Prospectus
for the public offering

of

7,300,000 newly issued bearer shares with no-par value (*Stückaktien*) from a capital increase against cash contributions expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021

and of

4,000,000 existing bearer shares with no-par value (*Stückaktien*)
from the holdings of the Existing Shareholders

and of

1,694,997 existing bearer shares with no-par value (*Stückaktien*)
from the holdings of the Lending Shareholders in connection with a possible over-allotment

and at the same time for the

admission to trading

on the regulated market (*regulierter Markt*)
of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)

of

up to 7,300,000 newly issued bearer shares with no-par value (*Stückaktien*) from a capital increase against cash contributions expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021

and of

37,873,913 existing bearer shares with no-par value (*Stückaktien*) (existing share capital),
each such share with a notional value of € 1.00

of

Babbel Group AG
Berlin, Germany

Price Range: € 24.00 – € 28.00

International Securities Identification Number (ISIN): DE000A3CWAW6
German Securities Code (*Wertpapier-Kenn-Nummer*, WKN): A3C WAW
Common Code: 238425158
Trading Symbol: BABL

Joint Global Coordinators and Joint Bookrunners

BNP PARIBAS | Morgan Stanley

Joint Bookrunners

Berenberg | Citigroup

The date of this Prospectus is September 14, 2021

TABLE OF CONTENTS

SUMMARY OF THE PROSPECTUS

1. Introduction and Warnings

This prospectus (the "**Prospectus**") relates to shares of Babbel Group AG (the "**Company**" and, together with its consolidated subsidiaries, "**Babbel**", "**Babbel Group**", "**Group**", "**we**", "**us**", "**our**" or "**ourselves**"), with its registered office at Andreasstraße 72, 10243 Berlin, Federal Republic of Germany ("**Germany**"), www.babbel.com, legal entity identifier ("**LEI**") 391200OICV5ACZA8Z633, each such share having the International Securities Identification Number ("**ISIN**") DE000A3CWAW6.

The Company's shares will be offered by the Company, together with BNP PARIBAS, 16, boulevard des Italiens, 75009 Paris, France, LEI R0MUWSFPU8MPRO8K5P83 ("**BNP PARIBAS**"), Morgan Stanley Europe SE, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany, LEI 54930056FHWP7GIWYY08 ("**Morgan Stanley**" and, together with BNP PARIBAS, the "**Joint Global Coordinators**"), Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20254 Hamburg, Germany, LEI 529900UC2OD7II24Z667 ("**Berenberg**") and Citigroup Global Markets Europe AG, Reuterweg 16, 60323 Frankfurt am Main, Germany, LEI 6TJCK1B7E7UTXP528Y04 ("**Citigroup**", and together with Berenberg and the Joint Global Coordinators, the "**Joint Bookrunners**" or the "**Underwriters**"). The Company and Morgan Stanley will apply for the admission to trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub segment of the regulated market with additional post admission obligations (Prime Standard) (the "**Listing**").

On September 14, 2021, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany, www.bafin.de, approved this Prospectus as the competent authority under Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, as amended.

This summary should be read as an introduction to this Prospectus. Any decision to invest in the shares of the Company should be based on a consideration of this Prospectus as a whole by an investor. Investors in the shares of the Company could lose all or part of their invested capital. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary, including any translation thereof, but only where this summary is misleading, inaccurate or inconsistent, when read together with the other parts of this Prospectus, or where it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the shares of the Company.

2. Key Information on the Issuer

2.1 Who is the Issuer of the Securities?

2.1.1 Registration and Applicable Laws

Babbel Group AG has its registered office in Berlin, Germany and the LEI 391200OICV5ACZA8Z633. The Company is incorporated under German law and registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Charlottenburg, Germany, under docket number HRB 228641. The Company is subject to German law.

2.1.2 Principal Activities

Babbel develops and operates an ecosystem of online language learning experiences. Access to this ecosystem is offered as a subscription both to private customers via the app or web and to business customers for employee training and development or as an employee benefit. Babbel's subscriptions allow learners access to an ecosystem of learning experiences ranging from lessons and reviews, to podcasts, to live teacher-led classes. The Babbel ecosystem encompasses (1) different learning experiences, from self-paced learning via lessons and reviews, to audio materials such as podcasts, to live teaching in virtual small-group sessions, (2) different proficiency levels, from beginners to more advanced learners, and (3) different motivations, goals and contexts, from travelers to learners keen to further their career, to those with a desire for continuous self-improvement.

By offering an ecosystem of connected experiences, we are able to deepen and improve learner engagement and learning success by providing our learners with learning experiences that fit their needs and an intuitive user experience throughout their journey.

Our ecosystem is based on the communicative approach, a proven didactic method. Our didactics experts utilize recognized academic learning practices and carefully selected empirically proven, time-tested strategies to teach languages. The learning approach across our ecosystem combines communicative didactics, cognitivism, behaviorism and constructivism. Progressive lessons are connected together as an interlinking framework, mapped in the background to the Common European Framework of Reference for Languages (CEFR), with each step building towards the next. The communicative approach is the centerpiece of Babbel's educational strategy. We prepare learners for real-life language application: For human-to-human conversations (spoken and written), as well as for listening and reading situations. We aim to equip learners for their first few conversations in a new language from lesson 1 and our research has shown that dedicated learners can reach the equivalent of 1 college semester with 15 hours of Babbel in a two-month period (source: Vesselinov, R., & Grego, J. (2016, September). The Babbel Efficacy Study (Rep.)).

Babbel's Language Progression Framework is our tool to ensure that our central learning activities have pragmatic value and empower the learners to use the language in typical real-life situations. Our goal is to guide learners on the shortest path possible to real-life conversations by:

- Immersing the learner in a new language through real-life dialogues that will get the learner speaking right away;
- Employing proven cognitive techniques that move new vocabulary to the learner's long-term memory;
- Tailoring content to language learning motivation;
- Using human voices and speech recognition to get the learner speaking confidently; and
- Building each course and experience based on the learner's native language and personal interests for faster learning progress.

Babbel's offering now contains over 60,000 lessons and more than 13,000 hours of content enabling the learning of 15 languages from 9 base languages across multiple learning experiences. The result is language learning that works. A consumer review score of 4.6 on Trustpilot (as of August 17, 2021) (source: Trustpilot) and a strong brand reputation for quality learning are indicative of the ecosystem's quality. In addition, we believe our extension rates are industry leading and imply that our learners see the benefits of staying with our product. For example, our 12-month subscriptions are renewed 56% of the time on average.

The annual global language learning market for 2021 is estimated to be around € 35 to 40 billion (source: OC&C Strategy and Analytics GmbH ("**OC&C**"), Germany, "*Digital Language Market Study*", 2021, the "**OC&C Report**"), although given the high level of fragmentation it can be viewed in different ways resulting in varying estimates of both current size and future growth. The growth between 2019 and 2025 is a result of the growth in the online segment, where in 2020 the offline segment was negatively impacted as a result of the COVID-19 pandemic. The market is expected to grow at a compound annual growth rate of approximately 11% to 16% between 2021 and 2025 (source: OC&C Report). In addition to the mass adoption of online learning, partially driven by the COVID-19 pandemic, there are a number of other structural global changes driving language learning online. These include globalization and increasing mobility, technological improvements that lead to better learning results and higher levels of engagement, the on-demand nature of online learning and a higher return on both time and money invested when compared to offline language learning (source: Company information).

The language learning industry is highly fragmented across learning methodologies, with only a limited number of players with sizeable established presence (of which in 2021 the top five players combined still represent only approximately 2% of the global language learning market, excl. China) (source: OC&C Report). Through its self-study platform, we believe Babbel achieved a position as market leader in Europe and is growing swiftly in the U.S., which offers both a strategic advantage as well as a large opportunity. Babbel has consolidated multiple experiences into one ecosystem and has the didactic and technological credibility to continue to expand.

Babbel has built both its product and its organization with a focus on "learners first". The content and experiences are designed by didactics specialists, where conversational ability and confidence are the key goals. The technology supporting our ecosystem leverages a highly scalable infrastructure to provide a seamless experience across devices and ongoing optimization of the user experience. We believe that we are in a position to expand across markets and learning methodologies efficiently because of our ecosystem approach.

We believe that our strong operational base and market position leave us well placed to drive growth through enhancement and expansion of our ecosystem, scaling our B2B offering, growing our operations in the U.S. and Canada and through geographical expansion into new markets. We intend to fund these measures organically through our negative working capital (which represents the fact that our customers pay for their subscriptions up front, and hence our cash is received before we pay the related costs) and strong cash generation and may decide to accelerate selected measures through strategic M&A.

2.1.3 Major Shareholders

As of the date of this Prospectus, Lorenz Heine, Berlin, and Markus Witte, Berlin, each hold 13.0%; Thomas Holl, Berlin, holds 12.5%; KIZOO Technology Capital GmbH, Karlsruhe, and SEP IV LP, Glasgow, United Kingdom, each hold 11.9%; The Reed Elsevier Ventures 2013 Partnership L.P., Wilmington, Delaware/USA holds 11.0%; VC Fonds Berlin GmbH, Berlin, holds 9.6%; Nokia Growth Partners III, L.P., Wilmington, Delaware/USA, holds 8.6%; Toine Roger Martin Diepstraten, Berlin, holds 4.7%; and VC Fonds Technologie Berlin GmbH, Berlin, holds 3.0% of the shares of the Company.

2.1.4 *Controlling Shareholders*

The Company is not controlled by any of its direct or indirect shareholders.

2.1.5 *Key Managing Directors*

The members of the Company's management board are Arne Schepker, the Company's chief executive officer, and Hermione McKee, the Company's chief financial officer.

2.1.6 *Statutory Auditors*

The Company's auditor is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kapelle-Ufer 4, 10117 Berlin, Germany ("**PwC**"), a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Berlin, Germany.

2.2 What is the Key Financial Information regarding the Issuer?

The financial information contained in the following tables is taken or derived from the audited consolidated financial statements of Babbel GmbH, the former parent entity of Babbel, as of and for the fiscal years ended December 31, 2020, 2019, as amended, and 2018, which have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**IFRS**") and the additional requirements of German commercial law pursuant to Section 315e para. 1 German Commercial Code (*Handelsgesetzbuch*, "**HGB**") and the unaudited condensed consolidated interim financial statements of Babbel GmbH as of and for the six-month period ended June 30, 2021, which have been prepared in accordance with the IFRS on interim financial reporting (IAS 34).

After preparation and completion of the audit of the 2019 Audited Consolidated Financial Statements of Babbel GmbH and after the issuance of PwC's auditor's report thereon, the executive directors made amendments to the consolidated financial statements as of and for the fiscal year ended December 31, 2019. These amendments were subject to a supplementary audit.

Where financial information in the following tables is presented as "audited", it indicates that the financial information has been taken from the audited consolidated financial statements of Babbel GmbH as of and for the fiscal year ended December 31, 2020, 2019, as amended, and 2018 or the audited unconsolidated financial statements of Babbel GmbH as of and for the fiscal year ended December 31, 2020. The label "unaudited" is used in the following tables to indicate financial information that (i) has not been taken but derived from the audited consolidated financial statements of Babbel GmbH as of and for the fiscal years ended December 31, 2020, 2019, as amended, and 2018, or the audited unconsolidated financial statements of Babbel GmbH as of and for the fiscal year ended December 31, 2020 (ii) has been taken or derived from the unaudited condensed consolidated interim financial statements of Babbel GmbH as of and for the six-month period ended June 30, 2021, or (iii) has been taken or derived from accounting records or the internal reporting system of the Babbel Group.

Unless indicated otherwise, all financial information presented in the tables below is shown in millions of Euro (in € million). Certain financial information, including percentages, has been rounded according to established commercial standards. As a result, rounded figures in the tables below may not add up to the aggregate amounts in such tables (sum totals or subtotals), which are calculated based on unrounded figures. Financial information presented in parentheses denotes the negative of such number presented. A dash ("–") signifies that the relevant figure is not available or zero, while a zero ("0.0") signifies that the relevant figure has been rounded to zero.

Selected Consolidated Financial Information of Babbel Group

Selected Data from the Consolidated Statement of Comprehensive Income

	For the fiscal year ended December 31			For the six-month period ended June 30	
	2020	2019	2018	2021	2020
	(audited, in € million)			(unaudited, in € million)	
Sales Revenues	147.3	123.9	106.4	82.9	70.1
Cost of sales	(22.9)	(13.4)	(13.1)	(11.1)	(12.5)
Gross profit on sales	124.4	110.5	93.3	71.8	57.6
Marketing expenses[1]	(110.6)	(81.8)	(77.2)	(66.3)	(60.0)
Research and development expenses[1]	(24.1)	(20.9)	(19.3)	(17.7)	(12.1)
General administrative expenses[1]	(12.0)	(9.8)	(8.8)	(17.8)	(4.7)
EBIT	(23.9)	(2.6)	(12.4)	(29.6)	(19.9)

Consolidated net result for the period	(23.6)	(3.0)	(12.4)	(30.4)	(19.9)

1 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior years' recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

Selected Data from the Consolidated Cash Flow Statements

	For the fiscal year ended December 31			For the six-month period ended June 30	
	2020	2019	2018	2021	2020
	(audited, in € million)			(unaudited, in € million)	
Cash flow from operating activities[1] .	2.3	8.6	(1.1)	5.6	(7.3)
Cash flow from investing activities ...	(1.2)	(1.1)	(0.9)	(1.6)	(0.4)
Cash flow from financing activities...	(2.6)	(2.2)	-	(0.2)	(1.3)

1 The comparative figures shown for the fiscal year ended December 31, 2018 are taken from the audited amended consolidated financial statements as of and for the fiscal year ended December 31, 2019.

Selected Data from the Consolidated Balance Sheet

	As of December 31			As of June 30
	2020	2019	2018	2021
	(audited, in € million)			(unaudited, in € million)
Total assets	77.5	71.6	59.3	142.8
Shareholders' equity	(19.1)	2.2	1.0	(28.0)

Key Operating Data

	For the fiscal year ended December 31			For the six-month period ended June 30	
	2020	2019	2018	2021	2020
	(audited, unless otherwise stated)			(unaudited)	
	(in € million, unless otherwise stated)				
Billed sales[1]	167.2	126.1	113.2	92.7	86.8
EBITDA[2]*	(19.9)	0.7	(11.8)	(26.9)	(18.2)
Adjusted EBITDA[3]*	(17.0)	4.6	(5.0)	(6.4)	(17.0)
Adjusted Cash EBITDA[4]*	0.3	4.6	1.8	3.2	(1.4)
Adjusted Cash EBITDA margin[5]* (%)	*0.2*	*3.6*	*1.6*	*3.4*	*(1.7)*

* Unaudited.
1 Billed sales are defined as the full amount invoiced to customers during the period prior to reductions for the change in deferred income ("**Billed Sales**").
2 EBITDA is defined as EBIT adjusted for depreciation/amortization of property, plant, and equipment and intangible assets, amortization, depreciation, and write-downs IFRS 16 and goodwill impairment as stated in the audited consolidated cash flow statement.
3 Adjusted EBITDA is defined as EBITDA adjusted for non-operating effects (share-based remuneration expenses (EVOP) and unrealized foreign exchange gains/losses).
4 Adjusted Cash EBITDA is defined as Adjusted EBITDA based on Billed Sales, i.e. adjusted for the change in deferred income, and adjusted for cash payments for lease obligations.
5 Adjusted Cash EBITDA margin is defined as the percentage of Adjusted Cash EBITDA of Billed Sales.

Segment Information

	For the fiscal year ended December 31			For the six-month period ended June 30	
	2020	2019	2018	2021	2020
	(audited, in € million)			(unaudited, in € million)	
B2C Global					
Billed Sales	110.3	93.4	90.4	58.7	59.3
Cash contribution margin[1]	42.1	46.8	39.2	22.9	19.8
B2C USA					
Billed Sales	54.3	31.7	22.0	31.1	26.5
Cash contribution margin[1]	6.8	4.8	(1.7)	5.4	(0.0)
B2B					

Billed Sales	2.5	1.1	0.9	2.8	1.1
Cash contribution margin[1]	0.6	0.3	0.0	1.5	0.1
Total cash contribution margin	**49.6**	**51.9**	**37.5**	**29.9**	**19.9**

1 Cash contribution margin is defined as Billed Sales less costs of goods sold (cost of sales mainly less pro rata server costs related to sales revenues) and less marketing expenses (without allocated personnel and other expenses, pro rata amortization and depreciation (including IFRS 16), as well as the allocated share-based remuneration).

2.3 What are the Key Risks that are Specific to the Issuer?

- Intense competition in our industry may hinder our ability to attract and retain customers and generate revenue, and may diminish our margins.
- Market adoption of online-based self-learning solutions may not grow as we expect, which may harm our business and results of operations and even if market demand increases, the demand for our platform may not increase.
- Demand for paid language learning solutions such as ours could decline if effective language learning solutions become available for free.
- If we fail to retain existing users or add new users, or if our users decrease their level of engagement with our products, our business, financial condition and results of operations may be materially adversely affected.
- We may not be able to maintain or grow our sales revenues or our business.
- We may from time to time pursue acquisitions, any of which could result in significant additional expenses, fail to achieve anticipated benefits or fail to be properly integrated.
- Our management team has limited experience managing a public company, and publicly traded company reporting and compliance requirements could divert resources from the day-to-day management of our business.
- If we are not able to develop new learning experience ecosystem features that respond to the needs of our customers, our business and results of operations would be adversely affected.
- We are subject to a variety of regulations, including but not limited to consumer protection laws, data protection laws, regulations governing online services and competition laws and future regulations might impose additional requirements and other obligations on our business.
- Non-compliance with data protection laws could result in liability and reputational harm to our business and adverse changes in the applicable legal framework could increase our operating costs.
- The use of open source software could increase our risk that hackers could gain unauthorized access to our systems and we could be subject to litigation if third parties challenge our rights to use such software on an exclusive basis.
- We use standardized terms and conditions, which increase the potential that all contract terms used therein may be invalid or unenforceable if any clause is held to be void.

3. Key Information on the Securities

3.1 What are the Main Features of the Securities?

3.1.1 Number and Nature of Shares

As of the date of this Prospectus, the share capital of the Company amounts to € 37,873,913.00 and is divided into 37,873,913 bearer shares with no par value (*Stückaktien*), each such share representing a notional value of € 1.00.

3.1.2 ISIN and Denomination

The ISIN of the Company’s shares is DE000A3CWAW6 and the Company’s shares are denominated in Euros.

3.1.3 Rights Attached to the Shares, Relative Seniority and Transferability

Each share in the Company carries full dividend rights. All of the Company’s shares confer the same voting rights. There are no restrictions on voting rights. In case of an insolvency of the Company, the Company’s shares are subordinated to all other securities and claims. The Company’s shares are freely transferable in accordance with the legal requirements for bearer shares.

3.1.4 Dividend Policy

The Company does not intend to pay dividends for the foreseeable future.

3.2 Where will the Securities be traded?

All shares of the Company are expected to be admitted to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard).

3.3 What are the Key Risks that are Specific to the Securities?

- Future sales by the Existing Shareholders, as defined below, could depress the price of our shares.

- Our shares have not previously been publicly traded, and there is no guarantee that an active and liquid market for our shares will develop.
- We may fail to comply with the additional requirements that will be applicable to us following the Listing, including requirements relating to corporate governance, listing standards and timely reporting as well as securities and investor relations issues.

4. Key Information on the Offer of Securities and the Admission to Trading

4.1 Under which Conditions and Timetable can I invest in this Security?

4.1.1 *Scope of the Offering*

This Offering, as defined below, relates to 12,994,997 bearer shares of the Company with no par value (*Stückaktien*) comprising (i) 7,300,000 newly issued bearer shares with no par value (*Stückaktien*) from a capital increase against cash contributions (the "**IPO Capital Increase**") expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021 (the "**New Shares**"); (ii) 4,000,000 existing bearer shares with no par value (*Stückaktien*) (the "**Existing Offer Shares**" and, together with the New Shares, the "**Base Shares**") from the holdings of Lorenz Heine, Markus Witte, Thomas Holl, Toine Roger Martin Diepstraten, KIZOO Technology Capital GmbH ("**KIZOO**"), Nokia Growth Partners III, L.P. ("**Nokia**"), The Reed Elsevier Ventures 2013 Partnership L.P. ("**Reed Elsevier**"), SEP IV LP ("**SEP**"), VC Fonds Berlin GmbH ("**VC Fonds I**"), VC Fonds Technologie Berlin GmbH ("**VC Fonds II**") (the "**Existing Shareholders**"); and (iii) 1,694,997 bearer shares with no par value (*Stückaktien*) in connection with a possible over-allotment (the "**Over-Allotment Shares**" and, together with the Base Shares, the "**Offer Shares**").

The Offer Shares will be offered in a public offering in Germany and in private placements in certain jurisdictions outside Germany (the "**Offering**"). In the United States of America, the Offer Shares will only be offered and sold to qualified institutional buyers as defined in, and in reliance on, Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or pursuant to another available exemption from, or in transactions not subject to, the registration requirements of the Securities Act. Outside the United States of America, the Offer Shares will be offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act.

4.1.2 *Price Range*

The price range is € 24.00 to € 28.00 per Offer Share (the "**Price Range**").

4.1.3 *Offer Period*

September 15, 2021 through September 22, 2021 (the "**Offer Period**").

4.1.4 *Offer Price*

The price per share placed in the Offering (the "**Offer Price**") and the final number of Offer Shares placed in the Offering are expected to be determined by the Company and the Existing Shareholders, after consultation with the Joint Bookrunners, on September 22, 2021. The Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book prepared during a bookbuilding process. These orders will be evaluated according to the prices offered and the expected investment horizons of the respective investors. This method of setting the Offer Price is, in principle, aimed at achieving the highest Offer Price.

4.1.5 *Greenshoe Option*

KIZOO, Nokia, Reed Elsevier, SEP, VC Fonds I and VC Fonds II (the "**Lending Shareholders**") have granted Morgan Stanley, acting for the account of the Underwriters, an option to acquire up to 1,694,997 of the Company's shares at the Offer Price, less agreed commissions (the "**Greenshoe Option**").

4.1.6 *Listing and Closing*

The listing approval (admission decision) for the Company's shares is expected to be granted on September 23, 2021 and trading in the Company's shares is expected to commence on September 24, 2021. Delivery of the Offer Shares against payment of the Offer Price is expected to take place on September 28, 2021.

4.1.7 *Dilution of New Shareholders*

€ 22.66 per share, or 679.3% (assuming completion of the Offering at the mid-point of the Price Range, execution of the IPO Capital Increase for the maximum number of New Shares, payment of the discretionary fee in full and a corresponding increase in Babbel Group's net assets (not taking into account any tax effects)).

4.1.8 *Total Expenses*

Approximately € 15.5 million (assuming an Offer Price at the mid-point of the Price Range, placement of the maximum number of Existing Offer Shares, full exercise of the Greenshoe Option and payment of the discretionary fee in full), of which the Company will bear approximately € 11.1 million.

4.1.9 Expenses Charged to Investors

Only customary transaction and handling fees charged by the investors' brokers.

4.2 Who is the Offeror and the Person asking for Admission to Trading?

4.2.1 Offerors

In addition to the Company, the Offer Shares are being offered by BNP PARIBAS, Morgan Stanley, Berenberg and Citigroup.

4.2.2 Admission to Trading

The Company will apply for the admission to trading together with Morgan Stanley Europe SE, a European stock corporation (*Societas Europaea*) incorporated and with its registered seat in, and operating under the laws of, Germany.

4.3 Why is this Prospectus being produced?

4.3.1 Reasons for the Offering and the Listing

The Company intends to pursue the Offering and the Listing to receive the net proceeds from the sale of the New Shares and to gain access to the capital markets. The Company believes that this access will benefit its future growth and expand its financing options. The Existing Shareholders intend to pursue the Offering to receive the net proceeds from the sale of the Existing Offer Shares and to diversify their investments.

4.3.2 Use of Proceeds

Assuming completion of the Offering and placement of the maximum number of New Shares at the mid-point of the Price Range and payment of the discretionary fee in full, the Company intends to use the net proceeds in the following order of priority: (i) approximately € 140.1 million to expand our B2B business, introduce new learning experiences and/or access new geographic markets, in each case considering primarily inorganic opportunities, i.e., the acquisition of existing businesses or where strategically more suitable organic opportunities, i.e., direct investments into our business, and (ii) approximately € 38.6 million to pay the cash component of the employee virtual ownership programs ("**EVOP**") settlement to former and current Babbel directors and employees under the five EVOPs and related taxes.

4.3.3 Net Proceeds

Approximately € 178.7 million attributable to the Company and approximately € 143.6 million attributable to the Existing Shareholders (assuming completion of the Offering at the mid-point of the Price Range, placement of the maximum number of Existing Offer Shares, full exercise of the Greenshoe Option and payment of the discretionary fee in full).

4.3.4 Underwriting Agreement

On September 14, 2021, the Company, the Existing Shareholders and the Underwriters entered into an underwriting agreement relating to the offer and sale of the Offer Shares in connection with the Offering (the "**Underwriting Agreement**"). Under the terms of the Underwriting Agreement and subject to certain conditions, including the execution of the pricing agreement, the Underwriters undertake to acquire such number of Offer Shares as will be specified and agreed in the pricing agreement.

4.3.5 Conflicts of Interest

There are no conflicting interests with respect to the Offering or the Listing.

ZUSAMMENFASSUNG DES PROSPEKTS

1. Einleitung mit Warnhinweisen

Dieser Prospekt (der „**Prospekt**") bezieht sich auf Aktien der Babbel Group AG (die „**Gesellschaft**" und zusammen mit ihren konsolidierten Tochtergesellschaften „**Babbel**", „**Babbel-Gruppe**", „**Gruppe**", „**wir**", „**uns**" „**unser**" oder „**wir selbst**"), mit Geschäftssitz in der Andreasstraße 72, 10243 Berlin, Bundesrepublik Deutschland („**Deutschland**"), www.babbel.com, Rechtsträgerkennung („**LEI**") 391200OICV5ACZA8Z633, wobei jede dieser Aktien die internationale Wertpapier-Identifikationsnummer („**ISIN**") DE000A3CWAW6 hat.

Die Aktien der Gesellschaft werden von der Gesellschaft zusammen mit BNP PARIBAS, 16, boulevard des Italiens, 75009 Paris, Frankreich, LEI R0MUWSFPU8MPRO8K5P83 („**BNP PARIBAS**"), Morgan Stanley Europe SE, Große Gallusstraße 18, 60312 Frankfurt am Main, Deutschland, LEI 54930056FHWP7GIWYY08 („**Morgan Stanley**" und, zusammen mit BNP PARIBAS, die „**Joint Global Coordinators**"), Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20254 Hamburg, Deutschland, LEI 529900UC2OD7II24Z667 („**Berenberg**") und Citigroup Global Markets Europe AG, Reuterweg 16, 60323 Frankfurt am Main, Deutschland, LEI 6TJCK1B7E7UTXP528Y04 („**Citigroup**" und, zusammen mit Berenberg und den Joint Global Coordinators, die „**Joint Bookrunners**" oder die „**Konsortialbanken**") angeboten. Die Gesellschaft und Morgan Stanley werden die Zulassung der Aktien der Gesellschaft zum Handel im regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zu dem Teilbereich des regulierten Marktes mit zusätzlichen Zulassungsfolgepflichten (Prime Standard) beantragen (die „**Börsennotierung**").

Die Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Deutschland, www.bafin.de, hat diesen Prospekt am 14. September 2021 als die zuständige Behörde unter der Verordnung (EU) 2017/1129 des Europäischen Parlaments und des Rates vom 14. Juni 2017 über den Prospekt, der beim öffentlichen Angebot von Wertpapieren oder bei deren Zulassung zum Handel an einem geregelten Markt zu veröffentlichen ist und zur Aufhebung der Richtlinie 2003/71/EG, in der jeweils gültigen Fassung, gebilligt.

Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt verstanden werden. Anleger sollten sich bei der Entscheidung, in die Aktien der Gesellschaft zu investieren, auf diesen Prospekt als Ganzes stützen. Anleger, die in die Aktien der Gesellschaft investieren, könnten das gesamte angelegte Kapital oder einen Teil davon verlieren. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach nationalem Recht die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben. Nur diejenigen Personen haften zivilrechtlich, die diese Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben. Dies gilt jedoch nur für den Fall, dass diese Zusammenfassung, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass sie, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die Aktien der Gesellschaft für die Anleger eine Entscheidungshilfe darstellen würden.

2. Basisinformationen über die Emittentin

2.1 Wer ist die Emittentin der Wertpapiere?

2.1.1 Sitz und geltendes Recht

Die Babbel Group AG hat ihren eingetragenen Sitz in Berlin, Deutschland und die LEI 391200OICV5ACZA8Z633. Die Gesellschaft ist in Deutschland inkorporiert und im Handelsregister des Amtsgerichts Charlottenburg, Deutschland, unter der Registernummer HRB 228641 eingetragen. Die Gesellschaft unterliegt deutschem Recht.

2.1.2 Haupttätigkeiten

Babbel entwickelt und betreibt ein Ökosystem von Online-Sprachlernerfahrungen. Der Zugang zu diesem Ökosystem wird als Abonnement sowohl für Privatkunden über die App oder das Web als auch für Geschäftskunden zur Mitarbeiterschulung und -entwicklung oder als Mitarbeitervorteil angeboten. Babbels Abonnements ermöglichen den Lernenden den Zugang zu einem Ökosystem von Lernerfahrungen, das von Übungen und Prüfungen über Podcasts bis hin zu von Lehrern geleiteten Live-Kursen reicht. Das Babbel-Ökosystem umfasst (1) verschiedene Lernerfahrungen, vom selbstgesteuerten Lernen über Übungen und Prüfungen bis hin zu Audiomaterialien wie Podcasts und Live-Unterricht in kleinen Online-Gruppensitzungen, (2) verschiedene Sprachniveaus, von Anfängern bis hin zu Fortgeschrittenen, und (3) verschiedene Motivationen, Ziele und Kontexte, von Reisenden bis hin zu Lernenden, die ihre Karriere vorantreiben wollen und Personen, die den Wunsch haben, ihre Fähigkeiten stetig weiterzuentwickeln, umfasst.

Indem wir ein Ökosystem von vernetzten Erfahrungen anbieten, können wir das Engagement und den Lernerfolg der Lernenden vertiefen und verbessern, indem wir unseren Lernenden durchgängig Lernerfahrungen sowie eine intuitive Benutzererfahrung bieten, die ihren Bedürfnissen entsprechen.

Unser Ökosystem basiert auf dem kommunikativen Ansatz, einer bewährten didaktischen Methode. Unsere Didaktik-Experten nutzen für den Sprachunterricht anerkannte akademischen Lernmethoden und sorgfältig ausgewählte, empirisch erprobte und bewährte Strategien. Der Lernansatz in unserem Ökosystem kombiniert kommunikative Didaktik, Kognitivismus, Verhaltensforschung und Konstruktivismus. Progressive Lektionen sind als ein ineinandergreifendes Gerüst miteinander verbunden und die Grundlagen sind an den Gemeinsamen europäischen Referenzrahmen für Sprachen (*Common European Framework of Reference for Languages*, *CEFR*) angepasst, wobei jeder Schritt auf den vorherigen aufbaut. Der kommunikative Ansatz ist das Herzstück der Bildungsstrategie von Babbel. Wir bereiten die Lernenden auf die Anwendung der Sprache im realen Leben vor: Für das Gespräch von Mensch zu Mensch (mündlich und schriftlich), aber auch für Hör- und Lesesituationen. Unser Ziel ist es, die Lernenden ab Lektion 1 für die ersten Gespräche in einer neuen Sprache zu rüsten. Unsere Untersuchungen haben gezeigt, dass engagierte Lernende mit 15 Stunden Babbel innerhalb von zwei Monaten das Äquivalent eines College-Semesters erreichen können (Quelle: Vesselinov, R., & Grego, J. (2016, September). The Babbel Efficacy Study (Rep.)).

Der Sprachentwicklungsrahmen von Babbel ist unser Werkzeug, um sicherzustellen, dass unsere zentralsten Lernaktivitäten einen pragmatischen Wert haben und die Lernenden befähigen, die Sprache in typischen Lebenssituationen anzuwenden. Unser Ziel ist es, die Lernenden auf dem kürzest möglichen Weg zu realen Gesprächen zu führen, durch:

- Eintauchen des Lernenden in eine neue Sprache durch Dialoge aus dem wirklichen Leben, die den Lernenden sofort zum Sprechen bringen;
- Einsatz bewährter kognitiver Techniken, die neue Vokabeln in das Langzeitgedächtnis des Lernenden übertragen;
- Anpassung der Inhalte an die Sprachlernmotivation;
- Verwendung von menschlichen Stimmen und Spracherkennung, um den Lernenden zum sicheren Sprechen zu bringen; und
- Aufbau jedes Kurses und jeder Erfahrung basierend auf der Muttersprache und den persönlichen Interessen des Lernenden für einen schnelleren Lernprozess.

Das Angebot von Babbel umfasst mittlerweile über 60.000 Lektionen und mehr als 13.000 Stunden an Inhalten, die über verschiedene Lernerfahrungen das Erlernen von 15 Sprachen aus neun Basissprachen ermöglichen. Das Ergebnis ist ein Sprachenlernen, das funktioniert. Eine Kundenbewertung von 4,6 auf Trustpilot (Stand 17. August 2021) (Quelle: Trustpilot) und eine starke Markenbekanntheit für hochwertiges Lernen sind ein Hinweis auf die Qualität des Ökosystems. Darüber hinaus glauben wir, dass unsere Verlängerungsquoten branchenführend sind und darauf hinweisen, dass unsere Lernenden Vorteile darin sehen, länger mit unserem Produkt zu arbeiten. So werden z.B. unsere 12-Monats-Abonnements im Durchschnitt in 56% der Fälle verlängert.

Der jährliche weltweite Markt für das Erlernen von Sprachen wird für das Jahr 2021 auf etwa € 35 bis 40 Mrd. geschätzt (Quelle: OC&C Strategy and Analytics GmbH („**OC&C**"), Deutschland, „*Digital Language Market Study*", 2021, der „**OC&C Report**"), wobei jedoch aufgrund des hohen Grades der Fragmentierung unterschiedliche Betrachtungen möglich sind, die jeweils zu unterschiedlichen Einschätzungen der aktuellen Größe und des zukünftigen Wachstums führen. Das sich von 2019 bis 2025 ergebende Wachstum beruht auf dem Wachstum des Online-Segments, wobei das Offline-Segment im Jahr 2020 als Ergebnis der COVID-19-Pandemie negativ betroffen war. Es ist davon auszugehen, dass der Markt von 2021 bis 2025 mit einer durchschnittlichen jährlichen Wachstumsrate von etwa 11% bis 16% wachsen wird (Quelle: OC&C Report). Neben der massenhaften Akzeptanz des Online-Lernens, die teilweise durch die COVID-19-Pandemie angetrieben wurde, gibt es eine Reihe weiterer struktureller globaler Veränderungen, die das Online-Sprachlernen vorantreiben. Dazu gehören die Globalisierung und die zunehmende Mobilität, technologische Verbesserungen, die zu besseren Lernergebnissen und einem höheren Maß an Engagement führen, der On-Demand-Charakter des Online-Lernens, und eine im Vergleich zum Offline-Sprachlernen höhere Rendite für die investierte Zeit und das investierte Geld (Quelle: Information der Gesellschaft).

Die Sprachlernbranche ist in Bezug auf Lernmethoden stark fragmentiert, mit nur einer begrenzten Anzahl von Akteuren, die über eine beträchtliche, etablierte Präsenz verfügen (von denen 2021 die fünf größten Akteure zusammen immer noch nur etwa 2% des weltweiten Sprachlernmarktes (ohne China) repräsentieren) (Quelle: OC&C Report). Wir glauben, dass Babbel durch seine Selbstlernplattform eine Position als Marktführer in Europa erreicht hat und in den USA schnell wächst, was sowohl einen strategischen Vorteil als auch eine große Chance bietet. Babbel hat mehrere Erfahrungen in einem Ökosystem konsolidiert und verfügt über die didaktische und technische Glaubwürdigkeit, um weiter zu expandieren.

Babbel hat sowohl sein Produkt als auch seine Organisation mit einem Fokus auf „Lernende zuerst“ aufgebaut. Die Inhalte und Erfahrungen werden von Didaktik-Experten entwickelt, wobei Konversationsfähigkeit und Selbstvertrauen die wichtigsten Ziele sind. Die Technologie, die unser Ökosystem unterstützt, nutzt eine hochgradig skalierbare Infrastruktur, um ein nahtloses Erlebnis über alle Geräte hinweg zu ermöglichen und das Nutzererlebnis kontinuierlich zu optimieren. Wir glauben, dass wir aufgrund unseres Ökosystem-Ansatzes in der Lage sind, effizient über Märkte und Lernmethoden hinweg zu expandieren.

Wir glauben, dass wir mit unserer starken operativen Basis und Marktposition gut aufgestellt sind, um das Wachstum durch die Verbesserung und Erweiterung unseres Ökosystems, die Skalierung unseres B2B-Angebots, den Ausbau unserer Aktivitäten in den USA und Kanada sowie durch die geografische Expansion in neue Märkte voranzutreiben. Wir beabsichtigen, diese Maßnahmen organisch durch unser negatives Umlaufvermögen (was die Tatsache widerspiegelt, dass unsere Kunden ihre Abonnements im Voraus bezahlen und wir daher unsere Einnahmen erhalten, bevor wir die entsprechenden Kosten bezahlen) und unsere starke Liquiditätsgenerierung zu finanzieren und könnten uns entscheiden, ausgewählte Maßnahmen durch strategisches M&A zu beschleunigen.

2.1.3 Hauptanteilseigner

Zum Zeitpunkt dieses Prospekts halten Lorenz Heine, Berlin und Markus Witte, Berlin, jeweils 13,0%; Thomas Holl, Berlin, 12,5%; KIZOO Technology Capital GmbH, Karlsruhe, und SEP IV LP, Glasgow, Vereinigtes Königreich, jeweils 11,9%; The Reed Elsevier Ventures 2013 Partnership L.P., Wilmington, Delaware/USA, 11,0%; VC Fonds Berlin GmbH, Berlin, 9,6%; Nokia Growth Partners III, L.P., Wilmington, Delaware/USA, 8,6%; Toine Roger Martin Diepstraten, Berlin, 4,7%; und VC Fonds Technologie Berlin GmbH, Berlin 3,0%; der Aktien der Gesellschaft.

2.1.4 Beherrschende Anteilseigner

Die Gesellschaft wird durch keinen ihrer unmittelbaren oder mittelbaren Anteilseigner beherrscht.

2.1.5 Hauptgeschäftsführer

Die Mitglieder des Vorstands der Gesellschaft sind Arne Schepker, Chief Executive Officer der Gesellschaft, und Hermione McKee, Chief Financial Officer der Gesellschaft.

2.1.6 Abschlussprüfer

Der Wirtschaftsprüfer der Gesellschaft ist PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kapelle-Ufer 4, 10117 Berlin, Deutschland („**PwC**“), ein Mitglied der Wirtschaftsprüferkammer, Berlin, Deutschland.

2.2 Welches sind die wesentlichen Finanzinformationen über die Emittentin?

Die in den nachfolgenden Tabellen enthaltenen Finanzinformationen wurden den geprüften Konzernabschlüssen der Babbel GmbH, des früheren Mutterunternehmens von Babbel, für die zum 31. Dezember 2020, 2019 (geändert) und 2018 endenden Geschäftsjahre, die in Übereinstimmung mit den International Financial Reporting Standards (*Internationale Finanz- und Rechnungslegungsstandards*), wie sie in der Europäischen Union anzuwenden sind („**IFRS**“) und den ergänzend nach § 315e Abs. 1 Handelsgesetzbuch („**HGB**“) anzuwendenden handelsrechtlichen Vorschriften erstellt wurden, sowie dem ungeprüften verkürzten Konzernzwischenabschluss der Babbel GmbH für den zum 30. Juni 2021 endenden Sechsmonatszeitraum, der in Übereinstimmung mit den IFRS zur Zwischenberichterstattung (IAS 34) erstellt worden ist, entnommen oder aus diesen abgeleitet.

Nach Erstellung und Abschluss der Prüfung des geprüften Konzernabschlusses der Babbel GmbH für das zum 31. Dezember 2019 endende Geschäftsjahr und nach Erteilung des hierzu erteilten Bestätigungsvermerks durch PwC hat die Geschäftsführung Änderungen des Konzernabschlusses der Babbel GmbH für das zum 31. Dezember 2019 endende Geschäftsjahr vorgenommen. Diese Änderungen waren Gegenstand einer Nachtragsprüfung.

Werden Finanzinformationen in den folgenden Tabellen als „geprüft“ dargestellt, zeigt dies an, dass die Finanzinformationen den geprüften Konzernabschlüssen der Babbel GmbH zum 31. Dezember 2020, 2019 (geändert) und 2018 oder dem geprüften Jahresabschluss der Babbel GmbH zum 31. Dezember 2020 entnommen wurden. Die Kennzeichnung „ungeprüft“ wird in den folgenden Tabellen dazu verwendet, um Finanzinformationen anzuzeigen, die (i) den geprüften Konzernabschlüssen der Babbel GmbH zum 31. Dezember 2020, 2019 (geändert) und 2018 oder dem geprüften Jahresabschluss der Babbel GmbH zum 31. Dezember 2020 nicht entnommen, aber daraus abgeleitet wurden, (ii) dem ungeprüften verkürzten Konzernzwischenabschluss der Babbel GmbH für den zum 30. Juni 2021 endenden Sechsmonatszeitraum entnommen oder daraus abgeleitet wurden, oder (iii) aus den

Buchhaltungsunterlagen oder dem internen Berichtswesen der Babbel-Gruppe entnommen oder daraus abgeleitet wurden.

Soweit nicht anders angegeben, werden die in den untenstehenden Tabellen aufgeführten Finanzinformationen in Millionen Euro (€ Mio.) gezeigt. Bestimmte Finanzinformationen, einschließlich von Prozentsätzen, wurden kaufmännisch gerundet. Daher entsprechen die gerundeten Zahlen in den untenstehenden Tabellen möglicherweise nicht in allen Fällen den Gesamtwerten (Summen oder Zwischensummen) in diesen Tabellen, die auf Basis von ungerundeten Zahlen berechnet werden. Bei in Klammern angegebenen Finanzinformationen handelt es sich um den negativen Wert der gezeigten Zahlen. Ein Gedankenstrich („–") zeigt an, dass die jeweilige Zahl nicht verfügbar ist oder Null beträgt, während eine Null („0,0") bedeutet, dass die jeweilige Zahl auf Null gerundet wurde.

Ausgewählte Konzernfinanzinformationen der Babbel-Gruppe

Ausgewählte Daten aus der Konzerngesamtergebnisrechnung

	Für das Geschäftsjahr zum 31. Dezember			**Für den Sechsmonatszeitraum zum 30. Juni**	
	2020	**2019**	**2018**	**2021**	**2020**
	(geprüft, in € Mio.)			(ungeprüft, in € Mio.)	
Umsatzerlöse	147,3	123,9	106,4	82,9	70,1
Umsatzkosten	(22,9)	(13,4)	(13,1)	(11,1)	(12,5)
Bruttoergebnis vom Umsatz	124,4	110,5	93,3	71,8	57,6
Marketing-Aufwendungen[1]	(110,6)	(81,8)	(77,2)	(66,3)	(60,0)
Forschungs- und Entwicklungsaufwendungen[1]	(24,1)	(20,9)	(19,3)	(17,7)	(12,1)
Allgemeine Verwaltungsaufwendungen[1]	(12,0)	(9,8)	(8,8)	(17,8)	(4,7)
EBIT	(23,9)	(2,6)	(12,4)	(29,6)	(19,9)
Konzerngesamtergebnis der Periode	(23,6)	(3,0)	(12,4)	(30,4)	(19,9)

1 In 2019 wurden die Aufwendungen für anteilsbasierte Vergütung (EVOP) zur besseren Darstellung der Ertragslage erstmalig auf die drei Funktionsbereiche Marketing, Forschung- und Entwicklung sowie Verwaltung aufgeteilt. Zuvor wurden diese insgesamt in den Allgemeinen Verwaltungsaufwendungen ausgewiesen. Zur besseren Vergleichbarkeit wurde daher der Vorjahresausweis der Aufwendungen für anteilsbasierte Vergütungen (EVOP) entsprechend angepasst. Die dargestellten Vergleichswerte für das Geschäftsjahr 2018 sind dem geprüften geänderten Konzernabschluss zum 31. Dezember 2019 entnommen.

Ausgewählte Daten aus der Konzernkapitalflussrechnung

	Für das Geschäftsjahr zum 31. Dezember			**Für den Sechsmonatszeitraum zum 30. Juni**	
	2020	**2019**	**2018**	**2021**	**2020**
	(geprüft, in € Mio.)			(ungeprüft, in € Mio.)	
Cashflow aus der betrieblichen Tätigkeit[1]	2,3	8,6	(1,1)	5,6	(7,3)
Cashflow aus Investitionstätigkeit	(1,2)	(1,1)	(0,9)	(1,6)	(0,4)
Cashflow aus Finanzierungstätigkeit	(2,6)	(2,2)	-	(0,2)	(1,3)

1 Die dargestellten Vergleichswerte für das zum 31. Dezember 2018 endende Geschäftsjahr sind dem geprüften geänderten Konzernabschluss zum 31. Dezember 2019 entnommen.

Ausgewählte Daten aus der Konzernbilanz

	31. Dezember			**30. Juni**
	2020	**2019**	**2018**	**2021**
	(geprüft, in € Mio.)			(ungeprüft, in € Mio.)
Summe Aktiva	77,5	71,6	59,3	142,8
Eigenkapital	(19,1)	2,2	1,0	(28,0)

Wesentliche operative Daten

	Für das Geschäftsjahr zum 31. Dezember			Für den Sechsmonatszeitraum zum 30. Juni	
	2020	**2019**	**2018**	**2021**	**2020**
	(geprüft, soweit nicht anders angegeben)			(ungeprüft)	
	(in € Mio., soweit nicht anders angegeben)				
Fakturierter Umsatz (*Billed Sales*)[1]	167,2	126,1	113,2	92,7	86,8
EBITDA[2]*	(19,9)	0,7	(11,8)	(26,9)	(18,2)
Bereinigtes EBITDA[3]*	(17,0)	4,6	(5,0)	(6,4)	(17,0)
Bereinigtes Cash EBITDA[4]*	0,3	4,6	1,8	3,2	(1,4)
Bereinigte Cash EBITDA Marge[5]* (%) ..	*0,2*	*3,6*	*1,6*	*3,4*	*(1,7)*

* Ungeprüft.

1 Fakturierter Umsatz (*Billed sales*) wird definiert als der volle Betrag, der den Kunden in der Periode vor Kürzungen für abgegrenzte Umsätze in Rechnung gestellt wurde („**Fakturierter Umsatz** (***Billed Sales***)").

2 EBITDA ist definiert als EBIT, bereinigt um Abschreibungen auf Sachanlagen und immaterielle Vermögenswerte sowie Abschreibungen nach IFRS 16 und Goodwill Impairment, wie in der geprüften Konzernkapitalflussrechnung angegeben.

3 Bereinigtes EBITDA wird definiert als EBITDA, bereinigt um nicht-operative Effekte (anteilsbasierte Vergütungsaufwendungen (EVOP) und nicht realisierte Fremdwährungsgewinne/-verluste).

4 Bereinigtes Cash EBITDA wird definiert als Bereinigtes EBITDA basierend auf Fakturiertem Umsatz (*Billed Sales*), d. h. bereinigt um die abgegrenzten Umsätze und bereinigt um Barzahlungen für Leasingverbindlichkeiten.

5 Bereinigte Cash EBITDA Marge wird definiert als prozentualer Betrag des Bereinigten Cash EBITDA vom Fakturierten Umsatz (*Billed Sales*).

Segmentinformationen

	Für das Geschäftsjahr zum 31. Dezember			Für den Sechsmonatszeitraum zum 30. Juni	
	2020	**2019**	**2018**	**2021**	**2020**
	(geprüft, in € Mio.)			(ungeprüft, in € Mio.)	
B2C Global					
Fakturierter Umsatz (*Billed Sales*)	110,3	93,4	90,4	58,7	59,3
Cash-Deckungsbeitrag (*Cash contribution margin*)[1]	42,1	46,8	39,2	22,9	19,8
B2C USA					
Fakturierter Umsatz (*Billed Sales*)..	54,3	31,7	22,0	31,1	26,5
Cash-Deckungsbeitrag (*Cash contribution margin*)[1]	6,8	4,8	(1,7)	5,4	(0,0)
B2B					
Fakturierter Umsatz (*Billed Sales*)..	2,5	1,1	0,9	2,8	1,1
Cash-Deckungsbeitrag (*Cash contribution margin*)[1]	0,6	0,3	0,0	1,5	0,1
Gesamt-Cash-Deckungsbeitrag (*Total cash contribution margin*)..	**49,6**	**51,9**	**37,5**	**29,9**	**19,9**

1 Cash-Deckungsbeitrag (*Cash contribution margin*) ist definiert als Fakturierter Umsatz (*Billed Sales*) abzüglich Kosten des Fakturierten Umsatzes (*Billed Sales*) (Umsatzkosten im Wesentlichen abzüglich anteiligen Webserver-Kosten) und Marketingkosten (ohne allokierte Sach- und Personalaufwendungen, anteilige Abschreibungen (inklusive IFRS 16) sowie allokierte anteilsbasierte Vergütungen).

2.3 Welches sind die zentralen Risiken, die für die Emittentin spezifisch sind?

- Der intensive Wettbewerb in unserer Branche kann unsere Fähigkeit beeinträchtigen, Kunden zu gewinnen und zu binden sowie Umsätze zu generieren und kann unsere Margen schmälern.
- Die Marktakzeptanz von onlinebasierten Selbstlernlösungen könnte nicht wie von uns erwartet wachsen, was sich nachteilig auf unser Geschäft und unsere Ertragslage auswirken könnte und selbst wenn die Marktnachfrage steigt, könnte die Nachfrage nach unserer Plattform nicht zunehmen.
- Die Nachfrage nach kostenpflichtigen Sprachlernlösungen wie der unseren könnte zurückgehen, wenn effektive Sprachlernlösungen kostenlos verfügbar werden.
- Wenn es uns nicht gelingt, bestehende Anwender zu halten oder neue Anwender hinzuzugewinnen oder wenn unsere Anwender ihr Nutzungsinteresse an unseren Produkten verringern, können unsere Geschäftstätigkeit, unsere Finanzlage und unser Betriebsergebnis erheblich beeinträchtigt werden.

- Wir könnten nicht in der Lage sein, unseren Umsatz oder unser Geschäft aufrechtzuerhalten oder zu steigern.
- Es kann sein, dass wir von Zeit zu Zeit Akquisitionen anstreben, die zu erheblichen zusätzlichen Kosten führen, die erwarteten Vorteile nicht erreichen oder nicht ausreichend integriert werden können.
- Unser Managementteam hat nur begrenzte Erfahrung in der Führung eines börsennotierten Unternehmens und die Anforderungen an die Berichterstattung und die Einhaltung von Vorschriften für börsennotierte Unternehmen könnten Ressourcen vom täglichen Geschäftsgang des Unternehmens abziehen.
- Wenn wir nicht in der Lage sind, neue Funktionen des Lern-Erlebnis-Ökosystems zu entwickeln, die den Bedürfnissen unserer Kunden entsprechen, würde sich dies negativ auf unser Geschäft und unsere Ertragslage auswirken.
- Wir unterliegen einer Vielzahl von Vorschriften, einschließlich, aber nicht beschränkt auf, Verbraucherschutzgesetze, Datenschutzgesetze, Vorschriften für Online-Dienste und Wettbewerbsgesetze und künftige Vorschriften könnten zusätzliche Anforderungen und andere Verpflichtungen für unser Geschäft mit sich bringen.
- Die Nichteinhaltung von Datenschutzgesetzen könnte zu Haftungsansprüchen und Reputationsschäden für unser Unternehmen führen und nachteilige Änderungen des geltenden Rechtsrahmens könnten unsere Betriebskosten erhöhen.
- Die Verwendung von Open-Source-Software könnte das Risiko erhöhen, dass Hacker unbefugten Zugriff auf unsere Systeme erlangen und wir könnten in Rechtsstreitigkeiten hineingezogen werden, wenn Dritte unsere Rechte zur exklusiven Nutzung solcher Software anfechten.
- Wir verwenden standardisierte Allgemeine Geschäftsbedingungen, die das Potenzial erhöhen, dass alle darin verwendeten Vertragsklauseln ungültig oder nicht durchsetzbar sind, wenn eine Klausel für unwirksam erklärt wird.

3. Basisinformationen über die Wertpapiere

3.1 Welches sind die wichtigsten Merkmale der Wertpapiere?

3.1.1 Anzahl und Art der Aktien

Zum Zeitpunkt dieses Prospekts beträgt das Grundkapital der Gesellschaft € 37.873.913,00 und ist eingeteilt in 37.873.913 auf den Inhaber lautende Stückaktien, jede dieser Aktien mit einem rechnerischen Anteil am Grundkapital von je € 1,00.

3.1.2 ISIN und Währung

Die ISIN der Aktien der Gesellschaft lautet DE000A3CWAW6 und die Aktien der Gesellschaft sind in Euro denominiert.

