Risks

The technical development of the Babel platform and related applications continued to progress in 2019 and the staff in the department continued to increase to support the strong growth.

Technical risks can take the form of a prolonged outage of the platform. These risks are minimized by continuously backing up all relevant data and by processes that enable a quick switch to another technical provider in order to keep potential losses as low as possible.

Another risk is finding suitable personnel for the further technical development of the platform at any time. This risk is countered by ongoing monitoring of the company's compensation structure and by an employee development program. There is also a virtual employee participation program for key personnel.

There is also the direct and indirect risk of cyber attacks, which the Babel Group counteracts through increased monitoring of data flows, the firewall and increased and continuous awareness of the risks in data engineering.

Furthermore, external service providers and redundant systems are used to ward off external attacks (IP address misuse, spam attacks, etc.), and load tests are carried out regularly. As part of an incident management process, the causes of disruptions are systematically sought and measures are developed to eliminate them permanently. In the 2019 financial year, none of the above attacks were registered or led to network infrastructure failures.

In order to generate sales, the Babel Group relies heavily on the functionality, security and stability of various websites. Failures or disruptions would lead directly to a loss of sales and damage the Group's reputation in the medium term.

To avoid damage, best practice processes are being implemented to an increasing extent. In addition, the internal controls and the IT know-how of the employees are constantly being expanded. The software developed in-house is checked before publication as part of a quality assurance process.

A large number of the group's internal processes can already be mapped digitally. This is a major advantage over other trades. In the course of the Corona crisis, there are now challenges regarding the provision and maintenance of the functionality of the digital infrastructure for the employees in order to be able to guarantee work and

productivity even in times of exit restrictions and home office. This risk was countered by implementing digital processes, by involving employees at an early stage and by "trial runs" scheduled in good time.

D. Financial Risks

There is a risk of non-payment for individual receivables, particularly if the means of payment are not covered or incorrect data is transmitted. Due to the increased sales activity in B2B business, there is a risk that receivables cannot be collected in certain cases. The management estimates the risk of bad debts to be low, on the one hand from past experience and also because access to the learning content for the main product is only activated after successful payment.

In addition, there are risks for the Babbel Group in the area of the further development of exchange rates, since the Group generates almost a third of its sales outside the European Monetary Union. The risk is constantly monitored and evaluated via monthly reports and counteracted in this way. No hedging or swap instruments were concluded for subsequent periods in the past financial year. As far as possible, payments are always made in the currency of the outstanding liability. This actively reduces the currency risk. Liquid funds in currencies not required for payouts are actively exchanged for other currencies.

Risks also arise for the Babbel Group from fraud in various payment options (fraud & fake). Order activities are monitored as part of fraud & fake management in order to be able to identify and prevent cases of fraud. The number of such cases was also low in the 2019 financial year. For these reasons, the management of the Babbel Group rates the risks of fraud and fakes as low.

E. Overall Risk

In 2020, the group will be confronted with the challenges of the Corona crisis. The management classifies the risks for the group as moderate from the point of view of the moment. Nevertheless, the management is aware of the volatility of the influencing factors and constantly reviews its assessments and measures.

For all other risk areas, there have been no significant changes in the risk assessment compared to the previous year. There are no risks that could jeopardize the continued existence of the Group or significantly impair it.

F. Opportunities

The past financial years have shown that the international trend towards self-determined learning offers companies like Babbel the opportunity to achieve considerable success. Due to the increasing willingness to pay for digital content and for the entire online area, the market potential for the Babbel Group is increasing and there are additional opportunities for success.

The expansion of existing international markets offers another opportunity.

The B2B and Travel business areas have significant sales potential and are an opportunity for additional sales channels for Babbel products. Both areas will be continuously developed and expanded in the coming years.

Under the given conditions and general conditions - in particular characterized by the effects of the corona virus (see also explanations under the general economic and industry-related general conditions as well as under the market and competition risks) - the management assumes that there will be positive effects on the business and an expansion of the global market position is possible. Due to the current crisis, the group's customers are spending more time at home and are increasingly using digital content. Educational offers are particularly in demand. It can be assumed that customers rate the future benefits highly and that the group has the chance of long-term positive effects.

G. Forecast Report

Overall, the management assumes that the market for learning-based technologies will continue to grow and that the group will be able to expand its market position worldwide.

In the coming financial year, the group will work on the following points: the continuous optimization of the product through the development of additional didactic content or the optimization of the product design and the user interface, the optimization of the process to guide customers through the different products; the expansion of the product range (language trips) and the intensification of market cultivation (especially on the international markets). The management is convinced that - despite the corona pandemic - these points will have a positive effect on the number of new customers and thus also on sales development. Due to the peculiarities of the group's business model, the short-term increase in sales is not as strong as the increase in new customers. The subscription mix is responsible for the amount of sales shown in the respective financial year and for the change in deferred income. As shown above, the management is aware of the uncertainties caused by the Corona crisis. Expected revenue growth for fiscal 2020 is between 8% and 18%. The subscription mix is responsible for the amount of sales shown in the respective financial year and for the change in deferred income. As shown above, the management is aware of the uncertainties caused by the Corona crisis. Expected revenue growth for fiscal 2020 is between 8% and 18%. The subscription mix is responsible for the amount of sales shown in the respective financial year and for the change in deferred income. As shown above, the management is aware of the uncertainties caused by the Corona crisis. Expected revenue growth for fiscal 2020 is between 8% and 18%.

Higher expenses for customer acquisition will have a negative impact on the Group's overall result in the 2020 financial year. Long-term positive effects from these expenses planned for 2020 will only have a positive impact on the overall consolidated result in the following years. In addition, the Group continues to strive to develop marketing activities in more detail, further expand marketing efficiency and implement other targeted measures to improve the cost structure. The high range of fluctuation in future economic expectations will also have an effect on the forecast consolidated overall result in the 2020 financial year. The overall consolidated result for the 2020 financial year will be between €0 thousand and €-4,000 thousand.

The management is very satisfied with the development of the Babbel Group in 2019 and, despite the fluctuating influences from the challenges posed by Corona, is convinced of the further growth potential for the 2020 financial year.

Berlin, June 17, 2021

Arne Schepker

Thomas Holl

¹ Prioridata as of May 22, 2020 (*Babbel also generates a significant proportion of its sales through its own web presence.)

² https://press.babbel.com/de/downloads/studies_research/ ³ Ambient Insight: The 2016-2021 Worldwide Self-paced eLearning Market ⁴ TechNavio: Global Online Language Learning Market 2017-2021 ⁵ Sales revenue - cost of sales - marketing costs (excluding personnel expenses) ⁶ Wirtschaftswoche, issue 22, May 22, 2020, page 22 ⁷

<https://www.handelsblatt.com/politik/konjunktur/nachrichten/bip-daten-die-deutsche-wirtschaft-wandern-im-first-quarter-by-2-2-percent/25856824.html?ticket=ST-2353366-7FOVnz4HLexdYKpXePgk-ap3>

Lesson Nine GmbH

**(since April 1, 2021: Babbel GmbH),
Berlin**

Table of Contents**I. Consolidated Balance Sheet****II. Consolidated Statement of Comprehensive Income****III. Consolidated Statement of Changes in Equity****IV. Consolidated cash flow statement****V. Notes to the Consolidated Financial Statements**

A. General Information on the Consolidated Financial Statements

1. Fundamentals of the Group
2. Changes to the 2019 consolidated financial statements
3. Accounting principles for the consolidated financial statements according to IFRS

B. Scope of consolidation

C. Consolidated Balance Sheet Disclosures

1. Fixed assets
2. Trade Receivables
3. Other financial assets
4. Other Assets
5. Deferred Income Taxes
6. Cash and Cash Equivalents
7. Equity
8. Provisions
9. Trade and other payables
10. Other Debts

D. Information on the Consolidated Statement of Comprehensive Income

1. Revenue
2. Cost of Sales
3. Marketing Expenses
4. Research and Development Expenses
5. General administrative expenses
6. Other operating income
7. Other Operating Expenses
8. Financial Result
9. Income Taxes

E. Disclosures on the Consolidated Statement of Cash Flows

F. Other Information

1. Share-based Payment - IFRS 2
2. Financial Instruments
3. Capital Management
4. Information on the cost of sales method
5. Number of employees
6. Total Auditor's Fees
7. Relationships with related companies and persons
8. Lessee Relationships
9. List of Shareholdings
10. Management
11. Shareholders' Committee (Board)

G. Accounting Policies

1. Consolidation Methods
2. Currency Conversion
3. Income and Expense Realization
4. Tangible assets
5. Intangible Assets
6. Leases
7. Income Taxes
8. Financial Instruments
9. Employee Benefits
10. Other Provisions
11. Determination of fair value
12. Judgments and Use of Estimates

Innovations in international accounting according to IFRS

H. Events after the Balance Sheet Date

I. Consolidated Balance Sheet

assets

Notes
disclosure12/31/2019
EUR12/31/2018
EUR

assets	Notes disclosure	12/31/2019 EUR	12/31/2018 EUR
A Non-current Assets			
I Intangible Assets	C.1	958,582	684,541
II. Property, plant and equipment	C.1	4,524,487	1,702,259
III. Other financial assets*	C.3	24,745,894	20.720.180
		30,228,964	23.106.981
B. Current Assets			
I Requests from deliveries and services	C.2	3,116,694	3,289,758
II. Other financial assets*	C.3	4,307,346	3,632,884
III. other assets	C.4	3,436,553	4,073,604
IV Cash and cash equivalents*	C.6	30,529,733	25.208.404
		41.390.326	36.204.650
total assets		71.619.290	59.311.631

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

liabilities	Notes disclosure	12/31/2019 EUR	12/31/2018 EUR
A Equity capital	C.7		
I Subscribed capital		50,198	50,198
II. capital reserves		28.528.133	28.528.133
III. Profit and Other Reserves		(26,393,340)	(27,531,982)
IV exchange rate differences		34,389	(10,047)
		2,219,380	1,036,303
B. Long Term Debt			
I accruals	C.8	24.035.361	20,044,949
II. Trade payables and other liabilities	C.9	499,428	44,239
		24,534,789	20.089.188
C Short term debt			
I Other provisions	C.8	2,712,149	1,510,292
II. Trade payables and other liabilities	C.9	7,201,378	4,541,939
III. Other Debts	C.10	34,951,594	32.133.713
IV income tax liabilities		0	197
		44.865.121	38.186.140
total liabilities		71.619.290	59.311.631

II. Consolidated Statement of Comprehensive Income

	Notes disclosure	2019 EUR	2018 EUR
1 revenues	D.1	123.932.266	106.421.615
2 cost of sales	D.2	(13,388,911)	(13.143.703)
Gross profit on sales		110.543.355	93.277.913
3 Marketing expenses*	D.3	(81.767.046)	(77.209.323)
4 Research and development expenses*	D.4	(20,901,690)	(19.300.083)
5 General administrative expenses*	D.5	(9,821,725)	(8,807,148)
6 Other company income	D.6	1,201,273	809,983
7 Other operating expenses	D.7	(1,805,443)	(1,184,024)
Earnings before interest and income taxes		(2,551,276)	(12,412,683)
8th financial income	D.8	54,599	38,625
9 financial expenses	D.8	(87,080)	(824)
10 income taxes	D.9	(421,538)	(68,690)
Group profit for the period		(3,005,296)	(12,443,572)
Miscellaneous result, net			
<i>Items that will be reclassified to the consolidated income statement in the future:</i>			
11 Currency Conversion Differences	C.7	44,436	18,740
Total other result		44,436	18,740
Consolidated comprehensive income for the period		(2,960,859)	(12,424,832)
<i>The result for the period is attributable to:</i>			
shareholders of the parent company		(3,005,296)	(12,443,572)
<i>The overall group result is attributable to:</i>			
shareholders of the parent company		(2,960,859)	(12,424,832)

* In 2019, the expenses for share-based payment (EVOP) were divided into the three functional areas of marketing, research and development, and administration for the first time in order to better present the earnings situation. Previously, these were all reported under general administrative expenses. To improve comparability, the previous year's disclosure of expenses for share-based payments (EVOP) was adjusted accordingly.

