

Adconion Media Group Limited

Annual report and
Financial statements for
the year ended
31 December 2013

Company registration no: 05833659



Content

Directors and advisers	3
Strategic report	4
Directors' report	6
Statement of directors' responsibilities	8
Independent auditors' report to the members of Adconion Media Group Limited	9
Group statement of comprehensive income for the year ended 31 December 2013	11
Group statement of financial position as at 31 December 2013	12
Group statement of changes in equity for the year ended 31 December 2013	14
Group statement of cash flows for the year ended 31 December 2013	15
Notes to the financial statements for the year ended 31 December 2013	16
Independent auditors' report to the members of Adconion Media Group Limited	57
Parent company statement of financial position as at 31 December 2013	59
Parent company statement of changes in equity for the year ended 31 December 2013	60
Parent company statement of cash flows for the year ended 31 December 2013	61
Notes to the financial statements for the year ended 31 December 2013	62

Directors and advisers

Directors

F R Krueger (resigned 01 May 2013)

N V Sunderland

F A Boehnke (resigned 21 July 2013)

T T Moebius

G Zocco

D Vidal

T Falk

R Dighero

K Reed Perell

A Markus (appointed 21 July 2013)

Company secretary

A Loeffler

Registered office

180 Great Portland Street

London

W1W 5QZ

Bankers

HSBC Bank plc

117 Great Portland Street

London

W1W 6QJ

Solicitors

Osborne Clarke

2 Temple Back East

Temple Quay

Bristol BS1 6EG

Independent auditors

PricewaterhouseCoopers LLP

1 Embankment Place

London

WC2N 6RH

Strategic report

Strategic report for the year ended 31 December 2013

Principal activities

The principal activities of the group continues to be the provision of performance-driven Online Advertising Networks which deliver online advertisements using proprietary technology that provide better results for advertisers and optimal revenue for publishers.

Adconion Media Group conducts business globally and has 24 offices in 13 countries: UK, US, Canada, Germany, France, Spain, Switzerland, Russia, Italy, Sweden, Denmark, Netherlands and Australia.

The principal activity of the parent company during the year was that of a non-trading holding company for the group. This includes administrative and marketing functions, but also providing intercompany finance.

Review of the business and key performance indicators

The statement of comprehensive income of the group for the year is set out on page 11.

The directors feel that the company has suffered from the challenging economic climate and increased market competition in the group's main operating areas. Adconion Media Group's overall revenues declined by 17% in the course of the year following an increase of 21% in 2012.

The business in Continental Europe and in the United Kingdom remained stable compared to the previous year. The business in North America suffered from difficulties in the direct marketing activities while the revenues with the agencies continued to increase. The business in Australia continued to suffer from the uncertain economic environment as well as from increased competition in the market. Nevertheless, most local entities were able to secure their market positions. Further geographical information is provided in note 3 to the financial statements.

In September 2013, Adconion Direct, Inc. acquired certain assets from Telic Interactive, Inc. to strengthen its market position in the direct marketing business in North America.

The group has secured additional shareholder loan facilities of \$20m for the ongoing working capital requirements and the global growth of the group.

In July 2014, Amobee, Inc. a wholly owned subsidiary of Singapore Telecommunications Limited acquired Adconion Direct North America and Adconion Australia to strengthen its position as the leading provider of mobile-led digital marketing technology and solutions across all channels and screens for global brands. The Adconion companies will be acquired at a valuation of \$235m.

Management has determined that the recoverable amount allocated to the smartclip group CGU had been impaired by \$99.1m as a consequence of the impairment test results and the trading performance in the underlying business. Also the recoverable amount allocated to the Blackstar unit within the Frontline Direct group CGU has been fully impaired by \$9.8m as the assets acquired no longer generate cash for the group.

Strategic report (continued)

Review of the business and key performance indicators (continued)

Details and analysis of key performance indicators (KPI's) can be summarised as follows:

	2013 \$000	2012 \$000	Analysis
Revenue	283,666	340,065	
Movement in revenue in %	(17)%	21%	While revenues in North America and Australia declined by appr. 30% due to increased market competition, business development in the UK and in Continental Europe remained stable.
Gross profit	92,649	117,293	
Gross profit margin in % on revenue	32.7%	34.5%	Gross profit margin is down from prior year, but remains within expectations.
Adjusted EBITDA	45	14,069	
Adjusted EBITDA margin in %	0.0%	4.1%	The decrease in adjusted EBITDA margin remains within expectations and tracking the decrease in Revenue and Gross profit.
Loss for the year from continuing operations	(160,479)	(31,543)	The increase in loss for the year is mainly impacted by the impairment charges for previous years' acquisitions.

*Refer note 3 geographical analysis for further detail.

Future development

Despite the overall uncertainty about the development of the global economy Adconion Media Group plans for further growth in 2014 and beyond. These growth plans are supported by a further shift in the spending of agencies and direct marketers from offline media to online advertising business. Adconion Media Group is well prepared due to its diversified product offerings to benefit from these market trends and a global recovery. After the sale of the US and the Australian business activities in the course of 2014, Adconion Media Group plans to concentrate on the further development of the business in Continental Europe and in the United Kingdom.

Budget plans foresee further revenue growth in these regions in 2014. As the operating cost basis is expected to increase slower than the top line growth, an improvement in performance is expected.

Although the group has proven to be successful even in uncertain economic environments the remaining risk of a global recession and significant restrictions on marketing spending have to be considered.

Directors' report

Directors' report for the year ended 31 December 2013

The directors present their report and the audited group financial statements for the year ended 31 December 2013.

Financial results and dividends

Adconion Media Group has achieved positive adjusted EBITDA in the course of 2013 and is expected for 2014 and the following years. Net profits will be re-invested into the European business and further growth opportunities.

The Directors do not recommend a dividend for the year ended 31 December 2013 (2012: \$Nil).

Directors

The directors of the company who served throughout the year and up to the date of this report, unless otherwise noted are listed below:

F R Krueger (resigned 01 May 2013)

N V Sunderland (Chairman)

F A Boehnke (resigned 21 July 2013)

T T Moebius

G Zocco

D Vidal

T Falk

R Dighero

K Reed Perell

A Markus (appointed 21 July 2013)

Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Further details are provided in note 31 to the financial statements.

Creditor payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the group at 31 December 2013 were equivalent to 79 days' purchases (2012: 63 days'), based on the average daily amount invoiced by suppliers during the year.

Research and development activities

The group invested \$8.3m in the year (2012: \$6.5m) on development activities. This expenditure was mainly related to the further development of Adconion's proprietary Ad Serving and Video Technology. This technology enables the group to deliver its advertising products with high quality on its own platform and independently from 3rd party providers.

Corporate governance

Although not required by regulation or legislation, the directors have decided to provide the following corporate governance disclosures:

The Board of directors, which meets monthly, comprises 2 executive director and 7 non-executive directors. The Board establishes the principal aims and strategic business direction of the Group and reviews each individual group company's objectives and guidelines as well as approving any changes that may be proposed. This includes all matters relating to financing, capital expenditure, acquisitions and investments in existing and new companies.

Annual operating budgets and the group's management controls and procedures are subject to direct Board review and approval.

Directors' report (continued)

Board committees

The Board has established an audit committee and a remuneration committee with formally delegated duties and responsibilities.

The audit committee consists of R Dighero, N Sunderland, D Vidal and F Boehnke and is chaired by R Dighero. The audit committee has responsibility for ensuring that the financial performance, position and prospects of the group are properly monitored and reported on, for meeting with the auditor and discussing their reports on the financial statements and the group's financial controls and for recommending the appointment of auditors.

The remuneration committee consists of N Sunderland, F Boehnke and G Zocco and is chaired by N Sunderland. The remuneration committee has responsibility for reviewing the performance of the executive director and his direct reports, reviewing his remuneration, determining the payment of any bonuses and all matters involving the group's stock option plans.

In addition, the non-executive directors have full authority to investigate the group's affairs and may call upon external expertise to assist should the need arise.

The remuneration and terms and conditions of appointment of the non-executive directors are set by the Board. No director may participate in any discussions or decisions regarding his own remuneration.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Internal control

The Board is responsible for ensuring that the group has in place a system of internal control. Any system of internal control can only provide reasonable, not absolute assurance against material misstatement or loss. The key features of the system include a clearly defined structure of responsibility and reporting as well as a system of internal reporting and review.

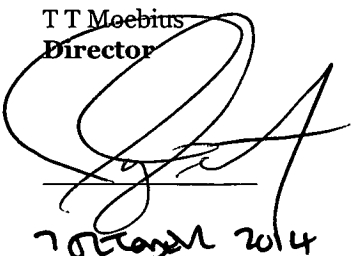
The Board has reviewed the effectiveness of the internal system of financial control both for the year under review and the period to date of approval of these financial statements and believes that the system provides reasonable assurance that assets are safeguarded, transactions properly authorised and recorded and that material errors and irregularities are either prevented or would be detected within a timely period.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the annual general meeting.

On behalf of the board

T T Moebius
Director



7 October 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

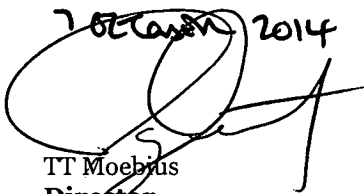
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In accordance with Section 418, the directors confirm, in the case of each director in office at the date the directors' report is approved, that:

- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board


TT Moebius
Director

Independent auditors' report to the members of Adconion Media Group Limited

Report on the group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements (the "financial statements"), which are prepared by Adconion Media Group Limited, comprise:

- the group statement of financial position as at 31 December 2013;
- the group statement of comprehensive income for the year then ended;
- the group statement of cash flows for the year then ended;
- the group statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and Financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditors' report to the members of Adconion Media Group Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the parent company financial statements of Adconion Media Group Limited for the year ended 31 December 2013.



Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 October 2014

Group statement of comprehensive income for the year ended 31 December 2013

	Notes	2013 \$000	2012 \$000
Revenue	3	283,666	340,065
Cost of sales		(191,017)	(222,772)
Gross profit		92,649	117,293
Administrative expenses		(246,411)	(152,180)
Operating loss	9	(153,762)	(34,887)
Finance income	5	138	168
Finance cost	5	(10,369)	(11,778)
Other gains – net	8	4,884	12,473
Loss for the year on ordinary activities before taxation from continuing operations		(159,109)	(34,024)
Income tax	10	(1,370)	2,481
Loss for the year from continuing operations		(160,479)	(31,543)
Discontinued operations (attributable to the owners of the company)	4	(67)	(464)
Loss for the financial year		(160,546)	(32,007)
Exchange differences on translation of foreign operations		893	1,581
Other comprehensive income from continuing operations, net of tax		893	1,581
Discontinued operations	4	27	28
Other comprehensive income for the year, net of tax		920	1,609
Total comprehensive income for the year		(159,626)	(30,398)
Total comprehensive income for the year arising from continuing operations		(159,586)	(29,962)
Discontinued operations	4	(40)	(436)
Total comprehensive income for the financial year		(159,626)	(30,398)
Loss for the financial year from continuing operations attributable to:			
Owners of the company		(160,479)	(31,543)
Total comprehensive income for the year from continuing operations attributable to:			
Owners of the company		(159,586)	(29,962)

The notes on pages 16 to 56 form part of these financial statements.

Group statement of financial position as at 31 December 2013

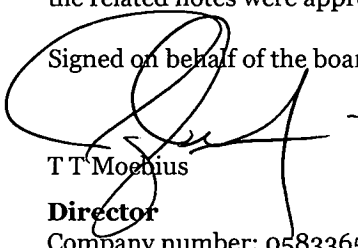
	Notes	2013 \$000	2012. \$000
Non-current assets			
Property, plant and equipment	13	3,719	5,423
Intangible assets	14	108,993	226,314
		112,712	231,737
Current assets			
Trade and other receivables	20	94,853	108,486
Cash and cash equivalents	19	18,718	22,629
		113,571	131,115
Total assets		226,283	362,852
Current liabilities			
Trade and other payables	21	(85,182)	(96,768)
Borrowings	22	(36,824)	(28,671)
Financial liabilities at fair value through the P&L	17	-	(3,039)
Provision for other liabilities and charges	24	(671)	(1,319)
Long term employee benefits	23	(5,516)	(1,817)
Share based compensation	26	-	(1,617)
Corporation tax		(539)	(198)
		(128,732)	(133,429)
Non-current liabilities			
Borrowings	22	(69,288)	(41,499)
Financial liabilities at fair value through the P&L	17	(1,378)	(3,080)
Provision for other liabilities and charges	24	-	(547)
Long term employee benefits	23	(3,639)	(3,081)
Share based compensation	26	(10,976)	(9,594)
Deferred tax liabilities	11	(9,320)	(8,136)
		(94,601)	(65,937)
Total liabilities		(223,333)	(199,366)
Net assets		2,950	163,486
Equity			
Called up share capital	27	1,148	1,125
Share premium account	28	273,618	269,310
Retained earnings		(268,989)	(103,622)
Other reserves		383	803
Exchange reserves		(3,210)	(4,130)
Equity attributable to owners of the company		2,950	163,486
Total equity		2,950	163,486

Group statement of financial position as at 31 December 2013 (continued)

The notes on pages 16 to 56 form part of these financial statements.