3.1.3 Mit den Aktien verbundene Rechte, relativer Rang und Übertragbarkeit

Jede Aktie der Gesellschaft ist voll dividendenberechtigt. Alle Aktien der Gesellschaft gewähren die gleichen Stimmrechte. Es bestehen keine Stimmrechtsbeschränkungen. Im Falle einer Insolvenz der Gesellschaft sind die Aktien der Gesellschaft gegenüber allen anderen Wertpapieren und Forderungen nachrangig. Die Aktien der Gesellschaft sind in Übereinstimmung mit den gesetzlichen Bestimmungen für Inhaberaktien frei übertragbar.

3.1.4 Dividendenpolitik

Die Gesellschaft beabsichtigt, auf absehbare Zeit keine Dividenden zu zahlen.

3.2 Wo werden die Wertpapiere gehandelt?

Es wird erwartet, dass alle Aktien der Gesellschaft zum Handel am regulierten Markt der *Frankfurter Wertpapierbörse* und zugleich zu dessen Teilbereich mit zusätzlichen Zulassungsfolgepflichten (Prime Standard) zugelassen werden.

3.3 Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?

- Zukünftige Verkäufe durch die Bestehenden Aktionäre, wie nachstehend definiert, könnten den Kurs unserer Aktien drücken.
- Unsere Aktien wurden bisher nicht öffentlich gehandelt und es gibt keine Garantie, dass sich ein aktiver und liquider Markt für unsere Aktien entwickeln wird.

- Wir könnten es versäumen, die nach der Börsennotierung für uns geltenden zusätzlichen Anforderungen, wie Anforderungen an die Unternehmensführung, Zulassungsfolgepflichten und fristgerechte Finanzberichterstattung sowie wertpapierbezogene Anforderungen und Anforderungen an die Beziehung zu Investoren, zu erfüllen.

4. Basisinformationen über das Angebot von Wertpapieren und die Zulassung zum Handel

4.1 Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?

4.1.1 *Umfang des Angebots*

Das Angebot, wie nachstehend definiert, bezieht sich auf 12.994.997 auf den Inhaber lautende Stückaktien der Gesellschaft, bestehend aus (i) 7.300.000 neu ausgegebenen auf den Inhaber lautende Stückaktien aus einer Kapitalerhöhung (die „**IPO Kapitalerhöhung**") gegen Bareinlagen, die voraussichtlich am oder um den 15. September 2021 von der Hauptversammlung der Gesellschaft beschlossen werden wird (die „**Neuen Aktien**"), (ii) 4.000.000 bestehenden auf den Inhaber lautende Stückaktien (die „**Bestehenden Angebotsaktien**" und, zusammen mit den Neuen Aktien, die „**Basisaktien**") aus dem Bestand von Lorenz Heine, Markus Witte, Thomas Holl, Toine Roger Martin Diepstraten, KIZOO Technology Capital GmbH ("**KIZOO**"), Nokia Growth Partners III, L.P. ("**Nokia**"), The Reed Elsevier Ventures 2013 Partnership L.P. ("**Reed Elsevier**"), SEP IV LP ("**SEP**"), VC Fonds Berlin GmbH ("**VC Fonds I**"), VC Fonds Technologie Berlin GmbH ("**VC Fonds II**") (die „**Bestehenden Aktionäre**") und (iii) 1.694.997 auf den Inhaber lautende Stückaktien in Verbindung mit einer möglichen Mehrzuteilung (die „**Mehrzuteilungsaktien**" und, zusammen mit den Basisaktien, die „**Angebotsaktien**").

Die Angebotsaktien werden öffentlich in Deutschland und in Privatplatzierungen in bestimmten Rechtsordnungen außerhalb Deutschlands angeboten (das „**Angebot**"). In den Vereinigten Staaten von Amerika werden die Angebotsaktien nur qualifizierten institutionellen Anlegern entsprechend und in Übereinstimmung mit und unter Berufung auf Rule 144A nach dem U.S. Securities Act von 1933 in der jeweils gültigen Fassung (der „**Securities Act**") oder gemäß einer anderen anwendbaren Ausnahme von den Registrierungsanforderungen des Securities Act bzw. in Transaktionen, die diesen Registrierungsanforderungen nicht unterfallen, angeboten und verkauft. Außerhalb der Vereinigten Staaten von Amerika werden die Angebotsaktien nur im Rahmen von Offshore-Transaktionen in Übereinstimmung mit der Regulation S des Securities Act angeboten und verkauft.

4.1.2 *Preisspanne*

Die Preisspanne ist € 24,00 bis € 28,00 je Angebotsaktie (die „**Preisspanne**").

4.1.3 *Angebotszeitraum*

Vom 15. September 2021 bis zum 22. September 2021 (der „**Angebotszeitraum**").

4.1.4 *Angebotspreis*

Der Angebotspreis für die im Rahmen des Angebots platzierten Angebotsaktien (der „**Angebotspreis**") und die endgültige Anzahl der im Rahmen des Angebots platzierten Angebotsaktien werden von der Gesellschaft und den Bestehenden Aktionären nach Rücksprache mit den Joint Bookrunnern voraussichtlich am 22. September 2021 festgelegt. Der Angebotspreis wird auf Grundlage der von den Anlegern während des Angebotszeitraums eingereichten Orders festgelegt, die in dem im Rahmen eines Bookbuilding-Verfahrens erstellten Orderbuch zusammengefasst wurden. Diese Orders werden anhand der angebotenen Preise und der erwarteten Anlagehorizonte der jeweiligen Anleger bewertet. Diese Methode zur Festlegung des Angebotspreises zielt grundsätzlich darauf ab, den höchsten Angebotspreis zu erreichen.

4.1.5 *Greenshoe-Option*

KIZOO, Nokia, Reed Elsevier, SEP, VC Fonds I und VC Fonds II (die „**Verleihenden Aktionäre**") haben Morgan Stanley, handelnd für Rechnung der Konsortialbanken, eine Option zum Erwerb von bis zu 1.694.997 Aktien der Gesellschaft zum Angebotspreis abzüglich vereinbarter Provisionen eingeräumt (die „**Greenshoe-Option**").

4.1.6 *Börsennotierung und Vollzug*

Die Erteilung der Börsenzulassung (Zulassungsbeschluss) für die Aktien der Gesellschaft wird voraussichtlich am 23. September 2021 erfolgen und der Handel mit den Aktien der Gesellschaft wird voraussichtlich am 24. September 2021 aufgenommen werden. Die Lieferung der Angebotsaktien gegen Zahlung des Angebotspreises wird voraussichtlich am 28. September 2021 erfolgen.

4.1.7 *Verwässerung neuer Aktionäre*

€ 22,66 je Aktie oder 679,3% (unter der Annahme des Vollzugs des Angebots zur Mitte der Preisspanne, der Durchführung der IPO-Kapitalerhöhung für die maximale Anzahl an Neuen Aktien, der vollständigen Zahlung der

Ermessensvergütung und einer entsprechenden Erhöhung des Nettovermögens der Babbel-Gruppe (ohne Berücksichtigung etwaiger Steuereffekte)).

4.1.8 *Gesamtkosten*

Rund € 15,5 Mio. (unter der Annahme eines Angebotspreises zur Mitte der Preisspanne, der Platzierung der maximalen Anzahl an Bestehenden Angebotsaktien, vollständiger Ausübung der Greenshoe-Option sowie der vollständigen Zahlung der Ermessensvergütung), von denen die Gesellschaft rund € 11,1 Mio. tragen wird.

4.1.9 *Kosten, die Anlegern in Rechnung gestellt werden*

Ausschließlich marktübliche Transaktions- und Abwicklungskosten, die durch die Broker der Anleger in Rechnung gestellt werden.

4.2 Wer ist der Anbieter und die die Zulassung zum Handel beantragende Person?

4.2.1 *Anbieter*

Neben der Gesellschaft werden die Angebotsaktien von BNP PARIBAS, Morgan Stanley, Berenberg und Citigroup angeboten.

4.2.2 *Zulassung zum Handel*

Die Gesellschaft wird gemeinsam mit Morgan Stanley Europe SE, einer europäischen Aktiengesellschaft (*Societas Europaea*), die nach deutschem Recht gegründet wurde und ihren Sitz in Deutschland hat, die Zulassung zum Handel beantragen.

4.3 Weshalb wird dieser Prospekt erstellt?

4.3.1 *Gründe für das Angebot und die Börsennotierung*

Die Gesellschaft beabsichtigt, das Angebot und die Börsennotierung zu verfolgen, um die Nettoerlöse aus dem Verkauf der Neuen Aktien und Zugang zu den Kapitalmärkten zu erhalten. Die Gesellschaft ist davon überzeugt, dass dieser Zugang ihrem künftigen Wachstum zugutekommen und ihre Finanzierungsmöglichkeiten erweitern wird. Die Bestehenden Aktionäre beabsichtigen, das Angebot zu verfolgen, um die Nettoerlöse aus dem Verkauf der Bestehenden Angebotsaktien zu erhalten und um ihre Anlagen zu diversifizieren.

4.3.2 *Zweckbestimmung der Erlöse*

Unter der Annahme des Abschlusses des Angebots und der Platzierung der maximalen Anzahl an Neuen Aktien in der Mitte der Preisspanne und Zahlung der Ermessensgebühr in voller Höhe beabsichtigt die Gesellschaft, den Nettoerlös in der folgenden Reihenfolge zu verwenden: (i) ca. € 140,1 Mio. um unser B2B-Geschäft zu erweitern, neue Lernerfahrungen einzuführen und/oder neue geografische Märkte zu erschließen, und zwar jeweils in erster Linie auf anorganischem Weg, d. h. durch den Erwerb bestehender Unternehmen, oder, wenn dies strategisch besser geeignet ist, auf organischem Weg, d. h. durch direkte Investitionen in unser Geschäft, und (ii) ca. € 38,6 Mio. für die Zahlung der Barkomponente des virtuellen Mitarbeiterbeteiligungsprogramms („**EVOP**“) an ehemalige und aktuelle Führungsmitglieder und Mitarbeiter von Babbel unter den fünf EVOPs und damit zusammenhängender Steuern.

4.3.3 *Nettoerlöse*

Rund € 178,7 Mio., die der Gesellschaft zustehen und rund € 143,6 Mio., die den Bestehenden Aktionären zustehen (unter der Annahme eines Angebotspreises zur Mitte der Preisspanne, der Platzierung der maximalen Anzahl an Bestehenden Angebotsaktien, vollständiger Ausübung der Greenshoe-Option sowie der vollständigen Zahlung der Ermessensvergütung).

4.3.4 *Zeichnungsvereinbarung*

Am 14. September 2021 haben die Gesellschaft, die Bestehenden Aktionäre und die Konsortialbanken eine Übernahmevereinbarung im Zusammenhang mit dem Angebot und Verkauf der Angebotsaktien im Rahmen des Angebots (die „**Übernahmevereinbarung**“) abgeschlossen. Gemäß den Bedingungen der Übernahmevereinbarung und vorbehaltlich bestimmter Bedingungen, einschließlich des Abschlusses der Preisfestsetzungsvereinbarung, verpflichten sich die Konsortialbanken zum Erwerb derjenigen Anzahl von Angebotsaktien, die in der Preisfestsetzungsvereinbarung festgelegt und vereinbart wird.

4.3.5 *Interessenkonflikte*

In Bezug auf das Angebot oder die Börsennotierung bestehen keine Interessenkonflikte.

1. RISK FACTORS

*This prospectus (the "**Prospectus**") relates to an initial public offering of shares in Babbel Group AG (the "**Company**" and, together with its consolidated subsidiaries, "**Babbel**", the "**Babbel Group**", the "**Group**", "**we**", "**us**", "**our**" or "**ourselves**") in Germany and private placements in certain jurisdictions outside Germany (the "**Offering**") and the admission to trading on the regulated market (regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) as well as the simultaneous admission to the subsegment thereof with additional post admission obligations (Prime Standard) of the Company's entire share capital (the "**Listing**"). An investment in the shares of the Company is subject to risks. According to article 16 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017, as amended (the "**Prospectus Regulation**"), the risk factors featured in a prospectus must be limited to risks which are specific to the issuer and/or to the securities and which are material for taking an informed investment decision. Therefore, the following risks are limited to risks that are both (1) specific to Babbel and/or to the Company's shares and (2) material for taking an informed investment decision.*

The following risk factors are categorized into subcategories based on their nature. In each category the two most material risk factors (i.e., those the Company believes are most likely to have a material adverse impact) are mentioned first based on the Company's current assessment with respect to the probability of their occurrence and the expected magnitude of their negative impact. The remaining risk factors in each category are not listed in the order of materiality.

1.1 Risks related to Our Markets

1.1.1 Intense competition in our industry may hinder our ability to attract and retain customers and generate revenue, and may diminish our margins.

The development, distribution and sale of online language learning subscriptions via websites and apps is a competitive business, characterized by frequent product introductions as well as rapidly emerging new platforms and technologies. There are a multitude of language learning apps available in the marketplace. We are competing against online and offline language learning offerings. Online language learning providers, such as Duolingo, Rosetta Stone, Busuu and Mondly, are the primary competition in our business with consumers ("**B2C**"), whereas our business with businesses ("**B2B**") is in direct with competition with online as well as traditional language learning providers such as Berlitz and EF. In addition, we may face competition from digital publishers or large technology companies entering the education market with new digital learning solutions, artificial intelligence driven translations, technology tools and learning platforms, some of which may have greater financial, technical, sales, marketing and other resources than we do. Low barriers to market entry allow start-up companies with potentially lower costs and less pressure for short-term profitability to compete with us. As we are already active in multiple foreign markets and plan to further expand our geographic market reach, we will continue to experience competition from local foreign language learning companies that have strong brand recognition and more experience in selling to local consumers as well as a better understanding of local marketing, sales channels and consumer preferences.

Our success will depend on our ability to adapt to these competitive forces, to adapt to technological advances, to develop more advanced products more rapidly than our competitors, to continue to develop an international sales network for our B2B business, to adapt to changing consumer preferences and to educate potential customers about the benefits of using our solutions rather than our competitors' products and services. Existing or new competitors could introduce new products and services with superior features and efficacy at lower prices. This could impair our ability to sell our products and services.

1.1.2 Market adoption of online-based self-learning solutions may not grow as we expect, which may harm our business and results of operations and even if market demand increases, the demand for our platform may not increase.

We believe our future success will depend in part on the growth, if any, in the demand for online-based self-learning solutions by private consumers and companies. It is difficult to predict customer demand for our platform, customer adoption and renewal, the rate at which existing customers expand their engagement with our platform, the size and growth rate of the market for our platform, the entry of competitive products into the market or the success of existing competitive products. Furthermore, even if businesses want to adopt an online-based self-learning solution, it may take them a long time to fully transition to this type of learning solution or they could be delayed due to budget constraints, weakening economic conditions or other factors. Some businesses may also have long-term contracts with existing vendors and cannot switch in the short term. The positive effects that the COVID-19 pandemic has had on the online language learning industry, for the direct to consumer business, may not last and could be reversed after the COVID-19 pandemic.

Even if market demand for online-based self-learning solutions generally increases, we can give no assurance that adoption of our platform will also increase. If the market for online-based self-learning solutions does not grow as we expect or our platform does not achieve widespread adoption, it could result in reduced customer spending and decreased revenue, any of which would adversely affect our business and results of operations.

1.1.3 Demand for paid language learning solutions such as ours could decline if effective language learning solutions become available for free.

Presently, there are a number of advertising supported online language websites offering limited vocabulary lists and grammar explanations and tips as well as free podcasts and videos, games or stories. In addition, there are online services offering limited free lessons and learning tools. Many of these websites offer free language practice opportunities with other language learners. Although we also offer a limited number of free products, such as our podcast, if we cannot successfully attract users of these free products and convert a sufficient portion of these free users into paying customers, our business could be adversely affected. If these or similar free products become more sophisticated and competitive in terms of efficacy or gain widespread acceptance by the public, demand for our paid solutions could decline.

1.1.4 Negative developments in global and local economic conditions in our markets, including the COVID-19 pandemic if it continues, could adversely impact consumer spending.

The success of our business depends to a significant extent upon discretionary consumer spending, which is subject to a number of factors, including general economic conditions, consumer confidence, employment levels, business conditions, interest rates, availability of credit, inflation and taxation. Continued weak economic conditions and further adverse trends in any of these economic indicators may cause consumer spending to decline further, which could hurt our sales and profitability.

Consumer investments into language learning are dependent upon the level of available household income. As a result, our performance could be affected by global and regional economic conditions, which have shown significant volatility in recent years. For example, as a result of the COVID-19 pandemic and the measures taken by various governments to combat its spread, most countries in which we operate fell into recession in 2020. Our starting market Germany, which had seen a long period of stable economic growth since the financial and economic crisis of 2008/2009, reported a 4.9% decline in its gross domestic product (GDP) for 2020 compared to 2019 (source: Destatis). Globally, the ongoing pandemic and related counter-measures will at best continue to dampen the economic prospects of the markets in which we operate. Recessions are generally bad for corporate training expenditure and spending levels of our B2B customers, which dropped significantly during the first months of the COVID-19 pandemic and have not yet returned to pre-COVID-19 growth rates. At the same time, the COVID-19 pandemic contributed to growth in the online language learning industry; this trend may be reversed if and when the COVID-19 pandemic comes to an end or online solutions could benefit and take shares from traditional offline providers. The COVID-19 pandemic has heightened the uncertainties prevailing worldwide and thus also in Germany. A weakening of consumer spending by private households could have a negative impact on the Group’s sales revenues. The exit restrictions imposed by COVID-19 in Germany have also presented the Group with challenges internally in terms of organizing work processes.

In addition, adverse economic developments in the countries in which we generate our sales revenues could adversely affect the collection of accounts receivable from our B2B customers due to deterioration in credit quality or, in respect of our B2C customers, increase the refunds with respect to recently concluded B2C contracts (within 20 days of purchase) and reduce renewal rates (within six weeks of purchase) of our B2C customers. There is also a risk of increased taxes, for the purpose of addressing the extraordinary levels of public spending and public debt related to the COVID-19 pandemic, in some or all of the countries in which we offer our products. Tax increases that lead to increases in the sales prices of our products or the prices of services we purchase or offer or reduce the income available for consumption could also weaken demand for our online language learning products.

If our markets do not develop as anticipated, demand for our products may not increase as currently anticipated. Consequently, we may not be able to recoup the investments made in these markets and may be forced to terminate our operations in selected markets, which could have an adverse material effect on the implementation of our expansion strategy.

1.2 Risks related to Our Business

1.2.1 If we fail to retain existing users or add new users, or if our users decrease their level of engagement with our products, our business, financial condition and results of operations may be materially adversely affected.

We believe that the foundation of our success as an online-based ecosystem for self-learning of foreign languages is to provide our customers with a highly inspiring and successful learning experience. If we fail to offer products in demand by our clients, if we are unable to present such products in an inspiring and attractive way and at competitive prices or if customers regard our didactic concept and the efficacy of our solutions as not entirely convincing or no longer up-to-date, we may be unable to win new customers, may lose existing customers or may be faced with reduced purchase volumes for other parts of the learning ecosystem, such as our live online tutoring classes (Babbel Live).

Demand for our consumer-focused learning subscriptions for foreign languages is subject to rapidly changing consumer demand and trends in consumer preferences. Therefore, our success depends upon our ability to:

- identify, anticipate, understand and respond to these trends in a timely manner;
- introduce appealing new learning experiences and performance features on a timely basis;
- provide appealing solutions that engage our customers;
- adapt and offer our products and services using rapidly evolving, widely varying and complex technologies;
- anticipate and meet consumer demand for additional languages, learning levels and new platforms for delivery;
- effectively position and market our products and services;
- identify and secure cost-effective means of marketing our products to reach the appropriate consumers;
- identify cost-effective distribution channels where interested consumers will experience our products and make a subsequent purchase;
- anticipate and respond to consumer price sensitivity and pricing changes of competitive products; and
- identify and successfully implement ways of building brand loyalty and reputation.

We have made and anticipate having to make investments in new products, such as Babbel Live, in the future and we may incur significant expenses without achieving the anticipated benefits of our investment or preserving our brand and reputation, for example if customers would not use our new products as anticipated. Investments in new products and technology are speculative, the development cycle for products may exceed planned estimates and commercial success depends on many factors, including innovation, developer support, and effective distribution and marketing. Customers might not perceive our latest offerings as providing significant new value and may reduce their purchases of our offerings, unfavorably impacting sales revenues. We might not achieve significant sales revenues from new product and service investments for a number of years, if at all. We also might not be able to develop new solutions or enhancements in time to capture business opportunities or achieve sustainable acceptance in new or existing marketplaces. Furthermore, consumers may defer purchases of our solutions in anticipation of new products or new versions from us or our competitors. A decline in consumer demand for our solutions, or any failure on our part to satisfy such changing consumer preferences, could harm our business and profitability.

1.2.2 We may not be able to maintain or grow our sales revenues or our business.

We experienced significant growth in the past, with sales revenues increasing from € 106.4 million in the fiscal year ended December 31, 2018 to € 147.3 million in the fiscal year ended December 31, 2020, corresponding to a compound annual growth rate ("**CAGR**") of 17.6%. However, there can be no assurance that we will be able to sustain these historic growth levels or that we will continue to experience significant above-market growth or any growth at all. In addition, our growth rate may decline over time as we achieve higher market penetration rates in all markets in which we operate and, therefore, our past growth rates are not indicative of our future growth. Furthermore, our recent growth has been accelerated due to the COVID-19 lockdowns and there can be no assurance that the growth will continue once restrictions related to the COVID-19 pandemic end. To the extent our growth rate slows, our business performance will become increasingly dependent on our ability to achieve economies of scale by, among other things, using our operating leverage and reducing marketing costs in relation to our sales revenues. We have made and are continuing to make investments in optimizing and personalizing our marketing approach. However, there is no assurance that these efforts will be sufficient to grow our sales revenues or business in total or in relation to the costs we incur. If our sales revenues growth slows or if our sales revenues decline, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

1.2.3 We have incurred net losses since our inception and there is no guarantee that we will achieve or maintain profitability in the future.

We are developing and selling online (web- and app-) based language learning subscriptions and we currently conduct active marketing in 16 countries and have business in many more. Although we had slightly positive adjusted cash EBITDA in the fiscal year 2020, our net losses amounted to € 23.6 million, € 3.0 million and € 12.4 million in the fiscal years ended December 31, 2020, 2019 and 2018, respectively. Our losses are primarily attributable to the costs associated with building and growing our business such as sales and marketing as well as research and development expenses. Our business plan is premised on our high brand awareness and our ability to benefit from introducing new learning experiences, expanding into new geographies and further growing our B2B activities segment. Even if we are able to grow our overall business and benefit from economies of scale, there is no guarantee that we will ever become and remain profitable. In addition, we anticipate that we will continue to make investments, including investments aimed at further enhancing the recognition and perception of our brands, entering into new markets, improving our customer experience and further developing our technology platform, infrastructure and learning experiences. If our markets experience disruptive political or economic events or if we fail to implement our business plan, our growth prospects may not materialize, which may negatively affect our profitability or may even force us to cease operating in certain regions or business segments. Our investments may prove more expensive than anticipated and may not yield the desired results. There can be no assurance that we will be able to achieve or maintain profitability in the future. Continued losses would have a material adverse effect on our business, financial condition, results of operations and prospects.

1.2.4 If we are not able to develop new learning experience ecosystem features that respond to the needs of our customers, our business and results of operations would be adversely affected.

We pride ourselves on the quality and efficacy of our learning experience ecosystem. However, we cannot make any assurance that any future features or enhancements that we develop will be successful. The success of any enhancement or new feature depends on several factors, including our understanding of market demand, timely execution, successful introduction and market acceptance. We may not successfully develop new features or enhance our existing learning experience ecosystem to meet customer needs or our new features and enhancements may not achieve adequate acceptance in the market.

Additionally, we may not sufficiently increase our sales revenues to offset the upfront technology, sales and marketing and other expenses we incur in connection with the development of platform features and enhancements. Any of the foregoing may adversely affect our business and results of operations

1.2.5 We may from time to time pursue acquisitions, any of which could result in significant additional expenses, fail to achieve anticipated benefits or fail to be properly integrated.

As part of our business strategy, we may engage in strategic or opportunistic acquisitions of other companies, businesses or assets. Acquisitions involve numerous risks, any of which could harm our business, including but not limited to:

- difficulties in integrating the technologies, operations, existing contracts and personnel of acquired businesses;
- difficulties in supporting and transitioning customers or suppliers of an acquired company;
- diversion of financial and management resources from existing operations or alternative acquisition opportunities;
- failure to realize the anticipated benefits or synergies of a transaction;
- failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance, accounting practices or employee or customer issues;
- risks of entering new markets in which we have limited or no experience;
- potential loss of key employees, customers and suppliers from either our current business or an acquired company's business;
- inability to generate sufficient net revenue to offset acquisition costs;
- additional costs or equity dilution associated with funding the acquisition; and
- potential write-offs or impairment charges relating to acquired businesses.

If, in the context of any future acquisition, we fail to properly assess the merits of the acquisition target, incur costs that later prove to be unjustified, fail to integrate the acquisition into our business properly and in a cost-efficient manner or incur liabilities that prove to be larger than anticipated, it could have a material adverse effect on our business, financial condition and results of operations. Moreover, acquisition targets may be subject to risks or problems which we may not be aware of, which we may not detect or which have not been disclosed to us in the due diligence process. We may learn about such risks or problems only after consummation of the acquisitions or even much later, which could result in costly or ineffective litigation or legal proceedings. Moreover, if we are not successful in completing transactions that we have pursued or may pursue, our business may be adversely affected and we may incur substantial expenses and be compelled to divert significant management time and resources. In addition, in pursuing and completing such transactions, we could use substantial portions of our available cash as all or a portion of the purchase price for these transactions or as retention incentives to employees of the acquired business or we may incur substantial debt. We could also issue additional securities as all or a portion of the purchase price for these transactions or as retention incentives to employees of the acquired business, which could cause our shareholders to suffer significant dilution in the value of their shares. Any transaction may fail to generate additional sales revenues or profit for us or even reduce profit or may take longer to do so than expected, which may adversely affect our business, financial condition, results of operations and cash flows.

1.2.6 Our management team has limited experience managing a public company, and publicly traded company reporting and compliance requirements could divert resources from the day-to-day management of our business.

Our management team has limited experience managing a publicly-traded company and complying with the increasingly complex laws pertaining to public companies. Our management team might not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under applicable laws and regulations. These new obligations will require substantial attention from our senior management and could divert their attention away from the day-to-day management of our business. As a public company, we will be subject to additional reporting requirements. Compliance with these rules and regulations will increase our legal and financial compliance costs and may make some activities more difficult and time-consuming. As a result, management's attention may be diverted from other business concerns and we may be required to hire additional employees or engage outside consultants to comply with these requirements, which would increase our costs and expenses and there is no guarantee that we will be able to recruit skilled employees for key roles to fulfill the requirements of a listed company in a timely manner. Any of these developments, alone or in combination, could have a material adverse effect on our business, financial condition and results of operations.

1.2.7 If our website does not achieve a high ranking in organic search results or our app is removed from app stores, this could reduce traffic to our websites and apps and prevent us from competing successfully.

A significant number of visitors are directed to our website through organic search results generated by search engines such as Google and Bing. There is, however, no guarantee that the algorithms employed by such search engines will continue to rank our website highly, even if we seek to optimize our rankings. If we do not achieve a high ranking for our website, we may need to increase our spending on other forms of marketing or may potentially suffer a significant decrease in traffic to our website and app. In addition, search engines could review the practices which they deem acceptable to optimize search results to our detriment which may force us to adapt our search engine optimization efforts. This may result in our website being less frequently included in search results, which could significantly reduce our ability to attract relevant traffic to our website and app.

Furthermore, for the download of our app, we rely on app stores operated by third parties, in particular Apple and Google, which make apps available for download and facilitate payments made within the app. The structure of these app stores may change and third-party operators may decide to make it harder to find or even exclude our apps from their offering (e.g., if we do not agree to changes in terms and conditions), which may adversely affect the availability of our app. These operators may also charge us fees to list our app for download or otherwise change the pricing policy applicable to revenues generated by apps listed in their app store, which could adversely affect our margins or result in us discontinuing to offer our app through third-party app stores. This risk is further exacerbated by the fact that we generate a portion of our revenues through payment services facilitated by app store operators, in particular Apple and Google.

If Apple Inc. ("**Apple**"), Facebook or Google LLC ("**Google**"), discontinue single sign-on or experience an outage, we may lose and be unable to recover users previously using this function and our user growth and/or engagement could decline.

1.2.8 Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing and our significant investments in marketing may not yield the targeted results.

Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing, including our ability to:

- appropriately and effectively allocate our marketing spend for multiple products;
- offer discounts at the appropriate level, to the appropriate targets and at an appropriate time;

- accurately identify, target and reach our audience of potential customers with our marketing messages;
- select the right marketplace, media and specific media channel in which to advertise;
- identify the most effective and efficient level of spending in each marketplace, media and specific media channel;
- determine the appropriate creative message and media mix for advertising, marketing and promotional expenditures;
- effectively manage marketing costs, including creative and media expenses, in order to maintain acceptable customer acquisition costs;
- differentiate our products;
- create greater awareness of our new products, our brands and learning solutions;
- drive traffic to our website;
- convert test trials (only offered on web) into actual subscriptions; and
- communicate with our users via email.

Our planned marketing may not result in increased sales revenues or generate sufficient levels of product and brand name awareness and we may not be able to increase our revenues at the same rate as we increase our advertising expenditures, which could have a material adverse effect on our business, net assets, financial condition, cash flows and results of operations.

1.2.9 Our business depends on the market recognition of our brand and if we are unable to maintain and enhance brand recognition, our business, financial condition and results of operations may be materially and adversely affected.

We believe that the market recognition of our Babbel brand has significantly contributed to the success of our business and that maintaining and enhancing our brand recognition is critical to sustaining our competitive advantages. Our ability to maintain and enhance brand recognition and reputation depends on the quality and effectiveness of our products. Our branding efforts may not be successful and we may incur significant branding costs. If we are unable to maintain and further enhance our brand recognition and reputation and promote awareness of our platform, we may not be able to maintain our current level of revenues and our results of operations may be materially and adversely affected. Furthermore, any negative publicity relating to our ecosystem could harm our brand image and in turn materially and adversely affect our business and results of operations. The growing use of social media increases the speed at which information and opinions can be shared and, thus, the speed at which reputation can be affected with the result that we become more dependent on good rankings of our platforms (e.g. app store, Trustpilot).

Our reputation as a company that is founded on the fundamental principle of creating mutual understanding through language is critical to our success. If we fail to maintain the high standards on which our reputation is built or if an event occurs that damages this reputation, it could adversely affect customer demand and have a material adverse effect on our business, sales and results of operations. Even the perception of a decrease in the quality of our brand could impact results. Regardless of developments in Babbel's reputation or the value of our brand, public perception that we do not provide quality learning experiences or customer service, even if factually incorrect or based on isolated incidents, could damage our reputation, undermine the trust and credibility we have established and have a negative impact on our ability to attract new or retain existing customers.

1.2.10 Our growth strategy includes growing our B2B business, pursuing new business opportunities, in particular by developing new learning experiences, apps, products, sales formats or services, and entering into new geographic markets and the related investments have the effect of growing our costs and reducing our profitability at least for the near term. These investments may not yield the targeted results.

Our B2B business accounted for 1.1% of our sales revenues in the fiscal year ended December 31, 2020. At the same time, our growth strategy includes a significant expansion of our B2B business and we have made and will make significant investments in this area. A growing proportion of our B2B business may make our performance more vulnerable to economic downturns, as B2B customers tend to have tighter cost controls than B2C customers. In addition, concentration risks are more pronounced in the B2B business, as individual customers often account for a larger share of total sales than individual B2C customers. Within our B2B Business we also rely on third-party providers. Therefore, we depend on their ability to successfully operate their business to serve our customers.

Furthermore, we are constantly making significant investments in the development of new and the optimization of existing products and services. If we choose to invest in our offering, e.g., to include other types of products, or develop any new businesses, apps, websites, promotions, sales formats or services we believe would be compatible with, adjacent to, or complementary to our existing business, there can be no guarantee that any such endeavor will succeed. As a result, we may need to terminate, cancel, close, sell or wind up parts of our business. The success or failure of such new businesses may also be influenced by macroeconomic events such as the COVID-19 pandemic, which led us to suspend our travel-related language learning activities.

As part of our growth strategy we search for opportunities to expand into new geographic markets, including via the purchase of incumbent businesses. We have expanded into additional target geographies in South America and plan to further expand our business especially in Scandinavia and Eastern Europe. We also intend to invest significantly into marketing to expand our presence in the United States of America (the "**United States**" or "**U.S.**"), which may not yield the targeted results. While we have a track record of successful market entries, we need to tailor our offering to the specific circumstances of every new geography. However, we may not be able to reach our strategic goals for these new markets or these markets may prove less attractive than anticipated. If we launch but fail to generate satisfactory returns from any such initiative, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any such initiative that does not yield the targeted result, especially in the case of a termination, could damage our reputation and brand, and any expansion or alteration of our operations could require significant additional expenses and divert management and other resources, which could in turn negatively affect our results of operations.

1.2.11 We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to achieve results or grow effectively.

Our performance is largely dependent on the talents and efforts of highly skilled individuals, in particular didactics specialists and software engineers. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In particular, our success depends on retaining, motivating and hiring personnel for the further technical development of our platform.

We compete with other companies both within and outside of our industry for talented employees and we may lose talented employees or fail to attract, train, and retain other talented employees. Any such loss or failure could adversely affect our product sales, financial condition and results of operations. In addition, we may not be able to locate suitable replacements for certain critical employees who leave, or offer employment to potential replacements on reasonable terms, all of which could adversely affect our product sales, financial condition, and results of operations.

1.2.12 Inability to forecast our business accurately could prevent us from properly planning expenses and process capacity.

We base our current and future expense levels on our forecasts of our business and estimates of future sales revenues. Such future sales revenues and results of operations are difficult to forecast because they generally depend on the volume, timing and type of orders we receive, all of which are uncertain. Seasonal variations in our cash flows, among other things, also increase the difficulty of our financial forecasting and could adversely affect our ability to accurately predict financial results. In addition, our user metrics and other estimates are subject to inherent challenges in measurement and real or perceived inaccuracies in those metrics may seriously harm and negatively impact our reputation and our business. As a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in revenue, which could have a material adverse effect on our financial condition and results of operations.

1.2.13 Failure to maintain the availability of the systems, networks, databases and software required to operate and deliver our internet-based products and services could damage our reputation and cause us to lose sales revenues.

We depend entirely on the functionality, security and stability of our websites and our apps to generate sales revenues. Any interruptions or limitations of the availability of our websites or our app (e.g. due to software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, misuse or power disruptions or inaccessibility to certain disabled customer groups) could negatively affect our customers' access, learning experience and progress, which could lead to a decline in revenue, customer satisfaction and negatively affect our reputation. Lower customer satisfaction and damages to our reputation may negatively impact customer acquisition as well as retention, both of which are pivotal to our success. In addition, interruptions could cause breaches of data security, loss of intellectual property or critical data or the release and misappropriation of sensitive information or otherwise impair our operations. It may become increasingly difficult to maintain and improve the availability of our websites and apps, especially during peak usage times and as our product offering becomes more complex and the number of visitors increases. If we fail to effectively address capacity constraints, adequately respond to disruptions or upgrade our technology platform accordingly, our websites and apps could become unavailable or fail to load quickly and customers may decide to use other platforms and may not return, which would adversely affect our business.

We are dependent on the interoperability of our products with popular mobile operating systems, networks, technologies, products and standards that we do not control, such as the Android and iOS operating systems. Any changes, bugs or technical issues in such systems or changes in our relationships with mobile operating system partners, handset manufacturers or mobile carriers or in their terms of service or policies that degrade our products' functionality, could materially adversely affect the usage of our products on mobile devices. In addition, access to our apps and websites also depends in part on the integrity of data center providers, payment providers, internet transit providers and other communications providers.

We rely on internal and external systems, networks and databases maintained to process customer payments, handle customer service requests, and host and deliver our internet-based learning experiences. Any damage, interruption or failure of our systems, networks and databases could prevent us from processing customer orders and result in degradation or interruptions in delivery of our products and services. Notwithstanding our efforts to protect against interruptions in the availability of our website and internet-based products and services, we do occasionally experience unplanned outages or technical difficulties. In addition, we do not have complete redundancy for all of our systems. In the event of an interruption or system event we may be unable to meet contract service level requirements, or we could experience an unrecoverable loss of data which could cause us to lose customers and could harm our reputation and cause us to face unexpected liabilities and expenses. If we continue to expand our business, we will put additional strains on these systems. Any of the above circumstances or events may harm our reputation and brand, reduce the availability or usage of our platform, lead to a significant short term loss of revenue, increase our costs and impair our ability to attract new users, any of which could adversely affect our business, financial condition and results of operations.

1.2.14 We rely on Amazon Web Services to deliver our offerings to users on our platform and any disruption of or interference with our use of Amazon Web Services could adversely affect our business, financial condition and results of operations.

We currently host our platform and support our operations using Amazon Web Services, or AWS, a third-party provider of cloud infrastructure services. We do not have control over the operations of the facilities of AWS that we use. AWS' facilities are vulnerable to damage or interruption from natural disasters, cybersecurity attacks, terrorist attacks, power outages and similar events or acts of misconduct. Our platform's continuing and uninterrupted performance is critical to our success. We have experienced, and expect that in the future we will experience, interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints. In addition, any changes in AWS' service levels may adversely affect our ability to meet the requirements of users. Since our platform's continuing and uninterrupted performance is critical to our success, sustained or repeated system failures would reduce the attractiveness of our offerings. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times, as we expand and the usage of our offerings increases. Any negative publicity arising from these disruptions could harm our reputation and brand and may adversely affect the usage of our offerings.

Our commercial agreement with AWS will remain in effect until terminated by AWS or us. AWS may terminate the agreement for convenience by giving at least 30 days' advance notice. AWS may also terminate the agreement for cause, for instance, upon a breach of the agreement or for failure to pay amounts due, in each case subject to AWS providing prior written notice and a 30-day remedy period. In the event that our agreement with AWS is terminated or we add additional cloud infrastructure service providers, we may experience significant costs or downtime in connection with the transfer to, or the addition of, new cloud infrastructure service providers. A termination of the agreement may reduce the availability or usage of our platform, lead to a significant short term loss of revenue, increase our costs and impair our ability to attract new users, any of which could adversely affect our business, financial condition and results of operations.

1.2.15 We rely on a limited number of payment providers to process substantially all of our payments.

In our B2C business, we rely on allpago, Apple, Google, Adyen, and PayPal for processing of the majority of our payments. We also rely on third party payment processors, and encryption and authentication technology licensed from third parties, to securely transmit customers' personal information. If these companies become unwilling or unable to provide these services, or increase their fees, our operations may be disrupted and our operating costs could increase. In addition, we may be unable to provide automated online payment processes in all of our markets due to a lack of sophisticated local payment systems.

Furthermore, we face risks relating to customer claims that purchases or payments were not properly authorized or were transmitted in error, as well as risks that customers have insufficient funds and the risk of fraud. While fraud risks are mostly covered through our contracts with payment processing services, any failure to avoid or limit losses from fraudulent transactions could damage our reputation and result in increased legal expenses and fees.

The materialization of any of the risks described above could have a material adverse effect on our business, financial condition, results of operations and prospects.

1.2.16 Our inability to raise capital in the future could harm our business.

In the future, we might need or desire to raise capital through public or private financing or other arrangements. Such financing might not be available on acceptable terms, or at all. Factors that could increase the difficulty of obtaining financing include, but are not necessarily limited to, a deterioration in general economic conditions globally or in the markets in which we operate, higher interest rates, a deterioration in our financial results or condition, insufficient competition among banks or other potential sources of financing, and insufficient demand for securities in the debt or equity capital markets. Any inability to raise capital as needed going forward could harm our business, prevent us from realizing business opportunities, prevent us from growing our business or responding to competitive pressures, and could, thus, have a material adverse effect on our business, financial condition and results of operations.

1.2.17 If we are unable to manage our growth effectively, this could have a material adverse effect on our business, financial condition and results of operations.

The rapid growth of our business to date has placed, and any future growth, in particular our transition to a multiproduct ecosystem, is expected to continue to place, significant demands on our management and our operational and financial processes. Although our technology architecture is completely server-less and freely scalable, the rapid growth puts pressure on our standard systems and internal processes within the company and we will require continued improvements and upgrades of our operational systems to deal with the greater scale and complexity of our operations, in particular our IT systems. Such expansion will require us to commit substantial management, operational and other resources in advance of any increase in the size of the business, with no assurance that our sales revenues and profit will increase accordingly. Continued growth could in particular strain our ability to maintain reliable service levels for our customers, to attract, train, motivate and retain employees and to develop and improve our operational, financial and management controls. Any failure to effectively manage the increasing size and complexity of our business resulting from future growth could have a material adverse effect on our business, financial condition and results of operations.

1.2.18 We are involved in and may pursue strategic relationships. We may have limited control over such relationships and these relationships may not provide the anticipated benefits.

We have partnered with numerous third parties, inter alia by entering into cooperation agreements with other language learning providers, and may pursue and enter into additional strategic relationships in the future by entering into further cooperation agreements or by acquiring shares in third parties. For example, we have partnered with Capeesh A.S. on the field of strategic growth of our B2B customer base by replicating Babbel's online language courses in those language combinations which are not currently supported by our proprietary platform. Current and future strategic relationships involve risks, including but not limited to maintaining good working relationships with the other party, inconsistency of economic or business interests or to fulfill its other commitments – including providing accurate and timely accounting and financial information to us – loss of key personnel, actions taken by our strategic partners that may not be compliant with applicable rules, regulations and laws, reputational concerns regarding our partners or our leadership that may be imputed to us, bankruptcy and related bankruptcy proceedings requiring us to assume all risks and capital requirements related to the relationship. Further, these relationships may not deliver the benefits that were originally anticipated or may harm our own reputation, all of which could have a material adverse effect on our business strategy and results of operations.

1.2.19 Price changes, varying subscription terms, and other concessions could reduce our sales revenue.

We continue to test and offer changes to the pricing of our products. If we reduce our prices in an effort to increase our sales, this could have an adverse impact on our sales revenues to the extent that sales do not increase in a sufficient amount to compensate for the lower pricing. On the other hand, increasing our prices may not result in lasting sales revenues increases, if a significant number of customers turn away from our products because they perceive them as too expensive. Finally, if we leave prices unchanged, we risk not being paid at market levels. Any increase in the taxation of online sales could have the effect of a price increase to consumers and could cause us to have to lower our prices or could cause sales to decline. It is uncertain whether we will need to lower prices to effectively compete and what other short-term or long-term impacts could be.

Additionally, our online and app-based products are sold under different subscription terms. Online and app-based subscription customers could be less likely to renew their subscriptions beyond the initial term. Consequently, we could earn less sales revenues over time from each customer than historically, which could have a substantially negative impact on our revenue, results of operations and cash flow.

1.2.20 We are subject to currency exchange rate risk in the conduct of our business.

Most of our sales revenues are in Euro, which is our reporting currency. However, in the fiscal year ended December 31, 2020, a significant portion of our sales revenues were generated in other currencies, in particular in U.S. dollars. Fluctuations in exchange rates between the Euro and the other currencies in which we do business, in particular U.S. dollars, could materially and adversely affect our results of operations. Profits and losses that could arise from translation exposures from overseas operations are not hedged. Therefore, any strengthening of the Euro against the operational currencies of our subsidiary companies can potentially result in a decrease of our sales revenues as reported in Euro.

1.2.21 Ineffective protection of confidential information might materially weaken our market position.

Our key employees and officers have access to sensitive confidential information relating to our business, especially relating to the functioning of our websites and apps, our proprietary machine learning algorithms and data infrastructure. While we have confidentiality agreements and technical measures in place we cannot assure that third parties or the general public never gain access to such information. Any ineffective protection of such information relating to our business might materially weaken our market position and thus adversely affect our business and operations.

1.2.22 We may incur significant costs related to maintaining data security and in the event of any data security breaches that could compromise our information technology network security, trade secrets and customer data.

As a web-based and app-based provider of language learning experiences, we rely on the secure processing, maintenance and transmission of personal, financial or other information that is entrusted to us or our service providers. This is critical to our operations and business strategy and we devote significant resources to protecting such information. The expenses associated with protecting such information could reduce our operating margins. Additionally, threats to our information technology network security can take a variety of forms. Individual hackers and groups of hackers, and sophisticated organizations or individuals may threaten our information technology network security. Cyber attackers may develop and deploy malicious software to attack our services and gain access to our networks or data centers, hold access to critical systems or information for ransom or act in a coordinated manner to launch distributed denial of service or other coordinated attacks. Cyber threats and attacks are constantly evolving, thereby increasing the difficulty of detecting and successfully implementing measures to defend against them. We may be unable to anticipate potential techniques or implement adequate preventative measures in time. Cyber threats and attacks can have cascading impacts that unfold with increasing speed across internal networks and systems. Breaches of our network, credit card processing information or data security could disrupt the security of our internal systems and business applications, impair our ability to provide services to our customers and protect the privacy of their data, cause product development delays, compromise confidential or technical business information harming our competitive position, result in theft or misuse of our intellectual property or other assets, expose us to contractual or regulatory audit or investigation, require us to allocate additional resources to alternative and potentially more costly technologies more frequently than anticipated or otherwise adversely affect our business.

1.2.23 Dissatisfaction with our customer service could negatively affect our customer retention and the further implementation of our growth strategy.

A satisfied and loyal customer base is crucial to our continued growth. A strong customer service is required to ensure that customer complaints are dealt with in a timely manner and to the customer's satisfaction. Because we do not have the direct face-to-face contact with customers which is afforded through offline customer interactions, the way we directly interact with customers through our customer service team is crucial to maintaining continuous customer relationships. We respond to customer requests and inquiries through e-mail, chat, social media channels, app stores and our toll-free hotline. Any actual or perceived failure or unsatisfactory response by our customer service could negatively affect customer satisfaction and loyalty as well as our reputation. Our inability to retain customers due to a lack of satisfactory customer service could have a material adverse effect on the further implementation of our growth strategy.

1.2.24 We recognize sales revenues from subscriptions to our learning experiences over the terms of these subscriptions. Consequently, increases or decreases in new sales may not be immediately reflected in our results of operations and may be difficult to discern.

We recognize sales revenues from subscriptions to our learning experiences over the terms of these subscriptions. As a result, a portion of the sales revenues we report for any given period is derived from the recognition of deferred income relating to subscriptions entered into during previous periods. Consequently, a decline in new or renewed subscriptions in any single quarter, which can instantly only be recognized in billed sales, may have an immaterial impact on the sales revenues that we recognize for that quarter. However, such a decline will negatively affect our sales revenues in future quarters. Accordingly, the effect of significant downturns in sales and potential changes in our pricing policies or rate of customer expansion or retention may not be fully reflected in our results of operations until future periods. In addition, a significant portion of our costs is expensed as incurred, while sales revenues are recognized over the term of the subscription. As a result, growth in the number of new customers results in an immediate increase in expenses when the customer is acquired whereas the income from such customers, although entirely received at the beginning of a contract, is recognized only over the life of the contract which may result in investors misinterpreting our financial results. Finally, our subscription-based sales revenues model also makes it difficult for us to rapidly increase our sales revenues through additional sales in any period, as sales revenues from new customers or from existing customers who increase their use of our products or upgrade to a higher-priced product must be recognized over the applicable subscription term.

1.2.25 Our sales revenues are subject to seasonal variations, which could cause our financial results to fluctuate significantly.

We have experienced, and we believe we will continue to experience, substantial seasonal variations in our revenue, cash flows and net income. These variations are primarily related to increased sales of our products and services at the beginning of the first and the fourth quarter, in the latter case these are mainly due to special sales events such as Black Friday. Our quarterly results of operations also may fluctuate significantly as a result of a variety of other factors, including the timing of holidays and advertising initiatives, changes in our products, services and advertising initiatives and changes in those of our competitors.

As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our results of operations between different quarters are not necessarily meaningful and that these comparisons are not reliable as indicators of our future performance. In addition, these fluctuations could result in volatility and adversely affect our cash flows. Any seasonal or quarterly fluctuations that we report in the future may differ from the expectations of market analysts and investors, which could cause the price of our common stock to fluctuate significantly.

1.3 Risks related to Regulatory, Legal and Tax Matters

1.3.1 We are subject to a variety of regulations, including but not limited to consumer protection laws, data protection laws, regulations governing online services and competition laws, and future regulations might impose additional requirements and other obligations on our business.

We are subject to a number of laws and regulations applicable to online services, as well as laws and regulations of broader application that apply to our business and to public companies generally. These laws and regulations cover, among other things, consumer protection, data protection, taxation, tariffs, anti-bribery, antitrust, pricing, content, copyrights, trademarks, distribution, mobile, social media and other communication, advertising practices, electronic contracts, sales procedures, credit card processing procedures, the provision of online payment services, environmental protection, unencumbered internet access to our services, the design and operation of websites, and the characteristics and quality of goods and services that are offered online. Furthermore, as the internet continues to revolutionize commercial relationships on a global scale, and as the use of the internet and mobile devices in everyday life becomes ever more prevalent, these laws and regulations continue to evolve at a rapid pace and can differ, or be subject to differing interpretations, from jurisdiction to jurisdiction. Existing and future regulations and laws relating to the internet may impede the growth and availability of the internet and online services, inhibit our ability to grow our business, or adversely affect our business by increasing costs and administrative burdens.

Given the broad variety of applicable rules and their evolving nature, we cannot guarantee that our practices have complied or will comply fully with all applicable laws and regulations. Any failure, actual or perceived, by us or our employees to comply with any of these laws or regulations could result in damage to our reputation and a loss of revenue, and any legal or enforcement action brought against us as a result of actual or alleged non-compliance could further damage our reputation and result in substantially increased legal expenses. Adverse changes in laws or regulations applicable to us could cause us to incur substantial costs or require us to change our business practices, and could compromise our ability to pursue our growth strategy effectively. Any compliance failure may also give rise to civil liability, administrative orders (including injunctive relief), fines or even criminal charges and could result in reputational harm. In addition, various legislative and regulatory bodies, or self-regulatory organizations in the jurisdictions in which we operate, may extend the scope of current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection. For example, the European Commission's Digital Single Market (DSM) initiative is expected to result in additional rules on online services or data protection, information security and privacy, which may increase our compliance costs or affect our business model. Furthermore, the U.S. Federal Trade Commission is looking into so-called deceptive subscription marketing practices, in particular the negative-option billing. It is therefore possible that amended regulations could adversely affect the possibility to provide subscription models with subscriber silence equating to renewal consent. If we were unable to comply with any such new or expanded rules we could be subject to investigations, fines and adverse effects on our reputation.

1.3.2 Non-compliance with data protection laws could result in liability and reputational harm to our business, and adverse changes in the applicable legal framework could increase our operating costs.

As part of our business we process sensitive customer data (including names and email addresses) and therefore must comply with strict data protection and privacy laws. For example, we are subject to German and European laws and regulations on privacy, information security and data protection, the main and most relevant of which relate to the collection, protection and use of personal and business data, including Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("**General Data Protection Regulation**"). The costs of complying with the General Data Protection Regulation are increasing, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place. Any failure to comply with privacy, data protection and information security laws, such as the General Data Protection Regulation, could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions and damage to our reputation.

We also face similar risks in international markets where our services and apps are offered. Foreign data protection, privacy, competition and other laws and regulations can impose different obligations. We are subject to international laws and regulations that dictate whether, how and under what circumstances we can transfer, process and/or receive transnational data that is critical to our operations and ability to provide our products and perform services for our customers, including data relating to users, customers, employees or partners, and those laws and regulations are uncertain and subject to change. Furthermore, the interpretation and application of privacy and data protection laws and regulations are frequently subject to uncertainty and in flux in the U.S. and internationally. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and results of operations. In addition, these laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy or data protection laws are interpreted and applied in a manner that is inconsistent with our current policies and practices, we may be deemed noncompliant, subject to legal or regulatory process, fined or ordered to change our business practices in a manner that could cause use to incur substantial costs or that adversely impacts our business or results of operations.

Privacy related regulations could interfere with our strategy to collect and use personal information as part of our data driven and personalization approach. For example, the use of "cookies" and similar (tracking) technologies, especially for behavioral advertising as well as other tracking and analytics purposes, requires any user's explicit consent. Data protection laws and rules also impose certain standards of protection and safeguarding on our ability to collect and use personal information relating to customers and potential customers. The loss or corruption (or other unauthorized access or disclosure) of personal data may constitute a personal data breach under the General Data Protection Regulation. Unauthorized data disclosure could occur through cyber security breaches as a result of human error, external hacking, malware infection, malicious or accidental user activity, internal security breaches, and physical security breaches due to unauthorized personnel gaining physical access. In the event of such a personal data breach, we could be required to notify applicable government authorities and/or potential victims and could face continued governmental investigations, fines and private claims for compensation from individuals whose personal data was involved. Violations of the General Data Protection Regulation may result in monetary penalties in the higher of up to € 20.0 million or 4% of our worldwide turnover of the preceding fiscal year.