III. Consolidated Statement of Changes in Equity

01/01/2018 - 12/31/2019	Attributable to owners of parent company					
	in EUR	Subscribed capital	capital reserve	Profit and Other Reserves	reserves Currency translation reserve	Total Equity
disclosure	C.7 a)	C.7 a)	C.7 b)	C.7 b)		
Balance sheet as of January 1st, 2018	50,198	28.528.133	(21,956,797)	(28,787)	6,592,747	
annual result	0	0	(12,443,572)	0	(12,443,572)	
Other result	0	0	0	18,740	18,740	
overall result	0	0	(12,443,572)	18,740	(12,424,832)	
Other changes	0	0	6,868,388	0	6,868,388	
Transactions with the owners	0	0	6,868,388	0	6,868,388	
Balance sheet as of 12/31/2018	50,198	28.528.133	(27,531,981)	(10,047)	1,036,303	
annual result	0	0	(3,005,296)	0	(3,005,296)	
Other result	0	0	0	44,436	44,436	
overall result	0	0	(3,005,296)	44,436	(2,960,860)	
Other changes	0	0	4,143,937	0	4,143,937	
Transactions with the owners	0	0	4,143,937	0	4,143,937	
Balance sheet as of 12/31/2019	50,198	28.528.133	(26,393,340)	34,389	2,219,380	

IV. Consolidated cash flow statement

	Notes disclosure	2019 EUR	2018 EUR
1 Cash flow from operating activities			
Profit for the period before income taxes		(2,583,757)	(12,374,882)
Depreciation of property, plant and equipment and intangible assets (+)	C.1	777,616	571,814
Goodwill Impairment LingoVentura GmbH (+)	C.1	209,989	0
Amortization IFRS 16 (+)	C.1	2,283,457	0
Increase (+) in provisions	C.8	3,990,413	6,910,280
Loss (+) on disposals of assets	C.1	6,674	18,629
Other non-cash expenses and income		(2,737)	(1,775)
Decrease (+) / Increase (-) in trade receivables and other assets*		253,875	(4,329,639)
Increase (+) in trade payables and other liabilities		3,957,740	8,180,697
Interest income (-)	C.8	(54,599)	(38,707)
Interest expense (+)	C.8	75,897	907
Tin portion of lease payments IFRS 16 (+)	F.8 b)	(75,356)	0
Other interest paid (-)	C.8	(541)	0
Income taxes paid (-)	D.9	(208,464)	(68,690)
Cash flow from operating activities *		8,630,206	(1,131,367)
2 Cash flow from investing activities			
Payments (-) for investments in property, plant and equipment and in intangible assets	C.1	(1,194,796)	(744,300)
Proceeds (+) from disposals of property, plant and equipment	C.1	2,081	3,380
Acquisition of Subsidiaries		0	(158,413)
Interest Received (+)	C.8	54,599	38,625
Cash flow from investing activities		(1,138,116)	(860,708)
3 Cash flow from financing activities			
Principal portion Lease payments IFRS 16	F.8 b)	(2,215,198)	0
Cash flow from financing activities		(2,215,198)	0
4 Cash on hand at the end of the period			
Cash-effective change in cash and cash equivalents* (subtotals 1 – 3)		5,276,892	(1,992,075)
Exchange rate-related changes in the value of cash and cash equivalents		44,436	18,740
Cash and cash equivalents at the beginning of the period*		25.208.404	27.181.740
Cash and cash equivalents at the end of the period*		30,529,733	25.208.404

* Changes to the 2019 consolidated financial statements, see explanations in section VA.2. "Changes to the 2019 Consolidated Financial Statements"

V. Notes to the Consolidated Financial Statements

A. General Information on the Consolidated Financial Statements

1. Fundamentals of the Group

Lesson Nine GmbH (hereinafter also "Lesson Nine") is a Germany-based corporation. The registered office and headquarters of the company is at Max-Beer-Strasse 2, in 10119 Berlin. The main activities of the company and its subsidiary Babbel Inc., Wilmington/Delaware (USA) (hereinafter also "Babbel Inc.") continue to be the development, operation and sale of e-learning systems under the "Babbel" brand. Through the acquisition of LingoVentura GmbH, Berlin (hereinafter also "LingoVentura"), in the 2018 financial year, the group's activities were expanded to include the placement, organization and evaluation of language trips.

2. Changes to the 2019 consolidated financial statements

The consolidated financial statements for the 2019 financial year, authorized for issue on June 5, 2020, were amended on June 17, 2021 as follows:

- Change in the disclosure of rental deposits from "Cash and cash equivalents" to "Other financial assets" in the consolidated balance sheet and the resulting changes to individual items in the consolidated cash flow statement and the adjustment of the associated explanations in the notes to the consolidated financial statements
- Addition of various disclosures to IAS 24 (notes to the consolidated financial statements, Section F.7. "Related party disclosures")
- Correction of the information on future rental obligations (Notes to the Consolidated Financial Statements Section F.8. "Lessee relationships")

3. Accounting principles for the consolidated financial statements according to IFRS

The consolidated financial statements of the Babbel Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as applicable in the European Union. The consolidated financial statements were prepared in accordance with the provisions of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards in conjunction with Section 315e (3) HGB, taking into account the supplementary commercial law provisions.

The consolidated financial statements follow the classification requirements of IAS 1. The consolidated income statement is prepared using the cost of sales method. The presentation of the consolidated balance sheet distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due within one year. Individual items in the statement of comprehensive income and the balance sheet have been combined to improve the clarity of the presentation. These items are explained in the notes.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all values are rounded to the nearest euro (EUR). For arithmetic reasons, rounding differences to the mathematically exact values may occur in tables and references.

The consolidated financial statements are prepared on the basis of the going concern assumption.

The preparation of consolidated financial statements in accordance with IFRS requires estimates and judgments by management. Areas with greater scope for assessment or areas in which assumptions and estimates are of crucial importance for the consolidated financial statements are explained accordingly in the notes.

B. Scope of consolidation

The scope of consolidation did not change in the year under review and, as of the balance sheet date, consists of the parent company Lesson Nine GmbH, the wholly-owned subsidiary Babbel Inc. and the wholly-owned subsidiary LingoVentura GmbH, Berlin.

C. Consolidated Balance Sheet Disclosures

1. Fixed assets

The additions in the 2019 financial year mainly relate to the additions to rights of use for buildings from the first-time application of IFRS 16. They are shown in the balance sheet under property, plant and equipment. The additions totaled €5,136 thousand in the financial year. In the income statement, a total of €2,283 thousand was written down on the right-of-use assets. For more information, see the separate section on leases.

Other investments essentially related to new operating and office equipment and new software.

The expenses for the scheduled depreciation of intangible assets and property, plant and equipment are recorded in the relevant expense group (marketing, research and development, general administration). Goodwill is not amortized.

The goodwill resulted entirely from the acquisition of LingoVentura GmbH in the previous year. As of December 31, 2019, the previously recognized value (before impairment tests) does not cover the future cash flows to be expected from the subsidiary. The CGU (cash-generating unit) for goodwill is LingoVentura GmbH as a whole. The recoverable amount corresponds to the current value in use of the CGU and amounts to €0 thousand as of December 31, 2019. Therefore, an impairment as of the reporting date was necessary. A DCF-based valuation of the CGU was carried out for 2019 to derive the underlying value in use. The underlying discount rate within the scope of the DCF valuation was 11,

Therefore, in the 2019 financial year, unscheduled depreciation from goodwill impairment tests amounting to €210k. necessary. The total amount of depreciation in the financial year can also be found in the following development of fixed assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected from the continued use of the asset. As in the previous financial year, there was a loss from the scrapping of property, plant and equipment in the 2019 financial year. The loss was recognized in profit or loss and is measured based on the residual book value of the asset and any proceeds from the sale.

Fixed assets developed as follows:

in EUR	Acquisition and production costs		
	01/01/2019	additions	Additions from first-time application of IFRS 16
I. Intangible assets			
1. Goodwill	209,989	0	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	601.159	358,715	0
3. Advance payments made	13,000	317,686	0
Intangible Assets	824,149	676,401	0
II. Tangible assets			
1. Usage Rights to Buildings	0	1.907.104	3,229,156
2. Other facilities, fixtures and fittings	2,963,979	526,419	0

	Acquisition and production costs		
	01/01/2019	additions	Additions from first-time application of IFRS 16
in EUR			
3. Payments on account and assets under construction	6,000	34,269	0
Property, plant and equipment	2,969,979	2,467,791	3,229,156
Capital assets	3,794,128	3,144,192	3,229,156
	Acquisition and production costs		
	departures	reclassifications	12/31/2019
in EUR			
I. Intangible assets			
1. Goodwill	0	0	209,989
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	0	77.119	1,036,993
3. Advance payments made		-77.119	253,567
Intangible Assets	0	0	1,500,550
II. Tangible assets			
1. Usage Rights to Buildings	0	0	5,136,260
2. Other facilities, fixtures and fittings	166,677	0	3,323,721
3. Payments on account and assets under construction	0	0	40,269
Property, plant and equipment	166,677	0	8,500,250
Capital assets	166,677	0	10,000,799
	accumulated depreciation		
	01/01/2019	additions	departures
in EUR			
I. Intangible assets			
1. Goodwill	0	209,989	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	139,608	192,371	0
3. Advance payments made	0	0	0
Intangible Assets	139,608	402,360	0
II. Tangible assets			
1. Usage Rights to Buildings	0	2,283,457	0
2. Other facilities, fixtures and fittings	1,267,720	585,244	157,922
3. Payments on account and assets under construction	0	0	0
Property, plant and equipment	1,267,720	2,868,701	157,922
Capital assets	1,407,328	3,271,061	157,922
	accumulated depreciation		
	currency effects		
	12/31/2019		
in EUR			
I. Intangible assets			
1. Goodwill		0	209,989
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets		0	331,979
3. Advance payments made		0	0
Intangible Assets		0	541,968
II. Tangible assets			
1. Usage Rights to Buildings		0	2,283,457
2. Other facilities, fixtures and fittings		-2,736	1,692,306
3. Payments on account and assets under construction		0	0
Property, plant and equipment		-2,736	3,975,763
Capital assets		-2,736	4,517,731
			book value
			12/31/2018 12/31/2019
in EUR			

	book value	
	12/31/2018	12/31/2019
I. Intangible assets		
1. Goodwill	209,989	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	461,552	705,015
3. Advance payments made	13,000	253,567
Intangible Assets	684,541	958,582
II. Tangible assets		
1. Usage Rights to Buildings	0	2,852,803
2. Other facilities, fixtures and fittings	1,696,259	1,631,415
3. Payments on account and assets under construction	6,000	40,269
Property, plant and equipment	1,702,259	4,524,487
Capital assets	2,386,800	5,483,069

	Acquisition and production costs		
	01/01/2018	additions	Additions from first-time consolidation
in EUR			
I. Intangible assets			
1. Goodwill	0	209,989	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	278,356	79,286	33,895
3. Advance payments made	0	251,697	0
Intangible Assets	278,356	540,972	33,895
II. Tangible assets			
other plant, fixtures and fittings	2,636,887	464,313	0
Property, plant and equipment	2,636,887	464,313	0
Capital assets	2,915,243	1,005,285	33,895