These financial statements, which comprise the group statement of comprehensive income, the group statement of financial position, the group statement of changes in equity, the group statement of cash flows and the related notes were approved and authorised by the board of directors on 7 October 2014

Signed on behalf of the board of directors



T T Mothius

Director

Company number: 05833659

Group statement of changes in equity for the year ended 31 December 2013

	Called up share capital \$000	Share premium account \$000	Retained earnings \$000	Other reserves \$000	Exchange reserves \$000	Total equity \$000
At 1 January 2012	925	161,296	(76,245)	512	(5,739)	80,749
Loss for the financial year	-	-	(32,007)	-	-	(32,007)
Exchange differences	-	-	-	-	1,609	1,609
Total comprehensive income	-	-	(32,007)	-	1,609	(30,398)
Share warrants issued (note 22)	-	-	-	359	-	359
Share warrants exercised (note 22)	-	68	-	(68)	-	-
Issue of share capital (note 27 and 28)	200	107,946	-	-	-	108,146
Share based compensation (note 26)	-	-	4,630	-	-	4,630
At 31 December 2012	1,125	269,310	(103,622)	803	(4,130)	163,486
Loss for the financial year	-	-	(160,546)	-	-	(160,546)
Exchange differences	-	-	-	-	920	920
Total comprehensive income	-	-	(160,546)	-	920	(159,626)
Share warrants exercised (note 22)	-	420	-	(420)	-	-
Issue of share capital (note 27 and 28)	23	3,888	-	-	-	3,911
Share based compensation (note 26)	-	-	748	-	-	748
Share based compensation settlement (note 26)	-	-	(5,569)	-	-	(5,569)
At 31 December 2013	1,148	273,618	(268,989)	383	(3,210)	2,950

The notes on pages 16 to 56 form part of these financial statements.

Group statement of cash flows for the year ended 31 December 2013

	Notes	2013 \$000	2012 \$000
Cash inflows from operating activities			
Cash used in operations	29	(7,254)	7,956
Income tax paid		(198)	(488)
Net cash generated from/(used in) operating activities - continuing operations		(7,452)	7,468
Net cash generated from/(used in) operating activities - discontinuing operations	4	16	(985)
Total Net cash generated from/(used in) operating activities		(7,436)	6,483
Cash flows from investing activities			
Purchase of property, plant and equipment		(539)	(2,605)
Purchase of intangibles		(10,011)	(7,591)
Acquisition of subsidiaries, net of cash acquired		(1,264)	-
Interest received		138	64
Net cash used in investing activities - continuing operations		(11,676)	(10,132)
Total Net cash used in investing activities		(11,676)	(10,132)
Cash flows from financing activities			
Proceeds from issue of share capital		307	200
Proceeds from borrowings		20,343	10,977
Repayment of borrowings		(3,380)	(7,623)
Interest paid		(2,624)	(1,519)
Net cash generated from financing activities - continuing operations		14,646	2,035
Total Net cash generated from financing activities		14,646	2,035
Net decrease in cash and cash equivalents		(4,466)	(1,614)
Cash and cash equivalents at the beginning of the year		(1,773)	(347)
Exchange (losses)/ gains on cash and cash equivalents		(72)	188
Cash and cash equivalents at the end of the year		(6,311)	(1,773)

The notes on pages 16 to 56 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

1. General information

Adconion Media Group Limited is a private limited liability company incorporated and domiciled in the United Kingdom. The company was incorporated on 31 May 2006. The address of the registered office is given on page 3. The principal activities of the group are set out in the Strategic report. Amounts are rounded to the nearest thousands and are suffixed with a "k" in certain disclosure paragraphs, unless otherwise stated

2. Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Adconion Media Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention as modified by financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The most significant of these relates to impairments.

Going concern

The group meets its day-to-day working capital requirements through its bank facilities. The group has secured additional funding through the sale of Adconion Direct North America and Adconion Australia to Amobee as described in note 33. Cash resources will now be available to support any outstanding consideration for current acquisitions and working capital requirements.

The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the group's products and services; and (b) the availability of bank finance for the foreseeable future. However the group is expected to strengthen its position in digital video advertising in its existing markets and accelerate the deployment of its digital distribution platform into the emerging markets of Eastern and Central Europe and despite the overall uncertainty about the development of the global economy the group plans for further growth in 2014 and beyond. These growth plans are supported by a further shift in the spending of agencies and direct marketers from offline media to online advertising business. Adconion Media Group is well prepared due to its diversified product offerings and the global presence to benefit from these market trends and a global recovery.

The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the group's borrowings is given in note 22.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures

Amended or revised standards, and interpretations mandatory for the first time for the financial period beginning on 1 January 2013, but which currently do not have a material impact on the Group (although they may affect the accounting for future transactions and events) are as follows:

- IFRS 7 (amendment) 'Financial instruments: Disclosures', (effective from 1 January 2013);
- IFRS 13 'Fair value measurement and disclosure requirements', (effective from 1 January 2013); and
- IAS 19 (amendment) 'Employee benefits', (effective from 1 January 2013);
- Annual improvements 2011, (effective from 1 January 2013).

New standards, amendments and interpretations issued but not effective for the financial period beginning 1 January 2013 and not early adopted by the Group are as follows:

- IAS 39 (amendment) 'Hedge accounting and novation of derivatives', (effective from 1 January 2014);
- IAS 36 (amendment) 'Impairment of assets – Disclosures', (effective from 1 January 2014);
- IAS 32 (amendment) 'Financial instruments: Presentation', (effective from 1 January 2014);
- IAS 27 (revised 2011) 'Separate financial statements', (effective from 1 January 2013) (endorsed 1 January 2014);
- IFRS 9 'Financial instruments – Classification and measurement', (effective from 1 January 2015);
- IFRS 7 (amendment) 'Financial instruments – Disclosure', (effective from 1 January 2015);
- IFRS 10 'Consolidated financial statements', (effective from 1 January 2013) (endorsed 1 January 2014);
- IFRS 11 'Joint arrangements', (effective from 1 January 2013) (endorsed 1 January 2014);
- IFRS 12 'Disclosure of interests in other entities', (effective from 1 January 2013) (endorsed 1 January 2014);

The above standards, amendments and interpretations are currently being assessed by management but are not expected to have a material impact on the Group's financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in an acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Subsequent changes to the fair value of the contingent consideration is recognised in profit or loss. Contingent consideration classified as equity is not remeasured, and subsequent settlement is accounted for within equity.

The excess of the consideration transferred over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions and balances between group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is defined as the fair value of the consideration transferred, excluding acquisition-related costs.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, returns, rebates and discounts after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities.

Revenue from online performance based advertising consist of display and video distribution; and delivery of emails. These are calculated using a cost-per-action, cost-per-click or cost-per-thousand impressions basis. Revenue is recognised in the period that the impressions, clicks or actions occur. Where the fees are fixed or determinable, there are no significant company obligations remaining and the collection of the resulting receivable is reasonably certain.

Cost of sales

Cost of sales consists primarily of media costs. Media costs presets website publisher fees paid on a revenue share, cost-per-lead, cost-per-click or cost-per-thousand impressions basis. Cost of sales is recognised when the costs are incurred.

Finance cost

Interest expense is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the assets and the costs attributable to bringing the assets to its working condition for its intended use. Depreciation is charged so as to write the cost less residual value over estimated useful lives, using the straight-line method commencing in the month following the purchase, on the following basis:

Fixtures and equipment	Between 3 to 15 years
------------------------	-----------------------

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating units.

b. Other intangible assets

Other intangible assets acquired by the group are stated at cost less accumulated amortisation except those identifiable intangible assets acquired as part of a business combination which are shown at fair value at the date of acquisition and subsequently less accumulated amortisation. Identifiable intangible assets are those which can be sold separately or which arise from legal rights.

Amortisation is charged to the profit or loss for the financial year using the straight-line method to allocate the cost of other intangible assets over their estimated useful lives unless such lives are judged to be indefinite.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Intangible assets (continued)

b. Other intangible assets (continued)

The estimated useful lives and amortisation methods for each major class of other intangible asset are as follows:

Customer relationships	Between 1 to 10 years
Non compete agreements	Between 2 to 3 years

c. Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost less accumulated amortisation. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date and subsequently presented less accumulated amortisation. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 20 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

d. Internally generated development expenditure

The group capitalises expenditure that is directly attributable to the development of the intangible asset which is amortised on a straight-line basis over 3 to 5 years from the point the asset is available for use. The assets are valued at cost less accumulated amortisation. Where no intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the group intends to and has sufficient resources to complete development and to use or sell the asset.

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is recognised immediately as an expense. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The group tests annually whether goodwill has suffered any impairment. Any impairment is recognised immediately as an expense and is not subsequently reversed. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, except where fair value less cost to sell is more representative of the maturities and growth stages of the business. Details of impairment losses are given in note 14.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the year end date. If material, provisions are determined by discounting the expected future cash flows using rates that reflect current market assessments of the time value of money.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Foreign currencies

The consolidated financial statements are presented in US dollars, which the directors consider is the appropriate presentational currency of the company. The functional currency of the parent company is pound sterling.

Transactions in currencies other than the functional currency of the company are recorded at the rates of exchange prevailing on the dates of the transactions.

Foreign currencies (continued)

At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Gains or losses arising on retranslation of monetary items are included in net profit or loss for the period.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Translation from functional currency to presentational currency

The functional currency of the parent company is UK pounds sterling and the presentation currency is US dollars. The Group's results, financial position and cash flows are translated into the presentational currency as follows:

- equity items other than net profit at the rate of transaction;
- assets and liabilities at the closing rate;
- income, expenses and cash flows at the average exchange rate; and
- resulting exchange differences are included in equity.

Financial instruments

Financial assets and financial liabilities are recognised in the group's statement of financial position when the group become a party to the contractual provisions of the instrument.

Financial assets

The group classifies all its financial assets as loans and receivables that comprise of trade and other receivables; and cash and cash equivalents.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term deposits. Bank overdrafts are presented separately in the statement of financial position in borrowings under current liabilities.

Financial liabilities and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. A liability is an unavoidable obligation to pay cash or transfer other financial assets.

Share capital represents the nominal value of shares that have been issued. Share premium includes any premiums received on issue of share capital. Retained earnings include all current and prior period retained profits or losses. Exchange reserves represent the movement in exchange rates on foreign operations retranslated into US dollar at year end.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Financial liabilities and equity (continued)

Classification

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

The group classifies its financial liabilities in the following categories: at fair value through profit or loss and other financial liabilities. The classification depends on the purpose of the financial liabilities. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss comprise contingent consideration arising from acquisition and derivatives.

All remaining financial liabilities are recognised as other financial liabilities. The group's other financial liabilities comprise of trade and other payables and borrowings.

Financial liability presented as current liabilities if expected to be settled within 12 months, otherwise, they are classified as non-current.

Recognition and measurement

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss for the financial year. Gains or losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss category are presented in the profit or loss for the financial year within 'other gains or loss' – net in the period in which they arise.

Other financial liabilities are initially recognised at fair value less transaction costs and subsequently carried at amortised cost using the effective interest method. Financial expense is recognised in profit or loss, in the group statement of comprehensive income.

Compound financial instruments

Loans with warrants attached are considered compound financial instruments and both the liability and equity elements must be separately measured. The fair value of the consideration in respect of the liability component is measured first, by discounting the contractual stream of future cash flows (interest and principal) to the present value, at the current rate of interest applicable to instruments of comparable credit status and terms that does not have an equity conversion option. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method.

The equity component (the equity conversion option) is assigned as the residual amount after deducting from the total fair value of the instrument, the amount separately determined for the liability component. The equity component is not remeasured after initial recognition, except on conversion or expiry.

Shareholder loans are recognised as compound financial instruments.

Contingent consideration

Accounting for contingent consideration in the post combination period is determined by the classification at the acquisition date. Contingent consideration that is classified as an equity instrument is not remeasured. Contingent consideration that is classified as a financial liability is accounted for under financial instruments.

Where contingent consideration may be settled by the issue of either shares or loan notes, it is classified in the statement of financial position in accordance with the substance of the transaction. Where the agreement gives rise to an obligation that is settled by the delivery of either loan notes or variable numbers of shares, these amounts are classified as financial liabilities.

Contingent consideration recognised as a financial liability is measured at fair value at the acquisition date and each reporting date.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Written put options

The written put option over the seller's own shares are recognised at the present value of the redemption amount and accreted through finance charges in the profit or loss for the financial year over the contract period up to the final redemption amount. The put liabilities over the non controlling interest are recognised in equity as the risks and rewards of the shares issued would remain with the purchaser.

Shareholder loans

The discounted value of the liability portion of a loan with a convertible warrant option is determined using an effective interest rate for an equivalent loan with a non-convertible warrant option. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' funds and it is not subsequently remeasured. The interest for the financial liability is recognised in profit or loss over the period of the borrowing.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, which is similar to its fair value, net of direct issue costs. Proceeds received are considered to present fair value, except if otherwise indicated. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method.

Current and deferred income tax

Current tax currently payable is based on taxable profits for the year. Taxable profits differ from net profits as reported in the statement of comprehensive income because it excludes items that are taxable or deductible in other years and items that are not taxable or deductible.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date, in the country where the company and its subsidiaries operate and generate taxable income, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Share based payments

The Group operates various equity-settled and cash-settled share schemes that consist of employee share option scheme, Share award schemes and put/call share options.

Equity-settled, share based compensation plans

a) Employee share option scheme

Equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options are recognised as an expense.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions;
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss for the financial year, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Share based payments (continued)

b) Share award schemes

For equity-settled share award, the fair value is calculated based on the share price at the grant date and, where applicable, any market vesting conditions, and expensed over the vesting period based on the number of shares expected to vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition; which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Cash-settled, share based compensation plans

For cash-settled plans, a liability is recorded, for the services received from employees that are measured at fair value over the vesting period and the recognition of a corresponding liability at each reporting date with any movements in fair value being recorded to the appropriate profit or loss for the financial year heading within the operating results. Any subsequent cash flows from exercise of vested awards are recorded as a reduction of the liability.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Mutually exclusive awards

Both the Put/call share options and Long Term Incentive Program ('LTIP') are considered to be two mutually exclusive awards, one equity-settled and one cash-settled.

The cash-settled award, although affected by the probability of being paid, always has a fair value which is recognised over the vesting period. If the awards are ultimately settled in equity the fair value of the liability falls to nil.

The equity-settled alternative is only recognised if it is considered probable. If the award is ultimately settled in cash the equity alternative would have become improbable and so no cumulative expense would be recognised for this. Once the contingent settlement provision resolves, the cumulative charge will represent only the expense actually incurred under either the equity or cash settlement option.