Furthermore, on July 16, 2020, the European Court of Justice issued its opinion in Data Protection Commission v. Facebook Ireland, Schrems, which invalidated the EU-U.S. Privacy Shield framework for data transfers to the United States and greatly increased the legal requirements imposed on data exporters for transfers of personal data to non-EU countries, which are deemed to have an inadequate data protection level compared to the standards imposed in the European Economic Area. Such countries include amongst others the United States. Ensuring compliance with stricter standards requires resources to continuously review and, as necessary, replace, amend or supplement the international data transfer mechanisms which we currently rely on, including standard contractual clauses. The resulting mechanisms and procedures may increase the expenses associated with our overall compliance with personal data protection requirements. Any non-compliance could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions and damage to our reputation.

Changes in the economic or political framework may lead to further changes in these and/or other regulations governing data protection or changed interpretation of existing laws as well as the enactment of stricter laws and regulations governing data protection, which could increase our operating costs due to increased compliance measures.

1.3.3 *The use of open source software could increase our risk that hackers could gain unauthorized access to our systems and we could be subject to litigation if third parties challenge our rights to use such software on an exclusive basis.*

Some of our software and systems contain open source software, which may pose certain risks. The licenses applicable to open source software typically require that the source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. Although we do not intend to use or modify open source software without holding the necessary licenses, we could, however, face claims from third parties alleging the infringement of their intellectual property rights, or demanding the release or licensing of the open source software or derivative works developed by us using such software (which could include our proprietary source code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation, require us to purchase a license, publicly release the affected portions of our source code and limit the licensing of our technologies or cease offering the implicated solutions.

In addition, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide contractual protections with respect to the software. Also, the licensors are not obliged to maintain their software or provide any support. There is a certain risk that the authors of the open source software cease updating and attending to the software. Engineering the software updates by ourselves could be expensive and time-consuming. The use of open source software can also present additional security risks because the source code for open source software is publicly available, which could make it easier for hackers and other third parties to determine how to breach our sites and systems that rely on open source software. Any unauthorized access to our systems as well as third party challenges to our user rights could divert our management's attention from day-to-day tasks, incur significant legal costs and thus have a material adverse effect on our reputation, business and financial condition.

1.3.4 *We use standardized terms and conditions, which increase the potential that all contract terms used therein may be invalid or unenforceable if any clause is held to be void.*

We maintain legal relationships with a large number of customers. In this context, we also use standardized local terms and conditions. If such terms and conditions are found to contain provisions which are disadvantageous to us or are declared invalid and thus displaced by statutory provisions which are unfavorable to us, a large number of standardized terms and conditions could be affected. Additionally, standardized terms under German law must comply with the statutory law on general terms and conditions, which means they are subject to rigid fairness control by the courts regarding their content and the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. The standard is even stricter if they are used vis-à-vis consumers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded or if they are unbalanced or discriminate against the other party inappropriately. Due to the frequent changes to the legal framework, particularly with regard to court decisions relating to general terms and conditions, it is impossible to fully protect oneself against risks from the use of such standardized contractual terms. Even if documents, contracts and terms and conditions are prepared with legal advice, it is impossible for us to avoid problems of this nature from the outset or in the future, as the changes may continue to occur in the legal framework, particularly via case law. This makes it impossible for us to avoid the ensuing legal disadvantages. This could have material adverse effect on our business, financial condition and results of operations.

1.3.5 *Conducting active marketing in currently 16 countries and business in many more requires us to comply with numerous, complex and sometimes conflicting legal and regulatory requirements, which makes compliance more costly and challenging.*

We have a physical presence in Germany and the United States and currently conduct active marketing in 16 countries and have business in many more. We are therefore subject to various laws and regulations of these countries. Many of these laws and regulations are complex and difficult to interpret. Moreover, as we expand our international operations to target customers in additional countries, we will become subject to additional laws and regulatory regimes. The legal and regulatory frameworks governing our business and operations may become increasingly uncertain due to quickly changing laws, contradictory interpretation of laws and regulations, administrative bypassing of legal frameworks or a lack of market precedents upon which we can rely.

Our international business is subject to laws and regulations in many areas, including those governing local employment, privacy, data security, consumer law, telecommunications, online content, intellectual property protection, corporate governance, foreign ownership and foreign investment, tax, finance, money laundering, online payment, anti-corruption and antitrust. These various laws and regulations often evolve and sometimes conflict with each other. Furthermore, operating in foreign jurisdictions entails an inherent risk of misinterpreting and wrongly implementing foreign laws and regulations. While we are not aware of any material breach by us of any applicable laws and regulations, we cannot rule out that we have not been in full compliance with these laws and regulations in the past.

International sanctions may negatively affect our operations. Additionally, some of the tax systems in our countries of operations are very complex and there is no guarantee that the relevant tax authorities agree with the positions we have taken or the tax optimization structures and measures we have used to minimize legal risks, administrative burdens and tax rates. The application of foreign direct investment laws and regulations, license rules and similar rules and regulations is also often unclear. These laws and regulations are subject to multiple interpretations, e.g., by different courts, regulators and other players in the legal community, which may differ from the interpretations to which we have adhered. In other countries, changes in the political or legal climate may impact our use of local currency and local banking. Similarly, we are bound by extended waiting periods and complex and costly administrative approval processes and registration.

As these laws continue to evolve and as we expand into new jurisdictions, our compliance efforts will become more complex and expensive and the risk of non-compliance will increase. Violations of applicable laws and regulations may harm our reputation and result in legal action, criminal and civil sanctions, or administrative fines and penalties against us or members of our governing bodies and our employees. Such violations may also result in damage claims by third parties or other adverse legal consequences, including class action lawsuits and enforcement actions by national and international regulators resulting in the limitation or prohibition of business operations. There is no guarantee that we can successfully manage or avoid any of the legal risks to which we are exposed, and non-compliance with the legal and regulatory frameworks that govern our operations, whether intentional or not, may have material adverse effects on our businesses, including causing us to cease our operations entirely.

1.3.6 The control and prevention mechanisms of our compliance structure might not be sufficient to adequately protect us from all legal or financial risks.

To protect us against legal risks and other potential harm, we have established several compliance programs. These programs and the oversight of our internal compliance and legal departments might not be sufficient to prevent all unauthorized practices, legal infringements, corruption and fraud or other adverse consequences of non-compliance within our organization or by or on behalf of our employees. Any compliance failure could harm our reputation and have a material adverse effect on our business, financial condition, results of operations and prospects.

1.3.7 We may be involved in litigation or other proceedings that could adversely affect our business.

In the ordinary course of our business activities, we are regularly exposed to various litigation, in particular regarding intellectual property disputes, consumer protection matters (including the Data Protection Act, as defined below) and labor disputes. Such litigation is subject to inherent uncertainties, and unfavorable rulings could require us to pay monetary damages or result in an injunction prohibiting us from performing a critical activity (e.g., certain ways of marketing). Even if the legal claims brought against us are without merit, defending such claims could be time-consuming and expensive, and could divert management’s attention from other business concerns, and we may decide to settle such claims, which could prove expensive.

1.3.8 We might be unable to adequately protect our intellectual property rights, in particular the technology underlying our products.

We believe our customer data, copyrights, trade secrets, proprietary technology and similar intellectual property are critical to our success, and we rely on trademark, copyright and trade secret protection, license agreements and other methods with our employees and others to protect our proprietary rights. We might not be able to obtain effective intellectual property protection in every country in which we are active or in which such protection is relevant, and our efforts to protect our intellectual property could require the expenditure of significant financial, managerial and operational resources. Any of our intellectual property rights could be challenged or invalidated through administrative processes or litigation, and we cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or intellectual property rights.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may not be able to discover or determine the extent of any infringement, misappropriation or other violation of our intellectual property rights and other proprietary rights. We may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights or proprietary rights or to establish the validity of such rights. Despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights and other proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel. The realization of any of such risks, alone or in combination, could have a material adverse effect on our business, financial condition and results of operations.

1.3.9 Any inability to acquire, use or maintain our local trademarks and domain names for our sites could substantially harm our business, financial condition and results of operations.

We are the registrant of the Babbel trademark as well as the trademarks of our apps and websites in numerous jurisdictions and have also registered various internet domain names containing e.g., our brand names for our websites combined with the relevant top level domain in those jurisdictions in which we are active, e.g., www.babbel.com. As we seek to register our trademarks in new jurisdictions, we may encounter opposition which may hinder our ability to continue to register our trademarks as desired. We have also registered selected internet domain names for some of our proprietary brands.

Furthermore, the regulations governing domain names and laws protecting marks and similar proprietary rights could change in ways that block or interfere with our ability to use relevant domains. In addition, we might not be able to prevent third parties from registering, using or retaining domain names that interfere with our consumer communications or infringe or otherwise decrease the value of our marks, domain names and other proprietary rights. Regulatory bodies may establish additional generic or country-code top-level domains or may allow modifications of the requirements for registering, holding or using domain names. As a result, we might not be able to register, use or maintain the domain names that utilize our brand names in all of the countries in which we currently conduct business or intend to conduct business in the future, which, alone or in combination with the above risks, could have a material adverse effect on the further implementation and expansion of our business.

1.3.10 Third parties might accuse us of infringing their intellectual property rights.

An important aspect of our industry is the vigorous protection and pursuit of intellectual property rights. We might be subject to litigation and disputes related to our intellectual property rights and technology in the future, as well as disputes related to intellectual property and our product offerings. The costs of defending against such actions can be high, and there is no guarantee that such defenses will be successful. In addition, as our business expands and the number of competitors in our market might increase, infringement claims against us could increase in number and significance. Legal claims regarding intellectual property rights are subject to inherent uncertainties due to the oftentimes complex issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims. Many potential litigants have the ability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. If successful, a claimant could secure a judgment against us for substantial damages or prevent us from conducting our business as we have historically done so or may desire to do so in the future. We could also be required to seek additional licenses or pay royalties for the use of the intellectual property we need to conduct our business, which might not be available on commercially acceptable terms or at all. Alternatively, we may be forced to develop non-infringing technology or intellectual property on a proprietary basis, which could be expensive and/or unsuccessful. In addition, some of our software and systems contain open source software. Open source licenses generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Thus, we may have little or no recourse if we become subject to infringement claims relating to the open source software or if the open source software is defective in any manner. The materialization of any of the above risks could have a material adverse effect on our business, financial condition and results of operations.

1.3.11 Changes in tax treatment of companies engaged in online services in the jurisdictions in which we operate could adversely affect our financial results.

Our business is subject to the general tax environments in the countries in which we operate. An increase in the taxation of online sales could result in reduced online purchases or reduced margins on such sales. Changes in tax legislation or case law, especially with regards to transnational online services activities, – which might be applied retroactively – could increase our tax burden. Since 2017, the G20/OECD Inclusive Framework has been working on addressing the tax challenges arising from the digitalization of the economy and has proposed a two-pillar tax approach with pillar one referring to the re-allocation of taxing rights, addressing issues such as where tax should be paid and on what basis (i.e., where sustained and significant business is conducted, regardless of a physical presence), and pillar two ensuring a minimum tax to be paid by multinational enterprises. The G20/OECD Inclusive Framework issued a statement on July 1, 2021 according to which members of the G20/OECD Inclusive Framework have agreed a two-pillar solution to address the tax challenges arising from the digitalization of the economy. An agreement on the approach presented, and its implementation into respective domestic law, could have material adverse effects for us as a digital and multinational enterprise with regards to our tax obligations.

Changes in tax treatment of companies engaged in online services in the jurisdictions in which we operate could adversely affect our financial results. For example, some jurisdictions in which we operate our business (e.g., Italy) have introduced new local taxes on transnational online services activities ("digital services taxes" or "**DST**"). These DST generally aim at securing taxation rights of the jurisdiction for the revenues / profits generated by the transnational online services activities with customers who are resident in this specific jurisdiction. We have established a process to assess on a regular (i.e., quarterly) basis whether or not our revenues / profits are subject to these DST. For 2020, it was concluded that there should be no such DST liability but there is a general risk that new local DST will be introduced or that the existing DST will be applied differently with the result that this could adversely affect our tax liability. We also monitor but cannot always predict in advance the effect of current attempts to impose sales, income or other taxes on online services. New or revised taxes – e.g., sales taxes, value-added tax ("**VAT**") and similar taxes – would likely increase the cost of doing business online and decrease the attractiveness of advertising and selling products over the internet. New taxes could also lead to significant increases in internal costs necessary to capture data and collect and remit taxes.

Additionally, tax laws may be interpreted differently by the competent tax authorities and courts, and their interpretations may change at any time, which could lead to an increase of our tax burden. Accordingly, we may face unforeseen tax claims in such countries. Moreover, legislators and tax authorities may change territoriality rules or their interpretation for the application of VAT on cross-border services, which may lead to significant additional payments for past and future periods. In addition, court decisions are sometimes ignored by competent tax authorities or overruled by higher courts, which could lead to higher legal and tax advisory costs and create significant uncertainty. New taxes could also result in additional costs necessary to collect the data required to assess these taxes and to remit them to the relevant tax authorities. Besides this, the documentation obligations under applicable VAT and VAT-related laws are considerable. Overall, it cannot be ruled out that the competent tax authorities may interpret the tax law (now or in the future) in a way that suggests that we may not fully comply, or, as the case may be, may have not fully complied with applicable VAT regulations throughout all phases of their development.

Taxes actually assessed in future tax audits for periods not yet covered by our last tax audit may exceed the taxes already paid by us. As a result, we may be required to make significant additional tax payments with respect to previous periods. Furthermore, the competent tax authorities could revise their original tax assessments (for example, with respect to the recognition of invoiced VAT). Any tax assessments that deviate from our expectations could lead to an increase in our tax burden. In addition, we may be required to pay interest on these additional taxes as well as late filing penalties. Furthermore, we have carried out reorganizations of the Group structure, and there is a risk that any such restructuring could attract additional tax scrutiny or result in unexpected or expected tax leakage despite our best efforts to avoid such negative tax consequences (e.g., obtain tax advisory services by reputable consultants who confirmed the tax neutrality of the group structure reorganizations).

Any of these events occurring could, alone or in combination, have a material adverse effect on our business, financial condition, results of operations and prospects.

1.3.12 We might be exposed to tax risks resulting from deviating interpretations of applicable tax laws by the tax authorities or adverse amendments to current legislation.

We are audited by the tax authorities regularly. All German tax assessment notices for the periods following the fiscal year ended December 31, 2018 are still preliminary and potentially subject to change by the tax authorities. While we believe our interpretations of tax laws and our estimates are reasonable and while no significant additional tax payments are expected to be incurred by the German entities as a result of this tax audit, the final outcome of tax audits for the periods following the fiscal year ended December 31, 2018 could be materially different from what is reflected in our financial statements included elsewhere in this prospectus. As a result, the tax authorities could revise original tax assessments (e.g., by refusing to recognize our entitlement to recover invoiced VAT) which might materially increase the tax burden (including interest and penalty payments) of the relevant entities of the group for fiscal years following the fiscal year ended December 31, 2018. Similar risks exist with respect to tax audits of our subsidiary Babbel Inc.

Due to our operations in various jurisdictions, we are exposed to various tax risks, including risks based on transfer pricing rules which apply to cross-border relationships. Pursuant to such transfer pricing rules, related enterprises are required to conduct any inter-company transactions on terms which would also apply among unrelated third parties concluding comparable agreements (so-called 'arm's length principle') and to sufficiently document the relevant transactions. It cannot be excluded that one or more tax authorities might not agree with, and thus challenge the cross-jurisdictional transfer pricing model we implemented. For example, our documentation may be considered to be insufficient by the relevant tax authorities or transfer prices may be considered to be inadequate or inadequately justified. This may result in double taxation in two or more jurisdictions and penalties. Moreover, transfer pricing risks may increase in the future in case our intra-group cross-border business grows or changes or if tax authorities change their interpretation of applicable transfer pricing rules.

Furthermore, our business is subject to the general tax environment in the countries in which we operate. Changes in tax legislation, administrative practice or case law or treatments of tax facts by the relevant tax authorities which deviate from our assessments could result in a higher tax burden. The realization of any of these risks, alone or in combination, may have adverse effects on our business, financial condition and results of operations.

1.3.13 We might be subject to fines and follow-on claims for damages in relation to alleged or actual anticompetitive behavior.

We might become the subject of investigations by competition authorities and might be exposed to fines imposed by such authorities and follow-on claims for damages raised against us by third parties. The amount of any such fines and follow-on claims for damages could be substantial. We monitor our compliance with competition laws on a regular basis. However, future investigations could reveal actual or potential non-compliance with competition laws. In addition, alleged or actual anti-competitive behavior might seriously disrupt business relationships with business partners. The realization of any of these risks relating to our alleged or actual anticompetitive behavior, alone or in combination, could have a material adverse effect on our business, financial condition and results of operations.

1.4 Risks Related to Our Shares and the Offering

1.4.1 Future sales by the Existing Shareholders could depress the price of our shares.

Sales of a substantial number of the Company's shares in the public market following the successful completion of the Offering, or the perception that such sales might occur, could depress the market price of the Company's shares and could impair our ability to raise capital through the sale of additional equity securities. If, for example, our Existing Shareholders or one or more other shareholders of the Company effect a sale or sales of a substantial number of our shares in the stock market, or if the market believes that such sales might take place, the market price of our shares could decline. KIZOO Technology Capital GmbH, Nokia Growth Partners III, L.P., The Reed Elsevier Ventures 2013 Partnership L.P., SEP IV LP, VC Fonds Berlin GmbH and VC Fonds Technologie Berlin GmbH have agreed not to sell any shares during the first 180 days following the IPO. Lorenz Heine, Markus Witte, Thomas Holl and Toine Roger Martin Diepstraten have agreed not to sell any shares during the first 360 days following the IPO. Although the Existing Shareholders entered into a coordinated sell-down agreement which is aimed at ensuring that disposals of Shares by the Existing Shareholders may be coordinated and conducted in an orderly manner, once the lock-up ends, the likelihood that Existing Shareholders may sell their shares will increase. Additionally, speculation around such sales could negatively affect the stock price of our shares around the lock-up end date.

1.4.2 Our shares have not previously been publicly traded, and there is no guarantee that an active and liquid market for our shares will develop.

Prior to the Offering, there has been no public trading market for our shares. The price per share placed in the Offering (the "**Offer Price**") is being determined by way of a bookbuilding process. There is no guarantee that this Offer Price will correspond to the price at which the Company's shares will be traded on the stock exchange after the Offering or that, following the Listing, an active trading in our shares will develop or be maintained. The failure to develop or maintain an active trading may affect the liquidity of our shares and we cannot ensure that the market price of our shares will not decline below the Offer Price. Consequently, investors may not be in a position to sell their shares in the Company quickly or at or above the Offer Price.

1.4.3 We may fail to comply with the additional requirements that will be applicable to us following the Listing, including requirements relating to corporate governance, listing standards and timely reporting as well as securities and investor relations issues.

Following the Listing, the Company will for the first time be subject to the legal requirements of a company listed on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), including requirements relating to corporate governance, listing standards and timely reporting as well as securities and investor relations issues. We will have to implement the necessary changes to our internal control systems and there is no guarantee that we will be able to comply with these additional requirements without difficulties and inefficiencies and any violations could cause us to incur significant additional costs and/or expose us to regulatory or civil litigation or penalties.

1.4.4 Our share price could fluctuate significantly, and investors could lose all or part of their investment.

Following the Offering, our share price will be affected primarily by the supply and demand for our shares and could fluctuate significantly in response to numerous factors, many of which are beyond our control, including, but not limited to, fluctuations in actual or projected results of operations, changes in projected earnings or failure to meet securities analysts' earnings expectations, the absence of analyst coverage on our company, changes in trading volumes in our shares, changes in macroeconomic conditions, the activities of competitors and suppliers, changes in the market valuations of similar companies, changes in investor and analyst perception in our Company or our industry, changes in the statutory framework in which we operate and other factors, and can therefore be subject to substantial fluctuations. In addition, general market conditions and fluctuations of share prices and trading volumes generally could lead to pricing pressures on our shares, even though there may not be a reason for this based on our business performance or earnings outlook. The Company's share price may be affected by general stock market plunges, as was seen several times in 2020 as a reaction to new developments in relation to the COVID-19 pandemic, and other factors. Public perception of the Company as an internet, online services or technology company could result in our share price moving in line with the prices of other shares in companies of this nature, which have traditionally tended to be more volatile than the share prices of companies operating in other industries. If our share price or the trading volume in our shares decline as a result of the materialization of any or all of these events, investors could lose part or all of their investment in our shares.

1.4.5 Future offerings of debt or equity securities by us could adversely affect the market price of our shares, and future capitalization measures could substantially dilute the interests of our then existing shareholders.

We may require additional capital in the future to finance our business operations and growth. We may seek to raise capital through offerings of debt securities (potentially including convertible debt securities) or additional equity securities. An issuance of additional equity securities or securities containing a right to convert into equity, such as convertible debentures and option debentures, could potentially reduce the market price of our shares and would dilute the economic and voting rights of our then existing shareholders if made without granting subscription rights to our then existing shareholders. As the timing and nature of any future offering would depend on market conditions at the time of such an offering, we cannot predict or estimate the amount, timing or nature of future offerings. In addition, the acquisition of other companies or investments in companies in exchange for newly issued shares of the Company, as well as the exercise of stock options by our employees in the context of the existing and possible future stock option programs or the issuance of the Company's shares to employees in the context of possible future employee stock participation programs, could lead to a dilution of the economic and voting rights of our then existing shareholders. Our shareholders thus bear the risk that such future offerings could reduce the market price of our shares and/or dilute their shareholdings.

1.4.6 The Company may not be able to or may decide not to pay dividends and the size of any dividend payments may fluctuate.

Under German corporate law, dividends may only be distributed from the distributable profit (*Bilanzgewinn*) of a Company. The distributable profit is calculated based on our unconsolidated financial statements prepared in accordance with German generally accepted accounting principles of the German Commercial Code (*Handelsgesetzbuch*, "**HGB**"). Such accounting principles differ from IFRS, in material respects.

Our ability to pay dividends therefore depends upon the availability of sufficient distributable profits. Additionally, the size of any dividend payment may fluctuate due to changes in the distributable profits. Any determination to pay dividends in the future will be at the discretion of our management board and will depend upon our results of operations, financial condition, contractual restrictions, including restrictions imposed by existing or future financing agreements, restrictions imposed by applicable laws and other factors management deems relevant. Consequently, we may not be able to or may decide not to pay dividends in the foreseeable future, or at all.

1.4.7 Claims of holders of shares in the Company are subordinated to claims by all other third parties, including creditors, employees and debt investors, so that shareholders may not be able to recover parts or all of their investments in case of an insolvency of the Company.

In case of an insolvency of the Company, investments in the Company's shares are not secured by collateral and the claims of shareholders are subordinated to claims by all other third parties, including creditors, employees and debt investors. This means that only after the claims of other third parties have been paid, any remaining assets may be distributed to shareholders. Accordingly, in case of an insolvency of the Company it is highly likely that investors will lose a significant part or all of their investment.

1.4.8 The Company is a holding company with no cash generating business operations of its own and relies on operating subsidiaries to provide the Company with the funds required to make dividend payments.

The Company is a holding company with no material business operations of its own. The principal assets of the Company are its direct and indirect equity interests in the operating subsidiaries of Babbel. As a result, the Company is dependent on loans, dividends and other payments from these subsidiaries in order to generate the funds required to meet the Company's financial obligations and make dividend payments, if any.

The ability of the Company's subsidiaries to make distributions and other payments to the Company in turn depends on the subsidiaries' earnings and is subject to contractual and statutory limitations. As a shareholder in its subsidiaries, the Company's right to receive assets upon liquidation or reorganization of such subsidiaries will be effectively subordinated to the claims of their respective creditors. Even if the Company is recognized as a creditor of its subsidiaries, the Company's claims will still be subordinated to any security interests that are senior to the Company's claims.

If the Company does not receive sufficient distributions and other payments from its direct and indirect subsidiaries, it may be unable to meet its financial obligations and make dividend payments.

2. GENERAL INFORMATION

2.1 Responsibility statement

Babbel Group AG, a German stock corporation (*Aktiengesellschaft* or *AG*), with its registered seat in Berlin, Germany, and its business address at Andreasstraße 72, 10243 Berlin, Germany, with the legal entity identifier ("**LEI**") 391200OICV5ACZA8Z633 (the "**Company**" and, together with its consolidated subsidiaries, "**Babbel**", "**Babbel Group**", "**we**", "**us**", "**our**" or "**ourselves**"), registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Charlottenburg, Germany, (the "**Commercial Register**"), under docket number HRB 228641, telephone +49 30 568373836, together with BNP PARIBAS, 16, boulevard des Italians, 75009 Paris, France, LEI: R0MUWSFPU8MPRO8K5P83 ("**BNP PARIBAS**") and Morgan Stanley Europe SE, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany, LEI: 54930056FHWP7GIWYY08 ("**Morgan Stanley**", together with BNP PARIBAS, the "**Joint Global Coordinators**"), Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20254 Hamburg, Germany, LEI: 529900UC2OD7II24Z667 ("**Berenberg**") and Citigroup Global Markets Europe AG, Reuterweg 16, 60323 Frankfurt am Main, Germany, LEI: 6TJCK1B7E7UTXP528Y04 ("**Citigroup**", and together with Berenberg and the Joint Global Coordinators, the "**Joint Bookrunners**" and "**Underwriters**") have assumed responsibility for the contents of this prospectus (the "**Prospectus**") pursuant to Section 8 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) in conjunction with Article 11 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, as amended (the "**Prospectus Regulation**"), and declare that, to the best of their knowledge, the information contained in the prospectus is in accordance with the facts and that the prospectus makes no omission likely to affect its import.

Neither the Company nor the Underwriters are required by law to update the Prospectus subsequent to the date hereof, except in accordance with Article 23 Prospectus Regulation, which stipulates, among other things, that every significant new factor, material mistake or material inaccuracy relating to the information included in a prospectus which may affect the assessment of the securities and which arises or is noted after approval of the prospectus and before closing of the offer period or when trading on a regulated market begins, whichever occurs later, shall be disclosed in a supplement to the prospectus without undue delay.

This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**"), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany (telephone +49 228 4108 0; Website: www.bafin.de), as competent authority under Regulation (EU) 2017/1129. BaFin only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129 and such approval should not be considered as an endorsement of the issuer or the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

The Company's website is www.babbel.com. Information contained on the Company's website is not incorporated by reference in this Prospectus and is not part of this Prospectus.

If any claims are asserted before a court of law based on the information contained in this Prospectus, the investor appearing as plaintiff may have to bear the costs of translating this Prospectus prior to the commencement of the court proceedings pursuant to the national legislation of the member states of the European Economic Area.

2.2 Validity of this Prospectus

The validity of this Prospectus will expire with the closing of the Offer Period, as defined below, or with the beginning of the trading of the Company's shares on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), whichever occurs later. The closing of the offer period is expected to occur on September 22, 2021 and the time when trading on a regulated market begins is expected to occur on September 24, 2021 and no obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will apply when this Prospectus is no longer valid.

2.3 Purpose of this Prospectus

This Prospectus relates to the offering of 12,994,997 bearer shares of the Company with no-par value (*Stückaktien*), each such share representing a notional value of € 1.00 (the "**Offering**"), comprising:

- 7,300,000 newly issued bearer shares with no-par value (*Stückaktien*) from a capital increase against cash contributions (the "**IPO Capital Increase**") expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021 (the "**New Shares**"); and

- 4,000,000 existing bearer shares with no-par value (*Stückaktien*) (the "**Existing Offer Shares**" and, together with the New Shares, the "**Base Shares**") from the holdings of Lorenz Heine, Markus Witte, Thomas Holl, Toine Roger Martin Diepstraten (Messrs. Heine, Witte, Holl and Diepstraten, the "**Founder Shareholders**"), KIZOO Technology Capital GmbH ("**KIZOO**"), Nokia Growth Partners III, L.P. ("**Nokia**"), The Reed Elsevier Ventures 2013 Partnership L.P. ("**Reed Elsevier**"), SEP IV LP ("**SEP**"), VC Fonds Berlin GmbH ("**VC Fonds I**"), VC Fonds Technologie Berlin GmbH ("**VC Fonds II**" and, together Kizoo, Nokia, Reed Elsevier, SEP and VC Fonds I, the "**Investor Shareholders**" and, together with the Founder Shareholders, the "**Existing Shareholders**"), and
- 1,694,997 existing bearer shares with no-par value (*Stückaktien*) from the holdings of the Investor Shareholders (in such role, the "**Lending Shareholders**") in connection with a possible over-allotment (the "**Over-Allotment Shares**" and, together with the Base Shares, the "**Offer Shares**").

For the admission to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) of

- 7,300,000 New Shares; and
- 37,873,913 existing bearer shares with no-par value (*Stückaktien*) (existing share capital) (the "**Existing Shares**") of the Company;

the Offering consists of an initial public offering in the Federal Republic of Germany ("**Germany**") and private placements in certain jurisdictions outside Germany. In the United States, the Offer Shares will be offered and sold only to qualified institutional buyers as defined in Rule 144A under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Outside the U.S., the Offer Shares will be offered and sold only in offshore transactions in reliance on Regulation S under the Securities Act.

As part of the Offering, the Offer Shares are being offered by the Company and the Underwriters. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any Shares offered by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

2.4 Forward-looking statements

This Prospectus contains forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. This applies, in particular, to statements in this Prospectus containing information on Babbel's future earnings capacity, plans and expectations regarding its business growth and profitability, and the general economic conditions to which it is exposed. In some cases, forward-looking statements can be identified by the use of forward-looking terminology or subjective assessments, which may include words such as "anticipate", "believe", "contemplate", "continue", "could", "expect", "intend", "plan", "potential", "predict", "project", "should", "target" and "would" or the negative of these words or other similar terms or expressions.

The forward-looking statements in this Prospectus are subject to uncertainties, as they relate to future events, and are based on estimates and assessments made to the best of the Company's present knowledge. These forward-looking statements are based on assumptions, uncertainties and other factors, the occurrence or non-occurrence of which could cause Babbel's actual results, including its financial condition and profitability, to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. These expressions can be found in several sections in this Prospectus, particularly in the sections of this Prospectus describing markets and competition, the Company's business and recent developments and outlook, and wherever information is contained in this Prospectus regarding the Company's intentions, beliefs, or current expectations relating to its future financial condition and results of operations, plans, liquidity, business outlook, growth, strategy and profitability, as well as the economic and regulatory environment to which Babbel is subject. Forward-looking statements should not be relied upon as predictions of future events.

In light of these uncertainties and assumptions, it is also possible that the future events mentioned in this Prospectus might not occur. In addition, the forward-looking estimates and forecasts reproduced in this Prospectus from third-party reports could prove to be inaccurate (for more information on the third-party sources used in this Prospectus, see "*2.5 Third-party sources*"). This list of important factors is not exhaustive. The foregoing factors and other uncertainties and events should be carefully considered, especially in light of the regulatory, political, economic, social and legal environment in which Babbel operates.

Moreover, it should be noted that neither the Company nor the Underwriters assume any obligation, except as required by law, to update any forward-looking statement or to conform any such statement to actual events or developments. The Company may not actually achieve the plans, intentions or expectations disclosed in the forward-looking statements, and one should not place undue reliance on these forward-looking statements. These forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

2.5 Third-party sources

To the extent not otherwise indicated, the information contained in this Prospectus on the markets in which Babbel operates and market and industry developments and trends, including growth rates, are based on the Company's assessments and estimates, using underlying data from independent third parties.

In April 2021, Babbel Group commissioned an independent market study from OC&C Strategy and Analytics GmbH, Germany ("**OC&C**"), on the language learning market, titled "*Digital Language Market Study*" (the "**OC&C Report**"). The OC&C Report is not an expert report within the meaning of Item 1.3 of Annex I of Commission Delegated Regulation (EU) 2019/980 of March 14, 2019. Neither the Company nor the Underwriters have verified any of the market data or other information included in the OC&C Report, nor have they asked OC&C to modify or otherwise adjust the OC&C Report. Upon request of OC&C, the Company did, however, deliver certain factual information to OC&C and the Company has discussed the underlying assumptions of the OC&C Report with OC&C.

The Company obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications or commissioned reports, including reports, publications and data compiled by:

- Destatis, press release number 081, February 24, 2021. Gross domestic product: detailed results on the economic performance in the 4th quarter of 2020, available at: https://www.destatis.de/EN/Press/2021/02/PE21_081_81.html ("**Destatis**");
- HolonIQ Pty Ltd ("**HolonIQ**"), May 11, 2021. $60B D2C language learning market to double by 2025, led by digital delivering 3X growth, available at: https://www.holoniq.com/notes/60b-d2c-language-learning-market-to-double-by-2025-led-by-digital-delivering-3x-growth/ (the "**HolonIQ Study**");
- Mendes de Oliveira, Milene & Sporn, Zachary & Kliemann, Lea & Borschke, Alexandra & Meyering, Meike (2021). The impact of Babbel's virtual-classroom solution on workplace communication, available at: https://press.babbel.com/shared/downloads/studies_research/The%20impact%20of%20Babbel's%20virtual-classroom%20solution%20on%20workplace%20communication.pdf ("**The 2021 Babbel/University of Potsdam Study**");
- The OC&C Report, available at https://www.occstrategy.com/en/our-insights/our-insight/id/6532/digital-language-market-study; and
- Vesselinov, R., & Grego, J. (2016, September). The Babbel Efficacy Study (Rep.), available at: https://press.babbel.com/en/releases/downloads/Babbel-Efficacy-Study.pdf ("**The 2016 Babbel Efficacy Study**").

It should be noted in particular that references have been made in this Prospectus to information concerning markets and market trends. Such information was obtained from the above-mentioned sources. The Company has accurately reproduced such information and, as far as it is aware and able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. For example, market studies are often based on information or assumptions that may be inaccurate or inappropriate, and their methodology is inherently predictive and speculative.

Without limiting the assumption of responsibility for the content of this Prospectus by the Company and the Underwriters (see "*2.1 Responsibility statement*") and the statements contained in the preceding paragraph, neither the Company nor the Underwriters have independently verified the figures, market data or other information on which third parties have based their studies. Accordingly, the Company and the Underwriters make no representation or warranty as to the accuracy, completeness or verification of any such information from third party studies included in this Prospectus. Prospective investors should note that the Company's own estimates and statements of opinion and belief are not always based on studies of third parties. None of the Company, the Existing Shareholders or the Underwriters, or any of their respective affiliates, is making any representation to any offeree or purchaser of any Shares regarding the legality of an investment in the Shares by such offeree or purchaser.

Information contained on any website mentioned in this Prospectus is not incorporated by reference in this Prospectus and is not part of this Prospectus.

2.6 Documents Available for Inspection

For the period during which this Prospectus remains valid, the following documents will be available for inspection on the Company's website (www.babbel.com):

- the Company's articles of association (the "**Articles of Association**");
- Babbel GmbH's unaudited condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2021, with comparative figures for the six-month period ended June 30, 2020, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**IFRS**") applicable to interim financial reporting (IAS 34) (the "**Unaudited Condensed Consolidated Interim Financial Statements**");
- Babbel GmbH's audited consolidated financial statements prepared in accordance with the IFRS, and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB, for the fiscal years ended December 31, 2020, December 31, 2019 as amended, and December 31, 2018, (the "**Audited Consolidated Financial Statements**");
- Babbel GmbH's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2020 prepared in accordance with HGB;
- the Company's audited unconsolidated financial statements as of June 30, 2021 and for the period from April 19, 2021 until June 30, 2021 prepared in accordance with IFRS (together with the Audited Consolidated Financial Statements and Babbel GmbH's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2020 prepared in accordance with HGB, the "**Audited Financial Statements**").

After preparation and completion of the audit of the 2019 Audited Consolidated Financial Statements, and after the issuance of PwC's auditor's report thereon, the executive directors made amendments to the consolidated financial statements as of and for the fiscal year ended December 31, 2019. These amendments were subject to a supplementary audit. The auditor's report issued on the 2019 Audited Consolidated Financial Statements contains an additional note on a supplementary audit. PwC issued this auditor's report on the amended consolidated financial statements on the basis of the audit, duly completed as at June 5, 2020, and the supplementary audit completed as at June 17, 2021, related to the amendment of the disclosure of rental deposits in the "Cash and cash equivalents" and "Other financial assets" line items in the consolidated financial statements and the related disclosures in the notes of the consolidated balance sheet and the resulting amendment to the consolidated cash flow statement and to the corresponding disclosures in the consolidated financial statements, as well as to the amendment to the disclosures of related persons/entities and leasing arrangements in the notes to the consolidated financial statements. We refer to the presentation of the amendment by the executive directors in the amended notes to the consolidated financial statements, section V.A.2. "Amendments to the consolidated financial statements 2019".

The Company's future consolidated financial statements, unconsolidated financial statements and condensed consolidated interim financial statements will be available from the Company on its website and the paying agent designated in this Prospectus (see "*14.8 Announcements, paying agent*"). The Company's consolidated and unconsolidated financial statements will also be published in the German Federal Gazette (*Bundesanzeiger*).

Information on the Company's website www.babbel.com and information accessible via this website is neither part of, nor incorporated by reference into, this Prospectus, and such information has not been scrutinized or approved by BaFin.

2.7 Time Specifications

References to "**CET**" or "**CEST**" in this Prospectus refer to Central European Time or Central European Summertime, as the case may be. References to time in this Prospectus refer to CET, unless stated otherwise.

2.8 Presentation of Currency and Figures

In this Prospectus, "**euro**", "**EUR**" and "**€**" refer to the single European currency adopted by certain participating member states of the European Union ("**EU**"), including Germany.

Where financial information in the tables included this Prospectus is labeled "audited", this means that it has been taken from the Audited Financial Statements. The label "unaudited" indicates financial information was not taken, but derived from the Audited Financial Statements, taken from the Unaudited Condensed Consolidated Interim

Financial Statements, the accounting records or internal reporting system of the Group, or is based on calculations of figures from the aforementioned sources.

Unless indicated otherwise, all financial information presented in the text and tables included in this Prospectus is shown in millions of Euro (in € million). Certain financial information, including percentages, has been rounded according to established commercial standards. As a result, rounded figures in the tables included in this Prospectus may not add up to the aggregate amounts in such tables (sum totals or subtotals), which are calculated based on unrounded figures. Furthermore, differences and ratios are calculated based on rounded figures and may therefore deviate from differences or ratios calculated based on unrounded figures appearing elsewhere in this Prospectus.

Financial information presented in parentheses denotes the negative of such number presented. A dash ("–") signifies that the relevant figure is not available or zero, while a zero ("0.0") signifies that the relevant figure has been rounded to zero.

2.9 Presentation of Alternative Performance Measures

Throughout this Prospectus, we present financial information and operating data that is not prepared in accordance with IFRS, or any other internationally accepted accounting principles, including Billed Sales, Gross Profit Margin, EBIT Margin, EBITDA, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Cash EBITDA Margin, B2C ARPPS, Contribution Margin, Cash Contribution Margin, Capital Expenditures, Gearing Ratio and Working Capital (all as defined below and together, the "**Alternative Performance Measures**"). We present these Alternative Performance Measures because we use them to measure our operating performance and as a basis for our strategic planning, and because we believe that such Alternative Performance Measures will be used by investors and analysts to assess our performance.

Such Alternative Performance Measures should not be considered as alternatives or substitutes for the consolidated net result for the period, earnings before interest and income taxes (EBIT) or other data from the Company's consolidated statement of comprehensive income, consolidated balance sheet or consolidated cash flow statement prepared in accordance with IFRS, or as measures of profitability or liquidity.

The Alternative Performance Measures do not necessarily indicate whether cash flows will be sufficient for our cash requirements and may not be indicative of our future results. Furthermore, the Alternative Performance Measures are not recognized under IFRS, should not be considered as substitutes for an analysis of our operating results prepared in accordance with IFRS, and may not be comparable to similarly titled information published by other companies.

We define:

- "**Billed Sales**" as sales revenues, the full amount invoiced to customers during the period prior to reductions for the change in deferred income;
- "**Gross Profit Margin**" as gross profit on sales as a percentage of sales revenues;
- "**EBIT Margin**" as EBIT as a percentage of sales revenues;
- "**EBITDA**" as EBIT adjusted for depreciation/amortization of property, plant, and equipment and intangible assets, amortization, depreciation, and write-downs IFRS 16 and goodwill impairment as stated in the audited consolidated cash flow statement;
- "**Adjusted EBITDA**" as EBITDA adjusted for non-operating effects (share-based remuneration expenses (EVOP) and unrealized foreign exchange gains/losses);
- "**Adjusted Cash EBITDA**" as Adjusted EBITDA based on Billed Sales, i.e. adjusted for the change in deferred income and adjusted for cash payments for lease obligations;
- "**Adjusted Cash EBITDA Margin**" as the percentage of Adjusted Cash EBITDA of Billed Sales;
- "**B2C ARPPS**" as B2C sales revenues divided by the average subscriptions for the period, which is defined as the sum of the number of subscriptions at the beginning and the end of the respective period divided by two, with the result being divided by the number of months in the respective period (investors should note that subscription numbers, which are used to calculated B2C ARPPS, cannot be derived from the company's accounting systems);
- "**Contribution Margin**" as sales revenues less cost of sales and marketing expenses;
- "**Cash Contribution Margin**" as Billed Sales less Cost of Goods Sold, as cost of sales less pro-rata server costs related to sales revenues, and Marketing Costs, as marketing expenses under IFRS

less allocated personnel and other expenses and less pro rata amortization and depreciation (including IFRS 16), as well as allocated share-based remuneration;

- "**Capital Expenditures**" as payments made for investments in property, plant and equipment and payments made for either the development or purchase of intangible assets;
- "**Gearing Ratio**" as the ratio of current liabilities (excluding deferred income and provisions for the EVOP programs) to cash and cash equivalents;
- "**Working Capital**" as trade receivables less trade payables and deferred income.

For further information and reconciliations on the Alternative Performance Measures, see "*9.2 Key Financial Information and Operating Data*", "*9.6.2 Capital Expenditures*" and "*9.9.4 Capital management*".

3. THE OFFERING

3.1 Subject matter of the Offering

The Offering relates to the offering of 12,994,997 bearer shares of the Company with no-par value (*Stückaktien*), each such share representing a notional value of € 1.00 (the Offer Shares), comprising:

- 7,300,000 New Shares;
- 4,000,000 Existing Offer Shares, and
- 1,694,997 Over-Allotment Shares.

The Offering consists of an initial public offering in Germany and private placements in certain jurisdictions outside Germany. In the United States, the Offer Shares will only be offered and sold to QIBs as defined in, and in reliance on, Rule 144A, or pursuant to another available exemption from, or in transactions not subject to, the registration requirements of the Securities Act. Outside the United States, the Offer Shares will be offered and sold only in offshore transactions in compliance with Regulation S.

BNP PARIBAS and Morgan Stanley are acting as Joint Global Coordinators and, together with Berenberg and Citigroup, also as Joint Bookrunners.

3.2 Price Range, Offer Period, Offer Price and Allotment

The price range is € 24.00 to € 28.00 per Offer Share (the "**Price Range**").

The period during which investors may submit purchase orders for the Offer Shares is expected to commence on September 15, 2021 and to expire on September 22, 2021 (the "**Offer Period**"). On the last day of the Offer Period, offers to purchase Offer Shares may be submitted (i) until 12:00 p.m. (noon) CEST by private investors and (ii) until 2:00 p.m. CEST by institutional investors. Multiple purchase orders are permitted.

Subject to the publication of a supplement to this Prospectus, if required, the Company, the Existing Shareholders and the Underwriters reserve the right to reduce the total number of Offer Shares, to increase or decrease the upper limit and/or the lower limit of the Price Range and/or to extend or shorten the Offer Period.

Reductions in the number of Offer Shares, changes to the Price Range or an extension or shortening of the Offer Period will not invalidate any offers to purchase Offer Shares that have already been submitted. If such changes require the publication of a supplement to this Prospectus, investors who submitted purchase orders prior to the publication of the supplement have the right to withdraw these offers to purchase within three working days following the publication of such supplement pursuant to Article 23 para. 1 of the Prospectus Regulation in conjunction with Article 21 para. 2 of the Prospectus Regulation, provided that the significant new factor, material mistake or material inaccuracy requiring the publication of a supplement to this Prospectus arose or was noted before the closing of the Offer Period or the delivery of the Offer Shares. Instead of withdrawing their offers to purchase placed prior to the publication of the supplement, investors may change their orders or place new limited or unlimited offers to purchase within two working days following the publication of the supplement.

Any changes to the terms of the Offering will be published by means of electronic media such as Reuters or Bloomberg, and, if required, by Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse, as amended ("**MAR**"), or the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as an ad-hoc release via an electronic information dissemination system, on the Company's website www.babbel.com and/or as a supplement to this Prospectus. Investors who have submitted purchase orders will not be notified individually. Under certain conditions, the Joint Global Coordinators, acting on behalf of the Underwriters, may terminate the underwriting agreement, entered into between the Company, the Existing Shareholders and the Underwriters on September 14, 2021 (the "**Underwriting Agreement**"), even after commencement of trading (*Aufnahme des Handels*) of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (see "*18.5 Termination/Indemnification*").

The final price of the Offer Shares in the Offering (the "**Offer Price**") will be determined at the end of the bookbuilding process by the Company and the Existing Shareholders after consultation with the Joint Global Coordinators. The Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book prepared during a bookbuilding process. These orders will be evaluated according to the prices offered and the expected investment horizons of the respective investors. This method of setting the Offer Price is, in principle, aimed at achieving the highest possible Offer Price. Consideration will also be given to whether the Offer Price and the number of Offer Shares to be placed allow for the reasonable expectation that the share price will demonstrate a steady performance in the secondary market given the demand for the Company's shares as reflected in the order book. Attention will be paid not only to the prices offered by investors and the number of investors interested in purchasing shares at a particular price, but also to the composition of the Company's shareholder structure that would result at a given price, and expected investor behavior.

The Offer Price and the final number of Offer Shares placed in the Offering (i.e., the results of the Offering) are expected to be set on September 22, 2021. After the Offer Price has been set, the Offer Shares will be allotted to investors on the basis of the purchase orders then available. The Offer Price and the final number of Offer Shares (i.e., the results of the Offering) are expected to be published on or about September 22, 2021, by means of an ad-hoc release via an electronic information dissemination system and on the Company's website www.babbel.com. Investors who have placed orders to purchase Offer Shares with an Underwriter can obtain information from such Underwriter about the Offer Price and the number of Offer Shares allotted to them on the business day following the setting of the Offer Price. Book-entry delivery of the allotted Offer Shares against payment of the Offer Price is expected to take place two business days after commencement of trading. Should the placement volume prove insufficient to satisfy all orders placed at the Offer Price, the Underwriters reserve the right to reject orders, or to only accept them in part.

Investors will not be charged expenses by the Company, the Existing Shareholders or the Underwriters in connection with the Offering. Investors will have to bear customary transaction and handling fees charged by their brokers or other financial institutions through which they hold their securities.

3.3 Expected timetable for the Offering

The following is the expected timetable of the Offering, which may be extended or shortened:

September 14, 2021	Approval of this Prospectus by BaFin
	Publication of the approved Prospectus on the Company's website (www.babbel.com)
September 15, 2021	Commencement of the Offer Period
	Application for admission of the Company's shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard)
September 22, 2021	Close of the Offer Period for private investors (natural persons) at 12:00 p.m. (noon) (CEST) and for institutional investors at 2 p.m. (CEST)
	Determination of the Offer Price and final number of shares allocated
September 23, 2021	Publication of the results of the Offering in the form of an ad-hoc release on an electronic information dissemination system and on the Company's website (www.babbel.com)
	Admission decision to be issued by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) by noon
	Publication of listing approval issued by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
September 24, 2021	Commencement of trading in the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
September 28, 2021	Book-entry delivery of the Offer Shares against payment of the Offer Price (settlement and closing)

This Prospectus will be published on the Company's website www.babbel.com.

Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company's affairs or that the information set forth in this Prospectus is correct as of any date subsequent to the date hereof.

3.4 Information on the shares

3.4.1 Share capital; form of the shares

As of the date of this Prospectus, the share capital of the Company amounts to € 37,873,913.00 and is divided into 37,873,913 ordinary bearer shares (*Inhaberaktien*) with no-par value (*Stückaktien*). The share capital has been fully paid up.

As part of the IPO Capital Increase, which is expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021, up to 7,300,000 New Shares will be issued from a capital increase against cash contributions. Upon registration of the IPO Capital Increase, the Company's share capital will be increased from € 37,873,913.00 by up to € 7,300,000.00 to up to € 45,173,913.00. The consummation of the IPO Capital Increase is expected to be registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Charlottenburg, Germany, on or about September 23, 2021.

3.4.2 Certification of the shares

As of the date of this Prospectus, all of the Company's shares are ordinary bearer shares (*Inhaberaktien*) with no-par value (*Stückaktien*). The Company's shares are represented by a global share certificate, which is deposited with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany ("**Clearstream**").

Section 5 para. 2 of the Articles of Association excludes to the extent legally permissible and not required by the rules and procedures of a stock exchange on which the Company's shares are admitted for trading, the right of the shareholders to receive share certificates.

3.4.3 Currency of the Securities Issue

The Company's shares are denominated in euro.

3.4.4 Voting rights

Each share in the Company carries one vote at the Company's general shareholders' meeting. There are no restrictions on voting rights. Existing Shareholders do not have different voting rights.

3.4.5 Dividend and liquidation rights

The Company's shares carry full dividend rights as of January 1, 2021. In the event of the Company's liquidation, any proceeds remaining after satisfaction of all liabilities of the Company will be distributed to the holders of the Company's shares in proportion to their interest in the Company's share capital.

3.5 ISIN/WKN/Ticker Symbol

International Securities Identification Number (ISIN)	DE000A3CWAW6
German Securities Code (Wertpapier-Kenn-Nummer, WKN)...	A3C WAW
Common Code..	238425158
Trading Symbol...	BABL

3.6 Transferability of the shares, lock-up

The Company's shares are freely transferable in accordance with the legal requirements for bearer shares (*Inhaberaktien*), except for the restrictions set forth in "*3.12 Lock-up agreement*" and "*18.6 Selling restrictions*", there are no prohibitions on disposals or restrictions with respect to the transferability of the Company's shares.

3.7 Information on the Existing Shareholder

Immediately prior to the Offering, the Existing Shareholders hold 100% of the Company's outstanding share capital (excluding the Corporate Social Responsibility Shares (as defined below) held by Babbel GmbH, see "*11.13 Corporate responsibility*"). It is expected that following completion of the Offering and assuming placement of all of the Offer Shares and full exercise of the Greenshoe Option, as defined below, the Existing Shareholders will continue to hold approximately 65.2% of the Company's share capital. For further details on the ownership structure of the Company, see "*13 Shareholder Information*".

3.8 Allotment criteria

The allotment of Offer Shares to private investors and institutional investors will be decided by the Company and the Existing Shareholders after consultation with the Joint Global Coordinators. The decision ultimately rests with the Company and the Existing Shareholders. Allotments will be made on the basis of the quality of the individual investors, such as the expected horizon and expected trading behavior of the investor, and individual orders and other important allotment criteria to be determined by the Company and the Existing Shareholders after consultation with the Joint Global Coordinators.

3.9 Preferential Allocation

The Company has set up a preferential allocation program (the "**Preferential Allocation Program**") for the benefit of all employees of the Group, employed and tax resident in Germany (the "**Qualifying Employees**").

All Qualifying Employees will be offered Company's shares free of charge in the amount of € 250 or, as the case may be, the next lower amount that can be divided by the Offer Price without remainder. All Company's shares so granted will be subject to a lock-up period of 180 days beginning on the first day of trading of the Company's shares.

All of our employees who are not Qualifying Employees will receive a cash payment of € 250 or an equivalent amount in their salary currency.

3.10 Stabilization measures, Over-Allotments and Greenshoe Option

In connection with the placement of the Offer Shares, Morgan Stanley, acting for the account of the Underwriters, will act as the stabilization manager (the "**Stabilization Manager**") and may, as Stabilization Manager acting in accordance with legal requirements (Article 5 paragraph 4 and 5 of MAR in conjunction with Articles 5 through 8 of the Commission Delegated Regulation (EU) 2016/1052), take stabilization measures on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) in order to support the market price of the Company's shares during the Stabilization Period (as defined below) and thereby counteract any selling pressure.

The Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date the Company's shares are listed on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and must be terminated no later than the thirtieth calendar day after such date (the "**Stabilization Period**"). Any profits or losses out of or in connection with stabilization measures shall be borne by the Underwriters.

These measures may result in the market price of the Company's shares being higher than would otherwise have been the case. Moreover, the market price may temporarily be at an unsustainable level.

Under the possible stabilization measures, investors may, in addition to the Base Shares, be allocated the Over-Allotment Shares as part of the allocation of the Offer Shares (the "**Over-Allotment**"). For the purpose of a potential Over-Allotment, the Stabilization Manager, for the account of the Underwriters, will be provided with up to 1,694,997 Over-Allotment Shares in the form of a securities loan; the number of Over-Allotment Shares will not exceed 15% of the sum of the final number of Base Shares. In addition, the Lending Shareholders have granted the Underwriters an option to acquire a number of Company's shares equal to the borrowed shares at the Offer Price less agreed commissions (the "**Greenshoe Option**"). The Greenshoe Option will terminate 30 calendar days after commencement of the stock exchange trading of the Company's shares expected to take place on September 24, 2021.