	Acquisition and production costs		
	departures	reclassifications	12/31/2018
in EUR			
I. Intangible assets			
1. Goodwill	0	0	209,989
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	0	209,622	601,159
3. Advance payments made	29,074	-209,622	13,000
Intangible Assets	29,074	0	824,149
II. Tangible assets			
other plant, fixtures and fittings	131,221	0	2,969,979
Property, plant and equipment	131,221	0	2,969,979
Capital assets	160,295	0	3,794,128

	accumulated depreciation		
	01/01/2018	additions	departures
in EUR			
I. Intangible assets			
1. Goodwill	0	0	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	73,464	66,144	0
3. Advance payments made	0	0	0
Intangible Assets	73,464	66,144	0
II. Tangible assets			
other plant, fixtures and fittings	872,212	505,670	109,211
Property, plant and equipment	872,212	505,670	109,211
Capital assets	945,676	571,814	109,211

accumulated depreciation

	accumulated depreciation	12/31/2018
in EUR		
I. Intangible assets	currency effects	12/31/2018
1. Goodwill	0	0
2. purchased concessions, industrial property rights and similar rights and assets, as well as licenses to such rights and assets	0	139,608
3. Advance payments made	0	0
Intangible Assets	0	139,608
II. Tangible assets		
other plant, fixtures and fittings	-951	1,267,720
Property, plant and equipment	-951	1,267,720
Capital assets	-951	1,407,328
		book value
		12/31/2017 12/31/2018

in EUR		
I. Intangible assets		
1. Goodwill	0	209,989
2. paid concessions, rights and assets, and licenses to such rights and assets	204,892	461,552
3. Advance payments made	0	13,000
Intangible Assets	204,892	684,541
II. Tangible assets		
other plant, fixtures and fittings	1,764,675	1,702,259
Property, plant and equipment	1,764,675	1,702,259
Capital assets	1,969,567	2,386,800

2. Trade Receivables

The following table provides an overview of the Group receivables:

in EUR	12/31/2019	12/31/2018
Requests from deliveries and services	3,116,694	3,289,758
total	3,116,694	3,289,758
<i>of which in the short term</i>	3,116,694	3,289,758
<i>thereof in the long term</i>	0	0

As of the balance sheet date, trade receivables are mainly due from payment providers from the B2C business (EUR 2,968 thousand) and B2B customers (EUR 122 thousand).

The maturities of trade receivables are as follows:

in EUR	12/31/2019	12/31/2018
<i>not overdue</i>	2,980,821	3,276,809
<i>up to 3 months overdue</i>	135,490	12,929
<i>3 to 6 months overdue</i>	383	20
total	3,116,694	3,289,758

When assessing the risk of default on trade receivables, the provisions of IFRS 9 and the general principles of materiality were observed. The default probabilities are determined on the basis of historical data and have been supplemented by forecasts of future conditions. Appropriate processes for controlling payment default risks have been implemented.

There is no relevant risk of default in the private customer area (B2C), as customers always pay in advance. On the other hand, there are receivables mainly from well-known resellers and payment providers (in particular Apple, Google, Adyen and PayPal), which have a top rating from respected rating agencies. So far, there have been no bad debts in the private customer area.

A financial default risk currently only exists in the business-to-business (B2B) area, as corporate customers have the option of purchasing on account. The historical loss rate, calculated on the basis of company-internal data for this and previous financial years, is around 1%. Appropriate allowances were made for overdue receivables from the B2B area during the financial year €14k made. In relation to the B2B sales in the financial year (cf. Section D.1), this corresponds to the loss ratio mentioned above. For reasons of materiality, the value adjustments were not reported in a separate item in the statement of comprehensive income. There is currently no reason to believe that this loss rate will increase to a significant extent in the coming years, despite the general growth of the B2B business area. Qualified processes for risk minimization and management of outstanding receivables have been set up. Due to the low level of outstanding receivables from the B2B area as of the reporting date (see above) in relation to the total amount of trade receivables and the other factors mentioned above, the risk of future losses of the B2B receivables existing as of the reporting date is classified as very low overall. For reasons of materiality, no general value adjustments were made.

Receivables from the language travel business are of minor importance as of December 31, 2019.

3. Other financial assets

Other assets break down as follows:

in EUR	12/31/2019	12/31/2018
Claims for reimbursement against shareholders	24.081.096	19.937.158
deposits	1,639,825	1,376,298
Rental deposits*	800,140	783,022
other*	2,532,179	2,256,586

in EUR	12/31/2019	12/31/2018
Total*	29.053.240	24.353.064
<i>of which short-term*</i>	4,307,346	3,632,884
<i>of which long-term*</i>	24,745,894	20.720.180

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

The **reimbursement claims against shareholders** result from the employee participation program, further information on this under F.1.c).

The item **advance payments** contains in particular advance payments for marketing services to be provided.

The item **Other** mainly includes deposits or security deposits from the various payment providers.

4. Other Assets

Other assets break down as follows:

in EUR	12/31/2019	12/31/2018
accruals and deferrals	3,162,303	3,381,853
Other	274,250	691,751
total	3,436,553	4,073,604
<i>of which in the short term</i>	3,436,553	4,073,604
<i>thereof in the long term</i>	0	0

The item **prepaid expenses** includes in particular marketing services not yet received.

5. Deferred Income Taxes

Deferred tax assets for tax loss carryforwards and deductible temporary differences are only recognized to the extent that it is probable that the tax benefit will be realized through future taxable profits. As of December 31, 2019, there were temporary differences in the Group of €365 thousand (December 31, 2018: €120 thousand) and resulted primarily from provisions for impending losses under commercial law, the different tax treatment of the virtual stock option program and foreign currency translations.

The initial recognition of the company's leases on January 1, 2019 was taken into account by forming tax assets and liabilities in the same amount and offsetting them.

In addition, domestic trade tax loss carryforwards of €25,578 thousand (31/12/2018: €26,727 thousand) and domestic corporate tax loss carryforwards of €26,480 thousand (31/12/2018: €27,350 thousand) were used despite partial use from loss carryforwards in 2019 still no deferred tax assets recognized. This non-recognition results from considerable planning uncertainties regarding the results of the following years, so that the management decided not to capitalize them. The non-capitalized deferred taxes essentially come from the parent company. The trade tax and corporate tax loss carryforwards can be used indefinitely.

6. Cash and Cash Equivalents

Cash and cash equivalents can be broken down as follows:

in EUR	12/31/2019	12/31/2018
bank balance*	30,527,899	25.207.650
cash holdings	1,835	754
Total*	30,529,733	25.208.404

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

The development of cash and cash equivalents during the reporting period can be seen from the consolidated cash flow statement.

7. Equity

The change in equity components is shown in the consolidated statement of changes in equity.

a) Subscribed capital and capital reserve

The subscribed capital entered in the commercial register and fully paid up amounts to €50 thousand (previous year: €50 thousand).

The subscribed capital is divided into 50,198 shares with a nominal value of one euro each.

The capital reserve contains additional payments by the shareholders to the EK from the previous financing rounds and has not changed in the financial year.

b) Profit and other reserves

The Group's retained earnings and other reserves consist of the profit carried forward at the beginning of the period, the loss for the reporting period, the effect of the change in the receivable from shareholders for the compensation claim from the share-based payment within the framework of the Employee Virtual Ownership Plan (hereinafter "EVOP") and other comprehensive income for the period (OCI).

The other result for the period contains differences from the currency translation of the financial statements of the foreign subsidiary, which are not recognized in profit or loss. This value is shown separately in the consolidated balance sheet.

8. Provisions

The increase in other provisions in 2019 is primarily due to the addition to the provision for share-based payments.

The following table shows the development of other provisions and their breakdown in terms of maturity.

in EUR	Status as of 01/01/2019	feeding	consumption
Other provisions			
1 Share-based payments	19.937.158	3,943,590	0
2 Dismantling Obligations	107,790	46,879	0
3 reorganization	0	1,293,998	0
4 other	1,510,292	1,068,671	(1,145,811)
Total	21.555.241	6,353,138	(1,145,811)
<i>of which in the short term</i>	1,510,292	2,362,669	(1,145,811)
<i>thereof in the long term</i>	20,044,949	3,990,469	0
in EUR	interest effects	currency effects	Status as of 12/31/2019
Other provisions			
1 Share-based payments	0	0	23,880,748

in EUR	interest effects	currency effects	Status as of 12/31/2019
Other provisions			
2 Dismantling Obligations	(56)	0	154,613
3 reorganization	0	0	1,293,998
4 other	0	(15,000)	1.418.151
Total	(56)	(15,000)	26,747,511
<i>of which in the short term</i>	0	(15,000)	2,712,149
<i>thereof in the long term</i>	0	0	24.035.361

Share-based Payments

The beneficiaries of the programs for share-based payments have an individual contractual right to the payment of a cash equivalent to the issued shares from the company. In the event of a significant change in the shareholder structure (“exit”), these claims become due immediately.

The share-based remuneration of the employees was measured using an option pricing model (Black-Scholes method) based on the value of a call option on the company shares. The volatilities used for this purpose were derived using a uniformly used peer group. The term of the options was assumed with Exit on May 31, 2022. The market prices were determined using a DCF-based company valuation. Thus, it is expected that the payouts will accrue at this exit point.

Section F.1. of the Annex in detail.

dismantling obligations

As of the balance sheet date, there were provisions for leasehold improvements in the business premises on Max-Beer-Strasse, which had to be removed at the end of the rental period. The provision is measured on the basis of an estimate of the costs at the time they are incurred, discounted to December 31, 2019. A claim before the end of the rental period is currently not expected.

reorganization

As of the balance sheet date, provisions were made for reorganization in the areas of administration and sales. The valuation is based on the probable settlement amount. Utilization is expected in the following financial year.

Other Provisions

The other provisions essentially include those for personnel matters and risks from value-added tax. The valuation is based on the settlement amount. Utilization is expected in the following financial year.

9. Trade and other payables

Trade payables and other liabilities break down as follows:

in EUR	12/31/2019	12/31/2018
liabilities from goods and services	2,951,804	3,070,313
<i>of which in the short term</i>	2,951,804	3,070,313
<i>thereof in the long term</i>	0	0
Other liabilities	4,749,002	1,515,865
<i>from outstanding invoices</i>	1,688,533	1,363,135
<i>from lease liability IFRS 16</i>	2,932,246	0
<i>from other</i>	128,222	152,730
<i>of which in the short term</i>	4,249,574	1,471,626
<i>thereof in the long term</i>	499,428	44,239
Total	7,700,806	4,586,179
<i>of which in the short term</i>	7,201,378	4,541,939
<i>thereof in the long term</i>	499,428	44,239

10. Other Debts

Other liabilities break down as follows:

in EUR	12/31/2019	12/31/2018
from the deferral of sales revenues	32.295.291	30,064,588
taxes and expenses	1,745,029	1,305,025
towards employees	654,331	585,306
Miscellaneous other liabilities	256,943	178,793
Total	34,951,594	32.133.713
<i>of which in the short term</i>	34,951,594	32.133.713
<i>thereof in the long term</i>	0	0

The other liabilities from the deferral of sales are contract liabilities within the meaning of IFRS 15. These result from the sale of subscriptions.

The contract liabilities from the deferral of sales as of December 31, 2018 were recognized in full in the area of B2C customers and in the area of B2B customers up to an amount of €5 thousand in 2019 as sales. The deferred amount from sales revenue formed as of December 31, 2019 will be almost completely reversed in 2020 and recognized as sales, since the maximum subscription period is usually 12 months. It was not possible to determine a transaction price for the deferred revenue as of the balance sheet date due to the variability in the transaction prices. Liabilities from deferred revenue increased by €2,231 thousand in the 2019 financial year. This results from

The other liabilities from taxes and levies mainly relate to sales tax liabilities and liabilities from wage and church taxes.