Operating lease commitments

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases payments net of any incentives received (including contracts with fixed escalation clauses) from the lessor are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Short-term employment benefits

Short-term employment benefits consist of salaries, wages and bonuses payable within twelve months of the balance sheet date. A liability and an expense (unless capitalisation is appropriate) are recognised when an employee has rendered services.

For short-term bonuses a liability and an expense (unless capitalisation is permitted) are recognised when the reporting entity has a present legal or constructive obligation to make payments as a result of past events and a reliable estimate can be made of the amount payable.

Long-term employee benefits

Long-term bonuses are accounted for as a liability when employees have provided services in exchange for benefits to be paid in the future. The obligation is measured using the projected unit credit method and discounted to present value. All past service costs are recognised immediately as an expense.

Segmental analysis

The group is not required to apply IFRS 8 nor has it opted for voluntary disclosure. However the group has opted to disclose geographical analysis information as it believes this would attribute to the information provided in financial statements and useful to users.

Management assesses the performance of the geographical operations based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure such as Corporate Finance and other advisory related expenses, provision for termination and settlement and goodwill impairments when the impairment is the result of an isolated, non-recurring event. The measure also excludes the effects of costs associated with acquisitions, share based payments and other income or expenses. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with general accepted accounting practice requires management to make estimates and judgments that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgments made by management in applying the group's accounting policies and the key sources of estimation uncertainty were:

a. Contingent deferred consideration

The Group has estimated the value of future acquisition consideration based on management's estimate of the future financial performance of the relevant entities. Assumptions include the future profit levels and discounting to reflect the time value of money.

b. Written put options

The written put option over the seller's own shares are recognised at the present value of the redemption amount and accreted through finance charges in the profit or loss for the financial year over the contract period up to the final redemption amount.

c. Fair value of share options

The fair value of share options granted in the year has been assessed using the Black Scholes Option Pricing Model. These charges are amended to take into account changes in the number of equity instruments expected to vest as a consequence of the changes in expectations.

d. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the Group's accounting policy. In determining the recoverable amount of all CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows or fair value less cost to sell. In each case, these key assumptions have been made by management reflecting past experience and future expectations.

The main assumptions within forecast operating cash flow include the achievement of future sales, the cost incurred, removing non cash flow items, and the levels of ongoing capital expenditure required to support forecast production. Similarly, determining the fair value includes the achievement of revenue forecasts and applying multiples that supports similar online advertising companies.

e. Capitalised development costs

The group capitalise development costs, in accordance with the Group's accounting policy. Determining the amounts to be capitalised requires management to make assumptions and estimates regarding the expected future cash generation of new developments and the expected period of benefits.

f. Provisions

Estimating the provisions for onerous contracts and non-compete agreement involves uncertainties in determining minimum guarantees and non compliance with terms and conditions. Factors to consider in estimating the costs include litigation procedures, budgets and forecasted results. Changes in these estimates would impact future reported results.

g. Impairment of trade receivables

The group provides for any amount that is estimated to be irrecoverable from customers. Each reporting entity are responsible for calculating a specific provision based on client knowledge, trade receivables past due and recent history of default and performance of customers.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Summary of significant accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty (continued)

h. Amortisation of intangible assets

The amortisation and useful life of intangible asset are defined as the period over which the amortised amount of the asset is allocated and the period over which the asset is expected to be available for use by an entity. In assessing the useful life at each reporting period the following relevant factors are considered: the expected usage by the group of the asset; technical, technological, commercial and other types of obsolescence and the period for which the entity has control of the asset and any legal use.

We assess the historical experience, contracts period, competitors and life cycle to determine the useful lives of the customer relationships and the period for which contractual and/or other legal rights are held for non compete agreements. Legal rights for trademarks and licences are assessed over the fixed period and internally generated development expenditure is mainly assessed against technical, technological, commercial and other types of obsolescence.

3. Geographical analysis

The group primarily operates in one principal area of activity, that of online marketing. Geographically, management considers the performance in the United Kingdom (UK), Continental Europe, Asia Pacific (APAC) and North America.

The geographical information for the year ended 31 December 2013 from continuing operations is as follows:

	UK \$000	Continental Europe \$000	APAC \$000	North America \$000	Consolidation \$000	Total \$000
Total geographical revenue	13,717	97,194	24,901	175,144	(27,290)	283,666
Inter-geographical revenue	(593)	(3,856)	(118)	(22,723)	27,290	-
Revenue from external customers	13,124	93,338	24,783	152,421	-	283,666
Adjusted EBITDA	(2,562)	(1,737)	485	3,859	-	45

The geographical information for the year ended 31 December 2012 from continuing operations is as follows:

	UK \$000	Continental Europe \$000	APAC \$000	North America \$000	Consolidation \$000	Total \$000
Total geographical revenue	14,423	100,070	33,537	257,625	(65,590)	340,065
Inter-geographical revenue	(826)	(4,611)	(194)	(59,959)	65,590	-
Revenue from external customers	13,597	95,459	33,343	197,666	-	340,065
Adjusted EBITDA	(1,984)	(1,566)	128	17,537	(46)	14,069

Notes to the financial statements for the year ended 31 December 2013 (continued)

3. Geographical analysis (continued)

A reconciliation of adjusted EBITDA to loss for the year from continuing operations is provided as follows:

	2013 \$000	2012 \$000
Adjusted EBITDA	45	14,069
Corporate finance and other advisory	(3,366)	(2,990)
Bonus costs associated with acquisitions	(1,903)	(2,982)
Depreciation and amortisation	(24,827)	(21,242)
Impairment of goodwill	(107,940)	-
Share based payment charge	(12,843)	(13,943)
Finance income	138	168
Finance cost	(10,369)	(11,778)
Loss on foreign exchange	(2,020)	(8,410)
Other gains – net	4,884	12,473
Other (loss)/income	(908)	611
Income tax	(1,370)	2,481
Loss for the year from continuing operations	(160,479)	(31,543)

Notes to the financial statements for the year ended 31 December 2013 (continued)

4. Discontinued operations

Statement of comprehensive income from discontinued operations

	2013 \$000	2012 \$000
Revenue	-	69
Cost of sales	-	(212)
Gross result/profit	-	(143)
Administrative expenses	(65)	(321)
Operating loss	(65)	(464)
Finance income	-	-
Loss on ordinary activity before taxation	(65)	(464)
Tax on loss on ordinary activities	(2)	-
Loss for the financial year from discontinuing operations	(67)	(464)
Exchange differences on translation of foreign operations	27	28
Other comprehensive income, net of tax	27	28
Total comprehensive income for the year from discontinuing operations	(40)	(436)
Cash flow statement from discontinued operations		
	2013 \$000	2012 \$000
Net cash inflow/(outflow) from operating activities	16	(985)
Net increase/(decrease) in cash and cash equivalents	16	(985)

In December 2011, the management of the group decided to no longer pursue the business of Red Lever, Inc, Red Lever Productions LLC, Adconion IP (Switzerland) AG and Adconion IP (International)AG.

Red Lever was acquired in October 2008 to develop products and new concepts in online video production. Following the acquisitions in 2011, a change in strategic direction and a recent restructuring in the US, the Group was no longer pursuing the Red Lever business model and closed both legal entities in October 2012.

Adconion IP (Switzerland) AG and Adconion IP (International) AG are in the process of winding the business down.

Notes to the financial statements for the year ended 31 December 2013 (continued)

5. Finance income and finance cost

Finance income

	2013 \$000	2012 \$000
Interest on short-term bank deposits	27	64
Interest on other receivables	111	104
Finance income from continuing operations	138	168

Finance cost

	2013 \$000	2012 \$000
Interest on bank overdrafts	1,919	1,519
Interest on provision for other liabilities and charges	124	199
Interest on long-term employee benefits	273	248
Interest on borrowings	607	7,714
Interest on shareholder loans	7,446	2,098
Finance cost from continuing operations	10,369	11,778

6. Employee information

The average monthly number of full time and part time persons (including executive directors) employed by the group during the year was:

	2013	2012
Sales and marketing	404	464
Research and development	65	71
General and administration	132	144
	601	679

	2013 \$000	2012 \$000
Staff costs (of the above persons)		
Wages and salaries	61,211	69,110
Social security costs	6,490	6,754
Long term employee benefits (note 23)	1,903	2,982
Share based payments (note 26)	12,843	13,943
Staff costs from continuing operations	82,447	92,789

Notes to the financial statements for the year ended 31 December 2013 (continued)

7. Directors' emoluments and key management compensation

The directors' aggregate emoluments in respect of qualifying services were:

	2013 \$000	2012 \$000
Total emoluments	2,322	1,685

In addition, \$3,574k (2012: \$2,222k) was expensed in relation to the group's option schemes as share based payments to three of the directors.

Emoluments of highest paid director:

	2013 \$000	2012 \$000
Total emoluments	1,072	999

In addition \$1,769k (2012: \$1,765k) was expensed for the highest paid director in relation to the group's share option schemes as share based payments within the statement of comprehensive income. The highest paid director did not exercise any options in 2013.

Key management compensation

Additionally there is a key management team having authority and responsibility for planning, directing, and controlling an operative entity respectively business unit.

T T Moebius – Chief Executive Officer

P Meininger – Chief Financial Officer

B Wiseman – Global Chief Operations Officer (until September 2013)

J-P Fumagalli – Chief Executive Officer, smartclip

R Schaber – Chief Operating Officer, smartclip

K Reed Perell – Chief Executive Officer, Adconion Direct

S Sullivan – Chief Technology Officer (until April 2013)

The company's policy on remuneration of directors is to attract, retain and motivate the best people, recognising the input they have to the ongoing success of the business.

Consistent with this policy, the benefit packages to directors and key management are intended to be competitive. They comprise a mix of performance-related and non-performance related remuneration designed to incentivise directors and align their interests with those of shareholders. The remuneration consists of the elements outlined below.

Base pay

Key managements' base pay is designed to reflect individual's capabilities and role within the business. Salary levels are reviewed annually and targeted at the median position against similar industries.

Quarterly bonus

All full time employees participate in the company's quarterly bonus plan. One component of the bonus plan is related to Group, Company or Business Unit achievement, and one component is based on individual performance goals.

Key management compensation

	2013 \$000	2012 \$000
Short-term employee benefits	1,499	2,556

Notes to the financial statements for the year ended 31 December 2013 (continued)

7. Directors' emoluments and key management compensation (continued)

Share option scheme & LTIP

It is the board's intention to continue to award shares to all key management members under the group's share option scheme. In the event that a key management member resigns, the share options will lapse. The value of shares notionally awarded to a director under this scheme in any year will not exceed that director's salary.

In 2012, a new award system, the Long Term Incentive Program ("LTIP"), was established. Under the Adconion Long Term Incentive Plan eligible employees will receive a conditional Award of Adconion Media Group Limited shares. Awards under the Plan are not transferable and benefits under the Plan are not pensionable.

Receipt of this Award under the LTIP is discretionary and only occurs when specified conditions and targets have been met. Receipt of an Award in one year does not guarantee you will receive an Award in the future or the level of any future Award. None of key management team exercised options in 2013 and 2012.

	2013 \$000	2012 \$000
Key management share based compensation	1,603	1,893

8. Other gains – net

Financial liabilities at fair value through the P&L

	2013 \$000	2012 \$000
Fair value gain - contingent consideration arising on a business combination	4,827	2,902
Fair value gain - embedded derivative	-	9,700
Fair value gain/(loss) – warrants	57	(129)
Other gains – net from continuing operations	4,884	12,473

9. Operating loss

	2013 \$000	2012 \$000
Operating loss from continuing operations is stated after charging:		
Depreciation on property, fixtures and equipment	2,203	1,979
Amortisation on intangible assets	22,624	19,263
Impairment on goodwill	107,940	-
Loss on foreign exchange	2,020	8,410
Impairment of trade receivables	713	524
Operating leases costs - land and buildings	5,711	5,738
Auditors remuneration		
- Audit of parent company and consolidated financial statements	147	151
- The audit of company's subsidiaries pursuant to legislation	579	444
- Corporate finance and advisory services	-	787
- Tax services	126	134

Depreciation and amortisation expenses are charged to the administrative expenses in the statement of comprehensive income.

Notes to the financial statements for the year ended 31 December 2013 (continued)

10. Income tax

	2013 \$000	2012 \$000
Current tax:		
Current tax on profit for the financial year	-	-
Foreign tax on loss for the financial year	138	59
Adjustments in respect of prior years	48	-
Total current tax	186	59
Deferred tax (note 11):		
Origination and reversal of temporary differences	955	(1,905)
Recognition of tax losses	(161)	(977)
Adjustments in respect of prior years	227	2
Effect of rate change	163	340
Total deferred tax	1,184	(2,540)
Income tax credit from continuing operations	1,370	(2,481)

The effective corporation tax for the group is calculated at 21% (2012: 23%) of the estimated assessable loss for the year. The charge for the year can be reconciled to the loss per the statement of comprehensive income as follows:

	2013 \$000	2012 \$000
Loss before tax from continuing operations	(159,109)	(34,024)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(33,413)	(8,166)
Tax effects of:		
Expenses not deductible for tax purposes	22,103	1,134
Utilisation of previously unrecognised tax losses	-	55
Adjustments in respect of prior years	275	2
Effect of foreign tax rates	803	(613)
Tax losses for which no deferred income tax asset was recognised	11,439	4,767
Effect of rate change	163	340
Tax charge from continuing operations	1,370	(2,481)

The income tax charged directly to equity during the year is as follows:

	2013 \$000	2012 \$000
Deferred tax	(149)	-
	(149)	-

Notes to the financial statements for the year ended 31 December 2013 (continued)

11. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2013 \$000	2012 \$000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	(355)	(1,586)
Deferred tax assets to be recovered within 12 months	(249)	(943)
	(604)	(2,529)
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	8,627	9,423
Deferred tax liabilities to be recovered within 12 months	1,297	1,242
	9,924	10,665
Deferred tax liability – net	9,320	8,136

The deferred tax liability recognised in the financial statements is set out below:

	2013 \$000	2012 \$000
Short-term and other timing differences	9,320	8,136
	9,320	8,136

The gross movement on the deferred income tax account is as follows:

	2013 \$000	2012 \$000
At 1 January	8,136	10,676
Change to the statement of comprehensive income	1,184	(2,540)
At 31 December	9,320	8,136

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses and accelerated capital allowances, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is:

	2013 \$000	2012 \$000
Unrecognised deferred tax asset	21,120	9,681

In his budget of March 2014, the Chancellor of the Exchequer provided for a reduction of corporation tax from 23% to 21% with effect from April 2014.