The Stabilization Manager is entitled to exercise the Greenshoe Option up to the extent to which Over-Allotments were initially made; the number of shares from the holdings of the Lending Shareholders for which the Greenshoe Option is exercised is to be reduced by the number of shares held by the Stabilization Manager as of the date on which the Greenshoe Option is exercised and that were acquired by the Stabilization Manager in the context of stabilization measures.

Once the Stabilization Period has ended, an announcement will be made within one week in various media outlets distributed across the entire EEA as to whether stabilization measures were taken, the date when price stabilization started and finished, and the price range within which the stabilization measures were taken, for each occasion on which price stabilization measures were taken and the trading venue(s) on which the stabilization measures were carried, where applicable.

3.11 Target Market Assessment

Information for Distributors: Solely for the purpose of the product governance requirements contained within (i) Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments, as amended ("**MiFID II**"), (ii) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 of April 7, 2016 supplementing MiFID II and (iii) local implementing measures (together, the "**MiFID II Requirements**"), and disclaiming any and all liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Requirements) may otherwise have with respect thereto, the Offer Shares have been subject to a product approval process. As a result, it has been determined that the Offer Shares are (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II, and (ii) eligible for distribution through all distribution channels permitted by MiFID II (the "**Target Market Assessment**").

Notwithstanding the Target Market Assessment, the price of the Offer Shares may decline and investors could lose all or part of their investment. The Offer Shares offer no guaranteed income and no capital protection, and an investment in the Offer Shares is suitable only for investors who:

- do not need a guaranteed income or capital protection;
- either alone or together with an appropriate financial or other adviser, are capable of evaluating the merits and risks of such an investment; and
- who have sufficient resources to be able to bear any losses that may result from such investment, including up to the total amount invested.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions with respect to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Global Coordinators will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute (i) an assessment of suitability or appropriateness for the purposes of MiFID II or (ii) a recommendation to any investor or group of investors to invest in, purchase, or take any other action whatsoever with respect to, the Offer Shares. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Offer Shares and determining appropriate distribution channels.

3.12 Lock-up agreement

3.12.1 Lock-up of the Company

In the Underwriting Agreement, the Company agreed with the Underwriters that, for the period commencing on September 14, 2021 and ending 180 calendar days after the closing of the Offering (currently expected to take place on September 28, 2021), the Company will not, to the extent legally permissible, without the prior written consent of the Joint Global Coordinators (which consent may not be unreasonably withheld or delayed):

- announce or effect an increase of the share capital of the Company from authorized or contingent capital, if any; or
- submit a proposal to its shareholders' meeting for an increase of the share capital; or
- announce, effect or propose the issue of securities with conversion or option rights on Shares; or
- offer, pledge, allot, issue (unless required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares in its capital or any securities convertible into or exercisable or exchangeable for shares in its capital or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares in its capital; or
- enter into a transaction or perform any action economically similar to those described above.

The Company may, however, (i) issue or sell any shares or other securities, including options, under management participation plans to former and future employees, supporters, former, current and future members of executive bodies, service providers and business partners of the Company or its Subsidiaries or their respective investment vehicles, and (ii) issue shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture, provided that in the case of (ii), the parties to the joint venture or acquiring entity to which such shares are issued, agree towards the Underwriters to be bound by the same lock-up undertaking as the Company. The foregoing shall not apply to any capital increase in connection with the Offering.

3.12.2 Lock-up of the Investor Shareholders and the Founder Shareholders

For the period commencing on September 14, 2021 and ending 180 calendar days in case of the Investor Shareholders and 360 days in case of the Founder Shareholders, after the first day of trading of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (currently expected to take place on September 24, 2021), the Investor Shareholders and the Founder Shareholders, respectively, have undertaken that they will not, without the prior written consent of the Joint Global Coordinators, which may not be unreasonably withheld or delayed:

- offer, pledge, allot, distribute, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, transfer or otherwise dispose of, directly or indirectly (including, but not limited to, the issuance or sale of any securities exchangeable into shares of the Company);
- cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of shares of the Company;
- propose, directly or indirectly, any increase in the share capital of the Company to any meeting of the shareholders for resolution, or vote in favor of such a proposed increase;
- cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of financial instruments constituting options or warrants convertible into shares of the Company;
- enter into or perform any transaction economically equivalent to those described in the first bullet above, in particular enter into any swap or other agreement that transfers to another, in whole or in part, the economic risk of ownership of Offer Shares, whether any such transaction is to be settled by delivery of Offer Shares, in cash or otherwise.

The foregoing shall not apply (i) to transactions contemplated by the Underwriting Agreement (see "*18 Underwriting*"), (ii) the sale of any Offer Shares in the Offering, (iii) to transfers to affiliates (and with regard to the Investor Shareholders also to limited partners (*Kommanditisten*) or to other direct or indirect shareholders or other securities holders) of the Existing Shareholder or to other shareholders of the Company that held Offer Shares immediately prior to the Offering in connection with the settlement of certain entitlements among the Existing Shareholders in connection with the Contribution Capital Increase (as defined below), provided that the relevant transferee(s) has/have agreed in advance towards the Joint Global Coordinators to be bound by the same lock-up undertaking for the remaining time of the restricted period, (iv) to a disposal in accordance with a court order or as required by law or regulation, (v) to any disposal of securities pursuant to a public offer made to all holders in accordance with securities acquisition and takeover laws and regulations on terms which treat all such holders alike, (vi) to any disposal of Offer Shares for the purposes of pledging, charging or otherwise granting any security interest over any Offer Shares or assigning any rights in relation to any Offer Shares (a "**Security Interest**") to or for the benefit of any margin loan lender(s) (and if applicable, its or their permitted assignees and transferees, or any agent or trustee on behalf of any such margin loan lender(s)) (a "**Margin Loan Lender**"), in connection with a margin loan, provided to the respective Existing Shareholder, (vii) to any disposal of Offer Shares for the purposes of selling, transferring and/or appropriating any Offer Shares pursuant to and following any enforcement of any Security Interest over, or in relation to, Offer Shares granted by the respective Existing Shareholder to or for the benefit of any Margin Loan Lender, (viii) to any disposal of Offer Shares for the purposes of selling, transferring or granting a Security Interest over (or enforcing such Security Interest by way of transfer, sale and/or appropriation) any Shares that have previously been transferred, sold and/or appropriated to or by any person in accordance with (vii) above, provided that in the case of (vii) and (viii) (and in the case of (viii), other than in respect of the grant of a Security Interest), in relation to such Offer Shares each transferee or purchaser has agreed in advance to be bound by the foregoing restrictions for the remaining lock-up period, which may only be waived with the consent of the Joint Global Coordinators, (ix) for the purpose of satisfying any tax liabilities arising to the Existing Shareholder (A) in connection with the settlement of the EVOPs (as defined below) and (B) in connection with transfers to other shareholders of the Company that held shares in the Company immediately prior to the Offering as further described under (iii) above, (x) transfers or disposals of Offer Shares acquired after September 14, 2021 as well as (xi) if and to the extent acquired in open market transactions after the Listing, in each case of (x) and (xi) only to the extent such shares in the Company have not been acquired or transferred under an exemption of (i) to (xi) above.

3.12.3 Lock-up of the Members of the Management Board

For the period commencing on September 14, 2021 and ending twelve months after the first day of trading of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (currently expected to take place on September 24, 2021), the members of the management board of the Company (the "**Management Board**") have agreed that they will not, without the prior written consent of the Joint Global Coordinators:

- sell, contract to sell, market, transfer or otherwise dispose of shares or other securities of the Company; or
- vote in favor of a proposed increase of the share capital of the Company or issuance of financial instruments that carry conversion or option rights to shares in the Company; or
- enter into other transactions or perform any actions with a similar economic effect to those described above.

The foregoing does not apply to (i) transfers to affiliates and certain other related persons of such shareholders, (ii) transfers to any other shareholder immediately prior to the Offering, (iii) pledges, charges or any other security interest granted to one or more of the Joint Global Coordinators or their affiliates, (iv) any transfers of shares pursuant to enforcement of any pledge entered into in accordance with (iii), and (v) any transfers of shares received by the Joint Global Coordinators or their affiliates in accordance with (iv) and this (v), provided in each case that such transferee(s) agree(s) towards the Underwriters to be bound by the same lock-up undertaking. The foregoing further does not apply to members of the Management Board who within the lock-up period will incur tax liabilities in connection with their claims under incentive programs or due to the Offering itself, but only insofar as the sale of the shares is necessary to pay such tax liabilities. The foregoing shall further not apply to the tender, sale and transfer of shares of the Company in a takeover bid for the shares of the Company pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz* ("**WpÜG**")).

3.12.4 Lock-up of the former EVOP beneficiaries

Regarding the lock up obligations for former participants of Babbel GmbH's five employee virtual ownership programs (the "**EVOPs**" and each an "**EVOP**"), see "*16.8.1 EVOP Amendments* ".

3.13 Admission to the Frankfurt Stock Exchange and commencement of trading

The Company, together with Morgan Stanley, will apply for admission of the Company's shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard) on or about September 15, 2021. The listing approval (admission decision) for the Company's shares is expected to be granted and announced on or about September 23, 2021. The decision on the admission of the Company's shares to trading will be made solely by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) at its discretion. Trading in the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to commence on or about September 24, 2021.

3.14 Designated sponsors

Morgan Stanley has been mandated as designated sponsor of the Company's shares traded on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) for a period of at least two years from the first day of trading of the Company's shares. Pursuant to the designated sponsor agreements expected to be concluded between Morgan Stanley and the Company, the designated sponsor will, among other things, place limited buy and sell orders for the Company's shares in the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during regular trading hours. This is intended to achieve greater liquidity in the market for the Company's shares. The designated sponsor is entitled to delegate its duties under the designated sponsor's agreements to third parties. In accordance with Sections 81 and 82 of the Rules of the Frankfurt Stock Exchange (*Börsenordnung für die Frankfurter Wertpapierbörse*), the designated sponsor's agreement stipulate the duties and responsibilities of the designated sponsor. Among other things, the designated sponsor shall be available during trading hours and, upon receipt of a request for a quote, shall promptly supply quotes and enter into transactions on such basis. In addition, the designated sponsor shall provide quotes throughout the auction.

3.15 Interests of parties participating in the Offering

The Company will receive the proceeds from the sale of the New Shares (after deduction of fees and commissions). Accordingly, the Company has an interest in the success of the Offering on the best possible terms.

The Existing Shareholders will receive the proceeds from the sale of the Existing Offer Shares (after deduction of fees and commissions). Accordingly, the Existing Shareholders have an interest in the success of the Offering on the best possible terms.

Certain participants of Babbel GmbH's EVOPs will receive part of the proceeds of the sale of the New Shares and will receive a certain number of Existing Shares. Accordingly, these former EVOP participants have an interest in the success of the Offering on the best possible terms (see "*16.8.1 EVOP Amendments* ").

To the extent Over-Allotment Shares are sold and the Greenshoe Option is used, the Lending Shareholders will receive the proceeds from such sale under the Greenshoe Option (after deduction of fees and commissions). Accordingly, the Lending Shareholders have an interest in the success of the Offering on the best possible terms.

In connection with the Offering and the admission to trading of the Company's shares, the Underwriters have formed a contractual relationship with the Company, the Existing Shareholders and the Lending Shareholders. The Underwriters are acting for the Company, the Existing Shareholders and the Lending Shareholders on the Offering and on coordinating the structuring and execution of the Offering. Upon successful completion of the Offering, the Underwriters will receive a commission the size of which depends on the results of the Offering. Therefore, the Underwriters have a financial interest in the success of the Offering on the best possible terms.

Furthermore, the Underwriters and any of their respective affiliates, acting as investors for their own accounts, may acquire shares in the Offering, and in such capacity may retain, purchase or sell for their own account such shares or related investments and may offer or sell such shares or other investments outside the Offering. In addition, the Underwriters or any of their respective affiliates may enter into financing arrangements, including swaps or contracts for differences, pursuant to which the Underwriters or their respective affiliates may, from time to time, acquire, hold or dispose of shares in the Company.

The Underwriters or their respective affiliates have, and may from time to time in the future continue to have, business relations with Babbel and the Existing Shareholders of the Company, including lending activities, or may perform services for Babbel or the Existing Shareholders of the Company in the ordinary course of business.

None of the aforementioned interests in the Offering constitute a conflict of interests or a potential conflict of interests. Consequently, there are no conflicts of interest with respect to the Offering.

4. PROCEEDS OF THE OFFERING AND COSTS OF THE OFFERING AND LISTING

The Company will only receive the proceeds from the sale of the New Shares. The Company will not receive any proceeds from the sale of the Existing Offer Shares from the holdings of the Existing Shareholders or the Over-Allotment Shares from the holdings of the Lending Shareholders.

Assuming placement of the maximum number of New Shares, the Company estimates that at the low end, mid-point and high end of the Price Range, gross proceeds attributable to the Company would amount to approximately € 175.2 million, € 189.8 million and € 204.4 million, respectively, and net proceeds would amount to approximately € 164.5 million, € 178.7 million and € 192.9 million, respectively.

Assuming placement of the maximum number of Existing Offer Shares and full exercise of the Greenshoe Option, the Company estimates that at the low end, mid-point and high end of the Price Range, gross proceeds attributable to the Existing Shareholders would amount to approximately € 136.7 million, € 148.1 million and € 159.5 million, respectively, and, further assuming payment of the discretionary fee in full, net proceeds would amount to approximately € 132.6 million, € 143.6 million and € 154.7 million, respectively.

Assuming an Offer Price at the mid-point of the Price Range, placement of the maximum number of Offer Shares, full exercise of the Greenshoe Option and payment of the discretionary fee in full, the costs of the Company and the Existing Shareholders related to the Offering of the Offer Shares and the listing of the Company's entire share capital, including underwriting and placement commissions payable to the Underwriters, as well as the costs of the Preferential Allocation Program, would be expected to total approximately € 15.5 million; thereof, the Existing Shareholders would bear approximately € 4.4 million and the Company would bear the remaining approximately € 11.1 million.

Assuming an Offer Price at the mid-point of the Price Range, placement of the maximum number of Offer Shares, full exercise of the Greenshoe Option and payment of the discretionary fee of up to € 3.4 million at the mid-point of the Price Range in full, the commission payable to the Underwriters would amount to € 6.8 million.

None of the Company, the Existing Shareholders or the Underwriters will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their brokers or other financial institutions through which they hold their securities.

5. REASONS FOR OFFERING AND THE LISTING AND USE OF PROCEEDS

The Company intends to pursue the Offering and to list its shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, on the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) to receive the net proceeds from the sale of the New Shares and to gain access to the capital markets.

The Existing Shareholders intend to pursue the Offering to receive the net proceeds from the sale of the Existing Offer Shares and to diversify their investments.

Assuming completion of the Offering and placement of the maximum number of New Shares at the mid-point of the Price Range and payment of the discretionary fee in full, the Company intends to use the net proceeds in the following order of priority: (i) approximately € 140.1 million to expand our B2B business, introduce new learning experiences and/or access new geographic markets, in each case considering primarily inorganic opportunities, i.e., the acquisition of existing businesses or where strategically more suitable organic opportunities, i.e., direct investments into our business, and (ii) € 38.6 million to pay the cash component of the EVOPs settlement to former and current Babbel directors and employees under the five EVOPs and related taxes (see "*16.8.1 EVOP Amendments*").

6. DIVIDEND POLICY, RESULTS AND DIVIDENDS PER SHARE, USE OF PROFITS

6.1 General provisions relating to profit allocation and dividend payments

The shareholders' share of the Company's profits is determined based on their respective interests in the Company's share capital. The participation of new shares may be determined differently. For a stock corporation (*Aktiengesellschaft*) under German law, such as the Company, the distribution of dividends for any given fiscal year, and the amount and payment date thereof, are generally resolved by the shareholders' meeting (*Hauptversammlung*) of the subsequent fiscal year. The shareholders' meeting must be held within the first eight months of each fiscal year. Proposals for the distribution of dividends will be issued by the Management Board and the supervisory board of the Company (the "**Supervisory Board**") jointly or by the Management Board and the Supervisory Board separately, with the shareholders' meeting not bound by those proposals.

Dividends may only be distributed from the distributable profit (*Bilanzgewinn*) of the Company. The distributable profit is calculated based on the Company's unconsolidated financial statements prepared in accordance with the requirements of German GAAP. Accounting regulations under German GAAP differ from the IFRS in material aspects.

When determining the distributable profit, net income or loss for the fiscal year (*Jahresüberschuss/-fehlbetrag*) must be adjusted for profit/loss carry-forwards (*Gewinn-/Verlustvorträge*) from the prior fiscal year and releases of or allocations to reserves. Certain reserves are required to be set up by law, and amounts mandatorily allocated to these reserves in the given fiscal year must be deducted when calculating the distributable profit. The Management Board must prepare unconsolidated financial statements (balance sheet, income statement and notes to the unconsolidated financial statements) and a management report for the previous fiscal year by the statutory deadline and present these to the auditors and the Supervisory Board immediately after preparation. At the same time, the Management Board must present to the Supervisory Board a proposal for the allocation of the Company's distributable profits pursuant to Section 170 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz* ("**AktG**")). According to Section 171 AktG, the Supervisory Board must review the unconsolidated financial statements, the Management Board's management report and the proposal for the allocation of the distributable profit and report to the shareholders' meeting in writing on the results. The Supervisory Board must submit its report to the Management Board within one month after the documents were received. If the Supervisory Board approves the financial statements after its review, these are deemed adopted unless the Management Board and the Supervisory Board resolve to assign adoption of the financial statements to the shareholders' meeting. If the Management Board and the Supervisory Board choose to allow the shareholders' meeting to adopt the financial statements, or if the Supervisory Board does not approve the financial statements, the Management Board must convene a shareholders' meeting without delay.

The shareholders' meeting's resolution on the allocation of the distributable profits requires a simple majority of the votes cast. If the Management Board and the Supervisory Board approve the annual financial statements, according to Section 18 para. 2 of the Articles of Association, they are authorized to allocate all or part of the annual profits to other revenue reserves subject to complying with the statutory restrictions pursuant to Section 58 para. 2 AktG. Additions to the legal reserves and loss carry-forwards must be deducted in advance when calculating the amount of net loss/income for the year to be allocated to other retained earnings. Pursuant to Section 19 para. 3 of the Articles of Association, the shareholders' meeting may also resolve to distribute the distributable profit by way of a dividend in kind in addition to or instead of a cash dividend, or it may allocate further amounts to retained earnings or carry such amounts forward as profit in the resolution on the appropriation of the distributable profits.

Dividends resolved by the shareholders' meeting are due and payable on the third business day following the day of the relevant shareholders' meeting, unless a later due date is provided in the dividend resolution or the Articles of Association, in compliance with the rules of the respective clearing system. Since all of the Company's dividend entitlements will be evidenced by one or more global share certificates deposited with Clearstream, Clearstream will transfer the dividends to the shareholders' custodian banks for crediting to their accounts and German custodian banks are under an obligation to distribute the funds to their customers. Shareholders using a custodian bank located outside Germany must inquire at their respective bank regarding the terms and conditions applicable in their case. Notifications of any distribution of dividends resolved upon are published in the German Federal Gazette (*Bundesanzeiger*) immediately after the shareholders' meeting. To the extent dividends can be distributed by the Company in accordance with German GAAP and corresponding decisions are taken, there are no restrictions on shareholder rights to receive dividends.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends, see "*19.1 General Taxation of Dividends*". Any dividends not claimed within the past three years become time-barred. If dividend payment claims expire, the Company becomes the beneficiary of the dividends.

6.2 Dividend policy and dividend per share

The Company was founded on April 19, 2021 and did not conduct any business activities prior to the contribution of the shares in Babbel GmbH, which became effective on August 26, 2021 (see "*17.1.1 Contribution of all Shares in Babbel GmbH*"). Therefore, the Company has not paid any dividends or made any other distributions up to and including the date of this Prospectus.

The Company currently does not intend to pay any dividends for the foreseeable future. Any future determination to pay dividends will be made in accordance with applicable laws, and will depend upon, among other factors, the Company's results of operations, financial condition, contractual restrictions and capital requirements. The Company's future ability to pay dividends may be limited by the terms of any existing and future debt or preferred securities. The principal sources of funding for the payment of dividends by the Company will be dividends and other distributions received from the Company's current and future subsidiaries. Such subsidiaries may only pay dividends in accordance with applicable laws and articles of association.

7. CAPITALIZATION AND INDEBTEDNESS, STATEMENT ON WORKING CAPITAL AND SIGNIFICANT CHANGES

The following tables show Babbel GmbH's consolidated capitalization and indebtedness as of June 30, 2021 as adjusted for the contribution of Babbel GmbH and the completion of the Offering, assuming net proceeds of € 178.7 million (i.e., assuming full placement of the maximum number of New Shares at the mid-point of the Price Range and payment of the discretionary fee in full), not taking into account any tax effects.

Investors should read the following tables in conjunction with the Section "9 Management's Discussion and Analysis of Financial Condition and Results of Operations", the Unaudited Condensed Consolidated Interim Financial Statements and the Audited Financial Statements.

7.1 Capitalization

	As of June 30, 2021	Effects of the contribution of Babbel GmbH[9]	Other re-structuring trans-action[10]	Adjust-ments for the effects of the Offering and the IPO Capital Increase[11]	Total
	(unaudited, in € million)				
Total current debt (including current portion of non-current debt)[1]	**127.1**	**-**	**(47.3)**	**-**	**79.9**
Thereof guaranteed	47.3[8]	-	(47.3)	-	-
Thereof secured	-	-	-	-	-
Thereof unguaranteed/ unsecured	79.9	-	-	-	79.9
Total non-current debt (excluding current portion of non-current debt)[2]	**43.8**	**-**	**-**	**-**	**43.8**
Thereof guaranteed	-	-	-	-	-
Thereof secured	-	-	-	-	-
Thereof unguaranteed/ unsecured	43.8	-	-	-	43.8
Shareholder equity[3]	**(28.0)**	**-**	**(38.6)**	**178.7**	**112.0**
Share capital[4]	0.1	37.4	(2.4)	7.3	42.4
Legal reserve(s)[5]	28.5	(37.4)	-	176.8	167.9
Other reserves[6]	(56.6)		(36.3)	(5.4)	(98.3)
Total[7]	**142.8**	**-**	**(85.9)**	**178.7**	**235.7**

1 "Total current debt (including current portion of non-current debt)" corresponds to "Current liabilities" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

2 "Total non-current debt (excluding current portion of non-current debt)" corresponds to "Non-current liabilities" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

3 "Shareholder equity" corresponds to "Shareholders' equity" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

4 "Share capital" corresponds to "Subscribed capital" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

5 "Legal reserve(s)" corresponds to "Capital reserves" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

6 "Other reserves" corresponds to the sum of "Retained earnings and other reserves" and "Currency differences" as shown in the consolidated statement of financial position in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

7 "Total" corresponds to the sum of "Total current debt (including current portion of non-current debt)", "Total non-current debt (excluding current portion of non-current debt)" and "Shareholder equity".

8 Our EVOPs were established with a liability to the beneficiaries for which a provision was recognized in the amount of € 47.3 million as of June 30, 2021, that is fully backed by physical shares in the amount of € 47.9 million as of June 30, 2021 (reimbursement claims from shareholders), to be contributed by the shareholders in the event of a dividend distribution or exit scenario. Consequently, the Babbel Group discloses a receivable from shareholders that is equivalent to the amount of the liability to beneficiaries. Any deviations can result from early cash payments made by the Company to a qualifying person.

9 With effect as of August 26, 2021, all shares in Babbel GmbH were contributed into the Company or to Babbel GmbH (see "*17.1.1 Contribution of all Shares in Babbel GmbH*"), whereby the Company became the parent of Babbel Group, as well as the CSR-pledge which has no impact on the capitalization since the increase in share capital is compensated by the recognition of treasury shares.

10 The adjustments reflect (i) the revaluation adjustment of the provision of share-based remuneration (as of June 30, 2021: € 47.3 million) due to the Offering in the amount of € 50.4 million (assuming placement of the maximum number of New Shares at the mid-point of the Price Range and payment of the discretionary fee in full) and the reimbursement claims from shareholders (as of June 30, 2021: € 47.9 million), and (ii) the settlement of the reevaluated reimbursement claims from shareholders of € 97.7 million in own shares (treasury shares) and the settlement of the vested portion of the EVOPs partly in cash and shares, in the amount of € 38.6 million and € 40.6 million, respectively, (iii) the reclassification of the remaining provision of share-based remuneration in the amount of € 18.4 million to shareholder equity due to the modification of the unvested EVOPs from cash-settled to equity-settled and (iv) the recognition of treasury shares in share capital in the amount of € 2.4 million.

11 The adjustments reflect (i) the increase of the Company's share capital by € 7,300,000.00 from € 37,873,913.00 to € 45,173,913.00 against cash contributions, and (ii) expected net proceeds from this Offering attributable to the Company of € 178.7 million (based on the issuance of 7,300,000 New Shares at an Offer Price of € 26.00 per share, i.e., a placement of the New Shares at the mid-point of the price range, and costs of the Offering attributable to the Company of approximately € 11.1 million, of which € 5.7 million are deductible and € 5.4 million are recognized under other reserves (assuming payment of the discretionary fee in full)).

7.2 Indebtedness

	As of June 30 2021	Effects of the contribution of Babbel GmbH[5]	Other restructuring transaction[6]	Adjustments for the effects of the Offering and the IPO Capital Increase[7]	Total
			(unaudited, in € million)		
A. Cash[1]	32.7	-	(38.6)	178.7	172.8
B. Cash equivalents	-	-		-	-
C. Other current financial assets[2]	54.5	-	(47.3)	-	7.2
D. Liquidity (A + B + C)	**87.2**	-	**(85.9)**	**178.7**	**180.0**
E. Current financial debt (including debt instruments, but excluding current portion of non-current financial debt)	-	-	-	-	-
F. Current portion of non-current financial debt[3]	2.8	-	-	-	2.8
G. Current financial indebtedness (E + F)	**2.8**	-	**-**	-	**2.8**
H. Net current financial indebtedness (G – D)	**(84.4)**	-	**85.9**	**(178.7)**	**(177.2)**
I. Non-current financial debt (excluding current portion and debt instruments)[4]	42.2	-	-	-	42.2
J. Debt instruments	-	-	-	-	-
K. Non-current trade and other payables	-	-	-	-	-
L. Non-current financial indebtedness (I + J + K)	**42.2**	-	**-**	-	**42.2**
M. Total financial indebtedness (H + L)	**(42.2)**	-	**85.9**	**(178.7)**	**(135.0)**

1 "Cash" corresponds to "Cash and cash equivalents" as shown in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

2 "Other current financial assets" corresponds to current "Other financial assets" as shown in the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

3 "Current portion of non-current financial debt" corresponds to current "Lease liabilities" as shown in the notes of the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

4 "Non-current financial debt (excluding current portion and debt instruments)" corresponds to non-current "Lease liabilities" as shown in the notes of the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2021.

5 With effect as of August 26, 2021, all shares in Babbel GmbH were contributed into the Company or to Babbel GmbH (see "*17.1.1 Contribution of all Shares in Babbel GmbH*"), whereby the Company became the parent of Babbel Group.

6 The adjustments reflect (i) the revaluation adjustment of the provision of share-based remuneration (as of June 30, 2021: € 47.3 million) due to the Offering in the amount of € 50.4 million (assuming placement of the maximum number of New Shares at the mid-point of the Price Range and payment of the discretionary fee in full) and the reimbursement claims from shareholders (as of June 30, 2021: € 47.9 million), and (ii) the settlement of the revaluated reimbursement claims from shareholders of € 97.7 million in own shares (treasury shares) and the settlement of the vested portion of the EVOPs partly in cash and shares, in the amount of € (38.6) million and € (40.6) million, respectively.

7 The adjustments reflect (i) the increase of the Company's share capital by € 7,300,000.00 from € 37,873,913.00 to € 45,173,913.00 against cash contributions, and (ii) expected net proceeds from this Offering attributable to the Company of € 178.7 million (based on the issuance of 7,300,000 New Shares at an Offer Price of € 26.00 per share, i.e., a placement of the New Shares at the mid-point of the price range, and costs of the Offering attributable to the Company of approximately € 11.1 million (assuming payment of the discretionary fee in full)).

As of June 30, 2021, financial debt as presented in the statement of indebtedness includes liabilities related to leases of € 45.0 million, of which € 2.8 million are current and € 42.2 million are non-current.

7.3 Contingent and Indirect Liabilities

As of June 30, 2021, there were no contingent or indirect liabilities of Babbel Group.

7.4 Statement on Working Capital

In the Company's opinion, Babbel Group's working capital is sufficient to meet its present requirements over at least the next twelve months from the date of this Prospectus. The proceeds from the Offering have not been included in the calculation of Babbel Group's working capital.

In making the above working capital statement, Babbel has conducted an analysis which confirmed that it is able to access cash and other available liquid resources in order to meet its liabilities as they fall due at least during the next twelve months from the date of this Prospectus. Investors should note that Babbel's negative Working Capital does not contradict this analysis. The working capital statement speaks to the liquidity situation of the Company, whereas the negative Working Capital statement describes a balance sheet situation. In fact, the negative Working Capital is mainly composed of deferred income which represents upfront payments for subscriptions that extend beyond the end of the relevant reporting period. Accordingly, deferred income represents a significant part of the liquidity on which Babbel relies when making the above working capital statement. For more information on how the negative Working Capital helps Babbel finance its operations, see "*9.3.6 Low Capital Expenditures and Negative Working Capital*".

8. DILUTION

As of June 30, 2021, the net book value of Babbel (i.e., total assets plus negative non-controlling interests less total non-current liabilities and total current liabilities) amounted to € (28.0) million, and would amount to € (0.74) per share of the Company based on 37,873,913 outstanding shares of the Company immediately prior to the Offering. The net book value of Babbel is shown as total equity in the Unaudited Condensed Consolidated Interim Financial Statements as of and for the six-month period ended June 30, 2021.

The dilutive effect of the Offering is illustrated in the table below, demonstrating the amount by which the Offer Price exceeds the net book value per share after completion of the Offering and assuming the Offering had been completed on June 30, 2021. In this respect, the net book value as of June 30, 2021 is adjusted for the effects of the successful completion of the Offering, assuming (i) the execution of the IPO Capital Increase for 7,300,000 New Shares as well as (ii) an increase in the net book value by € 164.5 million, € 178.7 million and € 192.9 million at the low end, mid-point and high end, respectively of the Price Range (in each case not taking into account any tax effects). The adjusted net book value is expressed as a per share figure, assuming 45,173,913 shares of the Company outstanding upon completion of the Offering (this per share figure being referred to as the "**Post-IPO Equity**"):

	As of June 30, 2021		
	Low end	**Mid-point**	**High end**
	(unaudited)		
	(in €, unless stated otherwise)		
Net book value per share[1]	(0.74)	(0.74)	(0.74)
Gross proceeds from the Offering (in € million)	175.2	189.8	204.4
Estimated total costs of the Offering (in € million)[2]	(10.7)	(11.1)	(11.5)
Net proceeds from the Offering (in € million)	164.5	178.7	192.9
Post-IPO Equity (in €million)	136.5	150.7	164.9
Post-IPO Equity per share[3]	3.02	3.34	3.65
Amount by which the offer price exceeds the Post-IPO Equity per share (immediate dilution of new shareholders of the Company)	20.98	22.66	24.35
Percentage by which the offer price exceeds the Post-IPO Equity per share (in %)	694.0	679.3	667.2
Amount by which the Post-IPO Equity per share exceeds the net book value per share immediately prior to the Offering (immediate accretion to the Existing Shareholders of the Company)	3.76	4.08	4.39
Percentage by which the Post-IPO Equity per share exceeds the net book value per share immediately prior to the Offering (in %)	(508.9)	(551.3)	(593.7)

1 Based on 37,873,913 outstanding shares of the Company immediately prior to the Offering and a net book value of Babbel in an amount of € (28.0) million as of June 30, 2021, shown as total equity in the Unaudited Condensed Consolidated Interim Financial Statements as of and for the six-month period ended June 30, 2021.

2 Including underwriting and placement commissions payable to the Underwriters and assuming payment of the discretionary fee in full.

3 Based on 45,173,913 outstanding shares of the Company after increasing the share capital of the Company by 7,300,000.

9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information contained in the following text and tables is taken or derived from Babbel GmbH's unaudited consolidated interim financial statements as of and for the six-month period ended June 30, 2021, Babbel GmbH's audited consolidated financial statements for the fiscal years ended December 31, 2020, December 31, 2019, as amended, and December 31, 2018, Babbel GmbH's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2020, the Company's audited unconsolidated financial statements as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021 and the Company's internal accounting records or reporting systems.

The audited consolidated financial statements of Babbel GmbH have been prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB. The audited unconsolidated financial statements of Babbel GmbH have been prepared in accordance with German generally accepted accounting principles of the HGB. The unaudited condensed consolidated interim financial statements of Babbel GmbH have been prepared in accordance with IFRS applicable to interim financial reporting (IAS 34).

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kapelle-Ufer 4, 10117 Berlin, Germany, has audited and issued unqualified independent auditor's reports (uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers) on Babbel GmbH's consolidated financial statements as of and for the fiscal years ending December 31, 2020, December 31, 2019, as amended, and December 31, 2018, Babbel GmbH's unconsolidated financial statements as of and for the fiscal year ended December 31, 2020 and the Company's unconsolidated financial statements as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021. The aforementioned audited financial statements of Babbel GmbH and the Company and the respective independent auditor's reports thereon are included in this Prospectus.

The auditor's report issued on the 2019 Audited Consolidated Financial Statements contains an additional note on a supplementary audit. PwC issued this auditor's report on the amended consolidated financial statements on the basis of the audit, duly completed as at June 5, 2020, and the supplementary audit completed as at June 17, 2021, related to the amendment of the disclosure of rental deposits in the "Cash and cash equivalents" and "Other financial assets" line items in the consolidated financial statements and the related disclosures in the notes of the consolidated balance sheet and the resulting amendment to the consolidated cash flow statement and to the corresponding disclosures in the consolidated financial statements, as well as to the amendment to the disclosures of related persons/entities and leasing arrangements in the notes to the consolidated financial statements. We refer to the presentation of the amendment by the executive directors in the amended notes to the consolidated financial statements, section V.A.2. "Amendments to the consolidated financial statements 2019".

Where financial information in the tables included this Prospectus is labeled "audited", this means that it has been taken from the Audit Financial Statements. The label "unaudited" indicates financial information was not taken, but derived from the Audit Financial Statements, taken from the unaudited condensed consolidated interim financial statements, the accounting records or internal reporting system of the Group, or is based on calculations of figures from the aforementioned sources.

Unless indicated otherwise, all financial information presented in the text and tables included in this Prospectus is shown in millions of Euro (in € million). Certain financial information, including percentages, has been rounded according to established commercial standards. As a result, rounded figures in the tables included in this Prospectus may not add up to the aggregate amounts in such tables (sum totals or subtotals), which are calculated based on unrounded figures. Furthermore, differences and ratios are calculated based on rounded figures and may therefore deviate from differences or ratios calculated based on unrounded figures appearing elsewhere in this Prospectus.

Financial information presented in parentheses denotes the negative of such number presented. A dash ("–") signifies that the relevant figure is not available or zero, while a zero ("0.0") signifies that the relevant figure has been rounded to zero.

9.1 Overview

Babbel develops and operates an ecosystem of online language learning experiences. Access to this ecosystem is offered as a subscription both to private customers via the app or web and to business customers for employee training and development or as an employee benefit. Babbel's subscriptions allow learners access to an ecosystem of learning experiences ranging from lessons and reviews, to podcasts, to live trainer-led classes. The Babbel ecosystem encompasses (1) different learning experiences, from self-paced learning via lessons and reviews, to audio materials such as podcasts, to live teaching in online small-group sessions, (2) different proficiency levels, from beginners to more advanced learners, and (3) different motivations, goals and contexts, from travelers to learners keen to further their career, to those with a desire for continuous self-improvement.

By offering an ecosystem of connected experiences, we are able to deepen and improve learner engagement and learning success by providing our learners with learning experiences that fit their needs and an intuitive user experience throughout their journey. This also enables us to attract a broader range of learners than a single product offering would allow. Finally, a wide range of activities exposes our learners more actively to authentic language usage, to prepare them for real-life conversations and comprehension.

Our ecosystem is based on the communicative approach, a proven didactic method. Our didactics experts utilize recognized academic learning practices and carefully selected empirically proven, time-tested strategies to teach languages. They strive to find the best way to combine these proven strategies with digital tools to create interactive and engaging user experiences. The result is a curriculum that is available to our customers anytime and anywhere. The learning approach across our ecosystem combines communicative didactics, cognitivism, behaviorism and constructivism. Progressive lessons are connected together as an interlinking framework, mapped in the background to the Common European Framework of Reference for Languages (CEFR), with each step building towards the next. The communicative approach is the centerpiece of Babbel's educational strategy. We prepare learners for real-life language application: For human-to-human conversations (spoken and written), as well as for listening and reading situations. We aim to equip learners for their first few conversations in a new language from lesson 1 and our research has shown that dedicated learners can reach the equivalent of 1 college semester with 15 hours of Babbel in a two-month period (source: The 2016 Babbel Efficacy Study).

Babbel's Language Progression Framework is our tool to ensure that our central learning activities have pragmatic value and empower the learners to use the language in typical real-life situations. They are also our glue to connect those learning activities across the Babbel ecosystem and they will guide users between the various experiences where specific situations, content and behavior indicate multiple experiences, which can reinforce learning by being used back to back. Our goal is to guide learners on the shortest path possible to real-life conversations by:

- Immersing the learner in a new language through real-life dialogues that will get the learner speaking right away;
- Employing proven cognitive techniques that move new vocabulary to the learner's long-term memory;
- Tailoring content to language learning motivation;
- Using human voices and speech recognition to get the learner speaking confidently; and
- Building each course and experience based on the learner's native language and personal interests for faster learning progress.

Access to Babbel's ecosystem is offered to both consumers and corporate clients via a subscription model, generally ranging in length from one month to twelve months. Since launching a basic subscription in 2009, Babbel's offering now contains over 60,000 lessons and more than 13,000 hours of content enabling the learning of 15 languages from 9 base languages across multiple learning experiences. The result is language learning that works. A consumer review score of 4.6 on Trustpilot (as of August 17, 2021) (source: Trustpilot) and a strong brand reputation for quality learning are indicative of the ecosystem's quality. In addition, we believe our extension rates are industry leading and imply that our learners see the benefits of staying with our product. For example, our 12 month subscriptions for example are renewed 56% of the time on average.

The annual global language learning market for 2021 is estimated to be around € 35 to 40 billion, although given the high level of fragmentation it can be viewed in different ways resulting in varying estimates of both current size and future growth. We cross reference two studies in order to understand the underlying growth drivers and segmentation most effectively. Between the OC&C Report and the HolonIQ Study, the two agree that the growth between 2019 and 2025 is a result of the growth in the online segment, where 2020 impacted the offline segment as a result of the COVID-19 pandemic. The market is expected to grow at a CAGR of approximately 11% to 16% between 2021 and 2025 (source: OC&C Report). In addition to the mass adoption of online learning, partially driven by the COVID-19 pandemic, there are a number of other structural global changes driving language learning online. These include globalization and increasing mobility (in particular, career mobility as employees increasingly work across multiple countries and cultures), technological improvements, the on-demand nature of online learning is more suited to the big self-improvement market, and there is a higher return on both time and money invested when compared to offline language learning (source: Company information).

The language learning industry is highly fragmented across learning methodologies, with only a limited number of players with sizeable established presence (of which in 2021 the top five players combined still represent only approximately 2% of the global language learning market, excl. China) (source: OC&C Report). Through its self-study platform, we believe Babbel achieved a position as market leader in Europe and is growing swiftly in the U.S., which offers both a strategic advantage as well as a large opportunity. Babbel has consolidated multiple experiences into one ecosystem and has the didactic credibility to continue to expand. Our scale allows us to benefit from a marketing budget and brand awareness that we believe sets us apart from many smaller local niche players in our industry.

Babbel has built both its product and its organization with a focus on "learners first". The content and experiences are designed by didactics specialists, where conversational ability and confidence are the key goals. This proprietary content has been, and continues to be, iteratively improved over the last ten years. This results in increasing learner engagement and learner success, reflected by increased average time spent learning by 8% from 13.9 minutes in 2018 to 15 minutes in 2020 (based on the overall average amount of time that users spend within the app over a day on Apple devices (includes the duration of all sessions)) (source: OC&C Report). The technology supporting our ecosystem leverages a highly scalable infrastructure to provide a seamless experience across devices and ongoing optimization of the user experience. We believe that we are in a position to expand across markets and learning methodologies efficiently because of our ecosystem approach.

We believe that our strong operational base and market position leave us well placed to drive growth through enhancement and expansion of our ecosystem, scaling our B2B offering, growing our operations in the U.S. and Canada and through geographical expansion into new markets. We intend to fund these measures organically through our negative Working Capital (which represents the fact that our customers pay for their subscriptions up front, and hence our cash is received before we pay the related costs) and strong cash generation and may decide to accelerate selected measures through strategic M&A.

9.2 Key Financial Information and Operating Data

We use Billed Sales, gross profit on sales, Gross Profit Margin, EBIT Margin, EBITDA, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Cash EBITDA Margin, B2C ARPPS, Contribution Margin, Cash Contribution Margin, Capital Expenditures, Gearing Ratio, Working Capital and the average number of our employees as key performance indicators in order to assess the success of our business. We believe that these indicators, which include Alternative Performance Measures, together with other relevant financial and operating data, will be helpful for investors when assessing our performance. Such financial information and operating data, however, do not necessarily indicate whether cash flows will be sufficient for our cash requirements and may not be indicative of our future results.

See *9.6.2 Capital Expenditures* for details on Capital Expenditures and *9.9.4 Capital management* for details on the Gearing Ratio.

9.2.1 Group

The following table shows key financial information and operating data relating to the Group for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited, unless stated otherwise)			(unaudited)	
	(in € million, unless otherwise stated)				
Billed Sales[1]	167.2	126.1	113.2	92.7	86.8
Sales revenues	147.3	123.9	106.4	82.9	70.1
Sales revenues growth (%)*	*18.8*	*16.5*	*26.7*	*18.3*	-
Gross profit on sales	124.4	110.5	93.3	71.8	57.6
Gross Profit Margin[2] (%)*	*84.4*	*89.2*	*87.6*	*86.6*	*82.1*
Marketing expenses[3]	(110.6)	(81.8)	(77.2)	(66.3)	(60.0)
Research and development expenses[3]	(24.1)	(20.9)	(19.3)	(17.7)	(12.1)
General administrative expenses[3]	(12.0)	(9.8)	(8.8)	(17.8)	(4.7)
Consolidated net result for the period	(23.6)	(3.0)	(12.4)	(30.4)	(19.9)
EBIT	(23.9)	(2.6)	(12.4)	(29.6)	(19.9)
EBIT Margin[4] (%)*	*(16.2)*	*(2.1)*	*(11.7)*	*(35.7)*	*(28.3)*
EBITDA[5]*	(19.9)	0.7	(11.8)	(26.9)	(18.2)
Adjusted EBITDA[6]* (in € million)	(17.0)	4.6	(5.0)	(6.4)	(17.0)
Adjusted Cash EBITDA[7]* (in € million)	0.3	4.6	1.8	3.2	(1.4)

Adjusted Cash EBITDA Margin[8] (%)*	*0.2*	*3.6*	*1.6*	*3.4*	*(1.7)*
Contribution Margin[9] (IFRS)	13.7	28.8	16.1	5.5	(2.4)
Working Capital[10]*	(56.0)	(33.8)	(29.8)	(65.2)	-
Average number of employees	555	567	465	608	530

* Unaudited.

1 Billed Sales are defined as the full amount invoiced to customers during the period prior to reductions for the change in deferred income (see "*9.2.1.1 Calculation of Billed Sales* ").

2 Gross Profit Margin is defined as gross profit on sales as a percentage of sales revenues.

3 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior years' recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

4 EBIT Margin is defined as EBIT as a percentage of sales revenues.

5 EBITDA is defined as EBIT adjusted for depreciation/amortization of property, plant, and equipment and intangible assets, amortization, depreciation, and write-downs IFRS 16 and goodwill impairment as stated in the audited consolidated cash flow statement (see "*9.2.1.2 Calculation of EBITDA, Adjusted EBITDA and Adjusted Cash EBITDA*").

6 Adjusted EBITDA is defined as EBITDA adjusted for non-operating effects (share-based remuneration expenses (EVOP) and unrealized foreign exchange gains/losses) (see "*9.2.1.2 Calculation of EBITDA, Adjusted EBITDA and Adjusted Cash EBITDA*").

7 Adjusted Cash EBITDA is defined as Adjusted EBITDA based on Billed Sales, i.e. adjusted for the change in deferred income, and adjusted for cash payments for lease obligations (see "*9.2.1.2 Calculation of EBITDA, Adjusted EBITDA and Adjusted Cash EBITDA*").

8 Adjusted Cash EBITDA margin is defined as the percentage of Adjusted Cash EBITDA of Billed Sales.

9 Contribution Margin is defined as sales revenues less cost of sales and marketing expenses.

10 Working Capital is defined as trade receivables less trade payables and deferred income.

9.2.1.1 Calculation of Billed Sales

To calculate Billed Sales, we add the change of deferred income to our reported sales revenues. Billed Sales represents the amount invoiced to a customer in a given period, in particular in B2C this represents the cash received upfront for the subscription. We believe that Billed Sales allows for a comparison of the operating performance of Babbel on a more consistent basis.

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited)			(unaudited)	
	(in € million)				
Sales revenues	**147.3**	**123.9**	**106.4**	**82.9**	**70.1**
Change in deferred income	19.9	2.2	6.8	9.8	16.8
Billed Sales	**167.2**	**126.1**	**113.2**	**92.7**	**87.0**

9.2.1.2 Calculation of EBITDA, Adjusted EBITDA and Adjusted Cash EBITDA

To calculate EBITDA, we adjust our EBIT for depreciation, amortization and goodwill impairment expenses included in the line items marketing expenses, research and development expenses and general administrative expenses. To calculate Adjusted EBITDA, we adjust our EBITDA for non-operating effects. For purposes of our internal management, we define non-operating effects as effects that do not reflect the regular operating performance of our business. These effects comprise (i) share-based remuneration expenses (EVOP) and (ii) unrealized foreign exchange gains/losses. To calculate Adjusted Cash EBITDA, we calculate Adjusted EBITDA based on Billed Sales and adjust it for cash payments for lease obligations. We believe that EBITDA, Adjusted EBITDA and Adjusted Cash EBITDA allow for a comparison of the operating performance of Babbel on a more consistent basis.

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited, unless stated otherwise)			(unaudited)	
	(in € million)				
Earnings before interest and income taxes (EBIT)	**(23.9)**	**(2.6)**	**(12.4)**	**(29.6)**	**(19.9)**
Depreciation/amortization of property, plant, and equipment and intangible assets	1.3	0.8	0.6	0.7	0.4
Goodwill impairment	-	0.2	-	-	-

Amortization, depreciation, and write-downs IFRS 16	2.6	2.3	-	1.9	1.3
EBITDA*	**(19.9)**	**0.7**	**(11.8)**	**(26.9)**	**(18.2)**
Share-based remuneration (EVOP)	2.2	3.9	6.9	21.1	1.2
unrealized foreign exchange gains /losses*	0.7	(0.1)	0.0	(0.6)	0.1
Adjusted EBITDA*	**(17.0)**	**4.6**	**(5.0)**	**(6.4)**	**(17.0)**
Change in deferred income	19.9	2.2	6.8	9.8	16.8
Cash payments for lease obligations[1]	(2.6)	(2.2)	-	(0.2)	(1.3)
Adjusted Cash EBITDA*	**0.3**	**4.6**	**1.8**	**3.2**	**(1.4)**

* Unaudited.

1 Includes the principal element of lease payments IFRS 16 as stated in the consolidated cash flow statement.

9.2.1.3 Calculation of Working Capital

To calculate our Working Capital, we adjust our trade receivables for trade payables and deferred income. We use Working Capital as an indicator for cash provided to us through our operational set-up and through the upfront payments in our subscription model contributing to a high level of deferred income.

	Fiscal year ended December 31			**Six months ended June 30**
	2020	**2019**	**2018**	**2021**
	(audited, unless stated otherwise)			(unaudited)
	(in € million)			
Trade receivables	**4.9**	**3.1**	**3.3**	**5.3**
Trade payables	(8.7)	(4.6)	(3.1)	(8.6)
Deferred income	(52.2)	(32.3)	(30.1)	(62.0)
Working Capital*	**(56.0)**	**(33.8)**	**(29.8)**	**(65.2)**

* Unaudited.

9.2.2 Segment Information

We segment our business on both the operational and reporting levels through three segments: B2C Global, B2C USA and B2B. The B2C Global segment comprises all our business with private consumers in markets outside the United States, with steering decisions for these markets on a portfolio basis largely made in our office in Berlin. Our business with private customers in the USA is attributed to the B2C USA segment, with marketing and customer relationship activities run from New York. Our B2B segment bundles the offerings to business customers. We operate our segments on the basis of Billed Sales and Cash Contribution Margin.

The following table shows key financial information and operating data relating to the segments for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited, unless stated otherwise)			(unaudited)	
	(in € million, unless otherwise indicated)				
Billed Sales					
B2C Global	110.3	93.4	90.4	58.7	59.3
thereof:					
Germany, Austria and Switzerland (DACH)	*54.2*	*46.1*	*43.0*	*31.1*	*28.5*
Rest of Europe	*39.9*	*31.5*	*31.2*	*20.0*	*21.7*
Rest of World	*16.2*	*15.8*	*16.2*	*7.6*	*9.1*
B2C USA	54.3	31.7	22.0	31.1	26.5
B2B	2.5	1.1	0.9	2.8	1.1
Total Billed Sales	**167.2**	**126.1**	**113.2**	92.7	87.0
Reconciliation (change in deferred income)	(19.9)	(2.2)	(6.8)	(9.8)	(16.8)

Sales revenues (IFRS)	**147.3**	**123.9**	**106.4**	82.9	70.1
thereof:					
B2C Customers[1]	*145.6*	*122.9*	*105.7*	*81.3*	*69.4*
B2B Customers[1]	*1.7*	*1.1*	*0.7*	*1.6*	*0.7*
Cost of Goods Sold[2]					
B2C Global	12.1	9.5	9.8	5.9	5.7
B2C USA	9.6	3.0	2.5	4.5	6.2
B2B	0.3	0.0	0.0	0.1	0.0
Total Cost of Goods Sold	**22.1**	**12.5**	**12.3**	10.6	11.9
Reconciliation	0.9	0.9	0.8	0.6	0.6
Cost of sales (IFRS)[2]	**22.9**	**13.4**	**13.1**	11.1	12.5
Marketing Costs[3]					
B2C Global	56.1	37.1	41.4	29.9	33.9
B2C USA	37.9	23.8	21.2	21.2	20.4
B2B	1.6	0.8	0.8	1.2	0.9
Total Marketing Costs	**95.6**	**61.7**	**63.4**	52.2	55.2
Reconciliation[4]	15.1	20.1	13.8	14.1	4.9
Marketing expenses (IFRS)[3, 4]	**110.6**	**81.8**	**77.2**	66.3	60.0
Cash Contribution Margin					
B2C Global	42.1	46.8	39.2	22.9	19.8
B2C USA	6.8	4.8	(1.7)	5.4	(0.0)
B2B	0.6	0.3	0.0	1.5	0.1
Total Cash Contribution Margin[5]	**49.6**	**51.9**	**37.5**	29.9	19.9
Reconciliation[4]	(35.8)	(23.2)	(21.5)	(24.4)	(22.3)
Contribution Margin (IFRS)[4]	**13.7**	**28.8**	**16.1**	5.5	(2.4)
Active B2C Subscriptions[6]* (in million)	2.4	1.9	1.9	2.5	2.3
thereof:					
B2C Global	*1.8*	*1.5*	*1.5*	*1.7*	*1.7*
B2C USA	*0.6*	*0.4*	*0.4*	*0.7*	*0.6*
B2C ARPPS[7]* (in €)	5.66	5.41	5.05	5.59	5.54

* Unaudited.

1 In 2020 and 2019, the B2C sales revenues included travel sales to private consumers. 2019 B2C sales revenues was taken from the audited consolidated financial statements as of and for the year ended December 31, 2020, to show a comparable base. Travel sales revenues for the year ended December 31, 2018, were included in B2B sales revenues, but were not material.

2 Cost of goods sold are defined as the sum of all fees related to a purchase of a subscription or product, and those costs directly allocable to the provision of such subscription or product on a user by user basis ("**Cost of Goods Sold**"). Cost of sales under IFRS is Cost of Goods Sold plus pro-rata server costs related to sales revenues, which equals 80% of our webserver costs and, in case of Babbel Live, teacher costs per class.

3 Marketing costs are defined as marketing expenses under IFRS less allocated personnel and other expenses and less pro rata amortization and depreciation (including IFRS 16), as well as allocated share-based remuneration ("**Marketing Costs**").

4 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior years' recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability.