The other liabilities to employees mainly include entitlements of employees from vacation not taken as of the balance sheet date.

D. Information on the Consolidated Statement of Comprehensive Income**1. Revenue**

Sales developed as follows:

in EUR	2019	2018
sales from		

in EUR	2019	2018
- Subscriptions sales to private customers	122.820.175	105,733,734
- Other sales (business-to-business, language trips)	1.112.091	687,881
total	123.932.266	106.421.615

Sales were generated in the following geographic markets:

in %	2019	2018
Subscription sales to private customers		
rest of the world	43%	42%
Germany	29%	30%
European Union (excl. Germany)	28%	28%
total	100%	100%
Other sales (Babbel-to-Business, language trips)		
Germany	52%	47%
European Union (excl. Germany)	30%	33%
rest of the world	18%	20%
total	100%	100%

2. Cost of Sales

The cost of sales breaks down as follows:

in EUR	2019	2018
Cost of selling via app stores	(9,631,030)	(9,978,582)
online payment costs	(2,717,735)	(2,238,888)
Other cost of sales	(1,040,146)	(926,233)
total	(13,388,911)	(13.143.703)

The development of the cost of sales is very strongly influenced by the development of sales in the financial year: On the one hand, the share of web sales has increased, which is reflected in the increased costs for online payments. On the other hand, app sales included a higher proportion of subscription renewals, which incur lower costs.

3. Marketing Expenses

Marketing expenses can be broken down as follows:

in EUR	2019	2018
material expenses	(62,348,419)	(63,346,757)
personnel expenses	(16,691,718)	(11,574,712)
Share-based payment*	(1,494,621)	(2,094,858)
depreciation	(1,232,289)	(192,995)
total	(81.767.046)	(77.209.323)

* In 2019, the expenses for share-based payment (EVOP) were divided into the three functional areas of marketing, research and development, and administration for the first time in order to better present the earnings situation. Previously, these were all reported under general administrative expenses. To improve comparability, the previous year's disclosure of expenses for share-based payments (EVOP) was adjusted accordingly.

The material expenses mainly result from advertising expenses for online and offline marketing campaigns as well as for TV advertising.

The increase in depreciation is mainly due to the first-time capitalization of rights of use for buildings in accordance with IFRS 16. The depreciation expenses attributable to these rights of use represent the depreciation of the right of use by the marketing employees.

4. Research and Development Expenses

The expenses for research and development result from the following cost groups:

in EUR	2019	2018
personnel expenses	(16.319.068)	(14.201.490)
Share-based payment*	(1,865,318)	(3,626,509)
material expenses	(1,162,866)	(1,177,287)
depreciation	(1,554,438)	(294,797)
total	(20,901,690)	(19.300.083)

* In 2019, the expenses for share-based payment (EVOP) were divided into the three functional areas of marketing, research and development, and administration for the first time in order to better present the earnings situation. Previously, these were all reported under general administrative expenses. To improve comparability, the previous year's disclosure of expenses for share-based payments (EVOP) was adjusted accordingly.

The material expenses essentially consist of expenses for freelancers and license costs.

The increase in depreciation is mainly due to the first-time capitalization of rights of use for buildings in accordance with IFRS 16. The depreciation expenses attributable to these rights of use represent the depreciation of the right of use by the employees in research and development.

Since the further development of software and product is a heuristic approach that is not determined ex-ante, a binding quantified division into the areas of research and development as well as maintenance and care of the respective systems cannot be made. For this reason, no capitalization of development expenses is carried out.

5. General administrative expenses

General administrative expenses can be broken down as follows:

in EUR	2019	2018
personnel expenses	(5,584,829)	(4,057,420)
Examination and consulting expenses	(945,400)	(655,543)
Office and IT	(774,064)	(667,904)
Share-based payment*	(583,651)	(1,147,021)
depreciation	(484,334)	(84,021)

in EUR	2019	2018
gas, electricity, water	(183,341)	(222,966)
Other external services	(115,853)	(142,415)
travel and subsistence expenses	(101,529)	(82,341)
other expenditures	(1,048,724)	(1,747,517)
total	(9,821,725)	(8,807,148)

* In 2019, the expenses for share-based payment (EVOP) were divided into the three functional areas of marketing, research and development, and administration for the first time in order to better present the earnings situation. Previously, these were all reported under general administrative expenses. To improve comparability, the previous year's disclosure of expenses for share-based payments (EVOP) was adjusted accordingly.

For the expenses for share-based payments (EVOP), see the further explanations in Section F.1.

The costs for the office and IT area result largely from server and license costs.

The increase in depreciation is mainly due to the first-time capitalization of right-of-use assets in accordance with IFRS 16. The depreciation expenses attributable to these right-of-use assets represent the depreciation of the right-of-use assets by the administrative staff.

6. Other operating income

Other operating income breaks down as follows:

in EUR	2019	2018
Currency translation income	914,246	569,322
income for other accounting periods	184,396	71,513
Other company income	102,631	169,148
total	1,201,273	809,983

7. Other Operating Expenses

Other operating expenses can be broken down as follows:

in EUR	2019	2018
Expenses from currency conversion	(1,206,147)	(760,665)
Expenses relating to other periods	(265,175)	(125,163)
Other operating expenses	(334,121)	(298,196)
total	(1,805,443)	(1,184,024)

8. Financial Result

The financial result for 2019 of €-32 thousand (previous year: €38 thousand) mainly results from interest expenses as part of IFRS 16.

9. Income Taxes

The expense or income for income taxes relates exclusively to actual income taxes.

Based on the consolidated annual result before income taxes and the expected income taxes, the reconciliation to the actual income tax expense is as follows:

in EUR	2019	2018
Earnings before income taxes	(2,583,757)	(12,374,882)
Expected tax income (expected tax rate 2019, 2018: 30.175%)	779,648	3,734,121
Adjustment of expected tax income		
Difference in Group tax rate	(92,627)	(14,283)
Tax effects from additions and deductions for local taxes	(1,519,463)	(2,082,282)
Effects of not recognizing deferred tax assets on loss carryforwards	410,904	(1,706,246)
income taxes	(421,538)	(68,690)

The tax rate to be used to determine the expected income tax income corresponds to the tax rate of the parent company and is made up of the tax rate for corporation tax including the solidarity surcharge of 15.825% and trade tax of 14.35%.

E. Disclosures on the Consolidated Statement of Cash Flows

The consolidated cash flow statement was prepared in accordance with IAS 7 and shows the cash inflow and outflow during the year under review. The cash flows are broken down into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The cash flow from operating activities is determined using the indirect method in accordance with IAS 7.18 (b). The cash flow from investing activities and from financing activities are each determined using the direct method in accordance with IAS 7.21.

In the 2019 financial year, movements from IFRS 16 are reported for the first time in the consolidated cash flow statement. The depreciation of the right-of-use assets is reported in the cash flow from operating activities, as is the interest portion of the payments for the lease liability based on the accounting option under IAS 7.33 in accordance with IFRS16.59 (b). The payments for the repayment portion of the lease liability are shown in cash flow from financing activities in accordance with IFRS 16.50 (a).

The cash and cash equivalents considered in the cash flow statement correspond to the cash and cash equivalents item on the balance sheet, i.e. cash on hand and bank balances. Reference is made to the consolidated balance sheet in Section I. As of December 31, 2019, cash and cash equivalents amounted to €30,530 thousand* (previous year: €25,208 thousand)* and are not subject to any restrictions on disposal.

* Changes to the 2019 consolidated financial statements, see explanations in section VA.2. "Changes to the 2019 Consolidated Financial Statements"

F. Other Information

1. Share-based Payment - IFRS 2

Lesson Nine GmbH has had share-based payment programs since 2013 to enable senior managers to participate in the company's performance and to reward their contribution to the sustainable success of the Babel Group compared to the competition. The group of people entitled to subscribe includes the senior executives of Lesson Nine and affiliated companies of the Babel Group.

a) EVOP: Description of the program

The company currently runs 5 programs (Employee Virtual Share Program, EVOP I - V). The shares will be issued successively after approval by the responsible shareholders' committee. The EVOP IV and V programs were launched in the 2019 financial year.

The beneficiaries have an individual contractual claim against the company for payment of a cash equivalent to the shares issued or the dividend payment. In the event of a significant change in the shareholder structure ("exit"), these claims become due immediately. An exit occurs when there is a sale, swap or takeover of more than 50% of all shares in the company. Equivalent to this is a sale or transfer of all assets of the company (and simultaneous payment of the generated funds to the shareholders) as part of individual transactions or consecutive transactions, as well as a liquidation of the company.

In the event of an exit, all claims from the virtual shares already granted are due for payment immediately at the time the transaction is completed. The number of shares granted is regulated individually in individual contractual agreements. The vesting period and the vesting criteria are uniformly defined in accordance with the established standard.

The issue prices agreed in the programs (strike prices) vary within the range shown below, depending on the time when the subscription rights are issued. The shares of the individual programs are distributed as follows:

program	EVOP I	EVOP II	EVOP III	EVOP IV	EVOP V
Issue price (in EUR/unit)	1-2,331	2,331-3,497	3,497	3,497-5,286	7,000
Granted Shares	2,727	1,388	1,275	850	400
shares thereof forfeited	493	188	250	0	0

The maximum number of options granted is 7,351 shares. As of January 1, 2019, the number of shares granted was 4,327. In 2019, 2,325 new shares were granted. These were the EVOP programs III, IV and V with the issue prices listed in the table. 350 shares expired in 2019; no options were exercised. As of December 31, 2019, the number of shares granted was 6,640. Exercisable shares do not exist prior to the aforementioned exit event.

At no time are the beneficiaries granted any rights to purchase GmbH shares in the company. If the GmbH were converted into a stock corporation, the virtual shares would be converted into stock options. The design of these stock options after conversion into a stock corporation, eg whether settlement will be in shares or in cash, has not yet been made.

The EVOP ends on December 31, 2040 or December 31, 2029 (EVOP V). If the agreements are terminated before, after or on December 31, 2040, the Company must make a severance payment.

Any tax, other duty or charge associated with the granting of Virtual Shares or cash payments under these Agreements shall be the responsibility of the Beneficiary and may be withheld by the Company and deducted from payments made under this Agreement. Employer contributions were not taken into account because the company assumes that at the time of payment all beneficiaries are above the contribution assessment limit.

b) EVOP: vesting period / vesting

Unless otherwise agreed in the individual contractual agreements, the contractual vesting period extends over a period of 48 months. Before the start of the contractual vesting period, an individually agreed vesting period ("cliff") (usually of up to 24 months) can also be individually agreed between the company and the beneficiary on the donor side and the participant side. These blocking periods have an impact on vesting in that they represent a kind of waiting period until the start of the contractual reference period (so-called "blocking period") and the vesting of the individual claims can only occur at a later point in time.

Employees who leave the company for personal reasons ("bad leavers") are generally not entitled to the virtual shares. Only the EVOP III contains a further clause according to which 20% of the shares already tendered expire if the beneficiary terminates the contract.

The share-based remuneration of the employees was measured using an option pricing model (Black-Scholes method) based on the value of a call option on the Lesson Nine shares. The volatilities used for this were derived using a uniformly used peer group and amount to 42.68%. The term of the options was assumed with Exit on May 31, 2022. The market prices were determined based on a company valuation. The exercise price taken into account corresponds to the strike prices listed above. The underlying risk-free interest rate is 0.17%. A DCF-based company valuation was carried out for the year 2019 to derive the underlying company value,

	2019	2018
WACC	12.07%	12.29%
EBITDA margin	21%	21%
growth in perpetuity	2%	2%

The evaluation based on these parameters is shown below. The changes in the measurement of the provision for share-based payments were recognized in profit or loss in the relevant period.