The budget proposed a decrease in the rate of UK corporation tax from 21% to 20% from April 2015. The effect of the reduction in the tax rate to 20% on the Company's deferred tax asset would be to reduce the value of the unrecognised deferred tax asset. The rate change will also impact the amount of the future cash tax payment to be made by the Company.

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statement in future years, as appropriate, once the proposals have been substantively enacted.

During the year the UK main corporation tax rate changed from 24% to 23% that was substantively enacted on 20 July 2010 and that is effective from 1 April 2012, the relevant deferred tax balances have been measured at 21%.

Notes to the financial statements for the year ended 31 December 2013 (continued)

12. Investments in subsidiaries

Investments comprise the following:

	Country of Incorporation/ Place of Business	Holding	Principal Activity	Proportion of ownership Interest
Directly held investments				
Adconion UK Intermediate Holdings Limited	United Kingdom	Ordinary	Holding Company	100%
Adconion UK Limited	United Kingdom	Ordinary	Digital Media	100%
smartclip Holding AG	Germany	Ordinary	Holding Company	100%
Smartclip Mexico SAPI de CV	Mexico	Ordinary	Digital Media	75.1%
Adconion Direct Nordics AB	Sweden	Ordinary	Digital Media	93%
Adconion Pte Ltd.*	Singapore	Ordinary	Non trading	100%
Indirectly (through subsidiaries)				
Adconion GmbH	Germany	Ordinary	Digital Media	100%
Adconion Media, Inc.	USA	Ordinary	Digital Media	100%
Adconion Pty Limited	Australia	Ordinary	Digital Media	100%
Adconion SARL	France	Ordinary	Digital Media	100%
Adconion S.L.	Spain	Ordinary	Digital Media	100%
Publead S.L.	Spain	Ordinary	Digital Media	100%
Arkeero Media S.L.	Spain	Ordinary	Digital Media	100%
Adconion Direct, Inc.	USA	Ordinary	Digital Media	100%
Frontline Direct Australia Pty Limited *	Australia	Ordinary	Non trading	100%
Adconion IP (International) AG*	Switzerland	Ordinary	Non trading	100%
Adconion IP (Switzerland) AG	Switzerland	Ordinary	Non trading	100%
Adconion Platform Services, LLC	USA	Ordinary	Technology	100%
Smartclip LLC	USA	Ordinary	Digital Media	100%
Fold Media, LLC*	USA	Ordinary	Non trading	100%
Blackstar Marketing, LLC	USA	Ordinary	Digital Media	100%
Trabuco Media, LLC *	USA	Ordinary	Non trading	100%
MSP Solutions, LLC	USA	Ordinary	Digital Media	100%
CPH Ressources, LLC	USA	Ordinary	Digital Media	100%
smartclip AG	Germany	Ordinary	Digital Media	100%
smartclip UK Limited	United Kingdom	Ordinary	Digital Media	100%
smartclip Hispania S.L.	Spain	Ordinary	Digital Media	100%
smartclip France SAS	France	Ordinary	Digital Media	100%
smartclip Benelux B.V.	The Netherlands	Ordinary	Digital Media	100%
smartclip Nordics AB	Sweden	Ordinary	Digital Media	100%
smartclip Italy S.R.L.	Italy	Ordinary	Digital Media	100%
smartclip Russia LLC	Russia	Ordinary	Digital Media	100%
Brolsten Holdings Ltd.*	Cyprus	Ordinary	Holding Company	100%
FLC Smartclip Ltd.*	Cyprus	Ordinary	Holding Company	100%

Each subsidiary has been included in the consolidation. Dormant companies are identified by *.
 hiClip GmbH was merged with Adconion GmbH in 2013.
 JAK Technologies, LLC was placed into members' voluntary liquidation and dissolved in 2013.

Notes to the financial statements for the year ended 31 December 2013 (continued)

13. Property, plant and equipment

	Fixtures and equipment \$000
Cost	
At 1 January 2012	9,502
Additions	2,605
Disposals	(302)
Exchange differences	105
At 31 December 2012	11,910
Additions	539
Disposals	(228)
Exchange differences	(35)
At 31 December 2013	12,186
Accumulated depreciation	
At 1 January 2012	4,467
Charge for the year	1,986
Disposals	(7)
Exchange differences	41
At 31 December 2012	6,487
Charge for the year	2,203
Disposals	(207)
Exchange differences	(16)
At 31 December 2013	8,467
Net book value	
At 31 December 2013	3,719
At 31 December 2012	5,423
At 1 January 2012	5,035

Accumulated depreciation charge for the year includes discontinued operation charges of \$nil (2012: \$7k).

Notes to the financial statements for the year ended 31 December 2013 (continued)

14. Intangible assets

	Goodwill \$000	Customers relationships \$000	Non compete agreements \$000	Trademarks and licenses \$000	Internally generated development \$000	Total \$000
Cost						
At 1 January 2012	177,440	33,214	1,702	20,735	50,361	283,452
Additions	-	-	-	1,139	6,452	7,591
Disposals	-	-	-	(337)	-	(337)
Exchange differences	6,771	600	11	237	485	8,104
At 31 December 2012	184,211	33,814	1,713	21,774	57,298	298,810
Additions	101	-	-	1,691	8,320	10,112
Disposals	-	-	-	(63)	-	(63)
Exchange differences	2,809	1,468	29	550	471	5,327
At 31 December 2013	187,121	35,282	1,742	23,952	66,089	314,186
Accumulated amortisation and impairment						
At 1 January 2012	22,815	1,668	838	4,749	21,695	51,765
Amortisation charge for the year	-	3,395	344	5,420	10,104	19,263
Exchange differences	926	93	6	40	403	1,468
At 31 December 2012	23,741	5,156	1,188	10,209	32,202	72,496
Amortisation charge for the year	-	3,266	351	2,278	16,729	22,624
Impairment	107,940	-	-	-	-	107,940
Disposals	-	-	-	(21)	-	(21)
Exchange differences	1,433	297	19	116	289	2,154
At 31 December 2013	133,114	8,719	1,558	12,582	49,220	205,193
Net book value						
At 31 December 2013	54,007	26,563	184	11,370	16,869	108,993
At 31 December 2012	160,470	28,658	525	11,565	25,096	226,314
At 1 January 2012	154,625	31,546	864	15,986	28,666	231,687

Goodwill brought forward arose following the acquisitions of Frontline Direct, Inc., Blackstar Marketing, LLC and Smartclip Holding AG.

Notes to the financial statements for the year ended 31 December 2013 (continued)

14. Intangible assets (continued)

Goodwill brought forward arose following the acquisitions of Frontline Direct, Inc., Blackstar Marketing, LLC and Smartclip Holding AG.

Goodwill allocated to the following CGU entities

	2013 \$000	2012 \$000
smartclip group	32,270	129,046
Frontline Direct group*	21,737	31,424
	54,007	160,470

*Combined CGU of Frontline Direct and Blackstar

Goodwill allocated to the following CGU entities (continued)

The goodwill arising on the acquisitions of smartclip Holding AG and trade and assets of Blackstar Media, LLC in 2011 and of Frontline Direct, Inc. in 2008 represent the balance as at 31 December 2013.

Impairment tests for goodwill

Goodwill was allocated to the groups' cash-generating units (CGUs) for the purpose of impairment testing. Currently all CGUs allocated to goodwill were defined as the acquired subsidiaries or assets and trade of acquired businesses.

The recoverable amounts of the smartclip group and the Frontline Direct group CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the planning period were extrapolated using the estimated growth rates stated below. Within these calculations management have incorporated the economic circumstances within each geographical analysis in their assessment of goodwill impairment.

Management has determined that the recoverable amount allocated to the smartclip group CGU had been impaired by \$99.1m as a consequence of the impairment test results and the trading performance in the underlying business. Also the recoverable amount allocated to the Blackstar unit within the Frontline Direct group CGU has been fully impaired by \$9.8m as the assets acquired no longer generate cash for the group.

In 2013 and 2012, for value-in-use calculations a weighted average growth rate of 3% and a pre-tax discount rate of 13.5% were used to extrapolate cash flows beyond the planning period. The weighted average growth rate used was consistent with the forecasts included in industry reports. The discount rate used was pre-tax and reflect specific risks relating to the relevant business.

Sensitivity analysis

The value-in-use calculations for the smartclip CGU were highly sensitive to changes in the assumptions. If the cash generated had been 10% lower as planned, the group would have recognised an impairment of goodwill of \$104.3m.

15. Business combination

Telic Ventures, Inc

On 11 September 2013 the group acquired Telic Ventures, Inc.'s business of distributing third-party email advertising campaigns to email recipients through proprietary and non-proprietary email.

The terms of the acquisition provide that the consideration will be settled in upfront cash and contingent earn-out payments.

This transaction has been accounted for by the acquisition method of accounting.

Notes to the financial statements for the year ended 31 December 2013 (continued)

15. Business combination (continued)

The following table summarises the consideration paid and the fair value of assets acquired at the acquisition date.

	Book value \$000	Fair value adjustments \$000	Fair value \$000
Internally developed software	-	1,220	1,220
Other intangible assets	60	-	60
	60	1,220	1,280
Goodwill			101
Purchase consideration			1,381
Satisfied by:			
Cash			100
Contingent consideration (note 17 and 18)			1,281
			1,381

Acquisition related costs have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2013.

Contingent consideration is being settled in cash, in accordance with the acquisition agreement. Associated with the deferred contingent consideration are performance criteria based the adjusted gross contribution for the financial years ending 31 December 2014 and 31 December 2015.

The potential undiscounted amount of all future payments that the group could be required to make under the consideration arrangement is between nil and \$5,000k.

The fair value of the deferred contingent consideration arrangement of \$1,281k was estimated by applying the income approach. The fair value estimates are based on a discount rate of 7.04% and are charged to transaction consideration in the statement of financial position.

Notes to the financial statements for the year ended 31 December 2013 (continued)

16. Financial instruments by category

	2013 \$000	2012 \$000
Assets as per statement of financial position:		
<i>Loans and receivable</i>		
Trades and other receivables excluding non financial assets	81,616	87,241
Cash and cash equivalents, net of bank overdrafts	(6,311)	(1,773)
	75,305	85,468
Liabilities as per statement of financial position:		
<i>Financial liabilities at fair value through the P&L</i>		
	1,378	6,119
<i>Other financial liabilities at amortised cost</i>		
Borrowings excluding bank overdraft	81,083	45,768
Trade and other payables excluding non financial liabilities	77,420	80,062
	158,503	125,830

17. Financial liabilities at fair value through the P&L

	2013 \$000	2012 \$000
Liabilities as per statement of financial position:		
<i>Financial liabilities at fair value through the P&L</i>		
Contingent consideration arising on a business combination	1,304	5,990
Warrants issued	74	129
	1,378	6,119
Less non-current portion		
Warrants issued	(74)	(129)
Contingent consideration arising on a business combination	(1,304)	(2,951)
Current portion	-	3,039

Contingent consideration arising on a business combination

As part of the transaction consideration for the acquired assets and trade of Blackstar Media, LLC a contingent consideration is being settled through a mixture of equity and cash, in accordance with the acquisition agreements. Associated with the contingent consideration are performance criteria based on Blackstar's and Adconion Direct's combined adjusted EBITDA for the financial years ending 31 December 2012 and 31 December 2013. The consideration was settled in 2013.

As part of the transaction consideration for the acquired assets of Telic Ventures, Inc. a contingent consideration is being settled through cash, in accordance with the acquisition agreements. Associated with the contingent consideration are performance criteria based on the Gross Contribution for the financial years ending 31 December 2014 and 31 December 2015.

Warrants issued

Warrants were issued as part of the loan agreement between Adconion UK Ltd and Silicon Valley Bank, dated 02 March 2010.

Notes to the financial statements for the year ended 31 December 2013 (continued)

18. Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The group's financial liabilities carried at fair value are classified within Level 3 of the fair value hierarchy (fair value is based on appropriate valuation techniques using non-market observable inputs).

The following table presents the group's liabilities that are measured at fair value at 31 December 2013.

	\$000
Financial liabilities at fair value through the P&L	
Warrants issued	74
Contingent consideration arising on a business combination	1,304
	1,378

The following table presents the group's liabilities that are measured at fair value at 31 December 2012.

	\$000
Financial liabilities at fair value through the P&L	
Warrants issued	129
Contingent consideration arising on a business combination	5,990
	6,119

There were no transfers between levels during the year.

The group's finance department includes a team that performs the valuations of contingent consideration and warrants required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC).

Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every quarter, in line with the group's quarterly reporting dates.

Reconciliation for the fair value estimation

	Contingent consideration arising on a business combination \$000	Warrants issued \$000	Embedded derivative arising on a business combination \$000	Total \$000
At 1 January 2012	8,891	-	9,370	18,261
Additions	-	129	-	129
Fair value loss	(2,902)	-	(9,700)	(12,602)
Exchange differences	1	-	330	331
At 31 December 2012	5,990	129	-	6,119
Additions	1,304	-	-	1,304
Fair value loss	(4,827)	(57)	-	(4,884)
Payments	(1,163)	-	-	(1,163)
Exchange differences	-	2	-	2
At 31 December 2013	1,304	74	-	1,378

Notes to the financial statements for the year ended 31 December 2013 (continued)

19. Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

	2013 \$000	2012 \$000
Cash and cash equivalents	18,718	22,629
Bank overdrafts (note 21)	(25,029)	(24,402)
	(6,311)	(1,773)

20. Trade and other receivables

	2013 \$000	2012 \$000
Trade receivables	78,280	84,392
Less: provision for impairment of trade receivable	(1,070)	(920)
Trade receivables net	77,210	83,472
Other receivables	4,406	3,769
Other taxation and social security costs	8,221	15,162
Prepayments and accrued income	5,016	6,083
	94,853	108,486

Trade receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	2013 \$000	2012 \$000
Up to 3 months past due	27,848	24,988
More than 3 months past due	12,589	9,236
	40,437	34,224

Individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations.