5 Cash contribution margin is defined as Billed Sales less Cost of Goods Sold and Marketing Costs.

6 Active B2C subscriptions are defined as the number of fully paid consumer subscriptions under service at the end of the reporting period.

7 B2C ARPPS is defined as B2C sales revenues divided by the average subscriptions for the period, which is defined as the sum of the number of subscriptions at the beginning and the end of the respective period divided by two, with the result being divided by the number of months in the respective period.

9.3 Key Factors Affecting our Results of Operations, Financial Condition and Cash Flows

The key factors discussed below have significantly affected our results of operations, financial condition and cash flows during the periods for which financial information is included in the Prospectus, and we believe that these factors will continue to affect us in the future:

9.3.1 Growth of our Customer Base

We currently derive the majority of our sales revenues from the sale of new subscriptions and the renewal of subscriptions for the content of our online language learning ecosystem. The ongoing interest from our key markets in learning languages online, including the willingness to pay for this, receptiveness to new learning experiences, the increasing online penetration of the language learning industry as well as our ability to grow brand recognition and market share will contribute to sustained growth of our customer base. The overall online language learning market is expected to grow by around 11-16% CAGR between 2021 and 2025 (source: OC&C Report). The online penetration of this market saw a sharp increase during the COVID-19 lockdown periods and, according to OC&C, will continue to grow ahead of the broader market. Nonetheless, customers may revert back to offline offers following the lifting of COVID-19 restrictions. The development of this market, and Babbel's position within it depend on a variety of factors including economic conditions, increasing competition, customer preferences and an environment where language learning and cross-cultural communication is valued.

Our ability to maintain and enhance the number of active subscriptions, depends on, among other things, our ability to continually offer popular products and services and provide an engaging and effective learning experience. Our subscriptions are mostly sold for a period of one to twelve months, with extension at the end of that period unless learners opt out, i.e., cancel their subscription. Our sales revenues for subscription and language travel to private customers (B2C) grew from € 69.4 million in the six-month period ended June 30, 2020 to € 81.3 million in the six-month period ended June 30, 2021.

We were subject to the headwind of our 'Covid cohorts' from April 2020 becoming due, but found that extension behavior outperformed our conservative assumptions, very much maintaining the trend in extension behavior we have observed over the course of several years. Active subscriptions in our B2C business grew by 8.7% as of June 30, 2021 versus June 30, 2020, and grew by 4.2% over the six-month period ended June 30, 2021. ARPPS was very slightly higher, where growth in CARIS was slightly offset by the ongoing trend toward longer running subscriptions such that that revenue is recognized over a longer period. While our B2B business has a lower impact on our topline due to its smaller relative size, this business more than doubled when compared to the same period in the prior year.

9.3.2 Development of our Ecosystem

We strive to be the market leader in online language learning. Therefore, we continue to expand and drive subscriptions to our ecosystem by enhancing products and adding new features and learning experiences. Our self-study mobile and desktop app is currently joined in our ecosystem by, among other experiences, podcasts, and our latest learning experience Babbel Live, a virtual live tutoring experience that enhances level and content topics and is designed to further drive conversation-based learning. Babbel Live leverages our platform as its subscription base grew from 331 as of February 2021 to 857 as of May 2021, while 70% are stemming from an upsell from existing subscriptions. During the same period, Billed Sales for Babbel Live increased from € 37,000 to € 91,000. In the six-month period ended June 30, 2021, Babbel Live achieved an eight fold increase of its B2C customer subscription base. A range of additional experiences is currently in beta such as games and social learning. Access to this ecosystem is either via our app, via our web portal or for selected offerings via third party providers such as Spotify for podcasts. Irrespective of the entry point to our ecosystem, we provide our motivated learners with the relevant tools and content and guide them through a successful language learning journey. We believe that this will increase learner engagement and success, and will consequently drive subscriber retention and longer term monetization opportunities.

Our ability to bring learners into our ecosystem and guide them through a range of learning experiences depends on, amongst other things, our ability to develop and market learning experiences suited to a broad range of learner needs as well as the maintenance of a brand positioning associated with didactic quality. We continue to improve our didactic learning content and attempt to achieve a better look and feel experience for our customers. In the six-month period ended June 30, 2021, we incurred research and development expenses totaling € 17.7 million, which we consider essential for the ongoing success of our ecosystem. We do not capitalize any expenses related to the research and development of our ecosystem. We currently plan for our internal development activities to be complemented with product tuck-ins from acquisition activity or through corporate partnerships.

9.3.3 Marketing

Marketing has been and will continue to be a key activity in order to strengthen our brand, acquire new learners, and reactivate lapsed learners. We steer our marketing activities by targeting a positive return on every learner acquired through the expected subscription lifetime value (i.e., the forecast revenue of a subscription over the full subscription term including extensions, with the calculation capped at 5 years less COGS, "**SLV**") over the cost of acquiring each subscription (CPO) defined as all marketing costs, excluding personnel and personnel related costs. Accordingly, our marketing spend decision is a function of our target growth against observed media marketing costs and our forecast SLV. We set overall marketing spend budgets and our models used to forecast lifetime values at granular levels enable us to set targets for cost of acquisition (measured as cost per order, "**CPO**") for a given period and across specific geographies. We then allocate this overall spend dynamically based on prevailing media costs across channels and geographies. These channels include online performance marketing channels, social media, podcasts, television and radio. We also undertake brand marketing, which we believe to be a key component of our marketing mix, serving to maintain the value of our ecosystem approach and in the longer term lower the cost of customer acquisition. We currently observe the lowest cost of acquisition in those of our markets with the highest aided brand recognition. Our marketing expenses represent a significant share of our cost base and amounted to € 66.3 million in the six-month period ended June 30, 2021 mainly comprised of media spend (as administrative expenses shown in the Unaudited Condensed Consolidated Interim Financial Statements) and personnel expenses, which accounted for 75.3% and 11.9% of our marketing expenses.

The continuous enhancement of our ecosystem and our strong brand have enabled us to reach an attractive subscription lifetime margin ("**SLM**"), which is defined as SLV minus CPO as a percentage of SLV, in our B2C Global segment. Our B2C USA segment has slightly lower SLMs while we continue to invest in accelerating growth in this market given the size of the opportunity.

9.3.4 Growth of our B2B Business

We offer special terms and additional services under the brand "Babbel for Business" to corporate customers. These include contracts for ecosystem access to a specified number of employees, integration with learner management systems, access to our Live platform and 'Babbel Intensive' 1:1 live classes. This business is largely serviced with the same underlying technology and content as our B2C business. We believe that increasing spend on corporate learning, particularly in online learning, will continue over the coming years and that globalization and increasing location flexibility for corporate employees will increase the size of the corporate language learning market. Further, the high renewal rates of corporate contracts, combined with upsell potential make this market a highly attractive complement to our B2C business. In addition, the B2B business is largely serviced by the vast content library developed for our B2C product. Billed Sales of our B2B segment grew significantly from € 0.9 million in the fiscal year ended December 31, 2018 to € 2.5 million in the fiscal year ended December 31, 2020, corresponding to a CAGR of 70%. Since the launch of this business segment in 2017 until June 30, 2021, we have acquired over 800 companies as corporate customers.

9.3.5 International Expansion

Since the launch of our first product in Germany in 2008, we have been able to expand across a range of new markets both in Europe and further afield and now undertake active marketing efforts in 16 countries, with revenues sourced from many more via app store and web discovery channels. In particular, the launch of our New York City office in 2015 opened up a new market for growth and our B2C USA billed sales grew substantially from € 22.0 million in the fiscal year ended December 31, 2018 to € 54.3 million in the fiscal year ended December 31, 2020, corresponding to a CAGR of 57.2%. In the six-month period ended June 30, 2021, the U.S. market represented 34.6% of the billed sales from our B2C business. Correspondingly, based on our survey, we have seen our brand recognition in the U.S. grow from 11% in the second quarter of 2015, to 64% in the second quarter of 2021 (source: Company information). We expect to continue our investments in both customer acquisition and brand marketing in the U.S.

We believe that a strong international presence is essential for a language company, but in particular our varied markets deliver benefits in terms of revenue and currency diversification. We strategically allocate our marketing spend based on a regular assessment of market attractiveness (market size and growth, customer needs), media prices and competitive situation. We define our prices on a local basis and undertake marketing opportunities specific to each country. Over the long term we plan to expand opportunistically into new geographies, supported by M&A activity.

9.3.6 Low Capital Expenditures and Negative Working Capital

Underlying the future growth drivers outlined above is the ability to leverage the content and technology assets that Babbel has developed over the course of the last ten years with limited need for additional investment to service new geographies, B2B vs. B2C or to develop new content over time. While we continue to optimize our content and we continue to develop our technology so that it remains cutting edge, Babbel's low capital expenditure requirements are the first characteristic in our operating model that drives cash generation over time.

The second characteristic lies in the payment model associated with our premium subscriptions. The learner pays the full value of its subscription upfront, with that revenue recognized over the life of the subscription. Every learner in our active subscriptions number has fully paid for their subscription. This payment model and the associated deferred income represent the largest driver of our negative Working Capital position.

This in itself is highly cash generative, but if we also consider that this upfront subscription payment covers a substantial proportion of the cost of customer acquisition then the extent of the beneficial negative Working Capital dynamics in our business model are even more evident (see "*11.4.7 Attractive financial profile with a self-funded core, sustainable growth and high recurring revenues*" for further discussion on this topic). It is this dynamic that has allowed us to largely self-fund our growth. Over the course of 2020 we were able to generate positive cash flow in three out of four quarters. On a longer term view, we have raised € 28.0 million since founding, and as at June 30, 2021 we have € 32.7 million in cash and cash equivalents on our balance sheet.

9.3.7 The COVID-19 Pandemic

The COVID-19 crisis has prompted consumers to spend more time at home which contributed to growth and higher engagement levels of our B2C customers. We quickly observed an increase in our ability to profitably scale our marketing activities in April 2020, increased our marketing activities accordingly and were able to find a very receptive audience. We believe that this growth is merely the acceleration of a much longer running trend: namely the transition to digital across the language learning industry. Given historical extension rates of our B2C customers, in particular a 56% extension rate for our 12 month subscriptions over 2020, and the general transition to digital offerings across the language learning industry, we believe this growth acceleration will translate into sustainable client relationships supporting our future performance. On the other hand, during the first months of the COVID-19 pandemic, our business customers significantly reduced their spending on employee training which negatively impacted new sales to B2B customers. Over the course of 2020, we saw our B2B customers re-engage with us, although spending levels (as in other areas of corporate spend) have not yet returned to pre-COVID-19 growth rates (source: OC&C Report). As part of our B2C business we have in the past and may in the future offer language travel (Babbel Travel). This business was significantly negatively affected by the COVID-19 pandemic and is temporarily suspended. However, we continue to see upside potential from this field once the travel restrictions imposed in connection with the COVID-19 pandemic subside and Babbel Travel is expected to return to being an active component of our ecosystem.

9.3.8 Seasonality

Our sales revenues, cash flows and net income tends to vary substantially between different seasons and quarters. These variations are primarily related to increased sales and marketing spend at the start of the year and in the fourth quarter, in the latter case these are mainly due to special sales events such as Black Friday. As a result of our revenue recognition under IFRS 15, the impact on our top line result is somewhat mitigated, however quarterly growth in active subscriptions and Billed Sales will not be consistent over the course of the year. As a result of a variety of other factors, our quarterly results of operations may fluctuate significantly. In addition, see the risk factor "*1.2.25 Our sales revenues are subject to seasonal variations, which could cause our financial results to fluctuate* significantly.".

9.3.9 Foreign currency

Our functional currency is the Euro and the local currency of our U.S. subsidiary is the U.S. dollar. Our U.S. subsidiary does not generate sales revenues with external customers and all sales revenues in this entity are the result of internal transactions. However, since we sell our learning experiences worldwide and work with payment providers and marketing partners globally, we have some exposure to movements in foreign exchange. The majority of revenues are generated in EUR or USD, although we also have revenues in British pound (GBP), Swiss franc (CHF), Swedish krona (SEK), Australian dollar (AUD), Canadian dollar (CAD), Polish zloty (PLN) and Brazilian Real (BRL). Revenues are translated into EUR or USD (depending on the relevant payment provider) at the prevailing rate on the day of the transaction. There is some natural offset to our U.S. exposure through U.S. dollar denominated costs associated with our U.S. subsidiary and we further offset revenue exposure on the cost side through USD denominated marketing activities. Most balances held in USD with payment providers or marketing partners are translated into the functional currency at the exchange rate at period end. Some balances in USD can be traded into the functional currency at our discretion. Finally, there is a small exposure through the translation of net assets held with our U.S. subsidiary. See "*1.2.20 We are subject to currency exchange rate risk in the conduct of our business.*".

9.3.10 Share Incentive Programs

Since 2015, we have implemented virtual share incentive programs for certain key employees and consultants of Babbel: namely EVOP I-V. The beneficiaries of our incentive programs accrue claims which reflect the development of the equity value of Babbel GmbH. These claims, among other things, require the occurrence of an exit event as defined under the five EVOPs and we record the corresponding obligations under current liabilities in 2020, and under non-current liabilities for prior years on Babbel GmbH's consolidated balance sheet. With respect to certain exit events, certain shareholders of Babbel GmbH agreed at each EVOP program's inception, to reimburse Babbel GmbH for any claims under our virtual share incentive programs on a pre-agreed ratio. Babbel GmbH's corresponding reimbursement claims were recorded under other current financial assets in the fiscal year ended December 31, 2020 and in non-current financial assets for the prior periods.

The valuation of these EVOP related assets and liabilities for accounting purposes is dependent on, amongst other things, an estimate of the likelihood of exit, the timing of such exit and a fair value. Given the assumptions around the nature and timing of a potential exit, as well as the improved outlook for the business through and beyond the mid-term, the value of both the asset and the liability associated with EVOP claims has increased considerably in the first half of 2021, with a subsequent large impact on the result for the period.

9.4 Results of Operations

The following table shows financial information taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited)			(unaudited)	
	(in € million)				
Sales revenues	147.3	123.9	106.4	82.9	70.1
Cost of sales	(22.9)	(13.4)	(13.1)	(11.1)	(12.5)
Gross profit on sales	124.4	110.5	93.3	71.8	57.6
Marketing expenses[1]	(110.6)	(81.8)	(77.2)	(66.3)	(60.0)
Research and development expenses[1]	(24.1)	(20.9)	(19.3)	(17.7)	(12.1)
General administrative expenses[1]	(12.0)	(9.8)	(8.8)	(17.8)	(4.7)
Other operating income	1.2	1.2	0.8	1.1	0.6
Other operating expenses	(2.8)	(1.8)	(1.2)	(0.6)	(1.2)
Earnings before interest and income taxes (EBIT)	(23.9)	(2.6)	(12.4)	(29.6)	(19.9)
Financial income	0.4	0.1	0.0	0.0	0.0
Financial expenses	(0.1)	(0.1)	(0.0)	(0.7)	(0.0)
Taxes on income	0.1	(0.4)	(0.1)	(0.1)	(0.0)
Consolidated net result for the period	(23.6)	(3.0)	(12.4)	(30.4)	(19.9)
Foreign currency translation differences	(0.1)	0.0	0.0	0.0	0.0
Consolidated comprehensive income for the period	(23.7)	(3.0)	(12.4)	(30.3)	(19.9)

1 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior years' recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.4.1 Sales revenues

The following table shows the split of sales revenues taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited)			(unaudited)	
	(in € million)				
B2C sales[1]	145.6	122.9	105.7	81.3	69.4
B2B sales[1]	1.7	1.1	0.7	1.6	0.7
Total sales revenues	147.3	123.9	106.4	82.9	70.1

1 In 2020 and 2019, the B2C sales revenues included travel sales to private consumers. 2019 B2C sales revenues were taken from the audited consolidated financial statements as of and for the year ended December 31, 2020, to show a comparable base. Travel sales revenues for the year ended December 31, 2018, were included in B2B sales revenues, but were not material.

9.4.1.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Sales revenues increased from € 70.1 million in the six-month period ended June 30, 2020 by € 12.8 million, or 18.3%, to € 82.9 million in the six-month period ended June 30, 2021, driven by ongoing growth in active subscriptions, particularly in our B2C USA segment and increasing monetization across our ecosystem.

9.4.1.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Sales revenues increased from € 123.9 million in the fiscal year ended December 31, 2019 by € 23.4 million, or 18.8%, to € 147.3 million in the fiscal year ended December 31, 2020. Over the same period, Billed Sales increased by 32.5%, with the difference to be recognized over future periods via deferred income. This growth was particularly driven by the Group's brand-building and customer acquisition activities in the US. In addition, from April 2020 onwards, demand for online language learning surged with global COVID-19 virus related lockdowns. During the fiscal year ended December 31, 2020, the Group's strongest driver of growth was the U.S. business. The Group was able to achieve growth of the Billed Sales from its B2C US segment of 71.6% in the fiscal year ended December 31, 2020 (2019: +44.0%). The share of Billed Sales on the B2C US market compared to total Billed Sales was 32.5% (2019: 25.1%). Other key growth markets in Europe and the rest of the world also brought sales revenues growth most notably the German-speaking, French-speaking and English-speaking markets. Total sales revenues continue to be driven by the B2C business (making up 98.9% of the total sales revenues in the fiscal year ended December 31, 2020). Nonetheless, sales revenues in the second operating segment of B2B increased again by 58.8% compared to the fiscal year ended December 31, 2019.

9.4.1.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Sales revenues increased from € 106.4 million in the fiscal year ended December 31, 2018 by € 17.5 million, or 16.5%, to € 123.9 million in the fiscal year ended December 31, 2019 due to sales revenues growth in our B2C USA segment and price increases across many of our other markets. The focus during this period was very much on monetization and our ARPPS increased by 7.1% compared to the prior period. This very much set the path for further price increases over subsequent periods. Overall, subscription growth in the U.S. and price increases across many of our other markets were the drivers of our sales revenue growth between the fiscal year ended December 31, 2018 and fiscal year ended December 31, 2019.

9.4.2 Cost of sales

Cost of sales in our B2C business is largely driven by payment processing and its trajectory is therefore closely related to the mix of subscribers coming through our website and app stores. There is some variation related to the share of purchases between web and app stores, although we observe this split to be relatively constant over time. For reference, in the fiscal year ended December 31, 2020, 62% of our purchases came via web, and the remainder via app. The following table shows the split of cost of sales taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
	(audited)			(unaudited)	
	(in € million)				
Cost of sale via app stores	(13.4)	(9.6)	(10.0)	(7.2)	(6.5)
Cost of online payments	(3.3)	(2.7)	(2.2)	(1.9)	(1.8)
Other cost of sales	(6.1)	(1.0)	(0.9)	(2.1)	(4.2)
Total cost of sales	**(22.9)**	**(13.4)**	**(13.1)**	**(11.1)**	**(12.5)**

9.4.2.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Cost of sales decreased from € 12.5 million in the six-month period ended June 30, 2020 by € 1.4 million, or 11.1%, to € 11.1 million in the six-month period ended June 30, 2021. The mix effects are evident across the various platforms. While app store and online payment costs increased in line with sales, the costs associated with voucher sales via discovery platforms slowed down during the six-month period ended June 30, 2021 compared to the six-month period ended June 30, 2020.

9.4.2.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Cost of sales increased from € 13.4 million in the fiscal year ended December 31, 2019 by € 9.5 million, or 71.2%, to € 22.9 million in the fiscal year ended December 31, 2020. The first driver was a shift towards app based purchases, in particular initiating subscriptions via the app, resulting in higher processing costs for Babbel reflected in the increase of costs of sales via app stores. The increase we observe in other cost of sales was due to the growth in voucher sales via discovery platforms (e.g., StackCommerce or Amazon) and commercial resellers. The cost of sales as a proportion of sales revenues due to these platforms is substantially higher than that relating to web or app store sales. For example, voucher commissions increased from € 0.0 million in the fiscal year ended December 31, 2019 to € 4.9 million in the fiscal year ended December 31, 2020. Although we expect voucher sales to continue to be a part of our business going forward, the strong growth in voucher commissions in the fiscal year ended December 31, 2020 is not expected to continue.

9.4.2.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Cost of sales increased from € 13.1 million in the fiscal year ended December 31, 2018 by € 0.2 million, or 1.9%, to € 13.4 million in the fiscal year ended December 31, 2019. Growth in sales via the web drove increased costs, offsetting the fact that app store revenues included a higher share of subscription renewals which have lower associated processing costs than the initial app store purchase.

9.4.3 Marketing expenses

We incur significant marketing expenses as marketing is a key activity for the Group when seeking to acquire customers and build our brand. The non-personnel expenses within our marketing expenses are therefore very closely tied to growth, targeting strong returns on marketing spend over the life of the relevant cohort. While marketing spend targets cohort returns over the life of the subscription, the full marketing cost is expensed in the period during which it is incurred. The following table shows the split of sales and marketing expenses taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
		(audited)		(unaudited)	
			(in € million)		
Non-personnel expenses	(95.5)	(62.3)	(63.3)	(49.9)	(52.6)
Personnel expenses	(13.3)	(16.7)	(11.6)	(7.9)	(6.6)
Share-based remuneration[1].............................	(0.6)	(1.5)	(2.1)	(7.9)	(0.3)
Amortization/depreciation..............................	(1.2)	(1.2)	(0.2)	(0.6)	(0.5)
Total marketing expenses............................	**(110.6)**	**(81.8)**	**(77.2)**	**(66.3)**	**(60.0)**

1 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, prior years' recognition of expenses for share-based remuneration (EVOP) were adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.4.3.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Marketing expenses increased from € 60.0 million in the six-month period ended June 30, 2020 by € 6.3 million, or 10.5%, to € 66.3 million in the six-month period ended June 30, 2021, driven mainly by expenses for share-based compensation (for further details, see "*9.3.10 Share Incentive Programs*"). We also saw an increase in the average number of employees (full-time equivalent) compared to the prior year as we expanded our branding and performance marketing capabilities and increased the size of our B2B sales force in line with our strategic objectives to expand outbound sales in that business segment.

9.4.3.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Marketing expenses increased from € 81.8 million in the fiscal year ended December 31, 2019 by € 28.8 million, or 35.3%, to € 110.6 million in the fiscal year ended December 31, 2020. Following the news of the first lock-down, we immediately observed increased demand for our subscriptions across marketing channels and hence were able to scale marketing activities rapidly while maintaining positive SLM. Over the following months this dynamic enabled us to increase profitable customer acquisition activities across geographies. Personnel expenses within marketing remained stable, partly due to reduced costs related to working from home and partly due to operating leverage inherent in our marketing organization.

9.4.3.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Marketing expenses increased from € 77.2 million in the fiscal year ended December 31, 2018 by € 4.6 million, or 5.9%, to € 81.8 million in the fiscal year ended December 31, 2019 due to an increase in personnel expenses as we sought to increase the scale and level of expertise driving our marketing efforts. The higher depreciation resulted from the first-time capitalization of right-of-use assets for buildings pursuant to IFRS 16. In substance, the depreciation expenses attributable to these rights of use represent the consumption of the value of the right of use by the marketing related employees.

9.4.4 *Research and development expenses*

Research and development expenses predominantly cover the development and maintenance efforts in our product (including the didactics team) and technology organizations. Given that it is very difficult to quantify and allocate the expected future returns from our development activities for software and products we elect not to capitalize any of these development costs. The following table shows the split of research and development expenses taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			Six months ended June 30	
	2020	**2019**	**2018**	**2021**	**2020**
		(audited)		(unaudited)	
			(in € million)		
Personnel expenses	(20.4)	(16.3)	(14.2)	(11.7)	(10.1)
Share-based remuneration[1]	(1.2)	(1.9)	(3.6)	(2.7)	(0.6)
Non-personnel expenses	(1.3)	(1.2)	(1.2)	(1.8)	(0.5)
Amortization/depreciation	(1.2)	(1.6)	(0.3)	(1.6)	(0.9)
Total research and development expenses	**(24.1)**	**(20.9)**	**(19.3)**	**(17.7)**	**(12.1)**

1 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.4.4.1 *Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020*

Research and development expenses increased from € 12.1 million in the six-month period ended June 30, 2020 by € 5.6 million, or 46.0%, to € 17.7 million in the six-month period ended June 30, 2021, driven mainly by expenses for share-based compensation (for further details, see "*9.3.10 Share Incentive Programs*"). We also saw an increase in the number of employees (full-time equivalent) compared to the six-month period ended June 30, 2020, as we allocated increasing development effort to the build out of additional learning experiences in our ecosystem, leading to an increase in personnel expenses of 15.5% compared to the six-month period ended June 30, 2020.

9.4.4.2 *Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019*

Research and development expenses increased from € 20.9 million in the fiscal year ended December 31, 2019 by € 3.2 million, or 15.3%, to € 24.1 million in the fiscal year ended December 31, 2020. The increase was related to increasing the number of product (including the didactics team) and engineering employees in line with the increasing number of learning experiences in our ecosystem. In line with the increase in employees we also saw increases in web server and license costs as well as in depreciation and amortization, and an increase in the amortization of our right-of-use assets as relates to product and engineering employees.

9.4.4.3 *Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018*

Research and development expenses increased from € 19.3 million in the fiscal year ended December 31, 2018 by € 1.6 million, or 8.3%, to € 20.9 million in the fiscal year ended December 31, 2019 due to an increase in personnel expenses as we increased the number of employees in our product (including the didactics team) and technology teams by around 35% plus an increase in license costs, although the amount of share-based compensation was reduced. The higher depreciation mainly resulted from the first-time capitalization of right-of-use assets pursuant to IFRS 16. In substance, the depreciation expenses attributable to these rights of use represent the consumption of the value of the right of use by the R&D employees.

9.4.5 *General administrative expenses*

The following table shows the split of general administrative expenses taken from the notes to Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			Six months ended June 30	
	2020	**2019**	**2018**	**2021**	**2020**
		(audited)		(unaudited)	
			(in € million)		
Personnel expenses	(6.6)	(5.6)	(4.1)	(3.9)	(3.2)
Amortization/depreciation	(1.7)	(0.5)	(0.1)	(0.5)	(0.3)
Office and IT	(1.1)	(0.8)	(0.7)	(1.7)	(0.4)
Auditing and consulting fees	(0.9)	(0.9)	(0.7)	(0.4)	(0.2)
Share-based remuneration[1]	(0.4)	(0.6)	(1.1)	(10.6)	(0.2)
Cleaning	(0.2)	(0.2)[2]	(0.2)[3]	(0.1)	(0.1)
Other purchased services	(0.2)	(0.1)	(0.1)	(0.4)	(0.1)
Gas, electricity, water	(0.2)	(0.2)	(0.2)	(0.0)	(0.1)
Travel costs, accommodation, and cost of meals	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)
Other expenses	(0.9)	(0.9)[2]	(1.6)[3]	(0.4)	(0.1)
Total general administrative expenses	**(12.0)**	**(9.8)**	**(8.8)**	**(17.8)**	**(4.7)**

1 In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) was adjusted accordingly to allow improved comparability. The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

2 The comparative figures shown for the fiscal year 2019 are taken from the audited consolidated financial statements as of and for the year ended December 31, 2020.

3 The breakdown of costs has been changed in consolidated financial statements for the fiscal year ended December 31, 2020 and concurrent of comparative figures for the fiscal year ended December 31, 2019.

9.4.5.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

General administrative expenses increased from € 4.7 million in the six-month period ended June 30, 2020 by € 13.1 million, or 279.6%, to € 17.8 million in the six-month period ended June 30, 2021, driven mainly by an increase in share-based compensation (for further details, see "*9.3.10 Share Incentive Programs*"). We also saw increases in office and IT expenses related to the build-out of our new office in Berlin.

9.4.5.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

General administrative expenses increased from € 9.8 million in the fiscal year ended December 31, 2019 by € 2.2 million, or 21.9%, to € 12.0 million in the fiscal year ended December 31, 2020, as a result of an increase in personnel in our supporting functions. The increase of amortization/depreciation mainly resulted from the capitalization of rights of use in accordance with IFRS 16. The depreciation expenses attributable to these rights of use represent in substance the consumption of the value of the right of use by the administrative employees. These effects were only partially offset by a reduction in share based remuneration for support function employees under our EVOP.

9.4.5.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

General administrative expenses increased from € 8.8 million in the fiscal year ended December 31, 2018 by € 1.0 million, or 11.5%, to € 9.8 million in the fiscal year ended December 31, 2019 due to an increase in personnel in our supporting functions along with amortization due to the first-time capitalization of rights of use for buildings pursuant to IFRS 16. This was partially offset by a reduction in share based remuneration for support function employees under our EVOP.

9.4.6 Other operating income

The following table shows the split of other operating income taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			Six months ended June 30	
	2020	**2019**	**2018**	**2021**	**2020**
		(audited)		(unaudited)	
			(in € million)		
Income from currency translation	0.9	0.9	0.6	1.0	0.6
Out-of-period income	0.1	0.2	0.1	-	0.1
Other operating income	0.2	0.1	0.2	0.1	0.1

	Fiscal year ended December 31			Six months ended June 30	
	2020	2019	2018	2021	2020
		(audited)		(unaudited)	
			(in € million)		
Total other operating income	**1.2**	**1.2**	**0.8**	**1.1**	**0.6**

9.4.6.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Other operating income increased from € 0.6 million in the six-month period ended June 30, 2020 by € 0.5 million, or 71.4%, to € 1.1 million in the six-month period ended June 30, 2021, driven mainly by an increase in income from currency translation.

9.4.6.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Other operating income remained stable amounting to € 1.2 million in the fiscal year ended December 31, 2019 as compared to € 1.2 million in the fiscal year ended December 31, 2020. A fall in income from other periods was offset by an increase in other operating income resulting from the merger of Babbel GmbH and LingoVentura GmbH, a former wholly-owned subsidiary of Babbel GmbH.

9.4.6.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Other operating income increased from € 0.8 million in the fiscal year ended December 31, 2018 by € 0.4 million, or 48.3%, to € 1.2 million in the fiscal year ended December 31, 2019 due to higher other income from currency translation of deposits held with marketing partners and payment providers and higher income from other periods.

9.4.7 Other operating expenses

The following table shows the split of other operating expenses taken from Babbel GmbH's consolidated statement of comprehensive income for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			Six months ended June 30	
	2020	2019	2018	2021	2020
		(audited)		(unaudited)	
			(in € million)		
Expenses from foreign currency translation	(2.2)	(1.2)	(0.8)	(0.5)	(1.1)
Out-of-period expenses	(0.3)	(0.3)	(0.1)	-	(0.1)
Other operating expenses	(0.3)	(0.3)	(0.3)	(0.1)	(0.1)
Total other operating expenses	**(2.8)**	**(1.8)**	**(1.2)**	**(0.6)**	**(1.2)**

9.4.7.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Other operating expenses decreased from € 1.2 million in the six-month period ended June 30, 2020 by € 0.6 million, or 52.3%, to € 0.6 million in the six-month period ended June 30, 2021, driven mainly by lower expenses from foreign currency translation.

9.4.7.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Other operating expenses increased from € 1.8 million in the fiscal year ended December 31, 2019 by € 1.0 million, or 54.2%, to € 2.8 million in the fiscal year ended December 31, 2020 as a result of an increase in expenses from foreign currency translation, largely relating to deposits held with payment providers. An increase in expenses from other periods was offset by a fall in other operating expenses.

9.4.7.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Other operating expenses increased from € 1.2 million in the fiscal year ended December 31, 2018 by € 0.6 million, or 52.5%, to € 1.8 million in the fiscal year ended December 31, 2019 due to higher other expenses from foreign currency translation and higher out-of-period expenses.

9.4.8 Finance income

9.4.8.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Finance income of € 0.0 million in the six-month period ended June 30, 2020 has not changed compared to € 0.0 million for the six-month period ended June 30, 2021.

9.4.8.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Finance income increased from € 0.1 million in the fiscal year ended December 31, 2019 by € 0.3 million, or fourfold, to € 0.4 million in the fiscal year ended December 31, 2020 as a result of the impact of foreign exchange on our IFRS 16 balance sheet positions.

9.4.8.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Finance income increased from an amount of € 0.0 million in the fiscal year ended December 31, 2018 to € 0.1 million in the fiscal year ended December 31, 2019 and comprised the interest on bank balances.

9.4.9 Finance expenses

9.4.9.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Finance expenses increased from € 0.0 million in the six-month period ended June 30, 2020 by € 0.6 million to € 0.7 million in the six-month period ended June 30, 2021, driven mainly by interest related to lease expenses under IFRS 16.

9.4.9.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Finance expenses remained stable at an amount of € 0.1 million in the fiscal year ended December 31, 2019 as compared to € 0.1 million in the fiscal year ended December 31, 2020 and comprised mostly comprised interest related to lease expenses under IFRS 16.

9.4.9.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Finance expenses increased from € 0.0 million in the fiscal year ended December 31, 2018 by € 0.1 million to € 0.1 million in the fiscal year ended December 31, 2019 due to the first time implementation of IFRS 16.

9.4.10 Taxes on income

9.4.10.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Expenses for taxes on income increased from € 0.0 million in the six-month period ended June 30, 2020 by € 0.1 million to € 0.1 million in the six-month period ended June 30, 2021.

9.4.10.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Expenses for taxes on income of € 0.4 million in the fiscal year ended December 31, 2019 decreased by € 0.5 million as compared to an income of € 0.1 million in the fiscal year ended December 31, 2020. As a result of our losses during the fiscal year ended December 31, 2020, we were able to claim tax benefits during the same year as a function of tax paid for the 2019 tax year and this left the overall tax position with a net positive impact for the fiscal year ended December 31, 2020.

9.4.10.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Expenses for taxes on income increased from € 0.1 million in the fiscal year ended December 31, 2018 by € 0.3 million, or quadrupled, to € 0.4 million in the fiscal year ended December 31, 2019. Our lower level of losses in the fiscal year ended December 31, 2019 when compared to the prior fiscal year, resulted in a lower net tax income and consequently a higher overall tax expense.

9.5 Assets, Equity and Liabilities

9.5.1 Assets

The following table shows the split of assets taken from Babbel GmbH's consolidated balance sheet as of December 31, 2020, December 31, 2019, as amended, December 31, 2018 and June 30, 2021:

	As of December 31			As of June 30
	2020	**2019**	**2018**	**2021**
		(audited)		(unaudited)
		(in € million)		
Non-current assets				
Intangible assets	1.2	1.0	0.7	1.0
Property, plant and equipment	4.2	4.5	1.7	45.8
Other financial assets[1]	0.2	24.7	20.7	1.2
Deferred tax assets	0.2	-	-	0.4

Total non-current assets	**5.8**	**30.2**	**23.1**	**48.4**
Current assets				
Trade receivables	4.9	3.1	3.3	5.3
Other financial assets[1]	33.6	4.3	3.6	54.5
Other assets	4.3	3.4	4.1	1.9
Cash and cash equivalents[1]	28.9	30.5	25.2	32.7
Total current assets	**71.7**	**41.4**	**36.2**	**94.4**
Total assets	**77.5**	**71.6**	**59.3**	**142.8**

1 The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.5.2 Non-Current Assets

9.5.2.1 Comparison of June 30, 2021 and December 31, 2020

Non-current assets increased from € 5.8 million as of December 31, 2020 by € 42.6 million, or more than sevenfold, to € 48.4 million as of June 30, 2021 driven mainly by recognition of right-of-use assets on new leases in both Berlin and New York pursuant to IFRS 16.

9.5.2.2 Comparison of December 31, 2020 and December 31, 2019

Non-current assets decreased from € 30.2 million as of December 31, 2019 by € 24.4 million, or 80.8%, to € 5.8 million as of December 31, 2020 predominantly as a result of the reclassification of our EVOP from non-current assets to current assets in the fiscal year ended December 31, 2020 given the increased visibility on the timing and type of the potential exit event.

9.5.2.3 Comparison of December 31, 2019 and December 31, 2018

Non-current assets increased from € 23.1 million as of December 31, 2018 by € 7.1 million, or 30.8%, to € 30.2 million as of December 31, 2019. The additions in the fiscal year 2019 primarily relate to the additions of right-of-use assets arising from the first-time application of IFRS 16. Further investments mainly related to new operating and business equipment, as well as new software. There was also an increase related to higher compensation claims against the shareholders in relation to EVOP.

9.5.3 Current Assets

9.5.3.1 Comparison of June 30, 2021 and December 31, 2020

Current assets increased from € 71.7 million as of December 31, 2020 by € 22.7 million, or 31.7%, to € 94.4 million as of June 30, 2021 driven mainly by an increase in share-based compensation (for further details, see "*9.3.10 Share Incentive Programs*").

9.5.3.2 Comparison of December 31, 2020 and December 31, 2019

Current assets increased from € 41.4 million as of December 31, 2019 by € 30.3 million, or 73.2%, to € 71.7 million as of December 31, 2020 mainly due to the EVOP reclassification from non-current assets to current assets in the fiscal year ended December 31, 2020.

9.5.3.3 Comparison of December 31, 2019 and December 31, 2018

Current assets increased from € 36.2 million as of December 31, 2018 by € 5.2 million, or 14.3%, to € 41.4 million as of December 31, 2019 largely due to high cash generation given our increasing focus on monetization of our subscription base during the year.

9.5.4 Equity

The following table shows the split of equity taken from Babbel GmbH's consolidated balance sheet as of December 31, 2020, December 31, 2019, as amended, December 31, 2018 and June 30, 2021:

	As of December 31			**As of June 30**
	2020	**2019**	**2018**	**2021**
		(audited)		(unaudited)
		(in € million)		
Shareholders' equity				
Subscribed capital	0.1	0.1	0.1	0.1
Capital reserves	28.5	28.5	28.5	28.5

Retained earnings and other Reserves	(47.6)	(26.4)	(27.5)	(56.6)
Currency differences	(0.1)	0.0	(0.0)	(0.0)
Total shareholders' equity	**(19.1)**	**2.2**	**1.0**	**(28.0)**

9.5.4.1 Comparison of June 30, 2021 and December 31, 2020

Shareholders' equity decreased from negative € 19.1 million as of December 31, 2020 by € 8.9 million, or 46.8%, to negative € 28.0 million as of June 30, 2021 driven mainly by the accounting loss of the period.

9.5.4.2 Comparison of December 31, 2020 and December 31, 2019

Shareholders' equity decreased from € 2.2 million as of December 31, 2019 by € 21.3 million to negative € 19.1 million as of December 31, 2020 mainly as a result of the IFRS loss for the year. Despite the comprehensive loss of the period of € 23.7 million, the consolidated financial statements were prepared using the going concern principle, as sufficient cash and cash equivalents of € 28.9 million was available as of the reporting date.

9.5.4.3 Comparison of December 31, 2019 and December 31, 2018

Shareholders' equity increased from € 1.0 million as of December 31, 2018 by € 1.2 million, or 114.2%, to € 2.2 million as of December 31, 2019 due to the creation of higher other reserves and a smaller loss for the year in spite of a higher loss carry-forward. Other reserves represent the claims against our shareholders in relation to EVOP. This has a mostly neutral overall effect given that the offsetting position lies in other non-current assets.

9.5.5 Liabilities

The following table shows the split of liabilities taken from Babbel GmbH's consolidated balance sheet as of December 31, 2020, December 31, 2019, as amended, December 31, 2018 and June 30, 2021:

	As of December 31			**As of June 30**
	2020	**2019**	**2018**	**2021**
		(audited)		(unaudited)
		(in € million)		
Non-current liabilities				
Provisions	-	24.0	20.0	-
Trade payables and other liabilities	2.3	0.5	0.0	43.4
Deferred tax liabilities	0.2	-	-	0.4
Total non-current liabilities	**2.4**	**24.5**	**20.1**	**43.8**
Current liabilities				
Provisions	28.9	2.7	1.5	49.5
Trade payables and other liabilities	9.5	7.2	4.5	11.6
Other liabilities	55.7	35.0	32.1	66.1
thereof deferred income	*52.2*	*32.3*	*30.1*	*62.0*
Income tax debt	0.1	-	0.0	0.0
Total current liabilities	**94.1**	**44.9**	**38.2**	**127.1**
Total liabilities	**96.6**	**69.4**	**58.3**	**170.9**

9.5.6 Non-current liabilities

9.5.6.1 Comparison of June 30, 2021 and December 31, 2020

Non-current liabilities increased from € 2.4 million as of December 31, 2020 by € 41.3 million or more than sixteen times to € 43.8 million as of June 30, 2021, driven mainly by the recognition of lease liabilities pursuant to IFRS 16, for new leases in both Berlin and New York.

9.5.6.2 Comparison of December 31, 2020 and December 31, 2019

Non-current liabilities decreased from € 24.5 million as of December 31, 2019 by € 22.1 million, or 90.0%, to € 2.4 million as of December 31, 2020 as a result of the EVOP reclassification to current liabilities in the fiscal year ended December 31, 2020 given the increased visibility on the timing and type of the potential exit event.

9.5.6.3 Comparison of December 31, 2019 and December 31, 2018

Non-current liabilities increased from € 20.1 million as of December 31, 2018 by € 4.4 million, or 22.1%, to € 24.5 million as of December 31, 2019 due to additions to the provisions for our EVOP and the application of IFRS 16 for the first time.

9.5.7 Current liabilities

9.5.7.1 Comparison of June 30, 2021 and December 31, 2020

Current liabilities increased from € 94.1 million as of December 31, 2020 by € 33.0 million, or 35.0%, to € 127.1 million as of June 30, 2021. Our deferred income position increased substantially as a function of high Billed Sales during the seasonally strong first quarter of 2021, compounded further by the unusually strong sales growth in the second quarter of 2021. The proximity of the strong first quarter to the balance sheet as of June 30, 2021 and the trend towards increasing subscription lengths means that a disproportionate amount of revenue is allocated to deferred income when compared to the balance sheet as of December 31, 2020. This represents revenue that will be recognized over coming periods. The other large driver of the increase in current liabilities was the increase in provisions for our EVOP.

9.5.7.2 Comparison of December 31, 2020 and December 31, 2019

Current liabilities increased from € 44.9 million as of December 31, 2019 by € 49.2 million, or 109.8%, to € 94.1 million as of December 31, 2020 as a result of the EVOP reclassification to current liabilities and increase in deferred income given the increased visibility on the timing and type of the potential exit event.

9.5.7.3 Comparison of December 31, 2019 and December 31, 2018

Current liabilities increased from € 38.2 million as of December 31, 2018 by € 6.7 million, or 17.5%, to € 44.9 million as of December 31, 2019. Trade payables and other liabilities as well as personnel related provisions increased, but the most noteworthy driver is the increase in deferred income due to increasingly longer term subscription sales.

9.6 Liquidity and Capital Resources

9.6.1 Consolidated Cash Flow Statement

The following table shows the breakdown of cash flows taken from Babbel GmbH's consolidated cash flow statement for the fiscal years ended December 31, 2020, December 31, 2019, as amended and December 31, 2018 and the six-month periods ended June 30, 2021 and June 30, 2020:

	Fiscal year ended December 31			**Six months ended June 30**	
	2020	**2019**	**2018**	**2021**	**2020**
		(audited)		(unaudited)	
			(in € million)		
Cash flow from operating activities					
Net income/loss for the period before income taxes	(23.6)	(2.6)	(12.4)	(30.2)	(19.9)
Depreciation/amortization of property, plant and equipment and intangible assets	1.3	0.8	0.6	0.7	0.4
Goodwill impairment LingoVentura GmbH (+)	-	0.2	-	-	-
Amortization, depreciation and write-downs IFRS 16 (+)	2.6	2.3	-	1.9	1.3
Increase (+) in provisions	2.1	4.0	6.9	20.6	1.0
Loss (+) from the disposal of fixed assets	0.0	0.0	0.0	0.0	-
Other non-cash expenses (+) and income (-)	0.0	(0.0)	(0.0)	(0.0)	-
Increase (-) / decrease (+) in trade receivables and other assets[1]	(5.2)	0.3	(4.3)	1.5	(10.4)
Increase (+) in trade payables and other liabilities	25.2	4.0	8.2	11.2	20.3
Interest income (-)	(0.0)	(0.1)	(0.0)	(0.0)	-
Interest expenses (+)	0.1	0.1	0.0	0.6	0.0
Interest component of lease payments IFRS 16 (+)	(0.1)	(0.1)	-	(0.6)	(0.0)
Other interest paid (-)	(0.0)	(0.0)	-	-	-
Income taxes paid (+)	(0.0)	(0.2)	(0.1)	(0.1)	(0.0)
Cash flow from operating activities[1]	**2.3**	**8.6**	**(1.1)**	**5.6**	(7.3)
Cash flow from investing activities					

Payments made (-) for investments in property, plant and equipment and intangible assets	(1.2)	(1.2)	(0.7)	(1.6)	(0.4)
Payments received (+) from disposals of property, plant and equipment	-	0.0	-	-	-
Acquisition of subsidiaries	-	-	(0.2)	(0.0)	-
Interest received (+)	0.0	0.1	0.0	0.0	-
Cash flow from investing activities	**(1.2)**	**(1.1)**	**(0.9)**	**(1.6)**	(0.4)
Cash flow from financing activities					
Principal element of lease payments IFRS 16	(2.6)	(2.2)	-	(0.2)	(1.3)
Cash flow from financing activities	**(2.6)**	**(2.2)**	**-**	**(0.2)**	(1.3)
Cash and cash equivalents at the end of the period					
Changes in cash and cash equivalents[1] (sub-totals 1 – 3)	(1.5)	5.3	(2.0)	3.8	(9.0)
Currency-related changes in cash and cash equivalents[1]	(0.1)	0.0	0.0	0.0	0.0
Cash and cash equivalents at the beginning of the period[1]	30.5	25.2	27.2	28.9	31.2
Cash and cash equivalents at the end of the period	**28.9**	**30.5**	**25.2**	**32.7**	**22.2**

1 The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.6.1.1 Cash Flows from Operating Activities

Due to the negative Working Capital of the Group which is a result of its subscription business model (cash paid in on subscription purchase, but recognized over subscription life under contract liability as required by IFRS 15) and non-cash expenses recognized (mainly provisions related to EVOP, and to a lesser extent depreciation and amortization), there is a significant difference between cash flow from operating activities and the Group’s overall result.

9.6.1.1.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Cash flow from operating activities increased from a cash outflow of € 7.3 million in the six-month period ended June 30, 2020 by € 12.9 million to a cash inflow of € 5.6 million in the six-month period ended June 30, 2021. The fiscal year ended December 31, 2020 was marked by a large investment into marketing as we observed increased demand for language learning across our target market and scaled spend accordingly. The six-month period ended June 30, 2021 saw us moving toward a more normalized marketing spend environment and hence our operating cash flow was higher compared to the prior year. On a line by line basis, this means that while our loss was higher in the six-month period ended June 30, 2021, our non-cash adjustments for EVOP, depreciation and amortization were also higher, resulting in a positive operating cash flow for the period.

9.6.1.1.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Cash flow from operating activities decreased from € 8.6 million in the fiscal year ended December 31, 2019 by € 6.3 million, or 73.0%, to € 2.3 million in the fiscal year ended December 31, 2020 as a result of larger losses in 2020. While those losses were partially driven by increased marketing spend in the second quarter (and hence a direct cash cost), operating cash flow reflects the substantial impact of revenue deferral under IFRS 15 and to a lesser extent sizeable non-cash expenses such as depreciation and increased provisions for the EVOPs.

9.6.1.1.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Cash flow from operating activities increased from a cash outflow of € 1.1 million in the fiscal year ended December 31, 2018 by € 9.8 million to a cash inflow of € 8.6 million in the fiscal year ended December 31, 2019 due to a substantial reduction of losses in comparison to the prior year. IFRS 16 was also applied for the first time resulting in a positive adjustment to operating cash flow.

9.6.1.2 Cash Flows from Investing Activities

9.6.1.2.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Cash flow from investing activities increased by € 1.2 million, or 269.6%, from a cash outflow of € 0.4 million in the six-month period ended June 30, 2020 to a cash outflow of € 1.6 million in the six-month period ended June 30, 2021, driven mainly by higher investments in property, plant and equipment for new office premises in Berlin and New York.

9.6.1.2.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Cash flow from investing activities increased from a cash outflow of € 1.1 million in the fiscal year ended December 31, 2019 by € 0.1 million, or 6.2%, to a cash outflow of € 1.2 million in the fiscal year ended December 31, 2020. The cash outflow from investing activities in the fiscal year 2020 resulted primarily from investments in hardware, purchased software and leasehold improvements for new office premises.

9.6.1.2.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Cash flow from investing activities increased from a cash outflow of € 0.9 million in the fiscal year ended December 31, 2018 by € 0.3 million, or 32.2%, to a cash outflow of € 1.1 million in the fiscal year ended December 31, 2019 mainly resulting from investments in hardware and purchased software. In the fiscal year ended December 31, 2018, our investing cashflows were larger due to the acquisition of LingoVentura GmbH.

9.6.1.3 Cash Flows from Financing Activities

9.6.1.3.1 Comparison of the Six-Month Periods Ended June 30, 2021 and June 30, 2020

Cash flow from financing activities decreased by € 1.1 million, or 83.4%, from a cash outflow of € 1.3 million in the six-month period ended June 30, 2020 to a cash outflow of € 0.2 million in the six-month period ended June 30, 2021. This reduction relates to the three-month rent-free period at the beginning of the new office lease in Berlin.

9.6.1.3.2 Comparison of the Fiscal Years Ended December 31, 2020 and December 31, 2019

Cash flow from financing activities increased from a cash outflow of € 2.2 million in the fiscal year ended December 31, 2019 by € 0.4 million, or 19.6%, to a cash outflow of € 2.6 million in the fiscal year ended December 31, 2020 as a result of an increase in amortization of lease liabilities under IFRS 16 nearing the end of our prior office lease.

9.6.1.3.3 Comparison of the Fiscal Years Ended December 31, 2019 and December 31, 2018

Cash flow from financing activities was a cash outflow of € 2.2 million in the fiscal year ended December 31, 2019 as a result of the first-time application of IFRS 16 and the cash flows associated with amortization of the lease liabilities. Cash flow from financing activities was nil in the fiscal year ended December 31, 2018.

9.6.2 Capital Expenditures

Our capital expenditures are defined as payments made for investments in property, plant, and equipment and payments made for either the development or purchase of intangible assets. While repair and maintenance of property, plant, and equipment is expensed during the period, significant improvements are capitalized. We do not capitalize product development in our research and development organization. We do however capitalize licenses (in particular those for accounting or analytics tools), investments in domain names and the internal development of proprietary tools for our support functions such as budgeting and planning tools for our finance organization.

Capital expenditures are not recognized as a measure under IFRS and should not be considered as a substitute for an analysis of the consolidated balance sheet of the Company and the consolidated cash flow statement of the Company prepared in accordance with IFRS. In addition, our definition of capital expenditures may not be comparable to similarly titled information published by other companies.

9.6.2.1 *Our Past Capital Expenditures*

The following table shows a breakdown of our capital expenditures taken for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018 and the six-month period ended June 30, 2021:

	Fiscal year ended December 31			Six months ended June 30
	2020	**2019**	**2018**	**2021**
	(audited, unless otherwise indicated)			(unaudited)
	(in € million)			
Payments made for investments in property, plant, and equipment (unaudited)	0.6	0.6	0.5	1.5
Payments made for intangible assets (unaudited)...	0.6	0.6	0.5	0.1
Capital expenditures..................................	**1.2**	**1.2**	**1.0**	**1.6**

9.6.2.2 *Capital Expenditures in the fiscal years 2018, 2019 and 2020 as well as in the six-month period ended June 30, 2021*

Almost all of our capital expenditures represent spending on office equipment or tenant fixtures all of which are and will be financed using available cash.

Our capital expenditures increased from € 1.0 million in the fiscal year ended December 31, 2018 by € 0.2 million, or 15.9%, to € 1.2 million in the fiscal year ended December 31, 2019 representing an increased spending on office equipment or tenant fixture.

In the fiscal years ended December 31, 2019 and December 31, 2020, our capital expenditures remained stable at € 1.2 million.

In the six-month period ended June 30, 2021, our capital expenditures increased to € 1.6 million representing higher spending on office equipment and tenant fixtures which we incurred in connection with the relocation of our headquarter in Berlin.

9.6.2.3 *Capital Expenditures since June 30, 2021*

Between June 30, 2021 and the date of this Prospectus, our capital expenditures amounted to approximately € 0.4 million, primarily comprising investments in office equipment and tenant fixtures.

9.6.2.4 *Our Current and Future Capital Expenditures*

Likewise, our ongoing capital expenditures, i.e., projects that have been initiated but have not been finalized as of the date of the Prospectus, relate mainly to investments in office equipment and tenant fixtures.

As of the date of the Prospectus, the Management Board has not made any commitments on material capital expenditures for the remainder of the fiscal year 2021 or beyond.

9.7 Significant Accounting Policies

The preparations of our consolidated financial statements in accordance with IFRS require our management to make judgments, estimates and assumptions that affect the reported amounts of revenues, income, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affected in future periods.

For more information on our accounting policies as well as our significant accounting judgments, estimates and assumptions, please see the description of our accounting methods described in the notes to our consolidated financial statements as of and for the fiscal years ended December 31, 2020, December 31, 2019, as amended and December 31, 2018 included on pages F-52 *et seq.*, F-93 *et seq.* and F-132 *et seq*.