Valuation date	12/31/2019	12/31/2018
Number of active shares	5,471	3,689
Number of shares tendered	4,029	3,120
Number of fully tendered shares	3,337	2,478
Expected term of the options	05/31/2022	05/31/2022
Fair value in EUR thousand	23,881	19,937
Total expense recognized for the period in EUR thousand	3,944	6,868
Intrinsic value of liabilities for vested benefits in EUR thousand	22,353	17,935

After reaching the cliff, the vesting period is divided into full months. Consequently, graded vesting is applied.

c) EVOP: Corresponding claim against shareholders

In order to release the Babel Group from direct burdens from the employee participation program, the program was backed by the shareholders with shares in the company, which are used directly in the event of a dividend distribution or an exit. Accordingly, the Babel Group reports a claim against shareholders of the same amount. Any deviations can result from early payments by the company to the beneficiaries.

2. Financial Instruments

a) Information on the financial instruments

The table below shows the financial assets and liabilities according to valuation categories and classes.

12/31/2019	Measurement category according to IFRS 9	Valued at amortized cost
in EUR		book value
deposits	amortized cost	1,639,825
		fair value
		1,639,825

12/31/2019	Measurement category according to IFRS 9	Valued at amortized cost	
in EUR		book value	fair value
Rental deposits*	amortized cost	800,140	800,140
Other financial assets*	amortized cost	2,532,179	2,532,179
Other financial assets*		4,972,144	4,972,144
Requests from deliveries and services	amortized cost	3,116,694	3,116,694
Trade accounts receivable and other receivables		3,116,694	3,116,694
Cash and cash equivalents*	amortized cost	30,529,733	30,529,733
Total financial assets		38,618,571	38,618,571
liabilities from goods and services	amortized cost	2,951,804	2,951,804
Other liabilities	amortized cost	1,816,756	1,816,756
Trade accounts payable and other liabilities		4,768,560	4,768,560
Total financial liabilities		4,768,560	4,768,560
lease liabilities	na	2,932,246	0
Total lease liabilities		2,932,246	0
12/31/2018	Measurement category according to IFRS 9	Valued at amortized cost	
in EUR		book value	fair value
Deposits paid*	amortized cost	783,022	783,022
Other financial assets*	amortized cost	3,632,884	3,632,884
Other financial assets*		4,415,906	4,415,906
Requests from deliveries and services	amortized cost	3,289,758	3,289,758
Trade accounts receivable and other receivables		3,289,758	3,289,758
Cash and cash equivalents*	amortized cost	25.208.404	25.208.404
Total financial assets		32.914.068	32.914.068
liabilities from goods and services	amortized cost	3,070,313	3,070,313
Other liabilities	amortized cost	1,515,865	1,515,865
Trade accounts payable and other liabilities		4,586,178	4,586,178
Total financial liabilities		4,586,178	4,586,178

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

The carrying amounts of other financial assets, cash and cash equivalents, trade receivables, trade payables and other financial liabilities mostly have short remaining terms and represent the fair values as of the reporting date.

b) risk management

The Babbel Group is exposed to default risks, liquidity risks and market risks through the use of financial instruments. There is a default risk, particularly with individual receivables, especially if funds are not covered. In addition, there are also risks for the Group from fraud in various payment options (fraud & fake). These risks are actively monitored by Lesson Nine and controlled within the framework of an effective risk management system. The risk management function is integrated into group controlling.

c) risk of default

The credit or default risk is the risk that the business partners, mainly the payment service providers, do not meet their contractual payment obligations and this leads to a loss for the Babbel Group. Risks in this regard relate primarily to current trade receivables. The Babbel Group does not see itself exposed to any significant credit risk with regard to an individual customer. The concentration of credit risk is limited due to advance payment by private customers. The risk of default is monitored by the Babbel Group and actively controlled through the necessary credit checks and the optimization of the payment process. In summary, it can be stated

The highest possible default risk corresponds to the book value of the financial assets.

The table below shows the age structure of the financial assets and trade receivables that are not overdue and overdue but not impaired as of the reporting date. When assessing the default risk, the provisions of IFRS 9 and the general principles of materiality were observed.

The other financial assets essentially include security deposits from payment providers (in particular Apple, Google, Adyen and PayPal), which have top ratings from respected rating agencies. So far there have been no bad debts in the area of financial assets. As of the reporting date, there were no indications that anything would change. Since there have not yet been any defaults on receivables, general allowances have not been made.

There is no discernible default risk for reimbursement claims against shareholders from the employee participation program, since the underlying shareholder shares can be claimed in the event of an exit. We refer to the further explanation under F.1.c).

With regard to trade receivables, we refer to section C.2.

Classes of Financial Instruments	book value	thereof neither overdue nor impaired	of which overdue as of the reporting date but not impaired (in days)		
			1-120	120-180	> 180
In EUR					
as of December 31, 2019					
deposits	1,639,825	1,639,825	0	0	0
Rental deposits*	800,140	800,140	0	0	0
Other financial assets*	2,532,179	2,532,179	0	0	0
Claims for reimbursement against shareholders	24.081.096	24.081.096	0	0	0
Requests from deliveries and services	3,116,694	2,980,821	135,490	383	0
total	32.169.934	32.034.061	135,490	383	0
as of December 31, 2018					
deposits	1,376,298	1,376,298	0	0	0
Rental deposits*	783,022	783,022	0	0	0
Other financial assets*	2,256,586	2,256,586	0	0	0
Claims for reimbursement against shareholders	19.937.158	19.937.158	0	0	0
Trade and Other Receivables	3,289,758	3,289,758	0	13,746	1,800
total	27,642,822	27,642,822	0	13,746	1,800

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

d) liquidity risks

The liquidity management of the Babel Group ensures the availability of liquid funds through appropriate budget planning. In addition, sufficient cash and cash equivalents are always kept available to finance operational activities. Apart from that, there are currently no significant interest and repayment obligations for the Babel Group.

The table below shows the contractually agreed (undiscounted) interest and principal payments for the original financial liabilities:

type of debt in EUR	face value	remaining terms in years		
		< 1	1 - 5	> 5
as of December 31, 2019				
liabilities from goods and services	2,951,804	2,951,804	0	0
lease liabilities	2,985,960	2,484,452	501,508	0
Pending invoice	1,688,533	1,688,533	0	0
Other liabilities	128,222	112,332	15,890	0
total	7,754,519	7,237,122	517,398	0
as of December 31, 2018				
liabilities from goods and services	3,070,313	3,070,313	0	0
Pending invoice	1,365,206	1,365,206	0	0
Other liabilities	150,660	106,420	44,239	0
total	4,586,179	4,541,939	44,239	0

e) Market Risks

The Babel Group generates a significant proportion of its sales in foreign currencies. Payments from sales are received in the following currencies: EUR, USD, GBP, CHF, SEK, AUD, CAD, PLN.

In principle, the Babel Group endeavors to generate expenses and income as well as incoming and outgoing payments in the same functional currency in order to reduce the exchange rate risk. Nevertheless, the Babel Group is subject to a currency risk as soon as transactions are concluded and the resulting cash flows do not correspond to the functional currency of the respective company. The following table shows the effects on the income statement that would have resulted if the foreign currencies shown had depreciated by 10% or by 10% as of the balance sheet date.

changes in EUR	12/31/2019		12/31/2018	
	+10%	-10%	+10%	-10%
EUR USD	633,455	(633,455)	315,824	(315,824)

The majority of transactions processed in foreign currencies are in USD. The other foreign currencies mentioned above are of secondary importance as of the reporting date. As of the reporting date, the bank balances in these currencies – converted into EUR – amounted to only around 6% of the Group's total liquid assets.

Furthermore, the Babel Group sees itself exposed to a low exchange rate risk with regard to the translation of the net assets through its participation in the foreign subsidiary. However, this translation risk is not an exchange rate risk within the meaning of IFRS 7.

3. Capital Management

The capital management objectives of the Babel Group are primarily designed to finance the Group's growth strategy and to minimize the risks involved in investing liquid funds. This holistic capital management strategy has not changed compared to the previous year.

The Group is not subject to any externally imposed capital requirements.

The capital structure is controlled on the basis of a targeted level of liquidity. The degree of liquidity is defined as the relationship between short-term liabilities and liquid funds (cash and cash equivalents).

The gearing ratio developed as follows in the year under review:

in EUR	12/31/2019	12/31/2018
Cash and cash equivalents*	30,529,733	25,208,404
Short term debt	44,865,121	38,186,140
Leverage*	1.47	1.51

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

4. Information on the cost of sales method

The information on the cost of sales method can be found in the following table:

in EUR	2019	2018
Expense for employee benefits	40,055,004	34,273,749
<i>thereof for wages and salaries</i>	<i>30,976,871</i>	<i>23,673,319</i>
<i>of which for share-based payments</i>	<i>3,943,590</i>	<i>6,868,388</i>
<i>of which for social security</i>	<i>5,134,544</i>	<i>3,732,042</i>
Expenses for depreciation and amortization	772,688	571,814
Amortization (without IFRS 16)		

5. Number of employees

In the 2019 financial year, the Babel Group employed an average of 567 (previous year: 465). The distribution according to employee groups can be seen in the following illustration:

designation	2019	2018
distribution	246	205
Research & Development	229	169
administration	92	91
total	567	465

6. Total Auditor's Fees

The auditor's fees are broken down into the services as follows:

in EUR	2019	2018
Audit Services	102,000	88,000
other services	0	48,000
total	102,000	136,000

7. Relationships with related companies and persons

a) Relationships with related companies*

Related companies of the company within the meaning of IAS 24 are companies that are significantly influenced by the company or can exercise a significant influence on the company. Furthermore, this also applies to companies that are significantly influenced by persons related to the company. Reference is made to the following explanations for the definition of related parties.

The following lists show the effects on the consolidated balance sheet and consolidated statement of comprehensive income of transactions with related companies:

in EUR	12/31/2019	12/31/2018
balance sheet		
Other provisions for companies controlled by related parties	1,750,752	1,784,805
in EUR	2019	2018
statement of comprehensive income		
Other expenses to (+) /income from (-) related persons or companies controlled by related persons/companies	(31,033)	384,875

The provision includes obligations from the employee participation program for companies that were controlled by related parties in the financial year. See also section VF1 for the conditions of the EVOP program.

b) Relationships to related persons*

In accordance with the requirements of the IAS 24 standard, the Group discloses relationships with related parties. Due to their significant influence on the group, the members of the management, the first management level (C-level) and the shareholders' committee (also: board) are defined as persons related to the company. The circle of related persons also extends to their close family members. Close family members include children and spouses or life partners or children of the spouse or life partner of this person and dependents of this person or of the spouse or life partner of this person.

Reportable transactions include the conclusion of loan and rental agreements, the agreement of guarantees, the billing of services and the granting or change in value of shares from the EVOP programs, if these are between a related person and the group or a related company occur.

In the 2019 financial year, a service agreement was concluded with the Chairman of the Shareholders' Committee. In addition, no new legal transactions were concluded with related parties in the financial year that went beyond the remuneration for work for the company.

The management and the members of the first management level received the following remuneration:

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

in EUR	2019	2018
Short-term benefits	1,844,822	1,672,202
Expense from share-based payments	2,877,596	2,344,333

One member of the Shareholders' Committee only received share-based payments. The other members of the Shareholders' Committee received no remuneration. Expenses will only be reimbursed to the independent member. They amounted to EUR 3 thousand in the financial year (previous year: EUR 3 thousand).

The protection clause pursuant to Section 315e (1) in conjunction with Section 314 (3) and Section 286 (4) HGB.

The provisions for shares from the EVOP programs for former members of the management, the first management level and the shareholders' committee amounted to EUR 1,322 thousand as of December 31, 2019 (previous year EUR 0 thousand).