Provision for impairment of trade receivables

Group	2013 \$000	2012 \$000
At 1 January	920	845
Used during the year	(713)	(524)
Additions	863	599
At 31 December	1,070	920

Notes to the financial statements for the year ended 31 December 2013 (continued)

21. Trade and other payables

	2013 \$000	2012 \$000
Trade payables	40,013	38,441
Other taxation and social security costs	7,762	16,706
Other payables	3,555	3,015
Accruals	33,852	38,606
	85,182	96,768

22. Borrowings

	Notes	2013 \$000	2012 \$000
Bank and other loans		4,803	7,357
Promissory notes from settlement of the put option		3,279	-
Deferred consideration from settlement of the put option		7,194	-
Deferred consideration from acquisition		2,657	2,377
Written put options		-	916
Shareholder loans		63,150	35,118
Bank overdraft	18	25,029	24,402
		106,112	70,170
Less non-current portion			
Bank and other loan		(75)	(4,821)
Promissory notes from settlement of the put option		(1,600)	-
Deferred consideration from settlement of the put option		(5,594)	-
Deferred consideration from acquisition		(1,286)	(2,377)
Shareholder loans		(60,733)	(34,301)
Current portion		36,824	28,671

Bank and other loans consist of:

The Silicon Valley Bank loan facilities are repayable in quarterly instalments over 4 years. Interest is payable quarterly at a rate equal to the US dollar LIBOR interest rates plus 5.75% per annum.

The Bank Santander loan facility was issued in January 2012 and is repayable monthly over 3 years. Interest is payable monthly at a rate of 6% per annum.

Repayments of bank and other loans during the year amounted to \$2,563k (2012 \$2,523k). The fair value of bank and other loans equals its carrying amount.

Notes to the financial statements for the year ended 31 December 2013 (continued)

22. Borrowings (continued)

Promissory notes and deferred consideration from settlement of the put option

In 2008, the group issued 25% of the share capital to the initial founders of the Adconion business in Spain with a call option to buy back the shares or convert into new share at a future point in time. The minority shareholders also have a put option to sell their 25% ownership stake back to the group for cash during 2013. The terms of the agreement included a service condition as the minority shareholders need to be employed as at exercise and up until 31 December 2013. The value at which the option can be exercised is based on a multiple of the EBITDA of the Spanish business in the four quarters preceding exercise. The option is considered to be two mutually exclusive awards, one equity-settled and one cash-settled. The corresponding expense was recognised in statement of comprehensive income within 'share based payment expense'.

The minority shareholders have exercised their put option in July 2013 and sold their 25% ownership stake back to the group for a combination of cash, shares in the group and promissory notes.

The group issued promissory notes of \$3,035k to the minority shareholders. Interest is payable quarterly at 10% per annum. The notes will be repaid until June 2015. The fair value of promissory notes equals its carrying amount.

Promissory notes	2013 \$000	2012 \$000
Opening amount 1 January	-	-
Proceeds from borrowings	3,035	-
Accrued interest	156	-
Interest paid	(80)	-
Exchange differences	168	-
Liability at 31 December	3,279	-

Deferred consideration from the put option is being settled through a mixture of equity and cash until June 2015. Non cash proceeds from borrowings during 2013 amounted to \$7,194k and the fair value of the deferred consideration equals its carrying amount.

Deferred consideration from acquisition

Deferred consideration from acquisition is being settled through a mixture of equity and cash, in accordance with the acquisition agreements. Non cash proceeds from borrowings during 2011 amounted to \$2,266k and the fair value of the deferred consideration was calculated using a market interest rate for an equivalent debt instrument.

Written put option

The potential cash payments related to put options issued by the group to repurchase shares are initially recognised at fair value within borrowings with a corresponding charge directly to equity. Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. The option expired unexercised and the liability was derecognised with a corresponding adjustment to equity.

Non cash proceeds from borrowings during 2011 amounted to \$1,895k and derecognition (including interest) of \$882k during 2013 (2012 \$1,064k). The fair values of the written put option were calculated using a market interest rate for an equivalent debt instrument.

Notes to the financial statements for the year ended 31 December 2013 (continued)

22. Borrowings (continued)

Shareholder loans

	2013 \$000	2012 \$000
Opening amount 1 January	35,118	25,928
Repayment of shareholder loans	(817)	-
Proceeds from shareholder loans issued	20,343	6,001
Interest paid	(95)	(118)
Accrued interest	7,435	2,141
Exchange differences	1,166	1,166
Liability at 31 December	63,150	35,118
Less non-current portion	(60,733)	(34,301)
Current portion	2,417	817

Shareholder loans were issued by the parent company to raise finance for the group in the years 2009, 2011, 2012 and 2013. Cash flow proceeds from borrowings during 2013 amounted to \$20,343k (2012: \$5,977k).

2009 – shareholder loans

The shareholder loans with warrants issued in 2009 are from 5 year loan notes. Interest is payable at a rate of 3% per annum payable on the redemption date.

Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company. On 29 May 2013, the shareholder loan agreements were amended. Interest is payable at a rate of 8% per annum after 30 June 2014 payable on the redemption date. The redemption date will be on the first to occur of 30 June 2015 or an exit event as defined in the agreements.

2012 – shareholder loans

On 4 June 2013 and on 20 June 2013, the shareholder loan agreements for the loans with warrants issued in 2011 were amended. The loans are repayable in quarterly instalments starting in October 2014. Interest is payable at rates between 5% and 10% per annum payable at the relevant redemption dates. Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company.

The shareholder loans with warrants issued in 2012 are repayable after 3 years. Interest is payable at a rate of 5% per annum payable on the redemption date. Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company.

2013 – shareholder loans

Three sets of shareholder loans were issued in 2013, all notes are repayable after 3 years:

- Interest will accrue on the notes at the rate of 20% per annum, and is payable at Libor plus 2% quarterly and the remainder on redemption of the relevant notes. The loan notes will be redeemable at their principal amount.
- Interest will accrue on the notes at the rate of 22% per annum, and is payable on redemption of the relevant notes. The loan notes will be redeemable at their principal amount.
- No interest will accrue on the notes. The loan notes will be redeemable at 2.2 times the principal amount.

The fair value of the liability component of the shareholder loans was calculated using a market interest rate for an equivalent debt instrument. The residual amount, representing the value of the warrants, is included in shareholders' equity in other reserves. The value of the liability component and the equity component were determined at the issuance of the instruments.

Notes to the financial statements for the year ended 31 December 2013 (continued)

22. Borrowings (continued)

Shareholder loans (continued)

	2013 \$000	2012 \$000
Shareholder loans with warrants		
Face value	54,178	33,864
Equity component	(383)	(803)
Share premium	(3,118)	(2,697)
Exchange differences	1,401	1,117
<i>Liability component</i>	52,078	31,481
Accrued interest	11,072	3,637
Liability at 31 December	63,150	35,118

Bank overdrafts

The bank overdrafts are primarily secured on company's trade receivables balances.

23. Long term employee benefits

	2013 \$000	2012 \$000
Opening amount 1 January	4,898	1,745
Service cost for the year	1,903	2,982
Payments	(2,745)	-
Reclassification from retained earnings	4,630	-
Accrued interest	273	117
Exchange differences	196	54
Liability at 31 December	9,155	4,898
Less non-current portion	(3,639)	(3,081)
Current portion	5,516	1,817

Long-term bonus schemes related to the acquisition of Blackstar Marketing, LLC

The group operates long-term bonus schemes, whereby employees receive bonus payments of up to \$5,000k for services from acquisition date until 31 December 2013. Associated with the bonus payments are performance criteria based on Blackstar's and Adconion Direct's combined adjusted EBITDA for the financial years ending 31 December 2012 and 31 December 2013. No bonus payments became payable as the performance criteria were not met.

The liability for the bonus payments was recognised at fair value using a discount rate of 7.43% and was build up over the service period. The service cost was the present value of the benefits attributed to the current year.

Long-term bonus schemes related to the acquisition of the smartclip group

The group operates long-term bonus schemes, whereby employees receive bonus payments of up to \$9,155k for services from acquisition date until 31 December 2014. Certain bonus payments are associated with performance criteria for the financial years ending 31 December 2013 and 31 December 2014. The bonus payments will be settled in cash, in accordance with the bonus agreements.

The liability for the bonus payments is recognised at fair value using a discount rate of 7.79% and is build up over the service period. The service cost is the present value of the benefits attributed to the current year.

Notes to the financial statements for the year ended 31 December 2013 (continued)

23. Long term employee benefits (continued)

As part of the acquisition of smartclip Holding AG, shares were issued as part of transaction consideration with condition of future employment that are not considered part of IFRS 3 (R) transaction consideration but instead presented as post combination employee services. Payments that are for employee services are post-combination remuneration expenses that will be charged to the combined group's loss for the financial year in accordance with IFRS 2, 'Share based payments'.

This share consideration was classified as an equity settled share based payment transaction. The fair value of the services was measured by reference to the fair value of the equity instruments granted as consideration estimated. The impact on the results for the year 2013 was US\$2,065k (2012: US\$ 2,811k).

At 31 December 2013, this liability amounting to US\$4,630k was reclassified to employee benefits as the terms and conditions for payments in shares were not met. Settlement will be in cash.

24. Provision for other liabilities and charges

	Onerous contracts \$000	Legal obligations \$000	Contingent consideration arising on a business combination \$000	Total \$000
At 1 January 2012	1,855	2,931	501	5,287
Charge for the year	-	-	-	-
Payments	(1,902)	(1,286)	(501)	(3,689)
Interest	-	190	-	190
Exchange differences	47	31	-	78
At 31 December 2012	-	1,866	-	1,866
Less non-current portion	-	(547)	-	(547)
Current portion	-	1,319	-	1,319
Charge for the year	-	-	-	-
Payments	-	(1,322)	-	(1,322)
Interest	-	100	-	100
Exchange differences	-	27	-	27
At 31 December 2013	-	671	-	671
Less non-current portion	-	-	-	-
Current portion	-	671	-	671

Legal obligations

A historical non-compete agreement was in place with a partner, under which the group was not permitted to trade in Eastern Europe. The acquisition of smartclip, which trades in Russia, triggered a breach of the contract. The parties have agreed to terminate the contract and the group will pay \$2,931k as a compensation payment over 10 quarters.

Notes to the financial statements for the year ended 31 December 2013 (continued)

25. Commitments under operating leases

The group leases various offices under non-cancellable operating lease agreements. The lease terms are between 1 and 7 years, and the majority of lease agreements are renewable at the end of the lease period at market rates. The operating lease expense charged to the loss for the financial year during the year is disclosed in note 9.

The future aggregate lease payments under non-cancellable operating leases are as follows:

	2013 \$000	2012 \$000
Operating leases which expire:		
Within one year	4,902	5,630
Between one and five years	12,923	17,728
After more than five years	181	4,288
	18,006	27,646

Notes to the financial statements for the year ended 31 December 2013 (continued)

26. Share based compensation

\$000	Note	Long term employee benefits	Share based payment	
		Cash settled (Liability)	Cash settled (Liability)	Equity settled (Equity)
Employee share option scheme				11,408
Contingent deferred consideration	22	9,155		
Long Term Incentive Plan			10,976	
At 31 December 2013		9,155	10,976	11,408
Less non-current portion		(3,639)	(10,976)	
Current portion		5,516		

a) Employee share option scheme

The group has a share option scheme for all employees (including directors) within the group. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is between one and four years. The Weighted Average Exercise Price (WAEP) has also been disclosed for all movements in the number of share options during the year.

	2013 WAEP		2012 WAEP	
	Number	\$	Number	\$
Outstanding at the beginning of the year	6,128,936	2.97	6,782,144	2.78
Granted during the year (strike price of shares)	25,000	6.02	134,500	8.72
Exercised during the year	(195,832)	1.49	(149,427)	1.95
Forfeited during the year	(611,007)	5.98	(638,281)	3.32
Outstanding at the end of the year	5,347,097	2.79	6,128,936	3.02
Exercisable at the end of the year	4,983,682	2.56	4,999,877	2.30

Options outstanding at 31 December 2013 comprise the following:

Expiry date	Exercise price in \$	2013 Number	2012 Number
31 December 2015	0.08	827,940	940,440
31 December 2016	0.77	254,225	327,911
31 December 2017	1.29	1,967,457	2,109,491
31 December 2018	4.37	362,302	439,930
31 December 2019	4.47	685,063	766,000
31 December 2020	4.93	635,144	706,042
31 December 2021	6.89	548,466	716,622
31 December 2022	9.07	41,500	122,500
31 December 2023	6.35	25,000	
		5,347,097	6,128,936

The weighted average fair value of options granted in the year was \$1.50 (2012 \$2.97). The weighted average share price during the year for options exercised over the year was \$1.49 (2012 \$1.89). The total charge for the year relating to employee share based payment plans from continuous operations was \$748k (2012 \$966k) all of which related to equity settled share base payments transactions.

Notes to the financial statements for the year ended 31 December 2013 (continued)

26. Share based compensation (continued)

a) Employee share option scheme (continued)

The fair value per option granted was determined using the Black Scholes Option Pricing model with the following assumptions used in the calculation:

	2013	2012
Weighted average share price - \$	6.02	8.72
Weighted average exercise price - \$	6.02	8.72
Expected volatility - %	25.22	38.11
Expected life – years	5.00	5.00
Risk free rate - %	1.00	1.00
Expected dividend yield - %	0.00	0.00

Risk free rate

The risk free rate of 1% was determined using a government bond as a proxy that equates a 5 year expected lifetime.

Expected dividend yield

The directors do not currently forecast any dividends and hence a yield of 0% has been used.