9.8 Changes in Accounting Standards

For a description concerning new regulations concerning international accounting pursuant to IFRS, see the notes to our consolidated financial statements as of and for the fiscal years ended December 31, 2020, December 31, 2019, as amended and December 31, 2018 included on pages F-60 *et seq.*, F-102 *et seq.* and F-140 *et seq*.

9.9 Quantitative and Qualitative Disclosure of Market and Other Risks

The Group considers itself to be exposed to default risks, liquidity risks and market risks due to the use of financial instruments. Default risks relate, in particular, to individual receivables, especially if these are not securitized. In addition, the Group is also exposed to fraud risks given various payment options (Fraud & Fake). The Company monitors and controls these risks proactively within the framework of an effective risk management system. The risk management function is integrated into Group controlling.

9.9.1 Default risk

The credit or default risk relates to the risk that business partners, mainly the payment providers, fail to comply with their payment obligations. This could lead to a loss for the Group. The respective losses concern, in particular, current trade receivables. The Group does not consider itself exposed to any material credit risk relating to an individual customer. The concentration of the credit risk is limited because payment is made in advance by private customers. The Group monitors and actively controls the credit risk via credit standing reviews and optimization of payment processes. Generally, we establish that based on the business model applied, customers generally pay for the products in advance and the receivables are due from renowned resellers and payment providers with ratings issued by well-known rating agencies. Thus, the default risk in our B2C segments is to be regarded as low.

In this context, the highest possible default risk corresponds to the carrying amount of the financial assets.

The following table indicates the age structure of the financial assets and trade receivables which were not yet due and overdue but had not been written down as of the closing date. When assessing the default risk, the provisions set forth in IFRS 9 and general materiality principles were observed.

The other financial assets primarily comprise security deposits to and payment providers (in particular Apple, Google, Adyen, and PayPal), all of which have a top rating from prestigious rating agencies. Issues with receivable defaults have not yet arisen in connection with financial assets. Because there have not been any defaults on receivables, general adjustments have not been created.

There is no identifiable default risk for reimbursement claims from shareholders in connection with our EVOP because the underlying shareholder shares can be utilized in an Exit situation.

Classes of financial instruments	Carrying amount	of which neither overdue not value-adjusted	of which overdue but not value-adjusted as of the reporting dated (in days)		
			1-120	120-180	> 180
		(audited) (in € million)			
As of December 31, 2020					
Security deposit	3.8	3.8	-	-	-
Prepayments and customer advances.........	2.6	2.6	-	-	-
Rental deposit	0.9	0.9	-	-	-
Other financial assets.....	0.1	0.1	-	-	-
Reimbursement claims from shareholders	26.5	26.5	-	-	-
Trade receivables...........	4.9	4.7	0.2	0.0	0.0
Total............................	**38.8**	**38.5**	**0.2**	**0.0**	**0.0**
As of December 31, 2019					
Security deposit	2.3	2.3	-	-	-
Prepayments and customer advances.........	1.6	1.6	-	-	-
Rental deposits..............	0.8	0.8	-	-	-
Other financial assets.....	0.3	0.3	-	-	-
Reimbursement claims from shareholders	24.1	24.1	-	-	-
Trade receivables...........	3.1	3.0	0.1	0.0	-
Total............................	**32.2**	**32.0**	**0.1**	**0.0**	-

As of December 31, 2018					
Prepayments and customer advances.........	1.4	1.4	-	-	-
Rent deposits[1]	0.8	0.8	-	-	-
Other financial assets[1]....	2.3	2.3	-	-	-
Reimbursement claims from shareholders	19.9	19.9	-	-	-
Trade receivables...........	3.3	3.3	-	0.0	0.0
Total.............................	**27.6**	**27.6**	**-**	**0.0**	**0.0**

1 The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

9.9.2 Liquidity risk

The Group's liquidity management ensures the availability of liquid funds through appropriate budget planning. Moreover, the financing of operating activities is secured through an always sufficient liquid assets portfolio and has historically been supported by the upfront payment for premium subscriptions and the resultant negative Working Capital. At present, the Group does not report any significant interest or repayment obligations.

The following table presents the contractually agreed (not discounted) interest and repayment obligations concerning non-derivative financial liabilities:

Type of liabilities		**Residual terms in years**		
	Nominal value	**< 1**	**1 – 5**	**> 5**
		(audited) (in € million)		
As of December 31, 2020				
Trade payables...........................	8.7	8.7	-	-
Lease liabilities..........................	3.0	1.1	2.0	-
Other liabilities	0.2	0.2	-	-
Total..	**12.0**	**10.0**	**2.0**	**-**
As of December 31, 2019				
Trade payables...........................	4.6	4.6	-	-
Lease liabilities..........................	3.0	2.5	0.5	-
Other liabilities	0.1	0.1	0.0	-
Total..	**7.8**	**7.2**	**0.5**	**-**
As of December 31, 2018				
Trade payables...........................	3.0	3.1	-	-
Outstanding invoices	1.4	1.4	-	-
Other liabilities	0.2	0.1	0.0	-
Total..	**4.6**	**4.5**	**0.0**	**-**

9.9.3 Market risk

The Group generates a substantial proportion of its sales revenues in foreign currencies. Payments from sales are received in the following currencies: Euro, United States dollar (USD), British pound (GBP), Swiss franc (CHF), Swedish krona (SEK), Australian dollar (AUD), Canadian dollar (CAD), Polish zloty (PLN).

The substantial part of the transactions carried out in foreign currencies were performed in USD. The other foreign currencies mentioned above were of minor significance as of the reference date. The bank balances held in these currencies – translated into EUR – only accounted for around 10% of the Group's total holdings in cash and cash equivalents.

The Group generally strives to generate expenses and income and receive and make payments in the same functional currency in order to reduce the currency risk. Nevertheless, the Group is exposed to a currency risk when transactions are concluded and the resulting payment flows are not denominated in the functional currency of the respective company. The following table shows the effects on the income statement which would have arisen if the foreign currencies had been appreciated by 10% or devalued by 10%, respectively, as of the balance sheet date.

Changes	**December 31, 2020**	**December 31, 2019**	**December 31, 2018**

(in € million)	+10%	-10%	+10%	-10%	+10%	-10%
EUR-USD	0.9	(0.9)	0.6	(0.6)	0.3	(0.3)

Furthermore, via its investment in the foreign subsidiary, the Group is exposed to a minor currency risk which arises from the translation of net assets. However, this translation risk does not present a currency risk in terms of IFRS 7.

9.9.4 Capital management

The Group's capital management objectives are primarily designed to finance the Group's growth strategy and to minimize the risks associated with the investment of liquid funds. The Group is not subject to any externally imposed capital requirements. The capital structure is managed on the basis of a target gearing ratio. The gearing ratio is defined as the ratio of current liabilities to cash and cash equivalents.

The following table shows the Group's gearing ratio as of December 31, 2020, December 31, 2019, December 31, 2018 and June 30, 2021:

	As of December 31			As of June 30
	2020	**2019**	**2018**	**2021**
		(audited)		(unaudited)
Cash and cash equivalents[1] (in € million)	28.9	30.5	25.2	32.7
Current liabilities[1, 2] (in € million)	15.8	12.6	8.1	17.9
Gearing ratio	**0.55**	**0.41**	**0.32**	**0.55**

1 The comparative figures shown for the fiscal year 2018 are taken from the audited amended consolidated financial statements as of and for the year ended December 31, 2019.

2 Due to its business model, the Group discloses a high deferred income line item. However, this line item does not give rise to financial debt. Instead, it only represents a future non-financial benefit obligation. Compared to the prior year, the deferred income line item was separated from the current liabilities for purposes of determining the gearing ratio because this better represents the Group's actual capital structure or gearing ratio, respectively. The prior years' calculation has been adjusted accordingly. The provisions for the EVOP programs represent short-term provisions. However, they are covered by shareholder receivables and are therefore not included when calculating the gearing ratio.

9.10 Additional Information from Babbel GmbH's audited unconsolidated financial statements prepared in accordance with the German Generally Accepted Accounting Principles of the German Commercial Code (Handelsgesetzbuch) as of and for the fiscal year ended December 31, 2020

Certain information from the audited unconsolidated financial statements of Babbel GmbH prepared in accordance with German generally accepted accounting principles of the HGB as of and for the fiscal year ended December 31, 2020 is presented below. Accounting principles set forth in the HGB differ from IFRS in material respects.

In the fiscal year ended December 31, 2020, Babbel GmbH's sales revenues amounted to € 147.3 million, compared to sales revenues of € 123.9 million in the fiscal year ended December 31, 2019.

Babbel GmbH's net loss for the year amounted to € 21.5 million in the fiscal year ended December 31, 2020, compared to a net profit of € 0.6 million in the fiscal year ended December 31, 2019.

Babbel GmbH's equity amounted to € (20.2) million as of December 31, 2020, compared to € 1.3 million as of December 31, 2019.

For further information on Babbel GmbH's audited unconsolidated financial statements, see pages F-146 *et seq.* of this Prospectus.

9.11 Additional Information from the Company's audited unconsolidated financial statements prepared in accordance with IFRS as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021

Certain information from the audited unconsolidated financial statements of the Company prepared in accordance with IFRS as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021 is presented below. The Company has prepared the audited individual financial statements as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021 on a voluntary basis for purposes of this Prospectus.

With respect to the fiscal year ended December 31, 2021, the Company will prepare financial statements in accordance with generally accepted accounting principles of the HGB for the short fiscal year ended December 31, 2021. Accounting principles set forth in the HGB differ from IFRS in material respects.

According to the Company's audited statement of comprehensive income for the period from April 19, 2021 to June 30, 2021, the Company incurred other operating expenses of € 220 and a corresponding net loss in that period.

According to the Company's audited balance sheet as of June 30, 2021, the Company's issued capital amounted to € 50,000 as of that date. As of June 30, 2021, the Company recorded cash and cash equivalents in an amount of € 50,000 and a net loss of € 220.

For further information on the Company's audited unconsolidated financial statements prepared in accordance with IFRS, see pages F-162 et *seq.* of this Prospectus.

10. MARKETS AND COMPETITION

To the extent not otherwise indicated, market data, forecasts and statements regarding Babbel's position in the markets in which it operates and market and industry developments and trends, including growth rates, are based on the Company's assessments and estimates, using underlying data from third parties. See "*2.5 Third-party sources*" for an overview of sources used. The forward-looking statements in this section are subject to risks and uncertainties, as they relate to future events, and are based on estimates and assessments that may be inaccurate.

This section "*10 Markets and Competition*" is based on the OC&C Report with supplemental reference points from the HolonIQ Study. Unless otherwise indicated, all data and statements mentioned in sections "*10.3 Language Learning Market Opportunity Is Large, Irrespective of The Chosen Segments or Estimates*", "*10.5 The COVID-19 Pandemic Has Clearly Altered the Market Structure and Outlook*", "*10.8 Geographic Expansion Offers Enormous Opportunity*", "*10.9 Significant Opportunity in B2B*" and "*10.10 Further Growth Underpinned by Ecosystem Expansion*" are therefore sourced from the OC&C Report. While data relating to market size is stated as a range within the OC&C Report, market size data is partially reproduced as the mid-point of such range.

10.1 Digital Players Are Making Language Learning More Accessible, Significantly Expanding the Addressable Market

Digital technology is enabling fundamental growth of the language learning market. Companies which use digital technology have created products that allow learners to learn languages at any time at the pace they want in a more affordable way. Their products have not only made language learning more accessible, they have also made language learning a more enjoyable and rewarding experience. Different learning methods as well as rich and varied media are helping learners to build daily routines and stimulate them to return to learning more often over their lifetime. Both of these factors increase language learning success and learner satisfaction.

The proliferation of digital language learning solutions has resulted in a larger number of language learners who at the same time are more motivated than before. These effects have significantly grown the private language learning market over the past decade.

10.2 Who Are Our Learners: Motivations for Language Learning

HolonIQ estimates that there are 1.8 billion active language learners globally. Each and every one of these language learning journeys is unique and learners come with a wide-reaching range of motivations. Whilst these motives may influence the approach and learning journey for each learner, what is common across our customer base is the underlying passion to learn and the focus on efficacy and results. We target motivated adult learners who are serious about language learning, underpinned by clear personal motivation. Most prominently, these can typically be grouped into the following categories (percentage of 2020 sales as per Babbel survey):

- Cultural Interest (27%);
- Self-Improvement (13%);
- Friends & Family (14%);
- Travel (19%);
- Work & Career Development (20%); and
- Other Motives (7%).

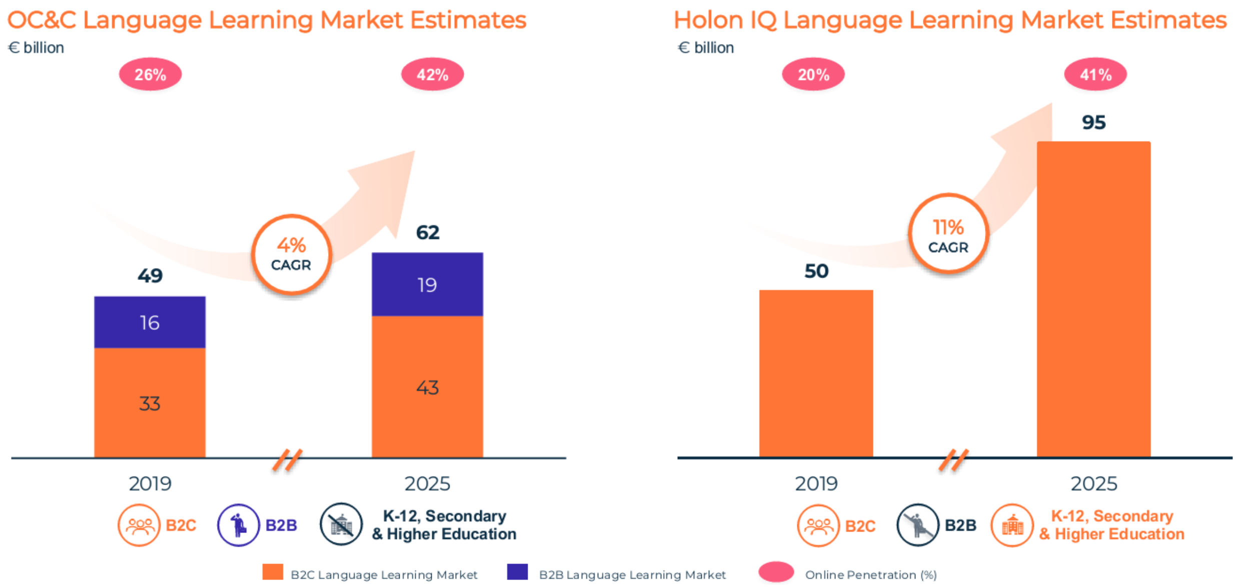
Learning motivations are not static however and they often shift as life and personal circumstances evolve and the relationship with the language can therefore also change over time. Irrespective of this evolution, all motives are underpinned by passion and deep personal motivation, which have powerful influence and drive our customers to continue learning.

10.3 Language Learning Market Opportunity Is Large, Irrespective of The Chosen Segments or Estimates

The language learning market can be segmented in many ways and has a wide range of estimates. Irrespective of segmentation, the global private language learning market is large, with the most recent studies (HolonIQ Study and OC&C Report) estimating it to be worth approximately € 50 billion as of 2019. Whilst these two studies have deviations in scope and market definition (with the OC&C Report focusing on the adult market only, including B2B and the HolonIQ Study covering purely B2C including K-12/institutional learning), the language learning market is undoubtedly a large opportunity, expected to grow at a CAGR between 4-11% across 2019-25.

Both studies also expect a meaningful step-change in digital penetration compared to the 2019 pre-COVID market, with online solutions reaching more than 40% by 2025.

Given Babbel's focus on digital, non-institutional, adult language learning and increasing share of B2B, the OC&C Report provides a more refined view on our directly serviceable market as it currently stands. This market scope has therefore been defined as such to exclude K-12 and persons under the age of 16, formal education courses in government or private institutions (primary/secondary education or university degrees), test-prep and testing, textbooks, language-learning books, other physical materials, cultural resources (not accessed through language learning app), unpaid tutoring and language services such as translation and interpretation.



10.4 Structural Trends Driving Growth in Revenues Per Market

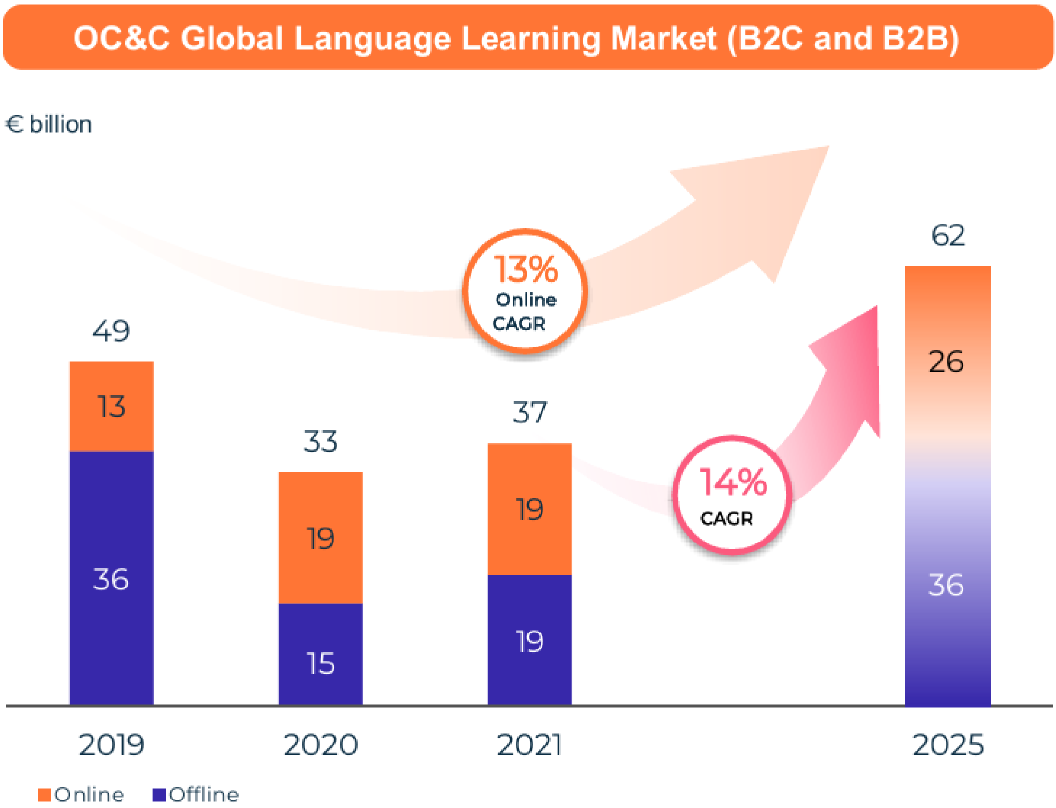
Mutual understanding is key in light of global developments such as population growth, continued globalization and increasing mobility. Where different cultures meet and borders become increasingly blurred, languages serve as a bridge for promoting understanding. While ever so subtle, these inherent developments accentuate the need to learn languages in an ever-growing yet more closely connected world.

Demand for language learning is therefore underpinned by a wide range of motivations, from career enhancement, to travel, multi-culturalism in societies, cross-border love relationships and the wide-reaching desire for continuous self-improvement.

10.5 The COVID-19 Pandemic Has Clearly Altered the Market Structure and Outlook

The COVID-19 pandemic has had a significant impact on the language learning market, most notably driving a steep contraction in the offline market in 2020 as many language schools were forced to close or suspend their operations. This has in turn driven a step-change in digital penetration across the industry, and it is clear from the OC&C Report that this is a structural shift that will be sustained through 2025 and will continue to grow over time. The distinction between offline and online language learning will also continue to blur as digital learning is now undeniably on the map and offline players are looking to digitize. The following graphic shows the predicted development of the global language learning market between 2019 and 2025 (based on mid-point of global language learning market estimates as defined in the OC&C Report (including B2C and B2B); total range of € 46-52, € 31-

34, € 35-40, € 59-65 billion, online range of € 12-13, € 18-19, € 18-19, € 25-27 billion and offline range of € 33-39, € 13-16, € 17-20, € 34-38 billion for 2019, 2020, 2021 and 2025 respectively).



10.6 Language Learning Is a Highly Fragmented Market

The language learning market is highly fragmented, both in terms of methodologies and players. There are countless ways to engage in language learning, both offline and online (private tutoring, group lessons, self-study apps, textbooks, games, audio learning and language travel). Across these methodologies, typically providers focus on only one specific language learning activity and there is no company that spans across all learning methods. For this reason, a multitude of players exists, but none with dominant or meaningful scale.

The overall landscape is characterized by a limited number of players with a sizable established presence, followed by a long tail of regional and niche providers which target only a very specific market or learning methodology. The nature of the market fragmentation provides significant benefits to Babbel, and further presents a meaningful opportunity for consolidation across the market.

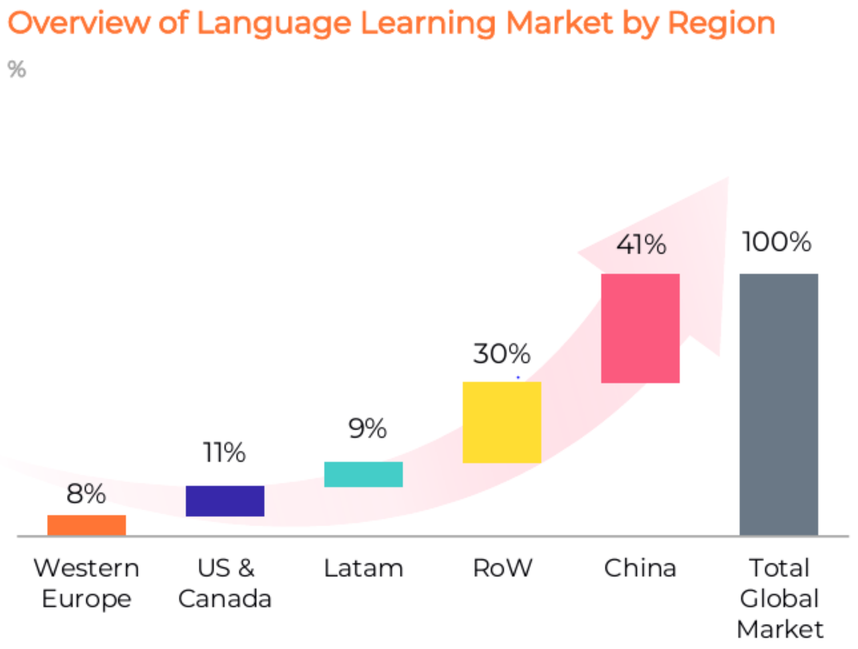
10.7 Babbel's Leading Position

We believe Babbel is well positioned as a large international player, whose ecosystem stretches across various learning methods, such as self-study app, podcasts and live tutoring among other experiences. Based on the strength of its product offering and marketing investments Babbel has developed a strong presence with leading brand recognition in its markets and high trust from learners (consumer review score of 4.6 on Trustpilot (as of August 17, 2021) (source: Trustpilot)). We believe Babbel is the European champion, holding the #1 position in its core European markets, with over 80% brand awareness (aided) and 2x app revenue market share of the next largest player. Babbel has also demonstrated significant success in scaling its position in the U.S. since entry in 2015, where it has driven brand awareness from 11% in the second quarter of 2015 to 64% by the second quarter of 2021 (source: Company information), resulting in a market share of 15%. The combination of the quality of its ecosystem, trust and brand recognition drives leading customer engagement and best-in-class monetization rates.

10.8 Geographic Expansion Offers Enormous Opportunity

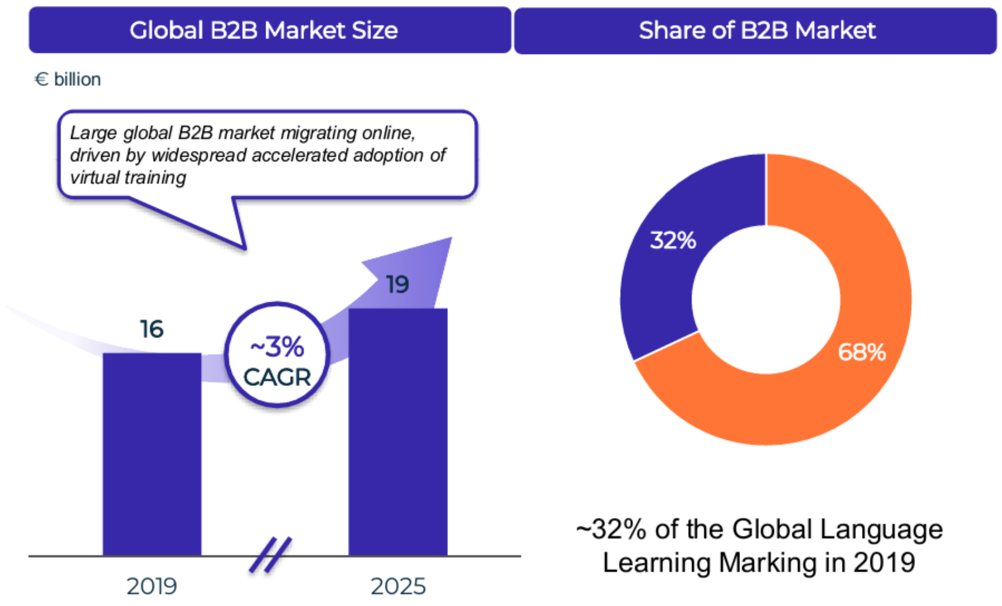
The language learning market (excluding language travel) varies across geographies and is a function of multiple factors including underlying population, native language, the institutional education system, purchasing power and other regional nuances in language learning dynamics. As of 2021, the global language learning market (excluding language travel) is broadly split:

- 8% Western Europe, where we are the European champion and clearly positioned as the market leader;
- 20% Americas, where we currently hold the #2 position in the US, well positioned to continue our growth trajectory in this market; and
- 70%+ China & rest of world (RoW), which remains largely untapped by Babbel, illustrating significant room for revenue growth.



10.9 Significant Opportunity in B2B

B2B also represents a significant opportunity, estimated to be worth € 16 billion in 2019 (€ 14 billion to € 18 billion as per OC&C Report). This market is similarly highly fragmented, characterized by many regional players with varying product offerings and historically dominated by in-person tutors. There is an ongoing shift to digital and hybrid solutions, which has been accelerated by the COVID-19 pandemic (given the widespread adoption of virtual training) and is more prone to stay online post the COVID-19 pandemic given B2B is less dependent on the social aspect of language learning and online is more cost effective.



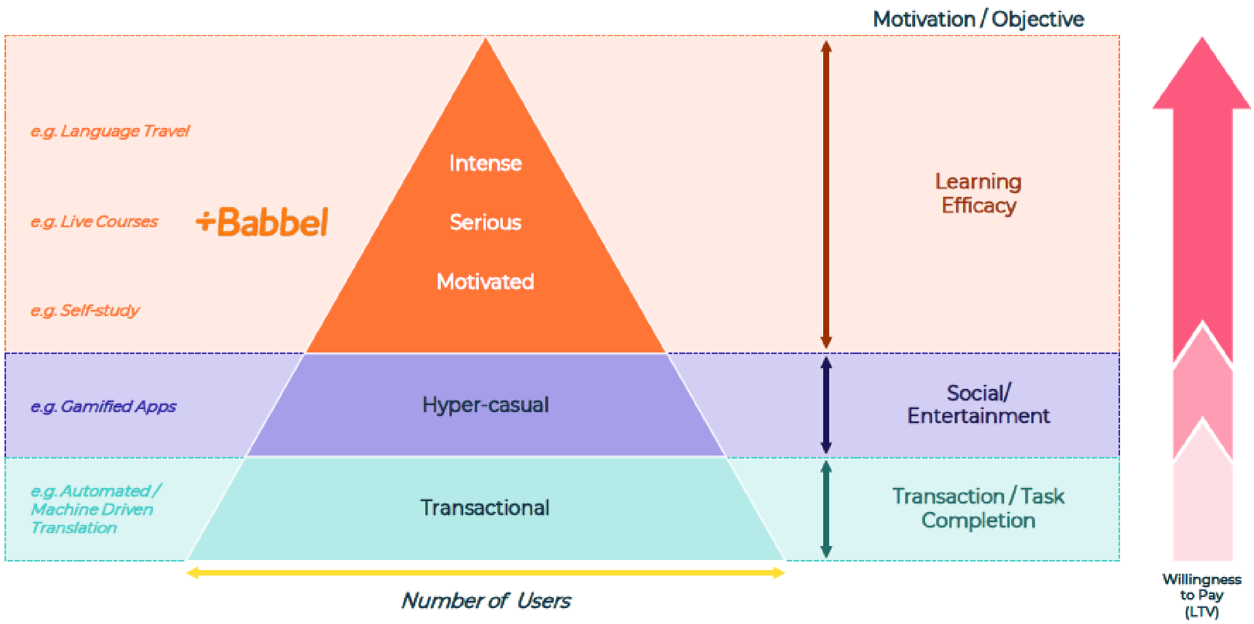
10.10 Further Growth Underpinned by Ecosystem Expansion

The language learning market is highly fragmented (see "*10.6 Language Learning Is a Highly Fragmented Market*"). Through our continued expansion of the ecosystem we are adding new methods and improving learner journeys resulting in better accessibility and increased learner success. The ecosystem expansion unlocks additional parts of the language learning market. Examples include our recent addition of Language Travel and Live tutoring. The addition of these two learning methods has expanded Babbel's 2025 addressable market by € 36 billion (as per the OC&C Report the digital tutoring and online live tutoring market accounts for € 26 billion (OC&C Report states range of € 25 to € 27 billion) and the language travel and offline live tutoring market for € 36 billion (OC&C Report states range of € 34 to € 38 billion) of the language learning market).

10.11 Babbel Is Well Positioned Within an Attractive Segment of the Language Learning Market

We believe Babbel is well positioned as a large international player and ecosystem provider, reaching across multiple learning methodologies.

A pyramid conceptualization of the language learning market by motivation, willingness to pay and learning method shows a large number of transactional and hyper-casual language learning methods to serve task completion and entertainment motivations of a large number of users. The willingness to pay of the users at the two bottom



layers of the pyramid is considered low. Learners on the top three layers of the pyramid are characterized by a genuine language learning motivation and a high willingness to pay. Babbel serves the needs of motivated learners on the top three layers of the pyramid through its ecosystem including self-study, live tutoring and language travel offerings.

11. BUSINESS

11.1 Our Vision

Babbel's company purpose is "Creating mutual understanding through language". This sentiment has been ingrained in the Company since inception and all strategic decisions are challenged against this purpose. Successful language learning leads to mastery of vocabulary and grammar, but mutual understanding goes beyond the transfer of information from A-to-B and consists of conversations that create a human-to-human connection and a level of understanding that spans personalities and cultures.

Babbel prepares our motivated learners for that conversation. Our language learning proposition is also enriched by cultural context and communication strategies, equipping learners with the required confidence for those conversations that create understanding. We empower our learners to understand and make themselves understood in a wide variety of situations. Our success lies outside of our ecosystem, when learners apply what they have learnt in the outside world.

The opportunities that arise are manifold: from finding love, to access to education, to pure cultural or culinary curiosity, to career opportunities like a new job, promotions or expat assignments, to communication within families, to brain-training or widening horizons on travels. Understanding that there are always multiple personal and cultural perspectives in any given situation is an implicit learning that contributes to greater respect, tolerance and more effective communication between two human beings and across cultures.

11.2 Overview

Babbel develops and operates an ecosystem of interconnected online language learning experiences, with a focus on high quality content that delivers effective learning success. Access to this ecosystem is offered as a subscription both to private customers via the app or web and to business customers for employee training and development or as an employee benefit. Babbel's subscriptions allow learners access to an ecosystem of language learning experiences ranging from lessons and reviews, to podcasts, to live teacher-led classes. The Babbel ecosystem encompasses (1) different learning experiences, from self-paced learning via lessons and reviews, to audio materials such as podcasts, to live teaching in virtual small-group sessions, (2) different proficiency levels, from beginners to more advanced learners, and (3) different motivations, goals and contexts, from travelers to learners keen to further their career, to those with a desire for continuous self-improvement.

By offering an ecosystem of connected experiences, we are able to deepen and improve learner engagement and learning success by providing our learners with learning experiences that fit their needs and an intuitive user experience throughout their journey. This also enables us to attract a broader range of learners than a single product offering would allow. Finally, a wide range of activities exposes our learners more actively to authentic language usage, to prepare them for real-life conversations and comprehension.

Our ecosystem is based on the communicative approach, a proven didactic method. Our didactics experts utilize recognized academic learning practices and carefully selected empirically proven, time-tested strategies to teach languages. They strive to find the best way to combine these proven strategies with digital tools to create interactive and engaging user experiences. The result is a curriculum that is available to our customers anytime and anywhere. The learning approach across our ecosystem combines communicative didactics, cognitivism, behaviorism and constructivism. Progressive lessons are connected together as an interlinking framework, mapped in the background to the Common European Framework of Reference for Languages (CEFR), with each step building towards the next. The communicative approach is the centerpiece of Babbel's educational strategy. We prepare learners for real-life language application: For human-to-human conversations (spoken and written), as well as for listening and reading situations. We aim to equip learners for their first few conversations in a new language from lesson 1 and our research has shown that dedicated learners can reach the equivalent of 1 college semester with 15 hours of Babbel in a two-month period (source: The 2016 Babbel Efficacy Study).

Babbel's Language Progression Framework is our tool to ensure that our central learning activities have pragmatic value and empower the learners to use the language in typical real-life situations. They are also our glue to connect those learning activities across the Babbel ecosystem and they will guide users between the various experiences where specific situations, content and behavior indicate multiple experiences, which can reinforce learning by being used back to back. Our goal is to guide learners on the shortest path possible to real-life conversations by:

- Immersing the learner in a new language through real-life dialogues that will get the learner speaking right away;
- Employing proven cognitive techniques that move new vocabulary to the learner's long-term memory;

- Tailoring content to language learning motivation;
- Using human voices and speech recognition to get the learner speaking confidently; and
- Building each course and experience based on the learner's native language and personal interests for faster learning progress.

Access to Babbel's ecosystem is offered to both consumers and corporate clients via a subscription model, generally ranging in length from one month to twelve months. Since launching a basic subscription in 2009, Babbel's offering now contains over 60,000 lessons and more than 13,000 hours of content enabling the learning of 15 languages from 9 base languages across multiple learning experiences. The result is language learning that works. A consumer review score of 4.6 on Trustpilot (as of August 17, 2021) (source: Trustpilot) and a strong brand reputation for quality learning are indicative of the ecosystem's quality. In addition, we believe our extension rates are industry leading and imply that our learners see the benefits of staying with our product. For example, our 12 month subscriptions are renewed 56% of the time on average.

The annual global language learning market for 2021 is estimated to be around € 35 to 40 billion, although given the high level of fragmentation it can be viewed in different ways resulting in varying estimates of both current size and future growth. We cross reference two studies in order to understand the underlying growth drivers and segmentation most effectively. Between the OC&C Report and the HolonIQ Study, the two agree that the growth between 2019 and 2025 is a result of the growth in the online segment, where 2020 impacted the offline segment as a result of the COVID-19 pandemic. The market is expected to grow at a CAGR of approximately 11% to 16% between 2021 and 2025 (source: OC&C Report). In addition to the mass adoption of online learning, which is partially driven by the COVID-19 pandemic, there are a number of other structural global changes driving language learning online. These include globalization and increasing mobility (in particular, career mobility as employees increasingly work across multiple countries and cultures), technological improvements, the on-demand nature of online learning being more suited to the big self-improvement market, and is a higher return on both time and money invested when compared to offline language learning (source: Company information).

The language learning industry is highly fragmented across learning methodologies, with only a limited number of players with sizeable established presence (of which in 2021 the top five players combined still represent only approximately 2% of the global language learning market, excl. China) (source: OC&C Report). Through its self-study platform, we believe Babbel achieved a position as market leader in Europe and is growing swiftly in the U.S., which offers both a strategic advantage as well as a large opportunity. Babbel has consolidated multiple experiences into one ecosystem and has the didactic credibility to continue to expand. Our scale allows us to benefit from a marketing budget and brand awareness that we believe sets us apart from many smaller local niche players in our industry.

Babbel has built both its product and its organization with a focus on "learners first". The content and experiences are designed by didactics specialists, where conversational ability and confidence are the key goals. This proprietary content has been, and continues to be, iteratively improved over the last ten years. This results in increasing learner engagement and learner success, reflected by increased average time spent learning by 8% from 13.9 minutes in 2018 to 15 minutes in 2020 (based on the overall average amount of time that users spend within the app over a day on Apple devices (includes the duration of all sessions)) (source: OC&C Report). The technology supporting our ecosystem leverages a highly scalable infrastructure to provide a seamless experience across devices and ongoing optimization of the user experience. We believe that we are in a position to expand across markets and learning methodologies efficiently because of our ecosystem approach.

We believe that our strong operational base and market position leave us well placed to drive growth through enhancement and expansion of our ecosystem, scaling our B2B offering, growing our operations in the U.S. and Canada and through geographical expansion into new markets. We intend to fund these measures organically through our negative Working Capital and strong cash generation and may decide to accelerate selected measures through strategic M&A.

11.3 History and key milestones

Babbel was founded in August 2007, and sold the first subscriptions via web in 2008. In late 2009, Babbel switched to a subscription only business model and has consolidated this position ever since through premium brand positioning and its "learners first" focus. In 2010, Babbel's first app for smartphones was released, thereby synchronizing the learner experience across different platforms and devices. Over the following five years, Babbel expanded both in languages offered and in geographical reach. In 2015, Babbel opened an office in New York City underscoring the focus on driving U.S. growth in terms of both revenues and brand recognition. By 2016, Babbel recorded over 1 million active paying subscriptions. In 2017, Babbel started its B2B offering with the soft-launch of Babbel for Business. In 2019, Babbel Travel, its online language travel booking engine, was launched after the successful integration of the LingoVentura acquisition. Over the last two years Babbel has expanded the number of learning experiences on its ecosystem, most notably with the launch of podcasts in 2020, and the launch of Babbel Live, its live tutoring feature, in February 2021.

Babbel has been able to generate sustained growth over many years, in particular achieving a CAGR of 25% in Billed Sales and 24% in Sales Revenues between 2015 and 2020. Further, this growth has been achieved organically on a largely self-funded basis, having raised € 28.0 million since founding and as of June 30, 2021 having € 32.7 million in cash and cash equivalents on the balance sheet.

11.4 Key competitive strengths

We believe that we possess the following competitive strengths and that these have been the primary drivers of our success in the past and will continue to set us apart from our competitors in the future:

11.4.1 Babbel's leading language learning ecosystem

Babbel offers an interconnected ecosystem of learning experiences all focused on supporting the learner's journey in a way that is both engaging but also effective, as learning success is at the core of everything we do. The original Babbel self-study app is joined by podcasts and virtual live tutoring as well as a range of additional experiences currently in beta such as social learning. Access to this ecosystem is either via app, via our web portal or in selected cases via third party providers such as Spotify for podcasts. Irrespective of the entry point into our ecosystem, all our learners have access to the tools and content they need for a successful language learning journey. We seek to attract motivated learners regardless of how they want to learn, i.e. several entry points enable diverse offerings within the ecosystem such as our self-study app, Babbel Live, our live tutoring feature, podcasts etc. Babbel's Language Progression Framework (LPF), which builds on a Babbel version of 'Can Do' statements from the Common European Framework of Reference for Languages (CEFR), is our didactic and technical backbone for guidance. Most of Babbel's learning activities (lessons, podcast episodes, live classes) train at least one real-life communicative skill (e.g. "introduce yourself" on Level A1 or "understand TV news and current affairs programs" on Level B2), and are mapped to the corresponding CEFR Can Do statement accordingly. This sets both didactic and technical implementation of guidance within our ecosystem against an industry standard framework, upon which we are able to refine and improve the learner journey and hence learner success.

Multiple learner surveys revealed that language learners were asking for a more varied and personalized learning experience as well as more guidance in what most learners consider an intransparent market. Learners seek learning that better fits their goals, needs and personal situation. We believe that succeeding with only one learning solution is an enormous challenge and different learners need a different combination of learning experiences to succeed. Trying to piece together learning solutions on their own can be frustrating. Learners believe that Babbel knows the right next step for them because of our language learning expertise and the data they provide through interaction with Babbel products. As learners are guided through our ecosystem, the range of experiences increases the time spent learning, which in turn is correlated with learning success. We see this come through in our data, with the average weekly learning experiences used per learner increasing by 30% between May 2018 and May 2021. We believe that we are accumulating the most comprehensive offering of language learning experiences in the market, which is uniquely tailored to cater to motivated language learners, a feature that sets us apart from our competition and forms the core of our strategy.

11.4.2 European champion and rapidly scaling in the US as a leading and trusted brand, with a strong reputation and recognition

Babbel's purpose is creating mutual understanding through language and this sense of empowering communication runs through everything we do. Babbel's brand is recognized across Europe and increasingly throughout the world as a premium offering, with the ability to build learners' confidence in conversation quickly and effectively. We believe to be the European champion in language learning. Based on our brand awareness tracking, we believe that our brand recognition in Germany currently sits at around 88%, while in the U.S. we have been able to grow brand recognition more than fourfold between the second quarter of 2015 and the second quarter of 2021. The growing brand recognition we observe in response to our brand marketing investments has a positive impact on our performance marketing economics, allowing us to increasingly scale our marketing while maintaining a focus on the profitable acquisition of every learner. This is particularly manifest in the increasing conversion rates (lead to sale) we have observed as brand recognition has grown.

11.4.3 Babbel's ecosystem puts the learner first with proven results

We target motivated learners and our customers' primary objective is therefore learning success. Teaching well means understanding and adapting how information is stored in the brain. Babbel capitalizes on this by introducing carefully designed sets of content relevant to real life conversations in a way that connects with real life experience. To send information from short-term to long-term memory, Babbel reintroduces words through six memory stages using the technique of spaced repetition. Our data-driven review manager moves these words through different patterns that are dispersed over time for the brain to optimally save new learnings. Whether the learner learns best by reading, writing, speaking, seeing or listening, Babbel addresses all individual needs for both visual and auditory learning types, both within the self-study app and across the various ecosystem experiences such as podcasts, magazine or teaching videos. We financed studies by linguists from institutions such as Michigan State University, Yale University and the City University of New York to examine the efficacy of our methods. Linguists from City University for example, concluded that 92% of participants improved their language proficiency with Babbel as measured by the Web Based Computer Adaptive Placement Exam ("**WebCAPE**") and that truly novice users with initial WebCAPE score of zero needed an average of 15 hours of study in a two-month period to cover the requirements for one semester of college Spanish (source: The 2016 Babbel Efficacy Study).

Our product organization focuses on the time learners spend using our products to ensure that we are constantly improving engagement with our product, which correlates with more learning success and reported confidence to speak. In a study which we conducted in conjunction with the University of Potsdam 96.2% of the participants found the classes enjoyable and 86.5% reported a sense of accomplishment and that learning with Babbel gave them more confidence to use the language in real-life situations at work (source: The 2021 Babbel/University of Potsdam Study).

11.4.4 Unique library of proprietary and scalable content developed by didactic experts

We strongly believe that human language learning experts create the best language learning experience for learners who aim to become conversational (in contrast to hyper-casual learners or only using language in transactional ways) but that computer linguistics and artificial intelligence play important supporting roles. Our human experts create learning content/media based on academic and practical skills in teaching specific learning languages, as well as learning features/journeys based on linguistic, cognitive and behavioral science. Every learner is different. This is why Babbel offers individual paths, looking at where the learners are coming from and where they want to go. For example, adult language learners benefit a lot from building foreign language skills on the basis of their native language skills, especially in self-study on lower levels. That's why our learning activities make heavy use of context setting, instructions, explanations and translations tailored to display languages, leveraging language familiarities (what is called "positive transfer" in Contrastive Linguistics). Babbel capitalizes on this by building on grammatical concepts shared with their mother tongue and skipping over mutual words that the learner already knows. Last but not least, by using real voices of native speakers with various accents, Babbel lets the learner hear how languages truly sound and ensures the learner speaks the same. Speech recognition tools test their pronunciation to make sure the learner sounds like a native and communicates with confidence. Babbel believes that authenticity is key to fully exploring a new language.

Since launch, Babbel has built a foundation of proprietary and scalable content that we believe is difficult to replicate. Working with over 130 language pairs (based on learning from their mother-tongue) our over 180 didactic experts have by now created over 60,000 lessons, more than 13,000 hours of evergreen content, and 20 expert-created podcast series. These lessons are constantly in a process of optimization, ensuring that the learner experience is improving over time.

11.4.5 Underpinned by technology that enables individual learning journeys

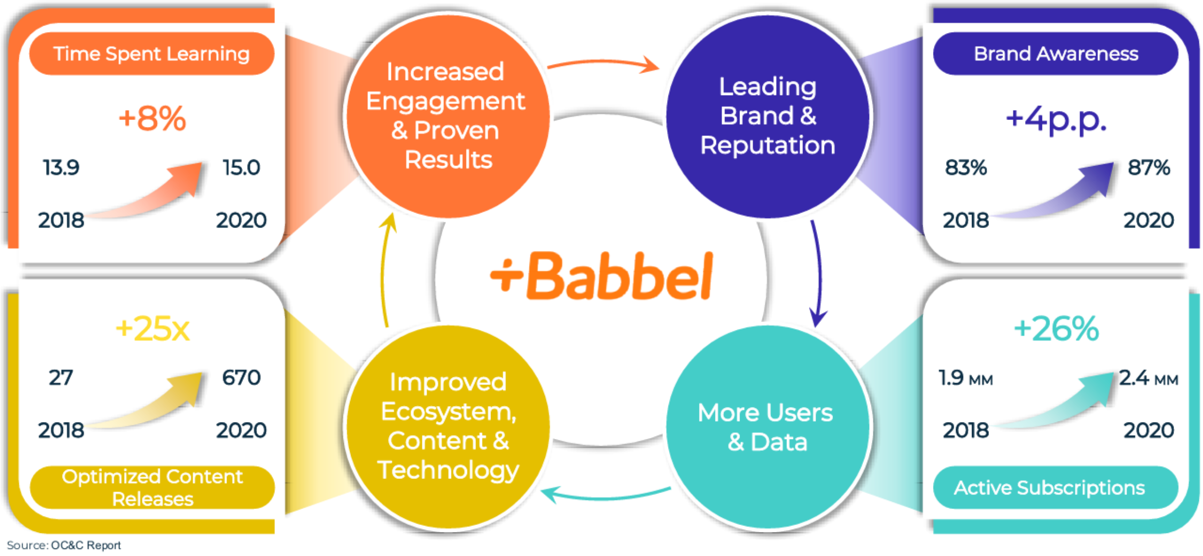
From bringing in new learners, to personalizing the learner journey and driving retention within the ecosystem, technology underpins every aspect of our business. Lead conversion systems and multi-touch attribution models ensure our learner acquisition activities are optimized at every touch point with potential learners. Our proprietary subscription management systems are overlaid against the various payment providers to support the strength of our subscription business model. Our content management tools not only allow for rapid content releases across devices independent from app updates or broader release cycles, but also ensure we are able to optimize our content on an ongoing basis to be consistently improving the potential for learner success. Finally, our adaptive learning technology facilitates individual journeys through our content and across our ecosystem by leveraging our "Learner Progression Framework", our proprietary tools and data lake.

These tools are overlaid on best in class infrastructure technologies ensuring our learner experience is completely seamless across platforms, while also delivering substantial operational leverage by allowing our content and platforms to be used across multiple learning experiences, consumer segments (e.g., B2C and B2B), and geographies. This is further supported by the serverless infrastructure, ensuring scalability across all components of Babbel technology.

11.4.6 Self-reinforcing leadership through our powerful flywheel

Our learner base and operating history support our belief that we provide a unique wealth of data and insights into the behaviors and activities that drive learner success and engagement. Our data-driven feedback loop supports the ongoing optimization of experience and efficacy, content improvements and churn reduction as well as provides the basis for increasing personalization.

Our proven learning results have helped us to build a leading brand and reputation for efficacy, bringing more users and data into the ecosystem, which in turn further improves the ecosystem, content and technology, which results in increased engagement and even better results.



11.4.7 Attractive financial profile with a self-funded core, sustainable growth and high recurring revenues

Babbel launched its subscription-only offering in November 2009, and since that time has been able to generate strong and consistent growth funded largely by a negative Working Capital position. The premium offering has enabled us to build a high-quality revenue model comprising 95% recurring B2C subscription revenue in the fiscal year ended December 31, 2020. The highly recurring nature of these revenues and the underlying predictable subscription extension behavior with high extension rates enables us to invest in core marketing activities with a high confidence of a return on our investment.

We believe that motivated learners translate into an attractive financial model for Babbel. We focus on profitable acquisition over time, such that at the end of June 2021 we had 2.5 million active subscriptions, while the average active subscriptions in our B2C business grew by 8.0% as of June 30, 2021 versus June 30, 2020. Every subscriber in that number has a subscription which is fully paid upfront. The payment covers a significant portion of the cost of acquisition in our most mature markets – a function of the high value learners in our segment. The upfront payment made by these learners or cash average revenue at initial sale ("**CARIS**") in our most mature market Germany, covers 93% of the cost of acquisition before Cost of Goods Sold. These learners are also dedicated and in fact we have industry leading extension rates where for example on a 12 month subscription, our learners extend 56% of the time based on data available as of the end of the first quarter of 2021. This leads to an average monthly retention in our subscription base for B2C of around 94%, which grew from 93.9% in the six-month period ended June 30, 2020 by approximately 50 basis points to 94.4% in the six-month period ended June 30, 2021.

We have also been able to increase the value of those subscriptions over time using a range of levers. The first is the price of the initial subscription represented by our metric CARIS. CARIS is most fundamentally the price charged for our subscriptions, but it is not as simple as looking at the prices shown on the app or the website as these prices are managed dynamically, optimized for every geography and leveraged through the acquisition funnel to increase conversion. We have been able to increase CARIS over time through both price increases on the individual subscription types and through increasing our average subscription length. For example, the price of 1 month subscriptions has increased by a 12% CAGR between 2017 and 2020, while the 12 month subscription has increased with a 4% CAGR during that time. In addition, we use high value subscriptions such as 'family plans' and 'multi-language' and are also able to upsell our learners, for example into a Babbel Live subscription. The second lever is by increasing the length of the subscriptions purchase. We have been able to do this successfully over time, such that in 2020 30% of our subscriptions were in the 12 month bucket. As a result our overall CARIS for the business has increased by 13% CAGR between 2017 and 2020. In the table below, we illustrate how CARIS is translated into our core reporting metric B2C ARPPS through linear revenue recognition over the life of the subscription.

Subscription Type	2020 CARIS by subscription type	Illustrative B2C ARPPS
	in €	
1 month	12.33	12.33
3 months	23.98	7.99
6 months	35.81	5.97
12 months	54.94	4.58

A continued increase in the average subscription prices, translated into a growth of CARIS from € 35.0 in the six-month period ended June 30, 2020 by € 8.0, or 24%, to € 43.0 in the six-month period ended June 30, 2021.

Using these levers on CARIS, we have been able to increase our B2C ARPPS from € 4.91 to € 5.66 between 2017 and 2020.

Between higher retention and higher B2C ARPPS we have also been able to increase our Subscription Lifetime Value consistently since 2018.

High gross margins (due to Cost of Goods Sold being primarily driven by app store and payment provider charges) deliver significant operating leverage as we continue to scale our business and expand our ecosystem. Operating leverage is reinforced below gross margin by the evergreen nature of most of Babbel's proprietary content and the technology infrastructure we have designed to service multiple markets and multiple products with optimum efficiency. While we are continuing to optimize and develop our tech platform, the assets we have built up over our history mean that our operating model is expected to deliver increasing operating leverage over years to come as we build out our further ecosystem and B2B offerings.

Babbel's marketing spend is the largest component of our profit and loss statement and is focused on ensuring every learner we acquire into our ecosystem delivers a positive return over the subscription lifetime. We steer our marketing activities by targeting a positive return on every learner acquired through the expected SLV over CPO. Thus, the spend is optimized for the SLV/CPO ratio or in margin terms, subscription lifetime margin (SLM). Both are synonymous measures of the profit delivered from subscription lifetime value (SLV, defined as the forecast value of a subscription over the full subscription term including extensions, with the calculation capped at five years) less our cost per order (CPO, or customer acquisition cost) as a percentage of the SLV. This is tracked through a multi-touch attribution model. Thus, we ensure that our acquisition activities are profitable with overall attractive unit economics. In our European markets, where we are the local champion, our CARIS (a main driver of our SLV) is broadly in-line with our CPO, meaning we return the vast majority of our customer acquisition cost on day one with the very first subscription purchase. Furthermore, the SLM in our German market was approximately 53% in 2020. In the US, where we are currently investing more heavily to accelerate growth this SLM was approximately 37%. On a group level, in line with our ongoing growth ambitions, this translates into an overall SLM of 42%. Given that we currently see higher SLMs in our more mature markets, we expect overall unit economics to further improve as we increase brand recognition in our growth markets. We also expect to see uplift in unit economics from our ecosystem expansion. Additional learning experiences have the potential to substantially increase subscription values, as well as reduce the cost of acquisition per subscriber by acquiring a subscriber to the ecosystem once rather than paying separate costs of acquisition for each learning experience.