8. Lessee Relationships

Up to and including the 2018 financial year, the Group's rental agreements were classified as operating leases and accounted for and presented in accordance with IAS 17. Since January 1, 2019, leases are recognized as a right-of-use asset and a corresponding lease liability at the time the leased asset is available for use by the Group.

The group rents various office buildings. This affects office leases from Lesson Nine in Berlin and Babel Inc. in New York. The office leases in Berlin grant an option to extend by a further 5 years at the end of the basic term. This was due in 2019 but was not used. In addition, there is a two-time extension option of 3 months each for the same rental agreement, which can be used in 2020. Termination options, variable lease payments or residual value guarantees are not available for leases.

Another lease for a new office rental agreement has already been entered into, but is not yet accounted for in the balance sheet because the contract term (basic rental period of 15 years) had not yet begun as of the balance sheet date. The sum of the nominal future rental payments currently amounts to EUR 53,445 thousand and will be capitalized for the first time in the 2021 financial year as a right of use and lease liability at present value.*

In addition to the office rental agreements, there are no other leases that require capitalization according to the definition of IFRS 16.

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

a) Amounts recognized in the balance sheet

The book values of the rights of use shown in the balance sheet and the total of the additions during the 2019 financial year can be found in the statement of changes in fixed assets. The additions amounted to €3,229 thousand for the first time at the beginning of the financial year.

The balance sheet shows the following amounts for the recognized lease liabilities:

in EUR	12/31/2019	01/01/2019
lease liabilities		
short term	2,448,708	1,471,485
long term	483,537	1,757,671
	2,932,246	3,229,156

b) Amounts recognized in the statement of comprehensive income

Amortization of the right-of-use assets totaled €2,283 thousand in the 2019 financial year. Interest expenses totaled €75 thousand.

The total payments for leasing in the 2019 financial year amounted to €2,291 thousand. The interest component was €75 thousand and currency effects €11 thousand. Short-term and minor leases caused an expense of €186 thousand in the statement of comprehensive income in the financial year.

9. List of Shareholdings

Lesson Nine holds shares in the following fully consolidated companies as of December 31, 2019:

Company name and location	Amount of share in capital %	functional currency	Equity in EUR thousand	Earnings for the fiscal year in EUR thousand
Babbel Inc., Wilmington, Delaware, USA	100	USD	548	142
LingoVentura GmbH, Berlin	100	EUR	-155	-809

10. Management

The management consisted of the following people in the reporting period:

- Thomas Oliver Holl, Chief Technology Officer, Lesson Nine GmbH
- Witte, Markus, Chief Executive Officer, Berlin (until October 31, 2019)
- Arne Schepker, Chief Executive Officer, Berlin (from November 1, 2019)

11. Shareholders' Committee (Board)

The Lesson Nine Shareholders' Committee consists of seven members. The following members were elected by the general meeting:

- Markus Witte, Chairman
- Arne Schepker (since October 28, 2019)
- Anthony Askew
- Marco Zeller
- Simon Guild (independent member)
- Thomas Holl
- Stuart Paterson

In addition, Walter Masalin and Matthias Hornberger sit on the board as non-voting members. As chairman, Markus Witte's vote decides on balanced decisions. The remaining members of the Shareholders' Committee each have one vote.

All of the Group's financial statements are submitted to the Shareholders' Committee for approval and approval. The previous year's financial statements as of December 31, 2018 were approved by the Shareholders' Committee and released for publication.

G. Accounting Policies

The financial statements of Lesson Nine and its two subsidiaries are prepared according to uniform accounting and valuation principles. With the exception of the standards below, which were applied for the first time, the principles were consistently applied for all periods and reporting dates presented in the consolidated financial statements.

In principle, all assets are accounted for using the acquisition cost principle.

1. Consolidation Methods

Lesson Nine and its subsidiaries Babbel Inc. and Lingo Ventura, which directly controls Lesson Nine, are fully consolidated in the consolidated financial statements of the Babbel Group. The first consolidation took place at the time when the possibility of control was obtained. Lesson Nine controls an investee when it is exposed to variable returns from its involvement and has the ability to use its power to affect those returns. If Lesson Nine loses control, the relevant investee is deconsolidated.

Acquired companies are accounted for using the purchase method. Under the purchase method, the acquisition cost of the shares acquired is offset against the proportionate fair value of the acquired assets, liabilities and contingent liabilities of the subsidiary at the time of acquisition. Any positive difference arising from offsetting is capitalized as derivative goodwill. Negative differences arising from the capital consolidation at the time of acquisition are immediately reversed through profit or loss.

When the Group loses control of a subsidiary, it derecognises the subsidiary's assets and liabilities and all related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any retained interest in the former subsidiary is measured at fair value at the date control is lost.

Expenses and income as well as receivables and liabilities between consolidated companies are eliminated, as are interim results from intra-group transactions.

2. Currency Conversion

Currency translation is based on the functional currency concept. The functional currency of the subsidiaries included in the consolidated financial statements of Lesson Nine is the respective national currency. The consolidated financial statements are prepared in euros (reporting currency).

Transactions that a company included in the scope of consolidation does not carry out in its functional currency (foreign currency transactions) are translated into the functional currency of the relevant unit at the rate prevailing at the time of the transaction. Gains and losses on the settlement of such transactions and on the valuation of monetary assets and liabilities at the closing rate in the financial statements are included in the Profit and Loss Account.

Subsidiaries whose functional currency is not the euro translate their local currency financial statements into the reporting currency euro for inclusion in the consolidated financial statements of Lesson Nine as follows:

- Assets and liabilities are translated at the closing rate, income and expenses at the annual average rate. Currency translation differences are shown separately in equity.
- The equity that must be consolidated for the first time as part of the acquisition of foreign subsidiaries is translated on the respective balance sheet date using the historical exchange rate at the time of acquisition. Differences arising from currency translation are shown separately in equity.
- As long as the subsidiary is included in the scope of consolidation, the translation differences are carried forward in the group's equity. If subsidiaries are removed from the scope of consolidation, the corresponding translation differences are reversed through profit or loss.
- Goodwill and adjustments to the fair values of assets and liabilities as a result of acquisitions of foreign subsidiaries are treated as assets and liabilities of the foreign companies and translated at the exchange rate prevailing on the balance sheet date.
- There are no subsidiaries that are based in a hyperinflationary economy according to IAS 29.
- Currency translation differences from the translation of shares in a foreign subsidiary and from loans that are part of the net investment in these foreign subsidiaries are recognized in equity. When the foreign subsidiary leaves the scope of consolidation, the currency translation differences are eliminated via the income statement.

The following exchange rates (rounded here) were used as a basis for currency conversion:

1 EUR equals US dollars (USD):	Closing rate on 31.12.	annual average rate
2019	1.123	1,120
2018	1.145	1,182

3. Income and Expense Realization

Expenses and income are not offset unless the accounting rules of the IFRS permit or require offsetting.

a) Revenue

Sales are recorded and accounted for in accordance with the IFRS 15 standard.

In principle, revenue is recognized when control of the goods or services is transferred to the customer. This can be at a specific point in time or over a period of time. Revenue is then recognized at the amount expected to be received in return for the goods or services transferred. The model is based on five steps:

- Identification of the contract with the customer
- Identification of the separate performance obligations of the contract
- Determining the Transaction Price
- Allocation of the transaction price to the identified performance obligations
- Recognize revenue when the entity satisfies the performance obligations

IFRS defines a contract as an agreement between two or more parties that creates legally enforceable rights and obligations. Contracts can be made in writing, verbally or tacitly based on common business practice. In certain circumstances, multiple contracts must be considered together. In the second step, the Babbel Group identifies the separate performance obligations. The Babbel Group then determines the transaction price, which corresponds to the consideration for the goods and services transferred. Usually, the customers of the Babbel Group pay via one of the affiliated payment providers immediately after receiving the consideration. Purchases on account are only possible for business customers; here the payment is made no later than 30 days after the fulfillment of the performance obligation. Accordingly, the consideration amount does not need to be adjusted for the time value of money. The contracts with customers usually only contain a separate performance obligation. A distribution of the transaction price is therefore not necessary. Sales are recognized accordingly when the performance obligation is fulfilled. The contracts with customers usually only contain a separate performance obligation. A distribution of the transaction price is therefore not necessary. Sales are recognized accordingly when the performance obligation is fulfilled. The contracts with customers usually only contain a separate performance obligation. A distribution of the transaction price is therefore not necessary. Sales are recognized accordingly when the performance obligation is fulfilled.

The Babbel Group has two types of contracts:

Selling subscriptions to private customers:

The Babbel Group realizes revenue from the sale of usage rights (software as a service) for language learning software to mostly private end customers. The software can be used on mobile devices as well as browser-based.

The software is sold by subscription for a period of between one and twelve months. The sale to the end customer is either processed via Lesson Nine's own web platform or via the well-known sales platforms of the providers Apple and Google. The Babbel Group has concluded that it acts as principal in all of its revenue transactions as it is the principal in all revenue transactions, has flexibility in pricing and bears inventory and credit risk.

The Babbel Group fulfills its performance obligation under the contracts when the customer has been given power of disposal over the subscription.

Sales are recognized according to the periodic service provision. The determination of the period-related service provision is based on the acquired time quota. Contract liabilities arise from advance payments from customers. These are recorded as deferred revenue in the consolidated balance sheet (see C.9). An adjustment to the nomenclature of IFRS 15 was not made.

Other sales (Babbel to business & language travel):

Revenue from other contracts is also recognized on an accrual basis as soon as the customer gains control of the subscription or the trip has taken place.

The exemption in IFRS 15.94 is used to capitalize contract costs, as the contract assets would not have had a term of more than one year due to the business model.

b) Interest and similar income

Interest income is recognized as income when it is probable that the economic benefit will flow to the company and the amount of income can be reliably determined.

c) Expenses

Expenses are recognized in the income statement once the underlying services have been rendered.

4. Tangible assets

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation and impairments. Acquisition costs also include the incidental acquisition costs less price reductions.

Depreciation is charged on a straight-line basis over the expected useful life of the asset. Expected useful lives, residual values and depreciation methods are reviewed at each reporting date. All necessary changes in estimates are taken into account prospectively.

In the year under review, depreciation was based on the following useful lives:

useful life in years	2019	2018
operating and office equipment	2-13	2-13

The separate section on leases contains further information on the right-of-use assets that are accounted for in accordance with IFRS 16.

In addition, processes were introduced that take account of the requirements of IAS 36 regarding further impairments of assets. The residual book value and the estimated useful life are reviewed on each balance sheet date to determine whether events have occurred that no longer justify the valuation. Therefore, if the carrying amount of individual assets exceeds their recoverable amount, additional impairments are immediately recognized in the income statement. If the conditions for the impairments are no longer met in later years, the previous corrections are reversed.

Repair and maintenance expenses are expensed as incurred. Significant innovations and improvements are activated.

5. Intangible Assets

Purchased intangible assets are recognized at amortized cost. They are depreciated on a straight-line basis over their respective useful lives. Since software and product development is a heuristic approach that is not determined ex-ante, a binding, quantified division into the areas of research and development as well as maintenance and care of the respective systems cannot be made. For this reason, no capitalization of self-created software and product developments will be carried out. Development expenses are only capitalized if the development costs can be measured reliably, the product or process is technically and commercially suitable, future economic benefits are probable and the Group both intends and has sufficient resources to complete the development and to use or sell the asset. Other development expenses are recognized in profit or loss as they are incurred. Capitalized development expenses are measured at cost less accumulated amortization and accumulated impairment losses. Expenditure on research activities is recognized in profit or loss as it is incurred. future economic benefits are probable and the Group both intends and has sufficient resources to complete the development and use or sell the asset. Other development expenses are recognized in profit or loss as they are incurred. Capitalized development expenses are measured at cost less accumulated amortization and accumulated impairment losses. Expenditure on research activities is recognized in profit or loss as it is incurred. future economic benefits are probable and the Group both intends and has sufficient resources to complete the development and use or sell the asset. Other development expenses are recognized in profit or loss as they are incurred. Capitalized development expenses are measured at cost less accumulated amortization and accumulated impairment losses. Expenditure on research activities is recognized in profit or loss as it is incurred. Other development expenses are recognized in profit or loss as they are incurred. Capitalized development expenses are measured at cost less accumulated amortization and accumulated impairment losses. Expenditure on research activities is recognized in profit or loss as it is incurred.