Expected volatility

In general the Black Scholes Option Pricing Model was used to calculate the fair market value. The volatility of the stock price is calculated over 24 months.

Expected term

A best estimate of 5 years has been selected by the directors based on historical performance and the current growth rate of the group.

b) Share award scheme

As part of the acquisition of smartclip Holding AG and trade and assets of Blackstar Media, LLC, shares were issued as part of transaction consideration with condition of future employment that are not considered part of IFRS 3 (R) transaction consideration but instead presented as post combination employee services. Payments that are for employee services are post-combination remuneration expenses that will be charged to the combined group's loss for the financial year in accordance with IFRS 2, 'Share based payments'.

For both acquisitions similar terms and conditions exist of contingent payments payable in shares at future date and dependent on future employment. Contingent payments are payable in shares at a future date and are dependent on future employment. The bonus payment for smartclip Holding AG consisted of two payments payable December 31, 2013 and December 31, 2014.

This share consideration was classified as an equity settled share based payment transaction. Share based payment transactions in which the entity receives services as consideration for its own equity instruments (including shares or share options). The fair value of the services was measured by reference to the fair value of the equity instruments granted as consideration estimated. The impact on the results for the year 2013 was a decrease of US\$3,593k (2012: credit of US\$2,811k).

c) Put/call share options

The minority shareholders have exercised their put option in July 2013 and sold their 25% ownership stake back to the group for a combination of cash, shares in the group and promissory notes. The impact on the equity instruments granted results in a decrease of US\$1,976k for the year 2013 (2012: credit of US\$853k).

d) Long Term Incentive Program ("LTIP")

In 2012, a new award system, the Long Term Incentive Program ("LTIP"), was established. Under the Adconion Long Term Incentive Plan eligible employees will receive a conditional Award of Adconion Media Group Limited shares.

Notes to the financial statements for the year ended 31 December 2013 (continued)

c) Long Term Incentive Program ("LTIP") (continued)

The vesting of the Award is generally conditional on remaining employed over a three-year period and on the satisfaction of certain conditions. Awards under the Plan are not transferable and benefits under the Plan are not pensionable. Receipt of this Award under the LTIP is discretionary and only occurs when specified conditions and targets have been met. Receipt of an Award in one year does not guarantee to receive an Award in the future or the level of any future Award.

As above, the LTIP is considered to be two mutually exclusive awards, one equity-settled and one cash-settled. The current estimate of the equity-settled value is \$nil (2012: \$nil); and the fair value of the cash-settled award is \$10,976k (2012: \$4,326k), with a cumulative corresponding expense impact of \$6,650k (2012: \$4,326k) in statement of comprehensive income within 'share based payment expenses'.

27. Called up share capital

	2013		2012	
	Number	\$	Number	\$
Allotted and called up:				
Ordinary shares of £0.01 each	30,377,056	555,149	29,746,432	545,998
A ordinary shares of £0.01 each	2,467,170	48,541	2,467,170	48,541
B ordinary shares of £0.01 each	1,400,000	27,544	1,400,000	27,544
C ordinary shares of £0.01 each	15,355,045	281,211	14,449,517	266,967
D ordinary shares of £0.01 each	11,441,053	184,685	11,441,053	184,685
Preference shares of £0.01 each	2,593,750	51,031	2,593,750	51,031
	63,634,074	1,148,161	62,097,922	1,124,766

All shares issued by the group were fully paid. In 2013, 195,832 ordinary shares of £0.01 each were issued to meet share option agreements (strike prices between £0.07 and £5.50), 905,528 C ordinary shares of £0.01 each were issued to existing shareholders upon exercise of warrants at an exercise price of £0.01 and 434,792 ordinary shares were issued to fulfil earn out obligations from acquisitions at a subscription price of £3.85.

The related premium arising on each issue of ordinary shares has been transferred to the share premium account. There are no differences in terms of voting rights associated with the six different classes of shares. The preference shareholders are not entitled to receive a distribution of profits. D ordinary shareholders are ranked highest in order of preference on winding up, C ordinary shareholders are second in line, preference shareholders are third in-line with the remaining shareholders ranked equally.

Reconciliation of ordinary and preference shares

	Ordinary shares of £0.01 each \$000	A ordinary shares of £0.01 each \$000	B ordinary shares of £0.01 each \$000	C ordinary shares of £0.01 each \$000	D ordinary shares of £0.01 each \$000	Preference shares of £0.01 each \$000
At 31 December 2011	534,783	48,541	27,544	264,116	-	51,031
Share issued during the year	11,215	-	-	2,851	-	-
Shares issued as part of the acquisitions	-	-	-	-	184,685	-
At 31 December 2012	545,998	48,541	27,544	266,967	184,685	51,031
Shares issued during the year	2,842	-	-	14,244	-	-
Shares issued as part of the acquisitions	6,309	-	-	-	-	-
At 31 December 2013	555,149	48,541	27,544	281,211	184,685	51,031

Notes to the financial statements for the year ended 31 December 2013 (continued)

28. Share premium account

	2013 \$000	2012 \$000
Balance brought forward	269,310	161,296
Premium on shares issued in the year	4,308	108,014
Balance carried forward	273,618	269,310

29. Cash generated from operations

	2013 \$000	2012 \$000
Loss on ordinary activities before taxation from continuing operations	(159,109)	(34,024)
Finance income	(138)	(168)
Finance cost	10,369	11,778
Other gains – net	(4,884)	(12,473)
Depreciation on fixtures and equipment	2,203	1,979
Amortisation on intangible assets	22,624	19,263
Impairment on goodwill	107,940	-
Provision for liabilities and charges	(1,222)	(3,689)
Share based payment expense for the year	12,843	13,943
Long-term employee bonus expenses	1,903	2,982
Unrealised foreign exchange losses	(146)	7,539
Increase / (decrease) in receivables	13,557	(6,601)
(Increase) / decrease in payables	(13,194)	7,427
Cash (outflow)/inflow from operating activities from continuing operations	(7,254)	7,956

30. Related party transactions

Group relationships

All inter group transactions (including management fee and interest), loans and trading balances, which are related parties, have been eliminated on consolidation and excluded for disclosure. Refer note 12 for Investment in subsidiaries.

Shareholder loans

Shareholder loans were issued by the parent company to raise finance for the group in the years 2009, 2011, 2012 and 2013. Refer note 22 for detail.

Key management

Adconion Direct, Inc. and Adconion Pty Ltd. traded with Telic Interactive, a company 50% owned by K Reed Perell until 11 September 2013, to the amount of \$2,679k in 2013. Trade receivables due from Telic Interactive were \$211k at 11 September 2013.

Similar, Telic Interactive, provided services to Adconion Direct, Inc. in the amount of \$3,781k in 2012. Trade payables due to Telic Interactive were \$492k at 11 September 2013.

All transactions within Adconion Media Group are carried out at arms length.

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by a central treasury department (group treasury). Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

Market risk

Foreign exchange risk

The group's principal foreign currency exposures arise from purchases from overseas companies and sales to overseas customers. As there are local entities in all major markets only a small percentage of the group's sales are to foreign companies.

In addition to this, Adconion Media Group advances intercompany loans to its' operating entities denominated in Sterling. While there is no effect on group level, currency fluctuations might result in significant adjustments on local level.

Foreign exchange risk (continued)

Exchange differences arising on the retranslation of foreign currency borrowings (including promissory notes issued to the initial founders of the Adconion business in Spain and deferred consideration from the acquisition of smartclip) during the current year are recognised in other comprehensive income.

Interest rate risk

The group's interest rate risk arises from bank overdrafts and shareholders' loans. The group manages its interest rate risk by regularly reviewing its existing position, refinancing or alternative financing to ensure the group seeks to borrow at competitive rates. The group also calculates the impact on loss in the statement of comprehensive income of a defined interest rate shift.

The group's main exposure to interest rate risk arises from the Silicon Valley Bank loan.

Market risk sensitivity analysis

The following analysis is intended to illustrate the sensitivity of the Group's financial instruments (at 31 December) to changes in interest rates and foreign currencies. The group is using a sensitivity analysis technique that measures the estimated impacts on the consolidated loss for the financial year and other comprehensive income of either an instantaneous increase or decrease of 0.5% (50 basis points) in market interest rates or a 10% strengthening or weakening in US dollars against all other currencies, from the rates applicable at 31 December 2013 and 31 December 2012, for each class of financial instruments with all other variables remaining constant.

The sensitivity analysis excludes the impact of market risks on corporate tax payable. This analysis is for illustrative purposes only, as in practice interest and foreign exchange rates rarely change in isolation.

The sensitivity analysis is based on the following:

- All losses for the financial year sensitivities also impact equity.
- Changes in interest rates affect the finance income or expense of variable interest financial instruments, financial instruments with fixed interest rates if these are recognised at fair value and no impact for financial instruments carried at amortised cost, carrying value does not change as interest rates move.
- Changes in the fair values of financial liabilities at fair value through profit or loss are estimated by discounting the future cash flows to net present values using rates prevailing at the year end for contingent considerations using the Black Scholes model by computing the outstanding payable with inputs linked to foreign exchange and interest rates.
- No sensitivity is provided for cash and cash equivalents, trade and other payables as these are considered current and present fair value and initial recognition and subsequent amortised costs and not susceptible to further rate changes.
- Translation of foreign subsidiaries and operations into the Group's presentation currency has been presented separately from transaction considerations.

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Financial risk management (continued)

	Other market risk		Interest rate		Foreign exchange risk	
	Reflected in loss		Reflected in loss		Reflected in other comprehensive income	
	Favourable changes \$000	Unfavourable changes \$000	Favourable changes \$000	Unfavourable changes \$000	Favourable changes \$000	Unfavourable changes \$000
Silicon Valley Bank Loans	-	-	36	(36)	738	(738)
Deferred consideration	-	-	-	-	238	(238)
Written put options	-	-	-	-	90	(90)
Contingent consideration arising on a business combination	599	(599)	-	-	599	(599)
At 31 December 2012	599	(599)	36	(36)	1,665	(1,665)

Market risk sensitivity analysis (continued)

	Other market risk		Interest rate		Foreign exchange risk	
	Reflected in loss		Reflected in loss		Reflected in other comprehensive income	
	Favourable changes \$000	Unfavourable changes \$000	Favourable changes \$000	Unfavourable changes \$000	Favourable changes \$000	Unfavourable changes \$000
Silicon Valley Bank Loans	-	-	24	(24)	473	(473)
Deferred consideration	-	-	-	-	266	(266)
Promissory notes 2014/2015	-	-	-	-	327	(327)
At 31 December 2013	-	-	24	(24)	1,066	(1,066)

Management assessed their market risks exposure as limited with no material effect during the year ended 31 December 2013.

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Financial risk management (continued)

Translation of foreign subsidiaries and operations

A 10% change in the exchange of the US dollar against the following currencies would create an increase/(decrease) in our loss and/or in our equity as shown below. This analysis is based on the foreign currency exchange rate variances that we considered to be reasonably possible at the reporting date. This analysis assumes that all other variables, such as interest rates, remain constant and ignores any impact of forecasted sales and purchases. This analysis is shown on the same basis for 2012 and 2013, though the reasonably possible foreign exchange rate variances were different, as indicated below:

	Foreign exchange risk			
	Reflected in loss		Reflected in other comprehensive income	
	Favourable changes \$000	Unfavourable changes \$000	Favourable changes \$000	Unfavourable changes \$000
Continental Europe	157	(157)	2,059	(2,059)
APAC	(13)	13	257	(257)
UK	198	(198)	23,608	(23,608)
At 31 December 2012	342	(342)	25,924	(25,924)
Continental Europe	180	(180)	833	(833)
APAC	(49)	49	201	(201)
UK	254	(254)	22,764	(22,764)
At 31 December 2013	385	(385)	23,798	(23,798)

Credit risk

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a high credit-rating are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and clients. Refer note 20 trade and other receivables for further detail on credit risk analysis

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Financial risk management (continued)

Liquidity risk

Cash flow forecasting is performed in the operating entities of the group and aggregated by group finance. Group finance monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the group treasury. Group treasury invests surplus cash in interest bearing current financial statements, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. At the reporting date, the group held cash and cash equivalents excluding bank overdrafts of \$18,708k (2012: \$22,629k) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months \$000	Between 3 months and 1 year \$000	Between 1 and 2 years \$000	Between 2 and 5 years \$000
At 31 December 2013				
Trade and other payables excluding non financial liabilities	77,420	-	-	-
Bank overdrafts	25,029	-	-	-
Shareholder loans	-	1,654	26,994	26,579
Borrowings	1,469	7,919	8,635	-
Financial liabilities through the P&L	-	-	1,485	-
	103,918	9,573	37,114	26,579
At 31 December 2012				
Trade and other payables excluding non financial liabilities	80,062	-	-	-
Bank overdrafts	24,402	-	-	-
Shareholder loans	793	-	14,852	19,297
Borrowings	625	2,791	3,821	3,509
Financial liabilities through the P&L	3,635	-	3,198	-
	109,517	2,791	21,871	22,806

Notes to the financial statements for the year ended 31 December 2013 (continued)

31. Financial risk management (continued)

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statements of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During 2013, the group's strategy was to maintain the gearing ratio below 50% (2012: 25%). As a consequence of the impairment charge of the goodwill for the smartclip group the gearing ratio was 96.7%. Excluding the impairment charge the gearing ratio would have been 44.1%.

The group has secured additional funding through the sale of Adconion Direct North America and Adconion Australia to Amobee as described in note 33. Financing will be available to support any outstanding consideration for current acquisitions and working capital requirements.

The gearing ratios at 31 December 2013 and 2012 were as follows:

	2013 \$000	2012 \$000
Total borrowings	81,083	45,768
Plus/(less: cash and cash equivalents, net of bank overdrafts)	6,311	1,773
Net debt	87,394	47,541
Total equity	2,950	163,486
Total capital	90,344	211,027
Gearing ratio	96.7%	22.5%

32. Ultimate parent company and controlling company

The directors consider Adconion Media Group Limited as the ultimate parent undertaking and controlling party, a company incorporated in United Kingdom.