11.4.8 Mission-driven team with deep expertise in learning and technology

Babbel's highly experienced leadership team reflects the diversity of its learners in terms of both nationality and breadth of expertise. Our CEO, Arne Schepker, has been driving the growth of the Babbel brand and business since 2015 as the CMO at Babbel, and since 2019 as the CEO. He is supported in this role, by two of our founders, Markus Witte as the Chairperson of the Supervisory Board and Thomas Holl who built the first iteration of technology at Babbel and remains the key driver of technology as our CTO. Julie Hansen, the CEO of Babbel U.S. has been instrumental in Babbel's success in the United States and has recently taken on an expanded role as Chief Revenue Officer for Babbel globally. Geoff Stead brings 20+ years of experience in building digital learning products to Babbel as our CPO and has been instrumental in building out our ecosystem. Hermione McKee is the most recent addition as our CFO, with experience in financial institutions internationally and a range of digital high growth consumer businesses more locally. Our leadership team is rounded out by deep experience in educational technology and digital media from across the globe.

This diverse team leads a truly values-driven culture. From Babbel's founders to its most recent employees, Babbel is a learning company inside and out. This means that we are constantly learning and iterating on our product and our operations, while at the same time targeting success for our learners. 128 engineers and more than 180 didactics specialists (in each case as of June 30, 2021) ensure that the learner experience is of the highest quality in terms of both user experience and learning efficacy.

At Babbel, we believe that diversity makes us stronger. It is not just a value slogan but a daily investment and effort we put in. That means reflecting the dynamism and diversity of our learners, as much as possible, in the production of Babbel. As of June 30, 2021 we currently have 610 people from more than 64 nationalities working in our Berlin and New York offices. A culture of difference and dignity is critical to how we have connected with millions of users, in every hemisphere.

11.5 Strategy

To achieve continued success, we have identified the following key elements of our strategy:

11.5.1 Further enhancement and expansion of our ecosystem

We believe that the fragmentation of our industry across both participants and learning methods creates an environment ripe for disruption via the consolidation of learning methods within one ecosystem. The approach is designed to provide us with the opportunity to capture more learners, as well as increase engagement and monetization across our current subscription base.

With a broad range of learning experiences on offer, and uniquely tailored content for multiple motivations and use cases, we are able to cater for and attract a deep variety of motivated and serious language learners, irrespective of their motive. Each of our learning experiences is carefully designed by our didactic experts to deliver the content and tools that motivated learners are looking for to achieve language learning success. Recent additions to the ecosystem such as podcasts add rich multi-media experiences enhancing learning efficacy and also facilitate a broader spectrum from passive to active language learning. We see that learners tend to dip in and out of language learning over time, and as we offer more and more different components in our ecosystem we expect returning learners to re-enter via different learning experiences. Finally, each new learning experience not only increases engagement with our ecosystem overall, but also drives our ability to both upsell and cross-sell. For example, if a learner upgrades to Babbel Live, then three months of Babbel Live provides more than seven times Billed Sales than three months of the Babbel self-study only subscription.

The launch of our Babbel Live product is already a great example of this. Having seen a ‘beta’ launch in our B2B ecosystem, the B2C launch in February 2021 is already showing how higher value offerings can be used to leverage monetization. If we compare a 3 month access to our Live classes with a 3 month subscription to our core lessons and review, we deliver 7 times the revenue with Babbel Live. We are still working on the structure of our pricing here and already seeing improvements as a result of adjustments to our offering structure across markets. In addition, we are iterating on our upsell techniques within our app, but we already see that 70% of our current learners in Babbel Live come from our lessons and review subscriptions. This sets a nice usage pattern and a very strong precedent for further additions to our ecosystem. Babbel Live is already on a strong growth trajectory having grown Billed Sales from € 37,000 in its February launch month to € 91,000 Billed Sales during June 2021 and witnessed an eight fold increase in the B2C subscription base in the six-month period ended June 30, 2021. This product is both strategically and financially viewed as a monetization lever within our ecosystem and so financials are not reported separately.

Overall, we believe that the broader ecosystem approach will accelerate the dynamics of our leadership flywheel. The more experiences and learners we have within our ecosystem, the more data we are able to collect in relation to language learning. This creates a virtuous circle of iteration and improvement, driving success for our learners and more learners joining the ecosystem.

11.5.2 Large untapped potential in scaling our B2B business in a highly attractive segment

The market for B2B language learning is large and growing, representing approximately 32% of the global language learning market in 2019 (source: OC&C Report), with demand further fueled by continued globalization and the transition to virtual training at many companies. It is a fragmented market with no clear winner and we believe it is in need of the type of blended learning offering that Babbel provides. As of June 30, 2021, Babbel had sold Babbel for Business products to over 800 corporate clients and increased Billed Sales in this segment by a factor of 6 between 2017 and 2020. Through this growth, Babbel has been shifting increasingly to a traditional SaaS model and accordingly, increased retention rates are at around 96% for the first quarter of 2021. Our offering is typically priced on a per seat per month basis, although corporate clients pay annually. There are three main tiers: Babbel Professional gives access to our self-study app and includes a corporate management portal, Babbel Live offers the same but with the option of group classes at the employees’ convenience and Babbel Intensive which is the highest tier offering 1:1 classes for the employee. The vast majority of our content can be used for both B2C as well as B2B clients; for the latter we provide additional content focusing on conversations in a business context.

A team of B2B sales professionals, account managers, and a small number of didactics experts and content creators dedicated to B2B work to provide ancillary solutions to our core product with professional content for our B2B clients, along with, for example, learner management systems for corporate training managers. We have only very recently increased the activities of our outbound sales and this still remains a low portion of our overall new sales and a big opportunity for us. We achieve substantial success through incoming enquiries on the strength of the Babbel brand, growing inbound sales from € 315,000 new Billed Sales in the first quarter of 2020 to € 685,000 by the last quarter of 2020. By contrast, outbound sales were negligible in the three-months period ended March 31, 2020, grew to € 26,000 in the three-months period ended December 31, 2020 and as our direct sales team increases in both scale and efficiency we see this as an area of substantial future upside. Further, we are seeing acceleration of growth through following a 'land & expand' strategy. For example, we signed a new client with a small one-off purchase in Spain. This was subsequently rolled out to two further European countries and one country in Asia. This roll-out represented seven times the revenue of the original contract.

We therefore expect to achieve market penetration at a faster rate and lower marginal cost than new market entrants. The SaaS like business model including structurally high renewal rates among corporate clients, the potential for expansion within each client ("land & expand") and large upselling potential with our Babbel Live offering make B2B an attractive segment for future growth. We have a clear strategy to scale our B2B segment through growing our sales force, expanding the B2B rollout across Europe and into the U.S., leveraging a 'land & expand' strategy, increasing price per seat through blended learning, and further developing our B2B specific toolset for the enterprise space to allow us compete more effectively in the market. Our ability to leverage our current content offering , our scalable technology and the didactic credibility of our brand mean that Babbel is, in our view, very well positioned to address this opportunity.

11.5.3 Further growth in the U.S.

The online language learning market in the United States presents a significant opportunity for Babbel. At more than $ 2 billion today according to the OC&C Report, the North American language-learning market is sizeable. We believe, it is moving increasingly to digital methods, accelerated by the COVID-19 pandemic, and U.S. consumers have a willingness to pay for app subscriptions and services as evidenced by constantly increasing average app store spending per user. In just over five years in the U.S. market, Babbel has gone from just 11% (aided) brand awareness to 64% (based on aided brand awareness as of the second quarter in 2015 and the second quarter in 2021 on company survey of 1,000 representatives per country), becoming a leading name in the language learning space and taking on and outperforming_well-established competitors. In line with our brand awareness in this market, we have grown our active subscription base by almost seven times between the end of the first quarter in 2017 and the end of the second quarter in 2021, to close the first half of 2021 with a B2C USA subscription base of 0.7 million. This growth in brand and downloads has propelled Babbel to a 68% CAGR in Billed Sales over five years from 2016 to 2020 and we believe there is ample growth ahead.

We believe that the key to a successful U.S. entry by a European champion starts with a deep understanding of the U.S. consumer. Once we understood their needs and motivations, we created messaging that addressed them. We also made minor updates to our product to suit their requirements, for example releasing Mexican Spanish. Consumer understanding also led us to curate a media mix that appeals to U.S. consumers. We then started to increase our investment in brand building, which in turn improved the marketing metrics we observed through our acquisition funnel.

In the past year, we have added monetization to our strategic levers in this market, putting us on a path to improved Cash Contribution Margins over time.

We believe there is still much room for growth in the North American market by capitalizing on the increasing acceptance of self-led learning solutions, the growing self-improvement category and the greater need for language skills for career progression in a more globalized economy and increasing familiarity with paid subscription models. We believe the U.S. market will respond well to the expansion of our learning ecosystem. Podcasts, video, and other forms of content particularly resonate well with this audience.

We intend to expand our market share in the United States by executing our ecosystem strategy, tapping into product-led-growth drivers, continuing to invest into subscription base growth via our marketing, further increasing brand awareness and improving monetization through pricing and promotional opportunities.

11.5.4 Geographic expansion offers enormous opportunity

The United States success very much provides a blueprint for us in rolling out to new geographic markets. The starting point is to know your customer, then customize the messaging and media mix, build the brand and finally start to work on monetization.

In the mid- to longer-term, expansion to Asia and other international markets offers an enormous growth opportunity. Our current footprint across Europe, North America and Latin America represents under one third of the global language learning market. 70%+ of the global market is attributable to China and RoW, which remains largely whitespace for Babbel, illustrating the enormous growth opportunity ahead of us. For example, the language learning market in China alone is valued at € 14 to 15 billion in 2021 (source: OC&C Report). With the rise in globalization and mobility of people living and working around the world, we expect demand for language learning to continue growing. Asia presents a particularly enticing opportunity given the size of the market, rates of smartphone penetration and technology adoption and competitive job markets that reward English-speakers. While our immediate focus remains winning in our current markets, we see immense potential for Babbel's future growth into Asia and beyond.

11.5.5 Strategic M&A to accelerate growth

We believe that we have an opportunity to accelerate Babbel's organic growth along one of the aforementioned growth dimensions through the use of strategic and in some cases opportunistic M&A. In the B2B markets, the choice of target will be strategic to maximize market reach through acquiring revenue scale to reach market leadership quickly, alongside a focus on strengthening our position in the enterprise segment by acquiring enhanced B2B tooling & LMS integration. In building out our ecosystem, we can be slightly more opportunistic in the acquisition of product tuck-ins to amplify our internal innovation and development efforts, with a focus on complementary higher-engagement learning experiences. Selective acquisitions may also be used to strengthen our position geographically through acquisition of local champion brands, more locally relevant product-market-fit solutions or as a market-entry path.

11.6 Our Business

Babbel develops and operates an interconnected ecosystem of online language learning experiences, with a focus on high quality content that delivers effective learning success. This ecosystem is offered as a subscription both to private customers via the app or web and to business customers for employee training and development or as an employee benefit. Babbel's subscriptions allow learners access to an ecosystem of learning experiences ranging from lessons and reviews, to podcasts, to live teacher-led classes. The Babbel ecosystem encompasses (1) different learning experiences, from self-paced learning via lessons and reviews, to audio materials such as podcasts, to live teaching in virtual small-group sessions, (2) different proficiency levels, from beginners to more advanced learners, and (3) different motivations, goals and contexts, from casual learners and travelers to business language learners, as well as a wide reaching desire for continuous self-improvement. Access to experiences within the ecosystem may vary according to subscription type. For example, base subscriptions permit access to our self-study app and some other ecosystem elements such as podcasts, while Babbel Live subscriptions offer our self-study app plus a given number of bookable classes with a live tutor and up to 5 other participants. Subscriptions may also vary in length, typically ranging from 1 to 12 months. In all cases, the full cost for the subscription length is paid in full on the day the subscription is purchased. Subscriptions are renewed (typically repeating the original subscription length) at the end of the subscription, unless a subscriber opts out of the renewal or cancels the purchase.

11.6.1 Self-Study App

Our self-study app was the starting point for our ecosystem and remains one of its central components. Learners select a subscription either via our web platform or after downloading our smartphone app, which is free for trial. They are then asked a selection of questions in relation to their motivation for learning the language and are directed to a short level assessment test. Based on these inputs, learners are directed to a course level and over time guided through a series of lessons and reviews targeted at their level and motivation for learning. Learners are alternatively able to choose consecutive courses from beginner to advanced, as well as business, holiday or special interest courses. The content, structure and progression of these lessons and reviews are designed by our 180+ didactics experts (as of June 30, 2021). Our focus is on achieving conversational proficiency and confidence as quickly as possible. We use speech recognition technology, dialogue training tools and the proven spaced repetition method amongst other engagement tools to help our learners achieve success. We financed studies by linguists from institutions such as Michigan State University, Yale University and the City University of New York which demonstrated the efficacy of our language learning methods. Additionally, according to a user survey conducted in 2016, 73% of the nearly 45,000 respondents believed they were able to hold a conversation within just five hours of using our self-study app.

11.6.2 Babbel Live

In early 2021, we launched Babbel Live, group virtual classes led by expert teachers with up to 6 students. Individual classes are offered via a 24/7 booking system, self-managed by the learner to offer maximum flexibility. Classes are available based on level and content topic and designed to drive conversation-based learning with instant feedback on pronunciation. Our 2021 plan for Babbel Live is to deliver a consistent and steady market rollout across further language pairs, develop the product to deliver scale and focus on activation and engagement to drive retention. Currently, Babbel Live subscriptions are offered to consumers on a month by month basis, as a package of a certain number of bookable classes in that month. The subscription also includes access to our self-study app and other ecosystem elements such as podcasts to deliver a comprehensive blended learning solution. Our belief is that Babbel

Live can increase engagement and retention within our ecosystem, increase our conversion rate by covering more learning use cases as well as deliver substantial lifetime value upside.

11.6.3 Podcasts

In 2020, we launched our podcast series and now offer 20 expert-created podcasts via both our app and externally, for example via Spotify. We believe that our in-app podcasts act as an additional driver of engagement. Podcasts are included in the regular self-study app subscription. The non-Babbel channels deliver an additional acquisition funnel for bringing learners into our ecosystem. This is a more passive 'on-the-go' learning experience that our didactics experts believe is a very strong complement to self-study and live classes. Learners who use our in-app podcasts are already showing a significantly higher engagement with traditional lessons and with our ecosystem more broadly.

11.6.4 New Learning Experiences

In addition to those experiences specifically outlined above, we are constantly testing and iterating on new learning experiences that further complement our ecosystem, developed either internally, acquired externally or offered through partnerships. Some examples of learning experiences currently offered in our app include short stories and mix-tapes. We have other learning experiences in beta including Alexa review (practicing pronunciation with Alexa), assessment and online events. Future possible experiences might include Karaoke, virtual tours and chat pairing. Some of these learning experiences will move into the paid category, with the goal of driving monetization, while others will remain complementary to our main subscription offers, with the goal of driving engagement and user retention.

11.6.5 Babbel for Business

The B2B segment covers the range of products and services sold to business customers. Our B2B clients typically contract for 1 year or longer specifying a number of seats that will be given access to the ecosystem. We offer three different subscription tiers, Basic, Professional and Intensive, with increasing customization being the key differentiator. For example, Babbel Intensive offers 48 lessons of 1:1 tutoring based on the Babbel Live platform, a customizable curriculum and quarterly learner assessments directly with a language tutor. While this is a different offering structure, our B2B business leverages essentially the same technology infrastructure and content as our B2C business, with additions designed for specialist integration with corporate HR or training systems.

11.7 Marketing & Sales

11.7.1 Global reach

We believe Babbel's 210-person sales and marketing team has driven the company to the position of top grossing language learning app in the world. With its headquarters in Berlin and its U.S. office in New York, we believe Babbel is well positioned to continue addressing the growing audience of language learners worldwide. The sales and marketing team focuses on striking the right balance between global reach and local touch in order to maximize sales conversion at an effective cost. Global campaigns, landing pages and content are localized in more than 15 languages to ensure a relevant and personal experience for all customers, all the while maintaining the consistency of Babbel's global brand.

11.7.2 A balance between short- and long-term growth objectives

Babbel's sales and marketing team has managed to grow a successful business and to build a reputable and sustainable brand in a vast array of markets. Our messaging hierarchy consists of inspirational, purpose-driven and emotional language at the top and extends down to unique selling points and specific functional benefits underneath. Our marketing campaigns tap into all sides in order to drive both brand awareness and sales performance. Maintaining this balance between brand-building and selling, between short and long-term growth, is a critical element and strength of Babbel's marketing and sales strategy.

11.7.3 Highly optimized and data-driven

We steer our marketing activities by targeting a positive return on every learner acquired through the expected SLV over CPO. Babbel aims to optimize its marketing spend for SLM (defined as SLV minus CPO in our B2C Global segment as a percentage of SLV), which is tracked through a multi-touch attribution model. All customer touchpoints and conversions from online and offline marketing channels are directly attributed to their source and then re-attributed based on machine learning algorithms to account for spillover effects to other channels. Further, the multi-touch model provides a clear picture of the long-term impact of the marketing spend on the overall business. This approach enables the team to set and deliver against short- and long-term targets, efficiently deploying resources to maximize sales revenues at positive SLMs.

Comprehensive dashboards with cost and revenue data by sub-channel and market enable the team to steer performance in real-time, seizing opportunities and adjusting spend as needed. This was particularly evident in the second quarter of 2020, when the team observed that their ability to scale marketing activities without driving up the price of acquisition had increased considerably. Immediately more marketing spend was allocated and we were able to increase our subscription base substantially while maintaining the focus on profitable acquisition of learners, the focus on SLM and the highly data-driven nature of marketing at Babbel allows a strong empowerment of each team member which in turns drives innovation speed and adaptability to market conditions.

11.7.4 Central control and flexible local implementation

The overall steering of Babbel's marketing budget is determined by the Chief Revenue Officer, responsible for all directly revenue generating activities across the marketing, marketing tech and customer service organization. In coordination with the marketing leadership team, more granular investment decisions are made at the geographical and channel level. Geographical market leads leverage historical data, current performance and insights surrounding external trends and factors to shape the marketing strategy and budget for their respective regions. Channel managers, responsible for campaign management across various digital and non-digital marketing channels, then own the execution, deploying funds across campaigns and sub-channels in order to meet the targets. All sides of the sales and marketing team work in close collaboration and are empowered to identify, plan, and execute initiatives that will drive revenue growth.

11.7.5 Customers at the core

From a committed internal customer and market research team to our 47 dedicated customer service representatives (as of June 30, 2021), customers are at the heart of Babbel's sales and marketing team. Steering and market-level strategies are informed by research (Babbel customers and the broader language learning community) as well as customer feedback from internal wishboards, user experience studies, customer service reports and more. Understanding the motivations, barriers and preferences surrounding language learning in different customer segments has been key for Babbel's growth thus far and will continue to inspire the further development of our unique ecosystem.

11.8 Our Technology platform

Our Technology platform is built along several core philosophies, which in conjunction with the subsequently designed key guiding functionalities to optimize learner engagement and success. Babbel has an underlying single platform approach, which unifies business lines, work streams and functionalities. Efficiency and effectiveness is ensured by firstly leveraging upon best-in-class technology as a solid foundation and, on top of that, developing our own, tailor-made technology specifically for the needs of the business and customers. Data-driven optimization facilitates ongoing improvement allowing Babbel to continuously cater to each individual learner's requirements. The technology platform is made up of four proprietary tools deeply embedded in our organization.

11.8.1 A seamless experience across platforms

Regardless of whether learners join our ecosystem via a smartphone app or via our web portal, they are able to move seamlessly between platforms, with learning progress completely synchronized between app and web use points. Simultaneously, Babbel is able to manage content and the user experience on one combined platform removing the need for multiple maintenance and development efforts across initiatives.

11.8.2 Proprietary Lead Conversion and Attribution Systems

Babbel's proprietary marketing tech platform combines external data with internal performance data to maximize the efficiency of our marketing spend. Its tracking system automatically retrieves campaign level data (e.g. impressions, clicks, cost) from third party sources such as Google, Facebook and a range of other publishers. This tracking data is connected with our internal performance data (e.g. leads, sales) and mapped against cost targets generated by our lifetime forecast models and profitability requirements. Our marketing professionals are therefore able to steer and adjust marketing campaigns in response to fast-changing media market environments.

11.8.3 Proprietary subscription management

Babbel has built a number of proprietary tools to manage subscriptions and learner lifetimes. Our payment providers deliver services such as subscription processing and multi-currency payment platforms, but our subscription management tools integrate upgrades, downgrades and the management of special offers. The tool leverages our length and breadth of data to include churn and cancellation management, optimizes prices across currencies via sensitivity testing and caters for the increasing complexity of a multi-product ecosystem. Our pricing platform enables our sales and marketing teams to set localized pricing policies and to manage increasingly personalized special offers and discounts.

11.8.4 Proprietary content creation and release tools

The key differentiator between our business and that of our competition is the content, its creation and the underlying technology. Babbel's technology team uses proprietary tooling to support efficient and scalable workflows. Following a build, measure and learn philosophy, "built" content is seamlessly and automatically translated into a format suitable for the entire platform, allowing didactic specialists to focus on what they do best. Babbel is then able to push content multiple times per day and most importantly completely independently from app updates and releases. Additionally, our platform constantly gathers data. With each and every user interaction our proprietary content tools are measuring and evaluating data. Our didactic experts analyze this data, learn and adjust and adapt content and lessons to reflect both implicit and explicit user feedback. While the underlying content of our product is evergreen in nature, the ability to efficiently update lessons and quickly address user experience pain points is a key driver of sustaining user engagement.

11.8.5 Proprietary personalization technology for an optimized learner experience

In the more than ten years since the launch of Babbel's initial product, we have been able to build what we believe to be a uniquely large data-set around learner behavior and the activities that drive learner success and engagement. Over this time we have taken an iterative approach to optimizing the learning experience and effectiveness for each learner. Lessons and reviews are iteratively improved to increase completion rates and identify learner error points. Since 2018, we have been able to increase the release frequency of optimized lessons from 27 to 670 in 2020.

Leveraging our data combined with our optimized internal processes, Babbel is able to offer over 130 language pairs to efficiently support Babbel's conversational mother-tongue based approach to language learning. The learning journey within our self-study app and increasingly across our ecosystem is personalized for local needs, learning motivation, country and age amongst other characteristics.

11.8.6 Scalable and sustainable infrastructure

Babbel's product was at the forefront of cloud-native language learning offerings and over recent years has moved to an entirely serverless infrastructure. Our tech-stack provides significant operational leverage, servicing both B2B and B2C end markets across from a unified back-end, served through a single application programming interface. The architecture behind this is also hyper-scalable and in fact during the spikes in learner activity we encountered during the second quarter of 2020 there was no incremental work required to deal with the significantly increased load.

11.9 Security and privacy

When expanding and operating our technology platform, we constantly focus on security and reliability. To achieve such a resilient technology platform, we have implemented various state-of-the-art security measures, in particular:

- Infrastructure as Code – changes to our underlying infrastructure are under version control and peer reviewed;
- Databases in multiple availability zones (spreading across multiple data centers);
- Firewalls and Web Application Firewalls;
- Cloud Storage;
- Automated Backups;
- Encryption of sensitive Data;
- Cloud Protection to prevent so-called distributed denial-of-service attacks;
- Regular penetration and security testing;
- Network segregation and multiple virtual private networks;
- Code Reviews by at least two Engineers; and
- Multi-Factor Authentication.

11.10 Intellectual property

11.10.1 Trademarks and Registered Designs

As of the date of this Prospectus, we have obtained more than 100 trademark registrations, including combined word and figurative trademarks (*kombinierte Wort- und Bildmarken*), for our brand "Babbel". We constantly monitor our trademarks by commissioning the services of specialized third-party service providers in order to maintain and to protect these key assets, including by pursuing any infringements by third parties.

11.10.2 Domains

We are the legal or beneficial owners of various domains, including the following domains that are essential to our business: www.babbel.com, www.babbelforbusiness.com, www.babbel.cn, www.babbel.io, www.babbel-www.staging.io, www.babbel-staging.com, www.babbel.cloud and www.babbel.lol.

11.10.3 Proprietary Software

Our operations utilize a broad range of proprietary software. In addition, our websites and apps have been specifically designed by our dedicated in-house team to ensure an immersive, convenient and synchronized learning experience.

11.11 Compliance Management

We have established a compliance management system aimed at ensuring lawful conduct by our employees. Our compliance system is designed to identify potential violations in advance and to systematically prevent their occurrence and is supervised by our compliance officer. This compliance system comprises, among other things, compliance guidelines offering an overview of our compliance regime and our mandatory compliance policies, regular training courses on relevant compliance risks and measures as well as adequate measures to allow employees to report potential compliance violations. Our compliance system is, among other things, aimed at preventing bribery and corruption and violations of anti-money laundering and data protection laws and regulations.

11.12 Employees

11.12.1 Overview

Babbel employs a total of 520.3 full-time equivalent employees across its two offices as of the date of the Prospectus (June 30, 2021: 535.0, December 31, 2020: 533.4), of which 481.8 (June 30, 2021: 495.5, December 31, 2020: 493.6) worked for Babbel in Berlin, Germany where its headquarters are located.

The following table shows the unaudited period-end figures of Babbel's staff (full-time equivalent) as of December 31, 2020, December 31, 2019 and December 31, 2018 and June 30, 2021, each divided by function:

	As of December 31			As of June 30
	2020	2019	2018	2021
	(unaudited)			
Marketing & Sales	201.9	203.7	196.6	183.1
Research & Development	268.1	223.2	193.9	276.5
Office Administration	63.5	63.1	64.6	75.4
Total	**533.4**	**489.9**	**455.1**	**535.0**

The following table shows the unaudited period-end figures of Babbel's staff (full-time equivalent) as of December 31, 2020, December 31, 2019, December 31, 2018 and June 30, 2021, each divided by geographical area:

	As of December 31			As of June 30
	2020	2019	2018	2021
	(unaudited)			
Germany	493.6	459.6	427.1	495.5
Other Europe	0	0	0	0
United States	39.8	30.3	28.0	39.5
Total	**533.4**	**489.9**	**455.1**	**535.0**

11.12.2 Pension liabilities

Babbel has not entered into any direct pension arrangements with its employees.

11.13 Corporate responsibility

The Company's purpose is 'Creating mutual understanding through language'. It has been ingrained in the Company since its inception and all strategic decisions are challenged against this purpose.

Mutual understanding at the core underlines that the social aspect is of highest importance internally and externally. The business of teaching languages, enriched by cultural context, enables Babbel's millions of learners to make themselves understood in various situations. Babbel has a scalable lever to achieve this purpose through language. As part of our corporate social responsibility activities, we provide our product free of charge to organizations and for good cause. For example, we partnered with the Berlin Senate and several local refugee organizations to provide free Babbel access to refugees arriving in Berlin.

Additionally, the Existing Shareholders decided in the context of the Offering to create 353,535 shares in the Company (such shares the "**Corporate Social Responsibility Shares**"), for the use of funding corporate social responsibility engagements. For more information on the Pre-IPO Cash Capital Increase, see "*15.1.2 Development of the share capital*". Babbel GmbH holds the Corporate Social Responsibility Shares and the Company may instruct, subject to the approval by the CSR committee of the Supervisory Board to sell the Corporate Social Responsibility Shares in whole or part, to raise funds which will be used to finance certain corporate social responsibility engagements in line with the criteria to be developed under the supervision of the CSR Committee (as defined below) of the Supervisory Board. For more information on the CSR Committee, see "*16.3.3.3 CSR Committee*". The use of these funds are bound to support the purpose of the company: "Creating mutual understanding through language". Potential projects include, inter alia; language learning for underprivileged groups and building bridges of understanding across lines of division in society.

Internally, Babbel is very cognizant of diversity, equity and inclusion. In that context, Babbel builds on two of our core values: 'Diversity Makes Us Stronger & Learning Company Inside Out'. Concretely, we have a dedicated team that runs initiatives, e.g. anti-racism task-force, reporting and trainings on the subjects with the goal of becoming an anti-racist and anti-discriminatory company. We have defined race, gender, LGBTQIA+, disability, culture, faith, ethnicity & nationality and age as diversity parameters that we educate ourselves on and that we are required to consider in decisions. Currently, our team includes 58 nationalities and the gender ratio is balanced up to the first level under the C-Level executive team. The C-Suite at Babbel is 2/5 female and originates from 4 different continents.

Our ethical standards also include environmental themes: we prioritize local businesses to supply us with office material, foods and drinks and do not purchase from brands we consider unethical. For years, our employees have been offered company bikes or a ticket for public transport to move around Berlin. Other companies have followed our role model in this regard.

11.14 Legal and administrative proceedings

In the course of our business activities, we are regularly exposed to numerous legal risks, particularly in the areas of intellectual property disputes (trademark oppositions, domain take downs, patent infringements) (see "*1.3 Risks related to Regulatory, Legal and Tax Matters*") and labor law. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during a period covering at least the previous 12 months, which may have, or have had in the recent past significant effects on the Company's and/or Babbel Group's financial position or profitability.

11.15 Material contracts

Babbel is party to developer agreements with Apple and Google as well as certain other companies, respectively. Under these agreements, Apple and Google (each an "**App Store Operator**"), solicit and obtain orders in the respective markets on behalf of Babbel on the respective app store operated by each such App Store Operator for the products and services developed and offered by Babbel against a commission on revenues generated through such app store (the "**App Store Agreements**" and each an "**App Store Agreement**"). In addition, under the App Store Agreements, the App Store Operators provide certain hosting services and allow end users to download applications to their devices. Each App Store Operator is entitled to cease marketing, offering or allowing the purchase by end users of applications developed by Babbel as well as the associated hosting services. The relevant developer agreements with the App Store Operators are based on the respective App Store Operator's template and are, from time to time, subject to change requested or initiated by the respective App Store Operator.

11.15.1 Apple

The Appstore Agreement with Apple is subject to the laws of the United States and the State of California and was concluded for a term of one year from its effective date and automatically extends for a successive period of one year subject to Babbel's payment of annual renewal fees and its compliance with the terms of the Appstore

Agreement. The App Store Agreement may be terminated by either party without cause with 30 days' notice. In addition, the Appstore Agreement may be immediately terminated by Apple (a) if Babbel or any of its authorized developers fail to comply with the terms of the Appstore Agreement and fails to cure such breach within 30 days after becoming aware of or receiving notice of such breach, (b) if Babbel or any of its authorized developers fail to comply with the terms of the Appstore Agreement relating to confidentiality, (c) in certain events of unenforceability of the Appstore Agreement, (d) if Babbel commences at any time during the term of the Appstore Agreement an action for patent infringement against Apple, I if Babbel becomes insolvent, fails to pay its debts when due, dissolves or ceases to do business, files for bankruptcy or has filed against it a petition for bankruptcy, or (f) if Babbel engages, or encourages others to engage, in any misleading, fraudulent, improper, unlawful or dishonest act relating to the Appstore Agreement, including, but not limited to, misrepresenting the nature of Babbel's submitted apps (e.g., hiding or trying to hide functionality from Apple's review, falsifying consumer reviews, engaging in payment fraud etc.). Apple may also terminate the Application Agreement or suspend Babbel's rights to use the Apple software or services, if Babbel fails to accept any new requirements or terms under the Application Agreement.

11.15.2 Google

The Appstore Agreement with Google is subject to the laws of the State of California and was concluded on February 26, 2018 for an indefinite period of time. The App Store Agreement may be terminated by either party without cause with 30 days' notice. In addition, Google may immediately terminate the Appstore Agreement at any time if (a) Babbel has breached any term of the Appstore Agreement, any confidentiality agreement or any other agreement relating to Google Play or the Android platform, (b) Google is required to do so by law, (c) Babbel is no longer an authorized developer or a developer in good standing or Babbel has been prohibited from using the Android software or (d) Google elects to no longer provide Google Play. In the event of a change of control at Babbel, Google has the option to terminate the agreement immediately.

11.16 Insurance

Babbel's insurance coverage includes, inter alia, general liability insurance, fidelity insurance, and loss of property and earnings insurance.

The Company has also obtained directors' and officers' ("**D&O**") liability insurance (*Vermögensschaden-Haftpflichtversicherung*) for the benefit of the members of the Management Board and the Supervisory Board, with a total coverage of € 25 million per year. The D&O insurance provides coverage in case of liability claims due to breaches of duty and wrongful acts by these board members. The D&O insurance also provides for a deductible for all members of the Management Board in line with the respective provisions of the German Stock Corporation Act (*Aktiengesetz*), i.e., each member of the Management Board remains personally responsible in the case of any finding of personal liability, as the case may be, for 10% of the total amount of such personal liability, up to an amount of 150% of the annual salary for all damages in an insurance period.

On the basis of its current knowledge and risk management, Babbel believes that its insurance coverage, including the maximum coverage amounts and terms and conditions of the policies, are standard and appropriate for the software sector. Babbel cannot guarantee, however, that it will not incur any losses or be the subject of claims that exceed the scope of the relevant insurance policy. Babbel may increase its insurance coverage in the future as it deems appropriate.

12. REGULATORY AND LEGAL ENVIRONMENT

We have a physical presence in Germany and the United States and currently conduct active marketing in 16 countries and have business in many more and are therefore subject to various laws and regulations of these countries. The primary regulatory frameworks that we are subject to are the EU regulatory framework and the U.S. regulatory framework. While the laws and regulations are typically of a national scope, within the EU, a considerable degree of regulatory harmonization exists in a number of areas relevant to our business.

The following provides a brief overview of selected material regulations that are applicable to business activities in Germany, the EU, the United Kingdom and the United States.

12.1 Data Protection and Data Privacy

The collection, processing and other use of personal data is extensively regulated by the European Union (e.g., Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the "**General Data Protection Regulation**") and national legislation (e.g., the German Federal Data Protection Act (*Bundesdatenschutzgesetz* (the "**Data Protection Act**")) in Germany).

In general, European data protection and data privacy laws regulate when and how personal data may be collected, for which purposes it may be processed, for how long such data may be stored and to whom and how they may be transferred. The General Data Protection Regulation contains strict requirements for obtaining the consent of data subjects (i.e., the persons to whom personal data relates) to the use and processing of their personal data. Such consent may be withdrawn at any time and without cause, preventing the continued use of the affected data. In addition, a transfer of personal data to entities outside Europe is subject to specific requirements.

The General Data Protection Regulation also requires organizational measures, such as the installation of a data protection officer (*Datenschutzbeauftragter*) who, among other things, must monitor compliance with the General Data Protection Regulation. In addition, it may require so-called privacy impact assessments, at least in cases where the data processing is likely to result in a high risk to the rights and freedoms of individuals.

In addition to the General Data Protection Regulation and the Data Protection Act, various sector-specific statutes set forth rules which apply to certain industries or businesses and prevail over the general provisions of the Data Protection Act. In Germany, operators of online platforms have to comply with the specific requirements of the German Tele Media Act (*Telemediengesetz* (the "**Tele Media Act**")), which takes into consideration particular aspects of online communication. For example, the Tele Media Act provides for additional information obligations which are stricter than the general requirements of the Data Protection Act (e.g., a requirement to include an imprint on websites and apps).

The following selected areas of data protection and data privacy are of particular relevance to our business:

12.1.1 Individual Rights of Data Subjects

Under the General Data Protection Regulation, data subjects have a right to require information about what data have been recorded with respect to them, how their data is being processed, the right to data portability as well as the right to restrict certain processing of their data. Furthermore, the General Data Protection Regulation establishes a so-called "right to be forgotten". Therefore, data subjects may require that data relating to such data subjects are deleted when there is a problem with the underlying legality of the processing or where the data subjects have withdrawn their consent to the use and storage of such data.

12.1.2 Web Analysis

Web analysis technology, such as cookies or tracking tools (e.g., Google Analytics), enables us to utilize traffic to our websites and apps to personalize our offering and marketing efforts to better match the interests of our users. Even though most web analysis tools allow for the anonymization of data (i.e., by collecting only a part of the users' IP addresses) and do not allow for a subsequent allocation of such data to individual users, the use of such tools may still be subject to data privacy laws.

On May 28, 2020 the Federal Court of Germany (*Bundesgerichtshof*), based on a decision by the European Court of Justice of October 1, 2019, ruled that under German law, the use of certain cookies requires a clear affirmative act of the user and that a pre-activated checkbox does not fulfil this requirement. The use of cookies may be restricted further by a new regulation of the European Parliament and of the Council, which is currently undergoing the European legislative process. This legislation provides for an opt-in regime, pursuant to which the use of certain cookies requires a clear affirmative act establishing a freely given, specific, informed and unambiguous indication of users of websites and apps (see "*12.1.8 New Proposal for a Data Privacy Regulation*").

12.1.3 Profiling

The General Data Protection Regulation imposes various restrictions on profiling. Profiling can be defined as any form of automated processing of personal data intended to evaluate certain personal aspects relating to a natural person or to analyze or predict such person's performance at work, economic situation, location, health, personal preferences, reliability or behavior.

12.1.4 Email Advertisements

Subject to certain exceptions, email advertisements (e.g., newsletters) may only be sent to recipients who have given their explicit prior consent to receiving such communication. In Germany, case law demands that in certain cases consent must be obtained through a so-called double opt in procedure. This procedure requires that recipients give their consent twice (i.e., firstly by filling out an online registration form and secondly by confirming their email address after they have registered).

When obtaining consent, the respective sender has to clearly inform the recipients of the scope and consequences of their consent. For example, a declaration of consent may not be hidden in general terms and conditions but must be clearly highlighted. Consent may be withdrawn at any time without cause.

As an exception from the consent requirement, personalized product recommendations may be sent to customers by email without their explicit prior consent, provided that such recommendations only relate to products identical or similar to those previously purchased by these customers and that these customers have been duly informed about their right to object to receiving such recommendations.

12.1.5 Social Plugins

Operators of online platforms use social plugins (e.g., Facebook's "Like" or "Share" buttons) to promote their websites and apps through social media and to communicate with their customers and followers. The use of such social plugins may, however, infringe data privacy laws, depending on the technical design of the relevant plugin. Therefore, some German data protection authorities recommend the use of a two-click-solution, pursuant to which users must first activate the relevant social plugins before being able to actually click on the relevant buttons.

12.1.6 Payment Processes

Directive (EU) 2015/2366 of the European Parliament and of the Council of November 25, 2015 on payment services in the internal market, among other things, covers online-based payment services, provides for a harmonized regulation of payments via Internet and mobile phones and increased customer protection and requirements for user authentication.

12.1.7 Consequences of Non-Compliance

Non-compliance with the General Data Protection Regulation may result in severe fines. Depending on the individual infringement, fines of up to the higher of 4% of the annual worldwide turnover for the last year and € 20.0 million may be imposed. In addition, the General Data Protection Regulation grants individual data subjects the right to claim damages for violations of their rights under the General Data Protection Regulation.

12.1.8 New Proposal for a Data Privacy Regulation

On January 10, 2017, the European Commission released a proposal for a regulation of the European Parliament and of the Council concerning the respect for private life and the protection of personal data in electronic communications. The proposal contains several provisions aimed at ensuring the confidentiality of electronic communications and also sets forth strict requirements for unsolicited communication as part of direct marketing efforts. In February 2021, the Council of the European Union has approved its negotiating position with regard to the proposed regulation. Currently, the proposal is being negotiated between the Council of the European Union, the European Parliament and the European Commission. The regulation is, however, not expected to enter into force prior to 2023.

12.1.9 Brexit

The United Kingdom ceased to be an EU member state on January 31, 2020, but enacted a Data Protection Act substantially implementing the General Data Protection Regulation, effective in May 2018, which was further amended to align more substantially with the General Data Protection Regulation following Brexit. Since the beginning of 2021 when the transitional period following Brexit expired, we have been required to comply with the United Kingdom's General Data Protection Regulation. While the flow of data from the United Kingdom to the EU is now regulated by the laws of the United Kingdom, the flow of data from the EU to the United Kingdom remains regulated by the General Data Protection Regulation. In February 2021, the European Commission published a draft on the United Kingdom's adequacy under the General Data Protection Regulation, which is yet subject to approval by a committee of all EU member states' governments and to formal adoption by the European Commission. The decision will be in effect for four years from the date adoption and will then again be subject to review and extension. If a non-EU country has been found "adequate", transfers of personal data from the EU to the respective non-EU country can take place without being subject to further conditions.

12.2 Consumer Protection Provisions

Due to our online operations, the following European directives on consumer protection and the national laws implementing or complementing these directives impose responsibilities on us:

- Directive (EC) 2000/31 of the European Parliament and of the Council of June 8, 2000 on certain legal aspects of information society services, in particular electronic commerce, in the internal market, as amended;
- Directive (EC) 2005/29 of the European Parliament and of the Council of May 11, 2005 concerning unfair business-to-consumer commercial practices in the internal market, as amended; and
- Directive (EU) 2011/83 of the European Parliament and of the Council of October 25, 2011 on consumer rights, as amended (the "**Consumer Rights Directive**");
- Directive (EU) 2019/770 of the European Parliament and of the Council of May 20, 2019 on certain aspects concerning contracts for the supply of digital content and digital services;
- Directive (EU) 2019/771 of the European Parliament and of the Council of 20 May 2019 on certain aspects concerning contracts for the sale of goods, amending Regulation (EU) 2017/2394 and Directive 2009/22/EC, and repealing Directive 1999/44/EC.

12.2.1 Information Requirements

Online platforms are subject to extensive and formalized information requirements. For example, they must provide potential customers with detailed and accurate information on the main characteristics of their products and services, price and payment details and on statutory withdrawal rights (see "*12.2.2 Withdrawal Rights*"). Operators of online platforms must observe these requirements when designing and structuring their websites and apps as well their ordering, payment and servicing processes.

As a result of changing legislation, operators of online platforms are regularly required to adapt their offerings and processes. For example, the Consumer Rights Directive requires online operators to ensure that during the order process, consumers explicitly acknowledge that their order implies an obligation to pay. If placing an order requires activating a button or a similar function, such button must be labelled "order with obligation to pay" or be similarly labelled and the operator must ensure that consumers are made aware of certain key information relating to the purchase directly before placing orders by activating such button.

12.2.2 *Withdrawal Rights*

Consumers have the right to withdraw from contracts concluded online without cause within 14 days from the day on which such contract was concluded. Online operators are required to inform consumers of their statutory withdrawal rights and failure to do so results in an extension of the withdrawal period by twelve months. Consumers must exercise their withdrawal rights by explicitly declaring their withdrawal (e.g., in writing, per email or telephone). Sellers are required to reimburse the purchase price within 14 days following a valid exercise of the statutory withdrawal right. However, consumers may expressly consent to implement a service contract prior to the end of the withdrawal period. In such cases, if consumers expressly confirm awareness of their loss of the withdrawal right, they may lose the right to withdraw from a service contract.

12.2.3 Consequences of Non-Compliance

Failure to comply with the provisions on consumer protection may give rise to civil liability, administrative orders or fines and may even result in the invalidity of the relevant purchase agreements. Competitors and consumer protection associations could issue formal warnings and the latter may also assert claims for injunctive relief.

12.2.4 Standardized Terms under German Statutory Law

Standardized terms under German law are subject to the statutory law on general terms and conditions (*Allgemeine Geschäftsbedingungen*), which means they are subject to rigid fairness control by the courts regarding their content and the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. The standard is even stricter if they are used vis-à-vis consumers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded or if they are unbalanced or discriminate against the other party inappropriately. The legal framework governing general terms and conditions frequently changes, particularly with regard to court decisions. In addition, the validity of standard agreements under German law used in relation to customers outside Germany is unclear.

12.2.5 California Consumer Privacy Act and other U.S. Regulation

In June 2018, California passed the California Consumer Privacy Act ("**CCPA**"), which provides new data privacy rights for California consumers and new operational requirements for covered companies. Specifically, the CCPA provides that covered companies must provide new disclosures to California consumers and afford such consumers new data privacy rights that include the right to request a copy from a covered company of the personal information collected about them, the right to request deletion of such personal information and the right to request to opt-out of certain sales of such personal information. The CCPA became operative on January 1, 2020. The California Attorney General can enforce the CCPA, including seeking an injunction and civil penalties for violations. The CCPA also provides a private right of action for certain data breaches that is expected to increase data breach litigation. In order to comply with the CCPA, we may incur substantial costs and expenses, e.g., due to further modifications of our data practices and policies. A new privacy law initiative, the California Privacy Rights Act ("**CPRA**"), was on the ballot during the November 3, 2020 election and was approved by California voters., Coming into effect in January 2023, the CPRA creates a new consumer data privacy agency and significantly modifies the CCPA, enhancing consumer data protection. This may require us to incur additional costs and expenses in an effort to comply. More generally, some observers have noted the CCPA and the CPRA could mark the beginning of a trend toward more stringent privacy legislation in the United States, which could increase our potential liability and adversely affect our business.

Various United States privacy laws are potentially relevant to our business, including the Federal Trade Commission Act, which, among other things, prohibits unfair and deceptive acts or practices in or affecting commerce, the Federal Controlling the Assault of Non-Solicited Pornography and Marketing Act and the Telemarketing Sales Rule and analogous state laws, which impose various restrictions on marketing conducted using email, telephone, fax or text messages, the Telephone Consumer Protection Act and the regulations promulgated thereunder, which impose various consumer consent requirements and other restrictions in connection with telemarketing activity and other communication with consumers by phone, fax or text message, and which provide guidelines designed to safeguard consumer privacy in connection with such communication.

12.3 Cybersecurity

We have to comply with various cybersecurity requirements. In particular, the General Data Protection Regulation and the Data Protection Act stipulate that entities that collect and process personal data, including operators of online platforms, must implement certain technical and organizational measures to ensure that such data is processed and stored safely, remains confidential and can be restored and accessed again after interruptions. These measures may include physical security against unauthorized access and manipulation (e.g., secure storage and transportation of physical data carriers), password security, authorization concepts, logging of subsequent changes of data, separation of data that has been collected for different purposes, reasonable encryption and protection against accidental loss, destruction or damage of data. Furthermore, the effectiveness of such measures must be tested regularly.

In addition, operators of online platforms must ensure that appropriate compliance measures cover the detection and control of technology related risks. In Germany, the German Act to Increase the Security of Information Technology Systems (*Gesetz zur Erhöhung der Sicherheit informationstechnischer Systeme*) amended the Tele Media Act in 2015. German law requires operators of websites and apps to protect their technology, in particular any data they collect and store, against outside attacks in accordance with the current standards of technology. Currently, a draft Second German Act to Increase Security of Information Technology Systems (*Zweites Gesetz zur Erhöhung der Sicherheit informationstechnischer Systeme*) is currently in the legislative process. While its main purpose is to increase the information technology security of critical infrastructures, consumer protection is also being increased by anchoring it within the German Federal Office for Information Security (*Bundesamt für Sicherheit in der Informationstechnik*) as an additional area of responsibility.

Directive (EU) 2016/1148 of the European Parliament and of the Council of July 6, 2016 concerning measures for a high common level of security of network and information systems, among other things, requires digital service providers, including online platforms, to (i) carefully review their existing network security mechanisms, (ii) implement state of the art security measures aimed at ensuring a level of security appropriate to the risk of the respective provider, and (iii) establish proper notification measures to promptly notify the competent authority of any incident which has a substantial impact on the services offered in the European Union.

Furthermore, the General Data Protection Regulation generally requires us to inform the competent supervisory authorities of any breach of personal data stored or processed by us within 72 hours of becoming aware of such breach. Where the relevant breach is likely to result in a high risk to the rights and freedoms of the affected data subjects, we are also required to inform these data subjects of the breach without undue delay.

12.4 Package Travel Directive

The Directive (EU) 2015/2302 of November 25, 2015 on package travel and linked travel arrangements (the "**Package Travel Directive**") as implemented into German law through the Third Act amending the regulations governing package travel (*Drittes Gesetz zur Änderung reiserechtlicher Vorschriften*) lays down a number of important consumer rights in relation to package holidays, in particular with regard to information requirements, liability obligations, protection against the insolvency of a tour operator or travel agency, as well as termination rights. The following selected provisions are of particular relevance as the Group may choose to re-open its language travel business activities as tour operator and online travel agent in the future.

12.4.1 Termination of travel contracts

The consumer shall have the right to terminate the package holidays contract before the start of the travel without paying any termination fee in the event of unavoidable and extraordinary circumstances occurring at the travel destination or its immediate vicinity, which significantly affect the performance of the package holidays, or significantly affect the travel of passengers to the destination. This may include for example warfare, other serious security problems such as terrorism, significant risks to human health such as the outbreak of a serious disease at the travel destination, or natural disasters such as floods, earthquakes or weather conditions which make it impossible to travel safely to the destination. In the event of the termination of the package holidays due to circumstances mentioned above, the consumer shall be entitled to a full refund of any payments made for the package holidays.

To avoid letting tour operators slip into insolvency during the COVID-19 pandemic, the German government has adopted legislation regarding a voluntary voucher solution for terminated package holidays. If package holidays are cancelled due to the COVID-19 pandemic, tour operators can offer customers vouchers on a voluntary basis - instead of an immediate refund of the travel price. However, this only applies to package holidays booked prior to March 8, 2020.

12.4.2 Liability

Tour organizers are responsible for the performance of the travel services included in the package holidays contract, irrespective of whether those services are to be performed by the tour organizer itself or by other travel service providers. A travel agent is exempt from liability only if another person acts as tour organizer and if the tour organizer is clearly disclosed as such to the consumer. The Package Travel Directive establishes the principle that only in cases where another person is disclosed as tour organizer of a package holidays, another contractor (typically an online travel agent) is able to act as a mere travel agent and can, therefore, not be held liable as a tour organizer.

In cases where the tour organizer is established outside the EEA, the travel agent established in a member state of the European Union shall be subject to the obligations laid down in the Package Travel Directive for tour organizer with regard to termination and liability.

12.5 Platform-to-Business Regulation

Regulation (EU) 2019/1150 of June 20, 2019 on promoting fairness and transparency for business users of online intermediation services (the "**P2B-Regulation**") established new rules to protect users of online agency platforms. It entered into force on July 12, 2020 and aims to promote fairness and transparency for businesses using online brokerage services.

The primary objective is to ensure greater transparency in the contractual conditions applied by online agency platforms to business users, allowing them to offer their goods and services to consumers (who may be indirectly affected if unable to enjoy balanced offers). The following selected provisions are of particular relevance to the Group's role as online travel agent.

12.5.1 The disclosure of ranking parameters

Platform operators must disclose the main parameters determining the ranking and the reasons for the relative importance of those main parameters as opposed to other parameters. Platform operators shall set out the main parameters, which individually or collectively are most significant in determining ranking and the reasons for the relative importance of those main parameters as opposed to other parameters, by providing an easily and publicly available description, drafted in plain and intelligible language, on the online search engines of those operators. The description of the main parameters determining ranking should also include an explanation of any possibility for business users to actively influence the ranking against remuneration, as well as an explanation of the relative effects thereof.

12.5.2 Differentiated treatment

Providers of online intermediation services and providers of online search engines have to include in their terms and conditions a description of any differentiated treatment which they give, or might give, in relation to goods or services offered to consumers through those online intermediation services by, on the one hand, either the provider itself or any business users which the provider controls and, on the other hand, other business users. That description shall refer to the main economic, commercial or legal considerations for such differentiated treatment.

12.5.3 Restrictions on selling through other means

Where platform operators restrict business users from offering the same goods and services to consumers under different terms and conditions through other means (e.g. via non online services), they must include the reasons for the restrictions in their terms and conditions and disclose such to the public, except where they are required by EU or national law to make such restrictions.

12.5.4 Internal complaint-handling system and dispute management

The P2B-Regulation requires platform operators to establish internal complaint-handling systems, indicating the treatable issues (alleged non-compliance by the provider with any obligation under the P2B-Regulation, technical issues, behavioral issues and measures adopted by the provider) and the means to resolve such matters.

12.6 Trademarks

The registration and protection of trademarks is regulated by international, European and national legislation:

On an international level, trademark registration and protection are, among other things, governed by the Madrid Agreement Concerning the International Registration of Marks of April 14, 1891, as amended (the "**MMA**"), the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks of June 27, 1989, as amended (the "**PMMA**"), and the Paris Convention for the Protection of Industrial Property of March 20, 1883, as amended.

On a European Union level, trademarks are governed by Directive (EU) 2015/2436 of the European Parliament and of the Council of December 16, 2015 to approximate the laws of the member states relating to trademarks and, with respect to the creation of a union wide trademark registration and protection regime, by Regulation (EU) 2017/1001 of the European Parliament and of the Council of June 14, 2017 on the European Union trade mark, as amended.

In Germany, trademarks are governed by the German Federal Trademark Act (*Markengesetz*).

Trademarks may be registered with a national trademark authority (e.g., the German Patent and Trade Mark Office (*Deutsches Patent- und Markenamt*)), the European Union Intellectual Property Office for union wide registration, and, following either national or union-wide registration, via the World Intellectual Property Organization in countries which are parties to the MMA or PMMA for ten-year periods. Such registrations may be renewed repeatedly.

Upon receiving an application, the competent trademark authority will examine whether there are grounds for refusal of granting the trademark registration (e.g., due to a lack of distinctive character of the relevant trademark). Furthermore, proprietors of earlier trademarks may oppose the application for registration within three months of the publication of the application (e.g., if the new trademark and the products or services sold thereunder are identical or similar to their trademark and the products or services sold thereunder). Upon registration of a European Union trademark, the proprietor may prohibit any third party from using such trademark commercially without his prior consent. In addition, national trademark laws of the member states of the European Union stipulate that the proprietor of a European trademark is entitled to, among other things, receive compensation for damages arising from the illegal use of his trademark.