Purchased goodwill is recognized at the time of initial consolidation (= time of acquisition) at the amount by which point a) exceeds point b):

a) the sum of:

- i) the consideration transferred
- ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
- iii) the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree if the business combination is achieved in stages.

b) the balance of the amounts of the identifiable assets acquired and the liabilities assumed as of the acquisition date measured in accordance with IFRS 3.

Goodwill acquired for a consideration is not amortized.

In the Babel Group, intangible assets and goodwill are reviewed once a year in accordance with IAS 36 for the need for unscheduled depreciation. It is checked whether there are indications of a possible impairment. If this is the case, the recoverable amount is determined for the asset in question. This corresponds to the higher of the fair value less costs to sell or the value in use. A normal market interest rate before taxes is used for discounting.

In the year under review, the amortization of intangible assets was based on the following useful lives:

useful life in years	2019	2018
Licenses and Similar Rights	1-3	1-3
software	3-5	3-5

6. Leases

With effect from January 1, 2019, the previous standard IAS 17 was replaced by the new standard IFRS 16.

IFRS 16 regulates the recognition, measurement, reporting and disclosure requirements relating to the leases of both contracting parties, i.e. the lessee and lessor. The Group was only a lessee in the 2019 financial year.

As a result of the provisions of IFRS 16, leases are recognized as a right-of-use asset and a corresponding lease liability at the time the leased asset is available for use by the Group.

The Group has decided to use the modified retrospective approach for the first-time application of the regulations of IFRS 16 as of January 1, 2019.

According to the above simplification regulations for the first application, an amount equal to the equivalent lease liability is recognized for the right-of-use assets.

The right-of-use assets are reported in the balance sheet under property, plant and equipment, and the leasing liabilities under the item "Trade and other payables". On January 1st, 2019 (time of first application) rights of use in the amount of €3,229 thousand and lease liabilities of the same amount.

Overall, the Group made use of the following simplifications as part of the initial application:

- The application of a uniform incremental borrowing rate to a portfolio of similar leases.
- The disregard of the initial direct costs when evaluating the right-of-use assets.
- The retrospective determination of the lease term for contracts with options to extend or terminate the lease.

Contracts can contain both leasing and non-leasing components. At this point, the Group makes use of the option not to split between lease and non-lease components – if any – but to account for the contract as a whole.

Short-term leases (contract term \leq 12 months from January 1, 2019) and low-value leases (original value max. \$5 thousand) do not have to be recognized. The Group makes use of this option and does not account for these leases. As of December 31, 2019, there were three corresponding contracts.

Since the above-mentioned simplification provisions only arise within the scope of the first-time application, rights of use acquired during the reporting year may not be recognized at the same time as the lease liabilities. Instead, the following costs must be applied:

- a) Amount resulting from the recognition of the lease liability
- b) All lease payments made at or prior to delivery, less any included lease incentives

c) All initial direct costs incurred

d) All estimated costs for deconstruction, dismantling or removal after the end of the contract period

The right-of-use assets are amortized on a straight-line basis over their expected useful life using the acquisition cost model. The regulations of IAS 16 are observed. The useful life ends on the earlier of (a) the end of the lease term or (b) the useful life of the rights of use. The expected useful lives, residual values and depreciation methods as well as the measurement of the corresponding lease liability are reviewed at each reporting date. All necessary changes in estimates are taken into account prospectively.

The right-of-use assets are checked annually for impairment in accordance with IAS 36. It is checked whether there are indications of a possible impairment due to changing contractual relationships. If this is the case and if the recoverable amount is less than the current book value, an impairment is recognized.

The lease liabilities are measured at the present value of the future lease payments contractually agreed as of January 1, 2019 but not yet made, discounted at the lessee's incremental borrowing rate as of January 1, 2019. The incremental borrowing rate as of January 1, 2019 is 2.0%. Variable lease payments, residual value guarantees or termination options are not contractually regulated for the relevant leases. In the case of a lease, there is a contractual extension option (exercisable until December 31, 2019), which was not used. The measurement of the lease liability therefore only includes fixed rental payments. With the same rental agreement, there is also a two-time extension option of 3 months each. This option would only be exercised if there were delays in completing the new rental property. At the current time, this cannot be assumed, which is why it is unlikely that the extension options will be exercised. Because the option was not taken into account, €570,000 in fixed rental payments were not included in the lease. which is why it is unlikely that the extension options will be exercised. Because the option was not taken into account, €570,000 in fixed rental payments were not included in the lease. which is why it is unlikely that the extension options will be exercised. Because the option was not taken into account, €570,000 in fixed rental payments were not included in the lease.

After initial recognition, the Group measures lease liabilities as follows:

e) Increase in the carrying amount by the interest expense for the lease liability

f) Reduction of the book value by the actual cash outflows

g) Reassessment in the event of any adjustments to the contract parameters

7. Income Taxes

The income taxes for the period are the sum of current and deferred income taxes. These are recognized in the income statement unless they relate to items recognized directly in equity or in other comprehensive income. In this case, income taxes are also recognized directly in equity or in other comprehensive income.

a) Actual income taxes

The actual income tax expense is determined using the tax regulations applicable on the balance sheet date in the countries in which the Babel Group operates and generates the taxable income. When assessing income tax receivables and liabilities, estimates have to be made in some cases. A different tax assessment by the respective tax authorities cannot be ruled out. The associated uncertainty is taken into account by the fact that uncertain tax claims and liabilities are only recognized if the Lesson Nine believes that the probability of occurrence is higher than 50%.

b) Deferred income taxes

Deferred taxes are calculated for the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases as part of the calculation of taxable income. Deferred tax assets are not taken into account.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets for temporary differences are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences can be utilised.

Deferred taxes are valued in accordance with IAS 12. The tax rate used corresponds to the enacted or almost enacted tax rate, which is relevant in the period of the reversal of the temporary difference or the loss carryforwards.

The change in deferred taxes is recognized in the income statement as long as they relate to balance sheet items that were recognized in the income statement. If balance sheet items relate directly to equity or other income, the corresponding deferred taxes are also recorded in these items.

Deferred tax assets and liabilities arising from temporary differences in connection with investments in subsidiaries are taken into account, unless the timing of the reversal of the temporary differences cannot be determined at the group level and it is probable that the temporary differences will reverse in the foreseeable future will not turn back.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes that are levied by the same taxing authority and affect the same taxable entity. In addition, deferred taxes relating to balance sheet items with the same maturity are netted.

8. Financial Instruments

a) Financial assets

According to IFRS 9, financial assets are broken down into the following categories:

a.) Financial assets measured at amortized cost

b.) Financial assets measured at fair value through other comprehensive income

c.) Financial assets measured at fair value through profit or loss

The classification takes place with the first accounting.

Regular purchases and sales of financial assets are recognized consistently across all categories as of the trade date, the date on which Lesson Nine commits to purchase or sell the asset.

To a)

The Group measures its financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows, and
- the terms of the contract result in cash flows that are solely payments of principal and interest on the principal amount outstanding.

To b)

Financial assets measured at fair value through other comprehensive income include the following items:

- Equity instruments not held for trading that the Group has irrevocably elected at initial recognition to present in this category.
- Debt securities for which the contractual cash flows are solely payments of principal and interest on the principal amount outstanding and that are held within a business model whose objective is both to collect the contractual cash flows and to sell financial assets.

to c)

The Group measures the following financial assets at fair value through profit or loss:

- Equity instruments held for trading and equity instruments for which the Group has elected not to recognize changes in fair value in other comprehensive income
- Debt securities that are measured neither at amortized cost nor at fair value through other comprehensive income

b) Financial Liabilities

According to IFRS 9, financial liabilities are broken down into the following categories:

- a.) to be valued at amortized cost
- b.) to be measured at fair value through profit or loss

To a)

In principle, according to IFRS 9, all financial liabilities are to be classified as measured at amortized cost. The main exceptions to this are:

- Financial liabilities that are irrevocably designated as liabilities at fair value through profit or loss upon initial recognition
- derivatives
- Financial Guarantees

c) Derecognition

A financial asset is derecognized primarily when one of the following conditions is met:

- The contractual rights to receive cash flows from the financial asset have expired; or
- The Group has transferred its contractual rights to receive cash flows from the financial asset to a third party, or has assumed a contractual obligation to immediately pay the cash flows to a third party under an arrangement, thereby either (a) substantially all the opportunities and risks arising from the ownership of the financial asset, or (b) does not transfer or retain substantially all the rewards and risks associated with ownership of the financial asset, but transfers control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, canceled or expires. If an existing financial liability is exchanged for another financial liability from the same lender with substantially different contractual terms, or if the terms of an existing liability are changed significantly, such an exchange or change is treated as derecognising the original liability and recognizing a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

9. Employee Benefits

The Lesson Nine grants the Group management and selected other executives share-based payment as part of the so-called EVOP. The remuneration from the plans is due as soon as a so-called exit event occurs. An exit event is defined as the takeover of more than 50% of the Lesson Nine shares or assets by one or more investors, as well as the liquidation of the company.

The components to be recognized in the income statement over the term correspond to the fair value of the remuneration entitlements at the respective point in time of the vesting phase, since the obligation as a result of the Lesson Nine is in cash or in cash equivalents. The obligation or the increase or decrease in the fair value is recorded via the personnel expenses of the administrative costs.

The shareholders of Lesson Nine have designated company shares to this employee program in order to provide the service and to relieve the company in the event of a dividend distribution or an exit. The claim against the shareholders is valued in the same way as the provision, see also F.01. The obligation to designate the shares for the program is caused by the company relationship, so that the recognition and the change in the receivable are shown in equity with no effect on income.

10. Other Provisions

Other provisions are created if there is a legal or factual obligation to the Babel Group from a past event, the fulfillment of which is likely and the amount of which can be reliably determined. It is recognized at the expected settlement amount.

The recognized amount of the provision is the best estimate that results on the balance sheet date for the service to be provided in order to fulfill the current obligation. The risks and uncertainties inherent in the obligation must be taken into account. If a provision is measured based on the cash flows estimated to be required to settle the obligation, these cash flows must be discounted if the time value of money is material.

When it can be assumed that some or all of the economic benefits necessary to settle the provision will be reimbursed by an outside party, the claim is capitalized as an asset when the reimbursement is virtually certain and the amount can be reliably estimated.

In view of the estimation uncertainty when determining the amount, the actual outflow of resources may deviate from the amounts originally recorded on the basis of the estimates.

Long-term provisions are accounted for on the basis of interest rates appropriate to the term and risk-adjusted at their discounted settlement amount as of the balance sheet date.

11. Determination of fair value

According to the provisions of IFRS 13, the fair value represents a price that would be achieved on the main market or, if this is not available, on the most advantageous market through the sale of an asset or would have to be paid for the transfer of a liability. The fair value is to be determined by using valuation parameters that are as close as possible to the market as input factors. The measurement hierarchy (fair value hierarchy) prioritizes the input factors used in the valuation process in three descending levels, depending on their proximity to the market:

- Level 1: The market prices (unadjusted) used in an active market for identical assets and liabilities that the entity can access at the measurement date.
- Level 2: Valuation inputs other than the quoted market prices included in Level 1 that are observable for the assets and liabilities either directly (ie as a price) or indirectly (ie derived from the price).
- Level 3: Valuation parameters for assets and liabilities not based on observable market data.