Adconion Media Group Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2013. The consolidated financial statement of Adconion Media Group Limited is available from United Kingdom Company's house.

33. Post balance sheet events

In July 2014, Amobee, Inc. a wholly owned subsidiary of Singapore Telecommunications Limited acquired Adconion Direct North America and Adconion Australia to strengthen its position as the leading provider of mobile-led digital marketing technology and solutions across all channels and screens for global brands.

The Adconion companies will be acquired at a valuation of \$ 235m.

Independent auditors' report to the members of Adconion Media Group Limited

Report on the parent company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2013 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements (the "financial statements"), which are prepared by Adconion Media Group Limited, comprise:

- the parent company statement of financial position as at 31 December 2013;
- the parent company statement of cash flows for the year then ended;
- the parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report and Financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Adconion Media Group Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the group financial statements of Adconion Media Group Limited for the year ended 31 December 2013.



Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 October 2014

Parent company statement of financial position as at 31 December 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Investments in subsidiaries	38	35,656	91,655
Current assets			
Other receivables	42	97,707	86,379
Cash and cash equivalents		2,352	2,763
		100,059	89,142
Total assets		135,715	180,797
Current liabilities			
Trade and other payables	43	(3,304)	(3,672)
Borrowings	44	(2,290)	(1,071)
Provision for other liabilities and charges	45	(405)	(816)
		(5,999)	(5,559)
Non-current liabilities			
Borrowings	44	(37,434)	(22,687)
Provision for other liabilities and charges	45	-	(338)
Financial liabilities at fair value through the P&L	40	(45)	(80)
Share based payments	46	(6,636)	(2,676)
		(44,115)	(25,781)
Total liabilities		(50,114)	(31,340)
Net assets		85,601	149,457
Equity			
Called up share capital	47	636	621
Share premium account	48	160,960	158,141
Retained earnings		(76,190)	(9,802)
Other reserves		195	497
Total equity		85,601	149,457

These financial statements, which comprise of the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Cash Flow Statement and the related notes were approved and authorised by the board of directors on 10 January 2014

Signed on behalf of the board of directors

T T Moebius

Director

Company number: 05833659

The notes on pages 62 to 77 form part of these financial statements.

Parent company statement of changes in equity for the year ended 31 December 2013

	Called Up share capital £000	Share premium account £000	Retained earnings £000	Other reserves £000	Total equity £000
At 1 January 2012	498	91,228	(9,547)	331	82,510
Loss for the financial year	-	-	(2,801)	-	(2,801)
Total comprehensive income	-	-	(2,801)	-	(2,801)
Share warrants issued (note 44)	-	-	-	223	223
Share warrants exercised (note 44)	-	57	-	(57)	-
Issue of share capital (note 47, 48)	123	66,856	-	-	66,979
Share based compensation (note 46)	-	-	2,546	-	2,546
At 31 December 2012	621	158,141	(9,802)	497	149,457
Loss for the financial year	-	-	(63,245)	-	(63,245)
Total comprehensive income	-	-	(63,245)	-	(63,245)
Share warrants exercised (note 44)	-	302	-	(302)	-
Issue of share capital (note 47, 48)	15	2,517	-	-	2,532
Share based compensation (note 46)	-	-	263	-	263
Share based compensation settlement (note 46)	-	-	(3,406)	-	(3,406)
At 31 December 2013	636	160,960	(76,190)	195	85,601

The notes on pages 62 to 77 form part of these financial statements.

Parent company statement of cash flows for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Cash flows from operating activities			
Cash used in operations	49	(13,073)	(4,056)
Income tax paid		-	(11)
Net cash used in operating activities		(13,073)	(4,067)
Cash flows from financing activities			
Proceeds from issue of share capital		199	123
Proceeds from borrowing		13,036	3,935
Repayment of borrowing		(505)	-
Interest paid		(68)	(7)
Net cash generated from financing activities		12,662	4,051
Net decrease in cash and cash equivalents		(411)	(16)
Cash and cash equivalents at the beginning of the year		2,763	2,779
Cash and cash equivalents at the end of the year		2,352	2,763

The notes on pages 62 to 77 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

34. Summary of significant accounting policies

The principal accounting policies adopted are set out below and have been consistently applied to all years presented unless otherwise stated. Amounts are rounded to the nearest thousands and are suffixed with a "k" in certain disclosure paragraphs unless otherwise stated.

Basis of preparation

The financial statements of Adconion Media Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The most significant of these relates to impairments.

Key accounting policies

The key accounting policies for the parent company are the same as those for the group, as disclosed in note 2, except for those listed below.

Foreign currencies

The parent company's functional currency is pound sterling and the financial statements are presented in pounds sterling, which the directors consider is the appropriate presentational currency of the company.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with general accepted accounting practice requires management to make estimates and judgments that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgments made by management in applying the parent company's accounting policies and the key sources of estimation uncertainty were:

a. Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost is defined as the fair value of the consideration transferred, excluding acquisition related costs. Sharebased payment awards in the parent company to employees in the subsidiary are capitalised and present contribution from parent company to the subsidiaries.

b. Contingent deferred consideration

The Group has estimated the value of future acquisition consideration based on management's estimate of the future financial performance of the relevant entities. Assumptions include the future profit levels and discounting to reflect the time value of money.

c. Written put options

The written put option over the seller's own shares are recognised at the present value of the redemption amount and accreted through finance charges in the profit or loss for the financial year over the contract period up to the final redemption amount.

Notes to the financial statements for the year ended 31 December 2013 (continued)

34. Summary of significant accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty (continued)

d. Fair value of share options

The fair value of share options granted in the year has been assessed using the Black Scholes Option Pricing Model. These charges are amended to take into account changes in the number of equity instruments expected to vest as a consequence of the changes in expectations.

e. Provisions

Estimating the provisions for onerous contracts and non-compete agreement involves uncertainties in determining minimum guarantees and non compliance with terms and conditions. Factors to consider in estimating the costs include litigation procedures, budgets and forecasted results. Changes in these estimates would impact future reported results.

f. Share based payments

The parent operates various equity-settled and cash-settled share schemes that consist of employee share option scheme, Share award schemes and put/call share options.

Equity-settled, share based compensation plans

a) Employee share option scheme

Equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options are recognised as an expense.

The total amount to be expensed is determined by reference to the fair value of the options and granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions;
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss for the financial year, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Within the parent company financial statements the grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

b) Share award schemes

For equity-settled share award, the fair value is calculated based on the share price at the grant date and, where applicable, any market vesting conditions, and expensed over the vesting period based on the number of shares expected to vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition; which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Notes to the financial statements for the year ended 31 December 2013 (continued)

34. Summary of significant accounting policies (continued)

Critical accounting judgments and key sources of estimation uncertainty (continued)

f. Share based payments (continued)

Cash-settled, share based compensation plans

For cash-settled plans, a liability is recorded, for the services received from employees that are measured at fair value over the vesting period and the recognition of a corresponding liability at each reporting date with any movements in fair value being recorded to the appropriate profit or loss for the financial year heading within the operating results. Any subsequent cash flows from exercise of vested awards are recorded as a reduction of the liability.

Mutually exclusive awards

Both the Put/call share options and Long Term Incentive Program ('LTIP') are considered to be two mutually exclusive awards, one equity-settled and one cash-settled.

The cash-settled award, although affected by the probability of being paid, always has a fair value which is recognised over the vesting period. If the awards are ultimately settled in equity the fair value of the liability falls to nil.

The equity-settled alternative is only recognised if it is considered probable. If the award is ultimately settled in cash the equity alternative would have become improbable and so no cumulative expense would be recognised for this. Once the contingent settlement provision resolves, the cumulative charge will represent only the expense actually incurred under either the equity or cash settlement option.

35. Result of parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £63,245k (2012 loss: £2,801k).

36. Auditors' remuneration

The auditors remuneration for the audit of the company is disclosed in note 9 to the group financial statements. Fees paid to the auditors for non-audit services to the company are not required to be disclosed in the company's financial statements as group financial statements are presented which disclose such fees.

37. Directors' emoluments and key management compensation

During the year, the directors and key management of the company received no emoluments or compensation directly from the company. The value of their services for the company during the year, if allocated to the company, would be £nil.

Notes to the financial statements for the year ended 31 December 2013 (continued)

38. Investments in subsidiaries

	Subsidiary Undertakings 2013 £000	Subsidiary Undertakings 2012 £000
Cost		
At 1 January	104,681	102,187
Additions	3,892	2,948
Dissolution of subsidiaries	-	(454)
At 31 December	108,573	104,681
Accumulated impairment		
At 1 January	13,026	13,026
Additions	59,891	-
At 31 December	72,917	13,026
Net book value		
At 31 December current year	35,656	91,655

Included in additions are share based payment awards in the parent company to employees in the subsidiaries. This presents contribution from parent company to subsidiaries amounting to £3,813k (2012: £2,936k). The remaining amount presents the direct investment in subsidiaries.

The recoverable amount of the investment in the smartclip group has been determined based on value-in-use calculation. This calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the planning period are extrapolated using the estimated growth rates stated below. Management has determined that the recoverable amount allocated to the smartclip group CGU had been impaired by £59.9m as a consequence of the impairment test results and the trading performance in the underlying business. This results in an impairment in the investment in the smartclip Holding AG by this amount.

The direct investments in subsidiaries comprise the following:

	Country of Incorporation	Holding	Principal Activity	Proportion of ownership Interest
Adconion UK Intermediate Holdings Limited	United Kingdom	Ordinary	Holding Company	100%
Adconion UK Limited	United Kingdom	Ordinary	Digital Media	100%
smartclip Holding AG	Germany	Ordinary	Holding Company	100%
Smartclip Mexico SAPI de CV	Mexico	Ordinary	Digital Media	75.1%
Adconion Direct Nordics AB	Sweden	Ordinary	Digital Media	93%
Adconion Pte Ltd.*	Singapore	Ordinary	Non trading	100%

Notes to the financial statements for the year ended 31 December 2013 (continued)

39. Financial instruments by category

	2013 £000	2012 £000
Assets as per statement of financial position:		
<i>Loans and receivable</i>		
Trades and other receivables excluding prepayments	97,353	85,184
Cash and cash equivalents, net of bank overdrafts	2,352	2,763
	99,705	87,947
Liabilities as per statement of financial position:		
<i>Financial liabilities at fair value through the P&L</i>	45	80
<i>Other financial liabilities at amortised cost</i>		
Borrowings	39,724	23,758
Trade and other payables excluding non financial liabilities	3,052	2,584
	42,776	26,342

40. Financial liabilities at fair value through the P&L

	2013 £000	2012 £000
Liabilities as per statement of financial position:		
<i>Financial liabilities at fair value through the P&L</i>		
Warrants issued	45	80
	45	80
Less non-current portion		
Warrants issued	(45)	(80)
Current portion		

Warrants issued

Warrants were issued as part of the loan agreement between Adconion UK Ltd and Silicon Valley Bank, dated 02 March 2010.

Notes to the financial statements for the year ended 31 December 2013 (continued)

41. Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The company's financial liabilities carried at fair value are classified within Level 3 of the fair value hierarchy (fair value is based on appropriate valuation techniques using non-market observable inputs).

The following table presents the group's liabilities that are measured at fair value at 31 December 2013:

	£000
Financial liabilities at fair value through the P&L	
Warrants issued	45
	45

The following table presents the group's liabilities that are measured at fair value at 31 December 2012:

	£000
Financial liabilities at fair value through the P&L	
Warrants issued	80
	80

Reconciliation for the fair value estimation

	Warrants issued £000	Embedded derivative arising on a business combination £000	Total £000
At 1 January 2012	-	6,062	6,062
Additions	80	-	80
Fair value gain	-	(6,062)	(6,062)
At 31 December 2012	80	-	80
Additions	-	-	-
Fair value gain	(35)	-	(35)
At 31 December 2013	45	-	45

Additions arising on a business combination are capitalised to investment in subsidiaries.

42. Other receivables

	2013 £000	2012 £000
Other receivables	692	235
Amounts due from group undertakings	96,661	84,949
Other taxation and social security costs	302	1,187
Prepayments and accrued income	52	8
	97,707	86,379

Intercompany loans are receivable on demand and bear interest between 4 and 8% per annum.

Notes to the financial statements for the year ended 31 December 2013 (continued)

43. Trade and other payables

	2013 £000	2012 £000
Trade payables	74	812
Amounts owed to group undertakings	2,598	1,483
Other taxation and social security cost	252	1,088
Accruals	380	289
	3,304	3,672

Intercompany loans are repayable on demand and bear interest between 4 and 8% per annum.

44. Borrowings

	2013 £000	2012 £000
Deferred consideration	1,606	1,470
Written put options	-	566
Shareholder loans	38,118	21,722
	39,724	23,758
Less non-current portion		
Deferred consideration	(777)	(1,470)
Shareholder loans	(36,657)	(21,217)
Current portion	2,290	1,071

Deferred consideration

Deferred consideration is being settled through a mixture of equity and cash, in accordance with the acquisition agreements. Non cash proceeds from borrowings during 2011 amounted to £1,418k and the fair values of the deferred consideration were calculated using a market interest rate for an equivalent debt instrument.

Notes to the financial statements for the year ended 31 December 2013 (continued)

44. Borrowings (continued)

Shareholder loans

	2013 £000	2012 £000
Opening amount 1 January	21,722	16,776
Repayment of shareholder loans	(505)	-
Proceeds from shareholder loans	13,036	3,712
Interest paid	(57)	(75)
Accrued interest	4,820	1,282
Exchange differences	(898)	27
Liability at 31 December	38,118	21,722
Less non-current portion	36,657	(21,217)
Current portion	1,461	505

Shareholder loans were issued by the parent company to raise finance for the group in the years 2009, 2011, 2012 and 2013. Cash flow proceeds from borrowings during 2013 amounted to £13,036k (2012: £3,935).