If various input factors are relevant for the measurement, the fair value is assigned to the hierarchical level that corresponds to the input factor at the lowest level that is significant for the measurement as a whole.

12. Judgments and Use of Estimates

When applying the accounting and valuation methods and preparing the consolidated financial statements, the management has to make discretionary and estimation decisions. In the current situation caused by the Corona crisis, these decisions are associated with greater uncertainty.

Discretionary and estimation decisions must be made in particular for the following issues:

a) Discretionary Decisions

Going concern premise:

The equity ratio of the Babel Group was 3% as of December 31, 2019. Despite the consolidated net loss for the year in the amount of -€2,956 thousand and the low equity ratio, the company has no doubts that the going-concern premise will be met, as there was sufficient liquidity of € 30,530k* is available.

* Changes to the 2019 consolidated financial statements, see explanations in section VA2. "Changes to the 2019 Consolidated Financial Statements"

b) Assumptions and estimation uncertainties*Share-based payments (IFRS 2)*

With regard to the accounting of virtual shares, assumptions and estimates must be made with regard to the development of performance indicators and fluctuation, the exit time and to determine the company value. The enterprise value is determined using discounted cash flow models.

valuation of financial assets

When measuring the financial assets, the assessment of the company value and the parameters described above for the valuation of the share-based payment are of particular importance.

Accounting and valuation of other provisions

With regard to accounting and valuation, there are uncertainties with regard to future price increases and the amount, timing and probability of utilization of the respective provision.

Ability to recognize deferred tax assets

With regard to the ability to recognize deferred tax assets on loss carryforwards, assumptions and estimates have to be made with regard to the development and use of tax loss carryforwards. The determination is made using an integrated balance sheet and profit and loss planning model. The non-recognition of deferred tax assets results from planning uncertainties regarding the results of the following years, so that the management has decided not to capitalize them.

Innovations in international accounting according to IFRS

The following accounting standards had to be applied for the first time in the financial year:

IFRS 16	IFRS 16 essentially changes the accounting by lessees and leads to the recognition of almost all leases in the balance sheet. The standard eliminates the previous distinction between operating and finance leases for the lessee and requires recognition of a right-of-use asset and a financial liability for almost all leases. The income statement is also impacted by the new standard as total expense is typically higher in the earlier years of a lease and lower in the later years. In addition, the operating expenses are replaced by interest and depreciation, so that important key figures such as EBITDA change. The operating cash flow will be higher as the payments for the repayment of the lease liability are allocated to the financing activities.
IFRIC 23 "Accounting for tax risk positions"	The interpretation explains how deferred and current income tax assets and liabilities are to be accounted for and measured if there is uncertainty about tax treatment. Overall, these are not new disclosure requirements, but rather a specification of existing requirements.
Prepayment Features with Negative Compensation – Amendments to IFRS 9	The amendments to IFRS 9 allow entities to measure certain negatively compensated financial assets at amortized cost. These assets, which include some credit and debt securities, would otherwise be accounted for at fair value through profit or loss.
Long-term interests in associates and joint ventures - Amendments to IAS 28	The amendments clarify the accounting for long-term interests which, in substance, are attributable to the net investment in an entity accounted for using the equity method, but which are not accounted for using the equity method. These shares are to be accounted for and measured in accordance with IFRS 9. Any impairment of these shares is thus determined in accordance with the provisions of IFRS 9. However, the provisions of IAS 28.8 remain, stating that such shares should also be taken into account when allocating losses when applying the equity method to the value of investments.
Annual Improvements to IFRS (2015-2017 Cycle)	A change must be taken into account for the following standards from 01/01/2019: - IFRS 3 Business Combinations – If a company obtains control within the meaning of IFRS 10 of a previously joint operation that represents a business through the acquisition of additional shares, this is a business combination achieved in stages. - IFRS 11 Joint Arrangements – If a company obtains joint control of a previously joint operation that constitutes a business through the acquisition of additional shares, the previously held share is not remeasured. - IAS 12 Income Taxes – Clarification that the income tax consequences of dividend payments on financial instruments classified as equity are to be treated in accordance with the treatment of the transaction causing the tax effect - IAS 23 Borrowing Costs – clarification that borrowings that have not yet been repaid and that were originally borrowed specifically to acquire a qualifying asset are included in the determination of the general from the point at which this qualifying asset is essentially prepared for its intended use or sale Borrowing costs for other qualifying assets for which no specific borrowings have been taken out are to be included.
Plan Amendment, Curtailment or Settlement - Amendments to IAS 19	The amendments to IAS 19 "Employee Benefits" include requirements for accounting for plan adjustments, curtailments and settlements.

In the current year, the company applied IFRS 16 "Leases" and the resulting changes to other standards for the first time. For a description of the changes in relation to the consolidated financial statements, reference is made to the relevant sections on fixed assets and lessee relationships.

IFRIC 23 on accounting for tax risk positions was taken into account accordingly in the disclosures.

The other new or changed regulations are not relevant for the company.

The following new or amended standards or interpretations have already been approved by the IASB, but are not yet mandatory. These regulations were not applied early.

IFRS 17	insurance contracts	Applicable to fiscal years beginning on or after January 1, 2023
Amendments to IAS 1 and IAS 8	Definition of materiality	Applicable to fiscal years beginning on or after January 1, 2020
Amendments to IAS 1	Classification of Liabilities	Applicable to fiscal years beginning on or after January 1, 2023
Amendments to IFRS 3	Definition of a business operation	Applicable to fiscal years beginning on or after

January 1, 2020

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 Applicable to fiscal years beginning on or after January 1, 2021

framework concept Revised framework concept Applicable to fiscal years beginning on or after January 1, 2020

Lesson Nine is currently examining the new standards for their impact on the information provided in the consolidated financial statements. At the time the consolidated financial statements for the 2019 reporting period were prepared, Lesson Nine was not yet able to fully assess the effects of the new regulations. Lesson Nine will conduct a more detailed impact assessment in the near future. It is not assumed that the changes will have any significant impact on the consolidated financial statements.

- IFRS 17 sets out the principles for recognizing, measuring, presenting and reporting insurance contracts and replaces IFRS 4. As the company is not an insurance company and no insurance policies are issued, IFRS 17 will have no impact on the consolidated financial statements to have.
- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors serve to refine the definition of materiality by standardizing the wording in various standards and pronouncements. Materiality is defined as follows: “*Information is material if its omission, misstatement or obscurity in general purpose financial statements that include financial information about a reporting entity could reasonably be expected to influence the primary users' decisions.*”
- The amendments to IAS 1 Classification of Liabilities aim to clarify that the classification of liabilities as short. Or in the long term based on the rights that the company has on the balance sheet date. According to the amendment, a liability is classified as non-current if the entity has a substantive right at the end of the reporting period to defer settlement of the liability for at least 12 months after the balance sheet date. The assessment does not take into account whether the company will actually exercise its right.
- The amendments to IFRS 3 Business Combinations serve to clarify the definition of a business.
- The changes to the interest rate benchmark reform are related to the reform of reference interest rates (IBOR reform), specifically with the mapping of changes to contractual cash flows and hedging relationships that have become necessary in this context, i.e. if these are a direct result of the IBOR -Reform is necessary and the new and old basis for determining the contractual cash flows are economically balanced.
- The changes to the conceptual framework address several issues, including an emphasis on the principle of prudence, a revision of the definition of assets and liabilities, and recycling through the OCI.

H. Events after the Balance Sheet Date

As a result of the worldwide spread of the coronavirus in the first quarter of 2020, there are opportunities for society, but also new challenges and risks, the length and intensity of which cannot be foreseen at the present time. Possible - currently not yet quantifiable - risks for Lesson Nine GmbH can result from external economic and market developments as well as from internal company processes. Management is aware of all risks. Appropriate risk minimization measures have been taken. We also refer to the reporting in the group management report (opportunity and risk report and forecast report).

Berlin, June 17, 2021

Lesson Nine GmbH

Arne Schepker

Thomas Holl

INDEPENDENT AUDITOR'S REPORT

To Lesson Nine GmbH, Berlin

Audit opinion e _

We have the consolidated financial statements of Lesson Nine GmbH (since April 1, 2021: Babel GmbH), Berlin, and its subsidiaries (the Group) - consisting of the consolidated balance sheet as of December 31, 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2019 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Lesson Nine GmbH for the financial year from January 1 to December 31, 2019.

According to our assessment based on the knowledge gained during the audit

- The attached consolidated financial statements correspond in all material respects to the IFRS as applicable in the EU and the supplementary German statutory provisions to be applied pursuant to Section 315e (1) HGB and, taking these provisions into account, conveys a true and fair view of the assets and financial position of the Group as of December 31, 2019 and its results of operations for the financial year from January 1 to December 31, 2019 and
- the attached group management report as a whole provides an accurate picture of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

In accordance with Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections to the correctness of the consolidated financial statements and the group management report.

Basis for the test results _ _

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB, taking into account the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under these regulations and principles is further described in the “Auditor's responsibility for the audit of the consolidated financial statements and group management report” section of our auditor's report. We are independent of the group companies in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe

Responsibility of the legal representatives for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRS as applicable in the EU and the additional German statutory provisions to be applied pursuant to Section 315e (1) HGB, and for the consolidated financial statements under compliance with these regulations conveys a true and fair view of the Group's net assets, financial position and results of operations. Furthermore, the executive directors are responsible for the internal controls they have determined to be necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or unintentional.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, the executive directors are responsible for preparing the group management report, which as a whole provides a suitable view of the group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to enable the preparation of a group management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the group management report to be able.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group Management Report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intentional or unintentional, and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, with the consolidated financial statements and is consistent with the findings obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report which contains our audit opinions on the consolidated financial statements and on the group management report.

Adequate assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code, taking into account the German principles of proper auditing established by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements and group management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

- We identify and assess the risks of material misstatements – intentional or unintentional – in the consolidated financial statements and in the group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is greater than that arising from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- We gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the group management report in order to plan audit procedures that are appropriate in the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these to deliver systems.
- We evaluate the appropriateness of the accounting methods used by the legal representatives and the justifiability of the estimated values presented by the legal representatives and the related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that cast significant doubt on the Group's ability to continue as a going concern can raise. If we conclude that there is a material uncertainty, we are required to draw attention to the related disclosures in the consolidated financial statements and group management report in the auditor's report, or if this information is inappropriate, to modify our respective audit opinion. We base our conclusions on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements take into account the IFRS as applicable in the EU and the additional provisions of Section 315e Paragraph 1 of the German Commercial Code, the applicable German statutory provisions convey a true and fair view of the Group's net assets, financial position and results of operations.
- we obtain sufficient appropriate audit evidence for the accounting information of the companies or business activities within the group in order to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We bear sole responsibility for our audit opinions.
- We assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the view of the group's position that it gives.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not provide a separate audit opinion on the future-oriented information and the underlying assumptions. There is a significant unavoidable risk

We discuss with those charged with governance, among other things, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

Note on the supplementary check

On the presentation of the changes by the legal representatives in the amended consolidated notes, section VA2. "Changes to the 2019 Consolidated Financial Statements" and in the amended Group Management Report, Section IA "Changes to the 2019 Group Management Report", are referred to.

Berlin, June 5th, 2020

limited to the

changes mentioned in the note on the supplementary examination: June 17th, 2021

**PricewaterhouseCoopers GmbH
auditing company**

Philipp Medrow, auditor

ppa. Johannes Häner, auditor

The consolidated financial statements as of December 31, 2019 were approved on July 22, 2021.