The shareholder loans with warrants issued in 2009 are from 5 year loan notes. Interest is payable at a rate of 3% per annum payable on the redemption date. Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company. On 29 May 2013, the shareholder loan agreements were amended. Interest is payable at a rate of 8% per annum after 30 June 2014 payable on the redemption date. The redemption date will be on the first to occur of 30 June 2015 or an exit event as defined in the agreements. On 04 June 2013 and on 20 June 2013, the shareholder loan agreements for the loans with warrants issued in 2011 were amended. The loans are repayable in quarterly instalments starting in October 2014.

Notes to the financial statements for the year ended 31 December 2013 (continued)

44. Borrowings (continued)

Shareholder loans (continued)

Interest is payable at rates between 5% and 10% per annum payable at the relevant redemption dates. Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company.

The shareholder loans with warrants issued in 2012 are repayable after 3 years. Interest is payable at a rate of 5% per annum payable on the redemption date. Associated with the shareholder loans were warrants granting the right to acquire C ordinary shares of the company.

Three sets of shareholder loans were issued in 2013, all notes are repayable after 3 years.

- Interest will accrue on the notes at the rate of 20% per annum, and is payable at Libor plus 2% quarterly and the remainder on redemption of the relevant notes. The loan notes will be redeemable at their principal amount.
- Interest will accrue on the notes at the rate of 22% per annum, and is payable on redemption of the relevant notes. The loan notes will be redeemable at their principal amount.
- No interest will accrue on the notes. The loan notes will be redeemable at 2.2 times the principal amount.

The fair value of the liability component of the shareholder loans was calculated using a market interest rate for an equivalent debt instrument. The residual amount, representing the value of the warrants, is included in shareholders' equity in other reserves. The value of the liability component and the equity component were determined at the issuance of the instruments.

	2013 £000	2012 £000
Shareholder loans with warrants		
Face value	34,116	21,644
Equity component	(194)	(497)
Share premium	(1,972)	(1,669)
Exchange differences	(844)	(5)
<i>Liability component</i>	31,106	19,473
Accrued interest	7,012	2,249
Liability at 31 December	38,118	21,722

Notes to the financial statements for the year ended 31 December 2013 (continued)

45. Provision for other liabilities and charges

	Legal obligations £000
At 1 January 2012	1,897
Payments	(812)
Accrued interest	120
Exchange differences	(51)
At 31 December 2012	1,154
Less non-current portion	(338)
Current portion	816
Payments	(845)
Accrued interest	64
Exchange differences	32
At 31 December 2013	405
Less non-current portion	-
Current portion	405

Legal obligations

A historical non-compete agreement was in place with a partner, under which the group was not permitted to trade in Eastern Europe. The acquisition of smartclip, which trades in Russia, triggered a breach of the contract. The parties have agreed to terminate the contract and the group will pay £1,897k as a compensation payment over 10 quarters.

Notes to the financial statements for the year ended 31 December 2013 (continued)

46. Share based payments

£000	Share based payments	
	Cash settled (Liability)	Equity settled (Equity)
Employee share option scheme	-	6,926
Long Term Incentive Plan	6,636	-
	6,636	6,926

a) Employee share option scheme

The group has a share option scheme for all employees (including directors) within the group. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is between one and four years. The Weighted Average Exercise Price (WAEP) has also been disclosed for all movements in the number of share options during the year.

	2013 WAEP		2012 WAEP	
	Number	£	Number	£
Outstanding at the beginning of the year	6,128,936	1.84	6,782,144	1.80
Granted during the year (strike price of shares)	25,000	3.85	134,500	5.50
Exercised during the year	(195,832)	0.95	(149,427)	1.23
Forfeited during the year	(611,007)	3.82	(638,281)	2.07
Outstanding at the end of the year	5,347,097	1.69	6,128,936	1.87
Exercisable at the end of the year	4,983,682	1.55	4,999,877	1.42

Options outstanding at 31 December 2013 comprise the following:

Expiry date	Exercise price in £	2013 Number	2012 Number
31 December 2015	0.05	827,940	940,440
31 December 2016	0.47	254,225	327,911
31 December 2017	0.78	1,967,457	2,109,491
31 December 2018	2.65	362,302	439,930
31 December 2019	2.71	685,063	766,000
31 December 2020	2.99	635,144	706,042
31 December 2021	4.18	548,466	716,622
31 December 2022	5.50	41,500	122,500
31 December 2023	3.85	25,000	
		5,347,097	6,128,936

The weighted average fair value of options granted in the year was £0.96 (2012 £1.87). The weighted average share price during the year for options exercised over the year was £0.95 (2012 £1.23).

Notes to the financial statements for the year ended 31 December 2013 (continued)

46. Share based payments (continued)

a) Employee share option scheme (continued)

The total equity charge for the year relating to employee share based payment plans was £263k (2012 £335k), all of which related to equity settled share base payments transactions.

The fair value per option granted was determined using the Black Scholes Option Pricing model with the following assumptions used in the calculation:

	2013 £000	2012 £000
Weighted average share price - £	3.85	5.50
Weighted average exercise price - £	3.85	5.50
Expected volatility - %	25.22	38.11
Expected life – years	5.00	5.00
Risk free rate - %	1.00	1.00
Expected dividend yield - %	0.00	0.00

Risk free rate

The risk free rate of 1% was determined using a government bond as a proxy that equates a 5 year expected lifetime.

Expected dividend yield

The directors do not currently forecast any dividends and hence a yield of 0% has been used.

Expected volatility

In general the Black Scholes Option Pricing Model was used to calculate the fair market value. The volatility of the stock price is calculated over 24 months.

Expected term

A best estimate of 5 years has been selected by the directors based on historical performance and the current growth rate of the group.

b) Share award scheme

As part of the acquisition of smartclip Holding AG and trade and assets of Blackstar Media, LLC, shares were issued as part of transaction consideration with condition of future employment that are not considered part of IFRS 3 (R) transaction consideration but instead presented as post combination employee services. Payments that are for employee services are post-combination remuneration expenses that will be charged to the combined group's loss for the financial year in accordance with IFRS 2, 'Share based payments'.

For both acquisitions similar terms and conditions exist of contingent payments payable in shares at future date and dependent on future employment. Contingent payments are payable in shares at a future date and are dependent on future employment. The bonus payment for smartclip Holding AG consisted of two payments payable December 31, 2013 and December 31, 2014.

This share consideration was classified as an equity settled share based payment transaction. Share based payment transactions in which the entity receives services as consideration for its own equity instruments (including shares or share options). The fair value of the services was measured by reference to the fair value of the equity instruments granted as consideration estimated. The impact on the results for the year 2013 was a decrease of £2,220k (2012: credit of £1,684k).

c) Put/call share options

The minority shareholders have exercised their put option in July 2013 and sold their 25% ownership stake back to the group for a combination of cash, shares in the group and promissory notes. The impact on the equity instruments granted results in a decrease of £1,186k for the year 2013 (2012: credit of £527k).

Notes to the financial statements for the year ended 31 December 2013 (continued)

46. Share based payments (continued)

b) Long Term Incentive Program ("LTIP")

In 2012, a new award system, the Long Term Incentive Program ("LTIP"), was established. Under the Adconion Long Term Incentive Plan eligible employees will receive a conditional Award of Adconion Media Group Limited shares. The vesting of the Award is generally conditional on remaining employed over a three-year period and on the satisfaction of certain conditions. Awards under the Plan are not transferable and benefits under the Plan are not pensionable.

Receipt of this Award under the LTIP is discretionary and only occurs when specified conditions and targets have been met. Receipt of an Award in one year does not guarantee you will receive an Award in the future or the level of any future Award.

As above, the LTIP is considered to be two mutually exclusive awards, one equity-settled and one cash-settled with a corresponding impact on the results for the year 2013 was £3,960k (2012: £2,676k). The cash-settled award, although affected by the probability of being paid, always has a fair value which is recognised over the vesting period up to 31 December 2015 resp. 31 December 2016. If the award is ultimately settled in equity the fair value of the liability falls to nil. The equity-settled alternative is only recognised if it is considered probable. If the award is ultimately settled in cash the equity alternative would have become improbable and so no cumulative expense would be recognised for this. The current estimate of the equity-settled value of this award is £nil. Although the charge during the vesting period may appear to be in excess of the total value of the award granted, once the contingent settlement provision resolves, the cumulative charge will represent only the expense actually incurred under either the equity or cash settlement option.

47. Called up share capital

	2013		2012	
Allotted and called up:	Number	£	Number	£
Ordinary shares of £0.01 each	30,377,993	303,780	29,746,432	297,464
A ordinary shares of £0.01 each	2,467,170	24,672	2,467,170	24,672
B ordinary shares of £0.01 each	1,400,000	14,000	1,400,000	14,000
C ordinary shares of £0.01 each	15,355,045	153,550	14,449,517	144,495
D ordinary shares of £0.01 each	11,441,053	114,411	11,441,053	114,411
Preference shares of £0.01 each	2,593,750	25,938	2,593,750	25,938
	63,635,011	636,351	62,097,922	620,980

All shares issued by the group were fully paid.

In 2013, 195,832 ordinary shares of £0.01 each were issued to meet share option agreements (strike prices between £0.07 and £5.50), 905,528 C ordinary shares of £0.01 each were issued to existing shareholders upon exercise of warrants at an exercise price of £0.01 and 434,792 ordinary shares were issued to fulfil earn out obligations from acquisitions at a subscription price of £3.85.

In 2012, 149,427 ordinary shares of £0.01 each were issued to meet share option agreements (strike prices between £0.06 and £3.00), 163,559 C ordinary shares of £0.01 each were issued to existing shareholders upon exercise of warrants at an exercise price of £0.01, 13,058 C ordinary shares were issued to existing shareholders at a subscription price of £0.01 and 545,292 ordinary shares and 11,441,053 D ordinary shares were issued in the course of the smartclip acquisition at a subscription price of £5.50.

The related premium arising on each issue of ordinary shares has been transferred to the share premium account.

There are no differences in terms of voting rights associated with the six different classes of shares. The preference shareholders are not entitled to receive a distribution of profits. D ordinary shareholders are ranked highest in order of preference on winding up, C ordinary shareholders are second in line, and preference shareholders are third in-line with the remaining shareholders ranked equally.

Notes to the financial statements for the year ended 31 December 2013 (continued)

47. Called up share capital (continued)

Reconciliation of ordinary and preference share

	Ordinary shares of £0.01 each £000	A ordinary shares of £0.01 each £000	B ordinary shares of £0.01 each £000	C ordinary shares of £0.01 each £000	D ordinary shares of £0.01 each £000	Preference shares of £0.01 each £000
At 1 January 2011	224,997	24,672	14,000	112,816	-	25,938
Share issued during the year	4,056	-	-	29,913	-	-
Shares issued as part of the acquisitions	61,464	-	-	-	-	-
At 31 December 2011	290,517	24,672	14,000	142,729	-	25,938
Share issued during the year	6,947	-	-	1,766	-	-
Shares issued as part of the acquisitions	-	-	-	-	114,411	-
At 31 December 2012	297,464	24,672	14,000	144,495	114,411	25,938
Shares issued during the year	4,348	-	-	9,055	-	-
Shares issued as part of the acquisitions	1,968	-	-	-	-	-
At 31 December 2013	303,780	24,672	14,000	153,550	114,411	25,938

48. Share premium account

	2013 £000	2012 £000
Balance brought forward	158,141	91,228
Premium on shares issued in the year	2,819	66,913
Balance carried forward	160,960	158,141

49. Cash generated from operations

	2013 £000	2012 £000
Loss on ordinary activity before taxation	(63,245)	(2,801)
Finance income	(2,439)	(1,887)
Finance cost	5,023	5,982
Other gains – net	(35)	(5,982)
Impairment on investments in subsidiaries	59,891	-
Provision for legal obligations	(845)	(812)
Share based payment expense for the year	625	26
Unrealised foreign exchange loss/(gain)	(866)	3,680
Increase in receivables	(12,523)	(1,996)
Increase/Decrease in payables	1,341	(266)
Cash outflow from operating activities	(13,073)	(4,056)

Notes to the financial statements for the year ended 31 December 2013 (continued)

50. Related party transactions

All transactions within the Adconion Media Group are carried out at arms length.

Shareholder loans were issued by the parent company to raise finance for the group in the years 2009, 2011, 2012 and 2013. Refer to note 44 for the details.

Inter group transactions

As at 31 December 2013 the following amounts were owed (to)/from:

	2013 £000	2012 £000
Adconion GmbH	(534)	(509)
Adconion UK Limited	283	181
Adconion Media, Inc.	(1,012)	-
Adconion Sarl	183	109
Adconion S.L.	29	198
Adconion IP (Switzerland) AG	(605)	(583)
Adconion Pty. Limited	478	630
Adconion Platform Services, LLC	24	17
smartclip Benelux B.V.	3	-
Arkeero Media S.L.	13	-
Adconion Direct, Inc.	2,354	(16)
smartclip US (formerly Joost Digital, LLC)	99	93
Blackstar Marketing, LLC	4	4
Publead S.L.	42	21
Adconion Direct Nordics AB	21	29
smartclip Mexico S.A. de C.V.	37	10
smartclip Holding AG	26,339	25,187
smartclip UK Limited	26	-
	27,784	25,371

Notes to the financial statements for the year ended 31 December 2013 (continued)

50. Related party transactions

Loans

During the year loans were provided to subsidiary companies, interest bearing at 6% for UK, Switzerland, Nordics, Germany, France, US and Mexico and 8% for Australia. At 31 December 2013 the following amounts were outstanding:

	2013 £000	2012 £000
Adconion GmbH	14,698	11,593
Adconion UK Limited	5,529	2,038
Adconion UK Intermediate Holdings Limited	3,330	2,741
Adconion Media, Inc.	40,335	35,464
Blackstar Marketing, LLC	-	4,498
smartclip Holding AG	1,702	1,483
Adconion IP (Switzerland) AG	16	-
Adconion IP (International) AG	(179)	(136)
Adconion Direct Nordics AB	87	129
smartclip Mexico S.A. de C.V.	331	285
Adconion Sarl	429	-
	66,278	58,095