12.7 Internet Domains

The reservation, transfer and renewal of generic top level Internet domains (e.g., ".com") and national top level Internet domains (e.g., ".de") are administered by the Internet Corporation for Assigned Names and Numbers ("**ICANN**"), which is a U.S. based non-profit organization. The reservation, transfer and renewal of second level Internet domains are administered by certain registrars which are accredited by ICANN. In Germany, Internet domains ending with ".de" are administered by DENIC eG ("**DENIC**"), a German non-profit organization. Reservations of second level Internet domains are made by DENIC depending on who is the first applicant for the relevant domain.

If a domain infringes on trademarks or name rights, the proprietor of the relevant trademarks or name rights can under certain conditions file an injunction to prevent the registration or use of such domain. Such proprietor may also be entitled to compensation for damages arising from infringements on such rights. Furthermore, specific dispute resolution proceedings are available for disputes over domains, including with respect to infringements of trademark or name rights. For example, the Uniform Domain Name Dispute Resolution Policy of the ICANN applies to disputes over the abusive reservation and use of domains for generic and certain national top level domains.

In Germany, DENIC refers to the German courts for any disputes arising from the reservation and use of national domains. German courts may, inter alia, approve requests for the cancellation of domains, but not for the transfer of the disputed domains. However, if an entry on the disputed domain has been made with DENIC, such domain is transferred automatically to the claimant upon cancellation of the relevant domain by the courts. In addition, holders of domains who are also proprietors of trademarks corresponding to such domains can under certain conditions defend their domains vis-à-vis third parties against abusive reservation or use on the grounds of trademark protection.

13. SHAREHOLDER INFORMATION

13.1 Share ownership immediately prior to and upon completion of the Offering

As of the date of this Prospectus, the following shareholders of the Company directly hold an interest in the Company's share capital and voting rights that would qualify as a notifiable interest within the meaning of Sections 33 et seq. of the German Securities Trading Act (*Wertpapierhandelsgesetz* ("**WpHG**"), if these provisions were already applicable to the Company.

The following table sets forth (i) the direct shareholdings of the Existing Shareholders, (ii) the ultimate controlling shareholders of the Existing Shareholders within the meaning of Sections 33 et seq. WpHG immediately prior to the Offering, and (iii) their expected shareholdings, together with the expected shareholdings of the public float, upon completion of the Offering, assuming final placement of the maximum number of Base Shares and Over-Allotment Shares, full exercise of the Greenshoe Option and transfer of 2,362,912 EVOP Compensation Shares to the Company at the mid-point of the Price Range (see "*16.8.1 EVOP Amendments*"):

		Ownership of the Company	
Ultimate Shareholder	**Direct Shareholder**	**immediately prior to the Offering**	**upon completion of the Offering**
		(in %)	
Mr. Michael Greve[1]	KIZOO Technology Capital GmbH	11.9	7.3
N/A	Lorenz Heine	13.0	9.4
N/A	Markus Witte	13.0	9.4
N.G. Partners III LLC[2]	Nokia Growth Partners III L.P.	8.6	5.3
RELX PLC[3]	The Reed Elsevier Ventures 2013 Partnership L.P.	11.0	6.8
Scottish Equity Partners LLP[4]	SEP IV LP	11.9	7.1
N/A	Thomas Holl	12.5	9.0
N/A	Toine Roger Martin Diepstraten	4.7	3.3
State of Berlin represented by the Finance Senator[5]	VC Fonds Berlin GmbH	9.6	5.8
State of Berlin represented by the Finance Senator[6]	VC Fonds Technologie Berlin GmbH	3.0	1.8
Treasury shares		0.9	6.0
Public float		–	28.8
Total		**100.0**	**100.0**

1 The voting rights held by KIZOO Technology Capital GmbH are attributed to Mr. Michael Greve through MIRA Vermögensverwaltungs- und Beteiligungsgesellschaft mbH pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

2 The voting rights held by Nokia Growth Partners III L.P. are attributed to N.G. Partners III LLC pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

3 The voting rights held by The Reed Elsevier Ventures 2013 Partnership L.P. are attributed to RELX PLC through REV Venture Partners Limited, RELX (UK) Limited, RELX (Holdings) Limited and RELX Group PLC pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

4 The voting rights held by SEP IV LP are attributed to Scottish Equity Partners LLP pursuant to Section 34 para. 1 sent. 1 no. 6 of the WpHG. In addition, the voting rights held by SEP IV LP are attributed to Scottish Equity Partners LLP also pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

5 The voting rights held by VC Fonds Berlin GmbH are attributed to the State of Berlin through IBB Beteiligungsgesellschaft mbH, Investitionsbank Berlin A.d.ö.R. and IBB Unternehmensverwaltung A.d.ö.R. pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

6 The voting rights held by VC Fonds Technologie Berlin GmbH are attributed to the State of Berlin through IBB Beteiligungsgesellschaft mbH, Investitionsbank Berlin A.d.ö.R. and IBB Unternehmensverwaltung A.d.ö.R. pursuant to Section 34 para. 1 sent. 1 no. 1 of the WpHG.

The shares held by each of the Existing Shareholders and attributed to the relevant ultimate shareholder have the same voting rights as any other ordinary shares in the Company.

13.2 Coordinated sell-down agreement

On or about the date of this Prospectus, the Company and the Existing Shareholders entered into a coordinated sell-down agreement governing the disposal of the shares in the Company which the Existing Shareholder will continue to hold after the Offering and the expiration of their lockup undertakings (see "*3.12.2 Lock-up of the Investor Shareholders and the Founder Shareholders*"). The coordinated sell-down agreement provides for certain times during which the Existing Shareholders may sell shares. Any such sale will be followed by a 90-day lockup period during which no Existing Shareholder may sell. Any Existing Shareholder holding less than 3% of the shares in the Company may terminate this Agreement by giving 45 days' written notice, while the agreement remains in full force and effect among the remaining parties. The coordinated sell-down agreement automatically terminates 36 months after the Listing.

14. GENERAL INFORMATION ON THE COMPANY AND THE GROUP

14.1 Formation and incorporation

The Company was formed as a German stock corporation (*Aktiengesellschaft*) under German law by articles of association dated April 19, 2021. At its foundation, its legal name was "Youco B21-H218 Vorrats-AG" with its registered office in Berlin, Germany, and registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, under docket number HRB 228641. The Company's sole founder was Youco24 Vorratsgesellschaften GmbH. The Company commenced its business on June 1, 2021, the day the remaining share capital at the time was fully paid in.

On June 7, 2021, Babbel GmbH acquired all shares in the Company from Youco24 Vorratsgesellschaften GmbH through a share purchase and assignment agreement. On June 9, 2021, the Company's shareholders' meeting resolved to change the Company's legal name to Babbel Group AG. The change in legal name was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on July 7, 2021.

On August 26, 2021 the Company became the parent company of Babbel Group as the shareholders of Babbel GmbH contributed their shares in Babbel GmbH to the Company as part of a capital increase against contributions in kind and to Babbel GmbH (see "*17.1.1 Contribution of all Shares in Babbel GmbH*").

14.2 Commercial name, registered office, LEI

The Company and the Group operate under the commercial name "Babbel".

The Company's registered office is at Andreasstraße 72, 10243 Berlin, Germany (telephone +49 30 568373836).

The LEI of the Company is 391200OICV5ACZA8Z633.

14.3 Fiscal year and duration

The Company's fiscal year is the calendar year. The Company was established for an unlimited period of time.

14.4 Corporate purpose

Pursuant to Section 2 para. 1 of the Articles of Association, the corporate purpose of the Company is

- the development, marketing and operation of eLearning-systems; and
- the development, marketing and provision of technological and digital services (in particular in the areas of online subscriptions,) the development, marketing and operation of language travel services as well as the provision of other services in connection with the aforementioned lines of business.

14.5 Group Structure

The Company is the holding company of Babbel. Babbel's business is conducted by its wholly-owned subsidiary Babbel GmbH and its indirectly, through Babbel GmbH, wholly-owned subsidiary, Babbel Inc. The group of consolidated companies comprises the Company and all companies whose financial and business policy can be controlled by the Company, either directly or indirectly, and the equity interests of Babbel whose financial and business policy can be influenced by the Company to a significant extent. As of the date of this Prospectus, Babbel comprises the Company, Babbel GmbH and Babbel Inc.

14.6 Significant Subsidiaries

The following table provides an overview of the Company's significant subsidiaries, which are located in Germany and the USA, respectively, held directly or indirectly as of the date of this Prospectus and the profit/loss as of and for the fiscal year ended December 31, 2020. The shareholdings reflect the Company's direct and indirect economic interest in the respective entity. As of the date of this Prospectus, no amount was outstanding under the issued shares for the subsidiary listed below. No material change occurred following this date.

Company name and registered office	Areas of responsibility	Company's share of capital	Issued capital	Profit/loss
	As of the date of this Prospectus			As of and for the fiscal year ended December 31, 2020
		(in %) (unaudited)	(in € thousand)	(in € thousand) (audited)
Babbel GmbH, Berlin, Germany	Online language learning	100	€ 50	(21,502)(1)
Babbel Inc., Wilmington/Delaware, USA	Online language learning	100	€ 0	386(2)

1 Prepared in accordance with generally accepted accounting principles of the HGB.
2 Prepared in accordance with IFRS.

14.7 Auditors

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kapelle-Ufer 4, 10117 Berlin, Germany ("**PwC**"), has audited and issued unqualified independent auditor's reports (*uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers*) on: (i) Babbel GmbH's unconsolidated annual financial statements prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the fiscal year ending December 31, 2020, (ii) the Company's unconsolidated financial statements prepared in accordance with IFRS as of June 30, 2021 and for the period from April 19, 2021 to June 30, 2021, and (iii) Babbel GmbH's consolidated financial statements prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB as of and for the fiscal years ending December 31, 2020, December 31, 2019 as amended, and December 31, 2018.

The auditor's report issued on the 2019 Audited Consolidated Financial Statements, contains an additional note on a supplementary audit. PwC issued this auditor's report on the amended consolidated financial statements on the basis of the audit, duly completed as at June 5, 2020, and the supplementary audit completed as at June 17, 2021, related to the amendment of the disclosure of rental deposits in the "Cash and cash equivalents" and "Other financial assets" line items in the consolidated financial statements and the related disclosures in the notes of the consolidated balance sheet and the resulting amendment to the consolidated cash flow statement and to the corresponding disclosures in the consolidated financial statements, as well as to the amendment to the disclosures of related persons/entities and leasing arrangements in the notes to the consolidated financial statements. We refer to the presentation of the amendment by the executive directors in the amended notes to the consolidated financial statements, section V.A.2. "Amendments to the consolidated financial statements 2019".

The independent auditor's reports issued on the consolidated financial statements of Babbel GmbH as of and for the fiscal years ended December 31, 2020, 2019 as amended, and 2018, and on the unconsolidated financial statements of Babbel GmbH as of and for the fiscal year ended December 31, 2020, also refer to their respective (group) management reports. The (group) management reports are not included or incorporated by reference in this prospectus. They were prepared by and are the sole responsibility of Babbel GmbH's management in accordance with German generally accepted accounting principles. The examinations of and the auditor's report upon such (group) management reports are required and were performed in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch, HGB) and German generally accepted standards for the audit of management reports promulgated by the German Institut der Wirtschaftsprüfer (IDW).

PwC is a member of the Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Rauchstraße 26, 10787 Berlin, Germany.

14.8 Announcements, paying agent

In accordance with Section 3 para. 2 of the Articles of Association, the announcements of the Company are published in the German Federal Gazette (*Bundesanzeiger*), unless otherwise required by law.

The paying agent is Deutsche Bank AG. The mailing address of the paying agent is: Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany.

15. DESCRIPTION OF THE COMPANY'S SHARE CAPITAL AND APPLICABLE REGULATIONS

15.1 Provisions relating to the share capital of the Company

15.1.1 Current and future share capital, shares

As of the date of this Prospectus, the share capital of the Company amounts to € 37,873,913.00 and is divided into 37,873,913. ordinary bearer shares (*Inhaberaktien*) with no-par value (*Stückaktien*). The share capital has been fully paid up. The Company's shares were created pursuant to the laws of Germany and are denominated in euro.

Each share carries one vote at the Company's general shareholders' meeting. There are no restrictions on voting rights and the shares carry full dividend entitlement.

Except for certain treasury shares (see "*15.1.6 Authorization to purchase and use treasury shares*"), all Existing Shares of the Company are held by the Existing Shareholders.

15.1.2 Development of the share capital

The Company's share capital has developed as follows:

- On April 19, 2021, the Company, which was incorporated as a German stock corporation (*Aktiengesellschaft*) on that date, had a share capital of € 50,000.00.
- On August 5, 2021 the Company's shareholders' meeting resolved to increase the Company's share capital from € 50,000.00 by € 303,535.00 to € 353,535.00 against contributions in cash (the "**Pre-IPO Cash Capital Increase**"). The Pre-IPO Cash Capital Increase was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany on August 10, 2021.
- On August 19, 2021, the Company's shareholders' meeting resolved to increase the Company's share capital from € 353,535.00 by € 37,520,378.00 to € 37,873,913.00 against contributions in kind in the form of 96.3% of the shares in Babbel GmbH by the Existing Shareholders as part of the Contribution Capital Increase (for further information, see "*17.1.1 Contribution of all Shares in Babbel GmbH*"). The consummation of the Contribution Capital Increase was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on August 26, 2021.
- Upon registration of the IPO Capital Increase, the Company's share capital will be increased from € 37,873,913.00 by up to € 7,300,000.00 to up to € 45,173,913.00. The consummation of the IPO Capital Increase is expected to be registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on or about September 23, 2021.

15.1.3 Authorized capital 2021

Pursuant to Section 4 para. 3 of the Articles of Association, the Management Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions on or prior to 18,936,956 by up to € 18,936,956.00 against contributions in cash and/or in kind by issuing new no-par value bearer shares (the "**Authorized Capital 2021**").

The Management Board is authorized, with the consent of the Supervisory Board, to define the further content of shareholders' rights and the terms and conditions for the new stock issuance. Profit participation rights of new shares may be determined in deviation from Section 60 para. 2 AktG; in particular, the new shares may carry profit participation rights from the beginning of the fiscal year preceding their issuance, provided that the Company's shareholders' meeting has not already resolved on the appropriation of profits for such fiscal year when the new shares are issued.

As a rule, shareholders must be granted subscription rights to the new shares. Such subscription rights may also be granted by way of indirect subscription rights within the meaning of Section 186 para. 5 sentence 1 AktG. The Management Board is, however, authorized, with the consent of the Supervisory Board, to fully or partially exclude shareholders' subscription rights:

- to exclude fractional amounts;
- to the extent the exclusion is required to grant subscription rights to the holders or creditors, respectively, of conversion or option rights attached to convertible and/or option bonds or convertible profit participation rights, that are or were issued by the Company or a national or foreign subsidiary in which the Company directly or indirectly holds a majority in terms of voting rights and capital, or, in case of a conversion right of the Company, to holders or creditors, respectively, being obligated

thereby, to the extent they would be entitled to after exercising their conversion or option rights or after fulfilling a conversion or option obligation, respectively;

- pursuant to Section 186 para. 3 sentence 4 AktG with respect to capital increases against cash contributions, if the issue price of the new shares is not substantially below the stock exchange price and the shares that are issued when this authorization is used in total do not exceed 10% of the registered share capital, neither at the time this authorization became effective nor at the time it is used. New and existing shares of the Company that are issued or sold during the term of this authorization on the basis of a different authorization with exclusion of subscription rights pursuant to Section 186 para. 3 sentence 4 AktG or by applying this provision accordingly, are to be taken into account when calculating the aforementioned 10% threshold. Furthermore, shares of the Company that are or still can be issued for the purpose of fulfilling conversion or option rights or fulfilling conversion or option obligations attached to convertible and/or option bonds or convertible participation rights are to be taken into account, to the extent that the bonds or participation rights are issued during the term of this authorization on the basis of a different authorization with exclusion of subscription rights by applying Section 186 para. 3 sentence 4 AktG accordingly;

- when increasing the share capital in exchange for contributions in kind, in particular to acquire companies, parts of companies or shareholdings, in the context of joint ventures and mergers and/or for the purpose of acquiring other assets, including rights and claims; and

- to issue the new shares as contributions in cash and/or in kind as part of participation programs and/or share-based compensation, to the extent no other authorization for the exclusion of subscription rights is used for this purpose. The shares may only be issued to persons who participate in the participation program as a member of the Management Board, a member of the management of a company dependent on the Company or an employee of the Company or a company dependent on the Company, or to whom the share-based remuneration is or was granted as a member of the Management Board, a member of the management of a company dependent on the Company or an employee of the Company or a company dependent on the Company, or to third parties who grant to these persons the economic ownership of the shares and/or the economic fruits from the shares. In particular, the new shares may also be issued on preferential terms, including an issue at the lowest issue price within the meaning of Section 9 para. 1 AktG, and/or against contribution of remuneration claims. The new shares may also be issued through a credit institution or a company operating in accordance with Section 53 para. 1 sentence 1 of the German Banking Act (*Kreditwesengesetz*) ("**KWG**") or Section 53b para. 1 sentence 1 or para. 7 KWG, which assumes these shares are subject to an obligation to offer them to the persons mentioned above. In total, the shares that are issued when this authorization for the exclusion of subscription rights is used may not exceed 10% of the registered share capital, neither at the time this authorization becomes effective nor at the time it is used. To the extent shares are granted to members of the Management Board, the Supervisory Board will decide on the respective grant in accordance with the allocation of responsibilities under the AktG.

The Company's shareholders' meeting expected to be held on September 15, 2021 is expected to resolve on a new Authorized Capital 2021 for up to 50% of the Company's share capital following the consummation of the IPO Capital Increase. The terms and duration of this new authorized capital will substantially correspond to those of the Company's existing Authorized Capital 2021.

15.1.4 Authorization to Issue Convertible Bonds and/or Option Bonds and Conditional Capital 2021-I

The Management Board is authorized, with the consent of the Supervisory Board, to issue bearer and/or registered convertible bonds and/or option bonds (together, "**Bonds**") with a total nominal amount of up to € 400 million on one or more occasions on or prior to September 6, 2026 with a limited or unlimited term, and to grant the holders or creditors of such Bonds conversion or option rights for a total of up to 15,149,565 new bearer shares with no par value corresponding to a pro rata amount of the share capital of up to € 15,149,565 in accordance with the terms and conditions of the Bonds and/or to provide for corresponding conversion rights for the Company.

The Bonds may be issued against contributions in cash and/or in kind. The authorization of the Company's shareholders' meeting of September 7, 2021 includes additional provisions on the issuance and terms of the Bonds. When such Bonds are issued, the shareholders are generally entitled to statutory subscription rights. The Management Board is, however, authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in whole or in part if certain conditions are met (e.g., to exclude fractional amounts, for limited issuances against cash payments or for issuances against contributions in kind).

To serve conversion rights or obligations or option rights, the Company's shareholders' meeting of September 7, 2021 created a conditional capital. Pursuant to Section 4 para. 4 of the Articles of Association, the share capital of the Company is conditionally increased by up to € 15,149,565 through the issuance of up to 15,149,565 new bearer shares with no par value (*Stückaktien*) ("**Conditional Capital 2021-I**").

The conditional capital increase serves to grant shares to holders or creditors of convertible bonds as well as to holders of option rights from option bonds issued on or prior to September 6, 2026 by the Company or a national or foreign company in which the Company directly or indirectly holds a majority of the voting rights and capital on the basis of the authorization in accordance with the resolution of the Company's shareholders' meeting of September 7, 2021. It will only be carried out to the extent that the conversion or option rights from the aforementioned bonds are actually exercised or conversion obligations from such bonds are fulfilled and to the extent that no other forms of fulfillment are used. The new shares are issued at the option or conversion price to be determined in each case in accordance with the aforementioned authorization resolution of the Company's shareholders' meeting of September 7, 2021.

The new shares participate in the Company's profits from the beginning of the fiscal year in which they are created through the exercise of conversion or option rights or through the fulfillment of conversion obligations. They already participate in the profits of the Company from the beginning of the fiscal year preceding their issuance instead if, at the time of the issuance, a resolution on the appropriation of the profits for the relevant fiscal year has not been passed yet. The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the implementation of the conditional capital increase.

15.1.5 Conditional Capital 2021-II

The Company's share capital is conditionally increased by up to € 3,787,391 (the "**Conditional Capital 2021-II**"). The Conditional Capital 2021-II serves to secure subscription rights from stock options issued by the Company based on the authorization resolution adopted by the extraordinary shareholders' meeting of September 7, 2021 "*15.1.7 Authorization to Grant Subscription Rights*" that authorizes the Company to grant stock options to members of the Management Board, members of managing corporate bodies of companies affiliated with the Company as well as elected executives and employees of the Company or affiliated companies of the Company in Germany and abroad until September 6, 2026. The conditional capital shall only be used to the extent stock options are actually issued, and the holders of these stock options make use of their subscriptions rights. The issued shares will be entitled to dividends from the beginning of such fiscal year for which a resolution of the shareholders' meeting on the appropriation of the balance sheet profit has not been made at the time the subscription rights are exercised. The Management Board or, to the extent members of the Management Board are affected, the Supervisory Board is authorized to determine the further details of the conditional capital increase and its consummation.

15.1.6 Authorization to purchase and use treasury shares

As of the date of this Prospectus, Babbel holds 353,535 Corporate Social Responsibility Shares as treasury shares with no par value (*Stückaktien*), each such share representing a notional value of € 1.00. Assuming an Offer Price at the mid-point of the Price Range and placement of the maximum number of Offer Shares, Babbel is expected to receive an additional 2,362,912 treasury shares from the Existing Shareholders which it shall use to settle claims under the EVOPs (see "*16.8.1 EVOP Amendments* ").

The Management Board is authorized, with the consent of the Supervisory Board, to acquire treasury shares of the Company on or prior to September 6, 2026 in an amount of up to 10% of the Company's share capital existing at the time of the granting of the authorization or – if this value is lower – at the time of its exercise. The shares acquired on the basis of this authorization, together with any other treasury shares held by the Company or attributable to it in accordance with Sections 71a *et seq.* AktG, may at no time exceed 10% of the existing share capital of the Company.

Treasury shares may be acquired via a stock exchange, by means of a public purchase offer addressed to all shareholders, by means of a public invitation to submit tenders and/or from participants in share-based incentive or remuneration programs in connection with the settlement of such programs, in each case in accordance with the additional provisions of the authorizing resolution.

The Management Board, with the consent of the Supervisory Board, may utilize acquired treasury shares in a number of ways, including:

- for sale, provided that the sales price per share is not significantly lower than the stock exchange price of the Company's shares (Section 71 para. 1 no. 8 AktG in conjunction with Section 186 para. 3 sentence 4 AktG);
- in return for contributions in kind, in particular for the acquisition of companies, parts of companies or equity interests in companies or in mergers, or for the acquisition of other assets, including rights and receivables;

- to fulfill option and/or conversion rights or obligations attached to convertible and/or option bonds and/or convertible profit participation rights, which are granted by the Company or by entities dependent on the Company or entities in which the Company holds a majority interest; and
- within the framework of employee participation programs and/or as share-based remuneration;

in each case in compliance with the provisions of the authorizing resolution.

Subject to the provisions of the authorizing resolution, the Company may also utilize derivatives in connection with the acquisition of treasury shares.

15.1.7 Authorization to Grant Subscription Rights

By resolution of the extraordinary shareholders' meeting held on September 7, 2021, the Company may allocate a total of up 3,787,391 subscription rights to certain beneficiaries as part of a variable compensation under a long-term incentive program in order to retain certain executives of the Company and its affiliated companies. The circle of potential beneficiaries of the allocation of such subscription rights includes two groups. The Supervisory Board is authorized to grant, on one or more occasions until and including September 6, 2026 (the "**Authorization Period**"), subscription rights of up to 946,847 no par value ordinary shares of the Company to members of the Management Board. The Management Board is authorized, with the consent of the Supervisory Board, to grant, on one or more occasions within the Authorization Period, subscription rights of up to 2,840,543 no par value ordinary shares of the Company to members of managing corporate bodies of affiliated companies of the Company as well as to selected executives and employees of the Company and to selected executives and employees of affiliated companies. One such subscription right grants the right to subscribe for one share of the Company. The shareholders of the Company are not entitled to subscription rights.

Subscription rights may be issued until the end of September 6, 2026 in one or more tranches in each case with effect from January 1 of each year, for the first time for January 1, 2022. If subscription rights are granted to members of the Management Board, the relevant terms and conditions of such long-term incentive program are determined by the Supervisory Board, and to the extent that the other group of beneficiaries is affected, by the Management Board. Subscription rights can only be exercised after the expiration of a performance period of four years after the date on which the subscription rights have been granted (or a later date agreed on with the individual beneficiary) and if certain performance targets are achieved. The subscription rights can be exercised by the beneficiaries within an exercise period of three years following the date of the expiration of the waiting period. Subscription rights that are not exercised until the expiration of the respective exercise period expire without compensation. The exercise price per subscribed share will be determined in connection with the granting of subscription rights. The minimum issue price is equivalent to at least the lowest issue price as defined under Section 9 para. 1 of the German Stock Corporation Act (*Aktiengesetz*). Instead of issuing shares upon exercise of the subscription rights the Company is entitled to pay in whole or in part an amount in cash which equals the value of the shares that arise out of the exercise of the subscription right less the exercise price. The terms and conditions of the long-term incentive program under which the subscription rights are granted may contain anti-dilution protection clauses, particularly by taking into account potential share splits, capital increases from company funds by issuing new shares, or other measures with similar effects when determining the number of shares to be issued for each subscription right.

15.2 General provisions governing a liquidation of the company

Apart from liquidation as a result of insolvency proceedings, the Company may be liquidated by a resolution of the shareholders' meeting that is passed by a majority of the votes cast, provided that those votes also represent 75% or more of the share capital represented at the shareholders' meeting at which such vote is taken. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), in the event of the Company's liquidation, any assets remaining after all of the Company's liabilities have been settled will be distributed among the shareholders in proportion to their shareholdings. The German Stock Corporation Act (*Aktiengesetz*) provides certain protections for creditors that must be observed in the event of liquidation.

15.3 General provisions governing a change in the share capital

Under the German Stock Corporation Act (*Aktiengesetz*), a German stock corporation (AG) requires a resolution of the shareholders' meeting to be passed by a majority of the votes cast, as well as a majority of at least 75% of the share capital represented at the time the resolution is passed, to increase its share capital. However, Section 17 para. 2 of the Articles of Association provides that resolutions of the shareholders' meeting shall be passed with a simple majority of the valid votes cast, unless a higher majority is required by mandatory law or by the Articles of Association. In so far as the law requires a capital majority in addition to a majority of votes for resolutions of the Company's shareholders' meeting, a simple majority of the share capital represented shall be sufficient to the extent legally permissible. Accordingly, certain capital measures that do not mandatorily require a majority of at least 75% of the share capital represented at the vote, such as capital increases from the Company's own funds, may be adopted by a simple majority.

Shareholders can also create authorized capital. This requires a resolution passed by a majority of the votes cast as well as a majority of at least 75% of the share capital represented when the resolution is passed, authorizing the Management Board to issue a specific quantity of shares within a period not exceeding five years. The nominal amount of the authorized capital may not exceed 50% of the share capital existing at the time the authorization is granted.

In addition, shareholders can create conditional capital by a resolution passed with a majority of the votes cast as well as a majority of at least 75% of the share capital represented at the time the resolution is passed, for the purposes of (i) issuing shares to holders of convertible bonds or other securities granting a right to subscribe for shares, (ii) issuing shares as consideration in a merger with another company, or (iii) issuing shares offered to managers and employees. The nominal amount of conditional capital may not exceed 10% of the share capital at the time the resolution is passed in cases where it is created to issue shares to managers and employees, and may not exceed 50% in all other cases.

Resolutions to reduce share capital require a simple majority of the votes cast as well as a majority of at least 75% of the share capital represented at the time the resolution is passed.

15.4 General provisions governing subscription rights

In principle Section 186 AktG grants to all shareholders the right to subscribe for new shares issued in a capital increase. The same applies to convertible bonds, bonds with warrants, profit participation rights and participating bonds. Subscription rights are freely transferable and may be traded on German stock exchanges for a prescribed period before the deadline for subscription expires. However, shareholders do not have a right to request admission to trading for subscription rights. The shareholders' meeting may, subject to a majority of at least 75% of the share capital represented at the vote, resolve to exclude subscription rights. Exclusion of shareholders' subscription rights also requires a report from the management board that justifies and demonstrates that the company's interest in excluding subscription rights outweighs the interest of the shareholders being granted subscription rights. Excluding shareholders' subscription rights when new shares are issued is specifically permissible where:

- the company is increasing share capital against cash contributions;
- the amount of the capital increase does not exceed 10% of the share capital at issue; and
- the price at which the new shares are being issued is not materially lower than the stock exchange price.

15.5 Exclusion of minority shareholders

Under Sections 327a et seq. AktG, which governs the so-called "squeeze-out under stock corporation law", upon the request of a shareholder holding 95% of the share capital ("**Majority Shareholder**"), the shareholders' meeting of a stock corporation may resolve to transfer the shares of minority shareholders to the Majority Shareholder against the payment of adequate compensation in cash. The amount of the cash payment that must be offered to minority shareholders has to reflect "the circumstances of the company" at the time the shareholders' meeting passes the resolution. The amount of the cash payment is based on the full value of the company, which is generally determined using the capitalized earnings method. The minority shareholders are entitled to file for a valuation proceeding (*Spruchverfahren*), in the course of which the fairness (*Angemessenheit*) of the cash payment is reviewed.

Under Sections 39a and 39b of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), in the case of a so-called "squeeze-out under takeover law", an offeror holding at least 95% of the voting share capital of a target company (as defined in the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*)) after a takeover bid or mandatory offer, may, within three months of the expiry of the deadline for acceptance of the offer, petition the Regional Court (*Landgericht*) of Frankfurt am Main for a court order transferring the remaining voting shares to itself against the payment of adequate compensation. A resolution passed by the shareholders' meeting is not required. The consideration paid in connection with the takeover or mandatory bid is considered adequate if the offeror has obtained at least 90% of the share capital subject to the offer. The nature of the compensation must be the same as the consideration paid under the takeover bid or mandatory offer; a cash alternative must be offered in any event. In addition, after a takeover bid or mandatory offer, shareholders in a target company who have not accepted the offer may do so up to three months after the deadline for acceptances of the offer has expired pursuant to Section 39c of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) (so called "sell-out"), provided the offeror is entitled to petition for the transfer of the outstanding voting shares in accordance with Section 39a of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). The provisions for a squeeze-out under stock corporation law cease to apply once an offeror has petitioned for a squeeze-out under takeover law, and only apply again when these proceedings have been definitively completed.

In addition, under Section 62 paragraph 5 of the German Transformation Act (*Umwandlungsgesetz*), a majority shareholder holding at least 90% of a stock corporation's share capital can require the shareholders' meeting to resolve that the minority shareholders must transfer their stock to the majority shareholder against the payment of adequate compensation in cash, provided that (i) the majority shareholder is a stock corporation, a partnership limited by shares (*Kommanditgesellschaft auf Aktien – KGaA*), or a European company (SE) having its seat in Germany, and (ii) the squeeze-out is performed to facilitate a merger under the German Transformation Act (*Umwandlungsgesetz*) between the majority shareholder and the stock corporation. The shareholders' meeting approving the squeeze-out must take place within three months of the conclusion of the merger agreement. The procedure for the squeeze-out is essentially identical to the "squeeze-out under stock corporation law" described above, including the minority shareholders' right to have the appropriateness of the cash compensation reviewed.

Under Section 319 et seq. AktG, the shareholders' meeting of a stock corporation may vote for integration (*Eingliederung*) with another stock corporation that has its registered office in Germany, provided the prospective parent company holds at least 95% of the shares of the company to be integrated. The former shareholders of the integrated company are entitled to adequate compensation, which, generally, must be provided in the form of shares in the parent company. Where the compensation takes the form of shares in the parent company, it is considered appropriate if the shares are issued in the same proportion as the shares the parent company would have been issued per share in the integrated company if a merger had taken place. Fractional amounts may be paid out in cash.

15.6 Shareholder notification requirements

After the Company's shares have been admitted to trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company, as a listed company, will be subject to the provisions of the WpHG governing disclosure requirements for significant shareholdings.

Pursuant to Section 33 paragraph 1 of the WpHG, anyone who acquires, sells or whose shareholding in any other way reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the total number of voting rights in the Company, as an issuer whose country of origin (*Herkunftsstaat*) is Germany, is required to notify the Company and the BaFin at the same time. Notifications must be submitted without undue delay, and no later than within four trading days. The four-day notification period starts at the time the person or entity subject to the notification requirement has knowledge of or, in consideration of the circumstances, should have had knowledge of his proportion of voting rights reaching, exceeding or falling below the aforementioned thresholds. The WpHG contains a conclusive presumption that the person or entity subject to the notification requirement has knowledge two trading days after such an event occurs. Moreover, a person or entity is deemed to already hold shares as of the point in time such person or entity has an unconditional and due claim of transfer related to such shares pursuant to Section 33 paragraph 3 of the WpHG. In the case that a threshold has been reached or crossed due to a change in the total number of voting rights, the notification period starts at the time the person or entity subject to the notification requirement has knowledge about such change, or upon the publication of the revised total number of voting rights by the Company, at the latest.

In connection with these requirements, Section 34 of the WpHG contains various attribution rules. For example, voting rights attached to shares held by a subsidiary are attributed to its parent company. Similarly, voting rights attached to shares held by a third party for the account of a person or entity are attributed to such person or entity. Voting rights which a person or entity is able to exercise as a proxy according to such person's or entity's discretion are also attributed to such person or entity. Further, any coordination by a person or entity with a third party on the basis of an agreement or in any other way generally results in an attribution of the full amount of voting rights held by, or attributed to, the third party as well as to such person or entity. Such acting in concert generally requires a consultation on the exercise of voting rights or other efforts designed to effect a permanent and material change in the business strategy of the Company. Accordingly, the exercise of voting rights does not necessarily have to be the subject of acting in concert. Coordination in individual cases, however, is not considered as acting in concert.

Similar obligations to notify the Company and the BaFin apply pursuant to Section 38 paragraph 1 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) to anyone who reaches, exceeds or falls below the aforementioned thresholds, except for the 3% threshold, by directly or indirectly holding instruments either (i) giving their holder the unconditional right or discretion to acquire already issued shares of the Company to which voting rights are attached, or (ii) relating to such shares and having a similar economic effect, whether or not conferring a right to a physical settlement. Pursuant to Section 38 paragraph 2 of the WpHG, such instruments include, in particular, transferable securities, options, futures, swaps, forward rate agreements and contracts for difference.

Details on the valuation of the shares underlying a financial instrument are set out in Commission Delegated Regulation (EU) 2015/761 of December 17, 2014 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to certain regulatory technical standards on major holdings.

In addition, anyone whose aggregate number of voting rights and instruments pursuant to Sections 33 paragraph 1 and 38 paragraph 1 of the WpHG reaches, exceeds or falls below the aforementioned thresholds, except for the 3% threshold, has to notify the Company and the BaFin pursuant to Section 39 paragraph 1 of the WpHG.

If any of the aforementioned reporting obligations are triggered, the notifying person or entity is required to fully complete the notification form set forth as an annex to the German Securities Trading and Insider List Regulation (*Wertpapierhandelsanzeige- und Insiderverzeichnisverordnung*). The notice can be submitted either in German or English, in writing or via fax. The notice must include, irrespective of the event triggering the notification, (i) the number and proportion of voting rights, (ii) the number and proportion of instruments and (iii) the aggregate number and proportion of voting rights and instruments held by or attributed to the notifying person or entity. In addition, the notice must include certain attribution details, among other things, the first name and surname of the notifying individual or the legal name, seat and state of a notifying entity, the event triggering the notification, the date on which the threshold was reached or crossed and, if voting rights or instruments are attributed.

As a domestic issuer, the Company must publish such notices without undue delay, but no later than three trading days following receipt, via media outlets or outlets where it can be assumed that the notice will be disseminated in the entire EU and in the non-EU Member States that are parties to the agreement in the EEA. The Company must also transmit the publication to the BaFin, specifying the time of publication and the media used and to the German Company Register (*Unternehmensregister*) for storage.

There are certain exceptions to the notice requirements. For example, a company is exempt from its notification obligation if its parent company, or if its parent company is itself a subsidiary, the parent's parent company, has filed a group notification pursuant to Section 37 paragraph 1 of the WpHG. Moreover, pursuant to Section 36 paragraph 1 of the WpHG, shares or instruments held by a credit institution or a credit securities services company with a registered seat in the EU or in a non-EU Member State that is a party to the Agreement in the EEA are not taken into account for determining the notification obligation or proportion of voting rights held, provided (i) they are held in such credit institution's or credit securities services company's trading book, (ii) they amount to no more than 5% of the voting shares, do not grant the right to acquire more than 5% of the voting shares, or do not have a similar economic effect and (iii) it is ensured that the voting rights held by them are not exercised or otherwise made use of.

If a shareholder fails to file a notice or provides false information with regard to shareholdings pursuant to Sections 33 and 34 of the WpHG, the rights attached to shares held by or attributed to such shareholder, particularly voting and dividend rights, do not exist for the duration of the failure pursuant to Section 44 paragraph 1 of the WpHG. This does not apply to entitlements to dividend and liquidation gains if the notifications were not omitted willfully and have since been made. If the shareholder fails to disclose the correct proportion of voting rights held and the shareholder acted willfully or was grossly negligent, the rights attached to shares held by or attributed to such shareholder do not exist for a period of six months after such shareholder has correctly filed the necessary notification, except if the variation in the proportion of the voting rights notified in the preceding incorrect notification was less than 10% of the actual voting right proportion and no notification with respect to reaching, exceeding or falling below the aforementioned thresholds pursuant to Section 33 paragraph 1 of the WpHG was omitted. The same rules apply to shares held by a shareholder, if such shareholder fails to file a notice or provides false information with regard to holdings in instruments or aggregate holdings in shares and instruments pursuant to Sections 38 paragraph 1, 39 paragraph 1 of the WpHG. In addition, a fine may be imposed for failure to comply with notification obligations.

Pursuant to Section 43 of the WpHG, a shareholder who reaches or exceeds the threshold of 10% of the voting rights, or a higher threshold, is obligated to notify the Company within 20 trading days regarding the objective being pursued through the acquisition of voting rights, as well as regarding the source of the funds used for the purchase. Changes in those objectives must also be reported within 20 trading days. The Articles of Association have not made use of the option to release shareholders from this disclosure obligation. In calculating whether the 10% threshold has been reached or exceeded, the attribution rules mentioned above apply.

15.7 Mandatory takeover bids

After the shares of the Company are admitted to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard), the Company is subject to the provisions of the WpÜG. Pursuant to the WpÜG, every person whose share of voting rights reaches or exceeds 30% of the voting shares of the Company is obligated to publish this fact on the internet and by means of an electronically operated system for disseminating financial information, unless an exemption from this obligation has been granted by the BaFin. If no exemption has been granted, this publication has to be made within seven calendar days and include the total amount of voting rights held by and attributed to such person and, subsequently, such person is further required to submit a mandatory public tender offer to all holders of shares in the Company. The WpÜG contains a series of provisions intended to ensure the attribution of shareholdings to the person who actually controls the voting rights attached to the shares, comparable to the attribution rules described above for shareholdings pursuant to Section 34 of the WpHG. If a bidder fails to give notice of reaching or exceeding the 30% threshold or fails to submit the mandatory tender offer, the bidder is barred from exercising the rights associated with these shares, including voting rights, for the duration of the delinquency. In case of willful failure to publish the notice of acquisition of control over another company or submission of a mandatory tender offer or willful failure to subsequently send those notices in a timely fashion, the bidder is also not entitled to dividends. A fine may also be imposed in case of non-compliance with the notification obligations described above.

15.8 Disclosure of transactions of persons discharging management responsibilities

Pursuant to Article 19 of MAR, persons discharging managerial responsibilities (Executives) shall notify the Company and the BaFin of every transaction conducted on their own account relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto (so-called managers' transactions). The same applies to persons closely associated with Executives. Transactions that must be notified shall also include, among others, the pledging or lending of financial instruments, transactions undertaken by any person professionally arranging or executing transactions on behalf of an Executive or a closely associated person, including where discretion is exercised, as well as transactions made under a life insurance policy. The notification requirement shall apply to any subsequent transaction once a total amount of € 5,000 has been reached within a calendar year. BaFin may decide to increase the threshold to € 20,000. Notification shall be made promptly and no later than three business days after the date of the transaction.

For the purposes of MAR, Executive means a person within the Company who is a member of the administrative, management or supervisory body of the Company or a senior executive who is not such member but who has regular access to inside information relating directly or indirectly to the Company and who has power to take managerial decisions affecting the future developments and business prospects of the Company. A person closely associated with an Executive means a spouse, a registered civil partner (*eingetragener Lebenspartner*), a dependent child as well as a relative who has shared the same household for at least one year on the date of the transaction concerned. A person closely associated also includes a legal person, trust or partnership, the managerial responsibilities of which are discharged by an Executive of the Company or by another person closely associated with him. Finally, the term includes a legal person, trust or partnership, which is directly or indirectly controlled by an Executive of the Company or by another person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

The Company shall ensure that the information of which it is notified is promptly made public. In any case, it shall be made public no later than three business days after the transaction in a manner which enables fast access to this information on a non-discriminatory basis in accordance with European Securities and Markets Authority's implementing technical standards. Furthermore, according to the WpHG, the Company shall without undue delay transmit the information to the German Company Register (*Unternehmensregister*) and notify BaFin. Non-compliance with the notification requirements may result in a fine.

15.9 Post-Admission disclosure requirements / EU Short Selling Regulation

As a result of the intended admission of the Company's shares to trading on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company will for the first time be subject to the legal disclosure requirements for stock corporations listed in Germany. These disclosure requirements include, among others, periodic financial reporting (disclosure of annual and half-year financial reports), regular calls with securities and industry analysts, and other required disclosures according to the WpHG as well as disclosure requirements under the MAR. The Company will also be obliged under the Listing Rules of the Frankfurt Stock Exchange (*Börsenordnung für die Frankfurter Wertpapierbörse*), as amended from time to time, to publish quarterly statements (unless the Company prepares quarterly financial reports), as the Company's shares are to be listed on the Prime Standard sub-segment of the regulated market of the Frankfurt Stock Exchange.

Pursuant to Article 17 MAR, the Company shall inform the public as soon as possible of inside information (as defined below) which directly concerns the Company. In such case the Company shall also, prior to informing the public, inform the BaFin and the management of the trading venues and facilities (*Geschäftsführungen der Handelsplätze*) where financial instruments of the Company have been admitted to trading or been included in such trading, and, after publication, without undue delay transmit the information to the German Company Register (*Unternehmensregister*).

Inside information comprises, among others, any information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

The Company may, on its own responsibility, delay disclosure if (i) immediate disclosure is likely to prejudice the legitimate interests of the Company, (ii) delay of disclosure is not likely to mislead the public and (iii) the Company is able to ensure that the inside information will remain confidential. In such case, the Company shall also inform BaFin that disclosure of the information was delayed and shall provide a written explanation of how the conditions set out in the preceding sentence were met, immediately after the information is disclosed to the public. Where disclosure of inside information has been delayed and the confidentiality of that inside information is no longer ensured, the Company shall disclose such inside information to the public as soon as possible.

16. CORPORATE BODIES

16.1 Overview

The Company's corporate bodies are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the shareholders' meeting (*Hauptversammlung*). The powers and responsibilities of these governing bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association (*Satzung*) and the rules of procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) and the Management Board (*Geschäftsordnung für den Vorstand*).

The Management Board is responsible for managing the Company in accordance with applicable law, the Articles of Association and the rules of procedure for the Management Board, including the schedule of responsibilities (*Geschäftsverteilungsplan*), taking into account the resolutions of the shareholders' meeting. The members of the Management Board represent the Company in dealings with third parties.

Simultaneous management and supervisory board membership in a German stock corporation (AG) is not permitted under the German Stock Corporation Act (*Aktiengesetz*), as the Supervisory Board is responsible for supervising the management of the Company by the Management Board. However, in exceptional cases and for an interim period, a member of the supervisory board may take a vacant seat on the management board of the German stock corporation. During this period, such individual may not perform any duties for the Supervisory Board. Such stand-in arrangement is limited in time for a maximum period of one year.

The Company's Articles of Association allow the Management Board to consist of one or more members, with the Supervisory Board determining their exact number. The Supervisory Board also appoints the members of the Management Board and is entitled to dismiss each of them under certain circumstances. As set out in the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board advises and oversees the Management Board's administration of the Company but is not itself authorized to manage the Company. The Supervisory Board may make types of transactions and measures subject to its prior approval by amending the rules of procedure of the Management Board or the Supervisory Board or through a resolution of the Supervisory Board. Matters subject to the prior consent of the Supervisory Board or of a committee of the Supervisory Board pursuant to the rules of procedure of the Management Board currently include, in particular:

- Approval or amendment of the annual budget and the multi-year plan;
- Fundamental changes to the organization, structure and/or strategy of the Babbel Group;
- Raising financial liabilities (e.g., by taking out loans or borrowings or issuing bonds), to the extent exceeding in the individual case an amount of € 2.5 million, including the amendment of existing contracts relating to financial liabilities;
- Granting loans, with the exception of intra-group loans, and assuming sureties, guarantees or other liabilities for third parties, with the exception of assuming liability for other companies of the Babbel Group;
- Starting new or discontinuing existing lines of business and the establishment of new or closure or relocation of existing operations or branches;
- Acquisition or disposal of companies, parts of companies or interests in companies, with the exception of intra-group transactions;
- Conclusion, material amendment or termination of employment/service contracts with employees or executives insofar as they have a fixed term (after amendment, if applicable) of more than two years or provide for total annual (target) compensation (including variable remuneration components) of more than € 0.5 million (gross); in case of variable remuneration components, the annual pro rata allocation or target amount is to be considered in this regard;
- Introduction or amendment of an employee incentive scheme involving the granting of shares in the Company or virtual shares or other share-based or share price-related incentives;
- Granting, introduction or amendment of pension commitments of any kind;
- Conclusion, amendment and termination of company collective agreements;
- Acquisition, sale or encumbrance of real estate, rights equivalent to real estate and rights to real estate, in each case with the exception of intra-group legal transactions;

- Transferring or encumbering any technology or sale of industrial property rights (patents, patent applications, utility models, design patents, trademarks) owned or licensed by Babbel Group, other than (i) the granting of licenses in the ordinary course of business and (ii) intragroup transactions;
- Conclusion, amendment or termination of intercompany agreements within the meaning of Sections 291, 292 AktG;
- Conclusion, material amendment or termination of other contracts not concluded in the ordinary course of business with an annual volume of more than € 2.5 million in individual cases or, in the case of a fixed term of more than one year, with a total volume over the fixed term of more than € 5.0 million in individual cases;
- Investments exceeding the total annual volume set out in this regard in the approved annual budget by more than 10%;
- Initiation of legal disputes with a dispute value of more than € 1.0 million;
- Dispositions over Corporate Social Responsibility Shares or funds derived from a disposition of Corporate Social Responsibility Shares.

In addition to the aforementioned transactions and measures, the Supervisory Board may make other types of transactions and measures subject to a requirement of its consent within the rules of procedure of the Management Board or of the Supervisory Board or by a resolution of its members. The Supervisory Board may also give revocable consent in advance to a certain group of transactions in general or to individual transactions that meet certain requirements.

Each member of the Management Board and Supervisory Board owes a duty of loyalty, duty of legality and duty of care to the Company. In discharging these duties, each member of these bodies must consider in their decision-making a broad spectrum of interests, particularly those of the Company and its shareholders, employees and creditors. In addition, the Management Board must take into consideration the shareholders’ rights to equal treatment and equal access to information. If members of the Management Board or Supervisory Board breach their duties, they may be individually or jointly and severally liable with the other members of the Management Board or the Supervisory Board to the Company for compensatory damages, as the case may be.

Under German law, a shareholder generally has no right to proceed directly against members of the Management Board or Supervisory Board to assert a breach of their duties to the Company. In general, only the Company has the right to enforce claims for damages against the members of the Management Board or Supervisory Board. With respect to claims against Supervisory Board members, the Company is represented by the Management Board, and the Supervisory Board represents the Company with respect to claims against members of the Management Board. Under a decision of the German Federal Supreme Court (*Bundesgerichtshof*), the Supervisory Board is required to assert damages claims against the Management Board if they are likely to succeed unless significant interests of the Company conflict with the pursuit of such claims and outweigh the reasons for bringing such claim.

Even if either the Supervisory Board or the Management Board decide not to pursue a claim against the respective other governing body for violations of their duties, the Management Board and the Supervisory Board must nevertheless assert the Company’s claims for damages if a resolution to this effect is passed by the shareholders’ meeting with a simple majority vote. The shareholders’ meeting may also appoint a special representative (*besonderer Vertreter*) to assert the claims. Such a special representative may also be appointed by the court upon a petition by shareholders whose shares cumulatively make up 10% of the share capital or a pro rata share of € 1,000,000.

In addition, the shareholders’ meeting may appoint a special auditor (*Sonderprüfer*) to audit transactions, particularly management transactions, by simple majority vote. If the shareholders’ meeting rejects a motion to appoint a special auditor, the court must appoint a special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of € 100,000 if facts exist that justify the suspicion that the behavior in question constituted dishonesty or gross violations of the law or the Articles of Association. If the shareholders’ meeting appoints a special auditor, the court must appoint another special auditor upon the petition of shareholders whose shares cumulatively constitute 1% of the share capital at the time the petition is filed or constitute a pro rata share of € 100,000 if this appears necessary, in particular because the appointed special auditor is unsuited.

Shareholders and shareholder associations can solicit other shareholders to file a petition, jointly or by proxy, for a special audit, for the appointment of a special representative, or to convene a shareholders’ meeting or exercise voting rights in a shareholders’ meeting in the shareholders’ forum of the German Federal Gazette

(*Bundesanzeiger*), which is also accessible via the website of the German Company Register (*Unternehmensregister*). If there are facts that justify the suspicion that the Company was harmed by dishonesty or a gross violation of law or the Articles of Association, shareholders who collectively hold 1% of the share capital or a pro rata share of € 100,000 may also, under certain further conditions, seek damages from members of the Company's governing bodies in their own names through court proceedings seeking leave to file a claim for damages. Such claims, however, become inadmissible if the Company itself files a claim for damages.

The Company may only waive or settle claims for damages against members of the Management Board or Supervisory Board three years after such claims arose and if the shareholders grant their consent at the shareholders' meeting by simple majority vote and if no objection is raised and documented in the minutes of the shareholders' meeting by shareholders whose shares cumulatively constitute 10% of the share capital.

Under German law, individual shareholders and all other persons are prohibited from using their influence on the Company to cause a member of the Management Board or the Supervisory Board to take an action detrimental to the Company. A shareholder with a controlling influence may not use that influence to cause the Company to act contrary to its own interests unless there is a domination agreement (*Beherrschungsvertrag*) between the shareholder and the Company and unless the influence remains within the boundaries of certain mandatory provisions of law or compensation is paid for the disadvantages that arise. Any person who intentionally uses his influence on the Company to cause a member of the Management Board or the Supervisory Board, an authorized representative (*Prokurist*) or an authorized agent (*Handlungsbevollmächtigter*) to act to the detriment of the Company or its shareholders is liable to compensate the Company and the affected shareholders for the resulting additional losses. Alongside a person who uses his influence to the detriment of the Company, the members of the Management Board and Supervisory Board can be jointly and severally liable, if they acted in violation of their duties.

16.2 Management Board

16.2.1 Overview

The Management Board consists of one or more members with the Supervisory Board determining their number. The Supervisory Board appoints members of the Management Board for a maximum term of five years. The Supervisory Board may appoint members of the Management Board to act as chairperson and deputy chairperson of the Management Board.

Reappointment or extension of the term of members of the Management Board, each for a maximum period of up to five years, is permissible. The Supervisory Board may revoke the appointment of a member of the Management Board prior to the expiration of the member's term for good cause, such as a gross breach of fiduciary duty, or if the shareholders' meeting passes a vote of no-confidence with respect to such member, unless the no-confidence vote was clearly unreasonable. The Supervisory Board is also responsible for entering into, amending and terminating service agreements with members of the Management Board and, in general, for representing the Company in and out of court vis-à-vis the Management Board.

If the Management Board has only two members, it has a quorum if all its members take part in the voting, and if it has three or more members, if at least half of its members take part in the voting. Generally, resolutions of the Management Board must be approved in a meeting. At the order of the chairperson of the Management Board, resolutions may also be passed in a telephone of video conference or outside of meetings by casting votes in writing, by text form, or orally. The Management Board adopts resolutions by a majority of its members unless the Management Board consists of two members, in which case resolutions have to be passed by two unanimous votes. Further details, particularly regarding composition, duties, overall responsibility, allocation of responsibility for particular functions and internal organization are governed by the rules of procedure of the Management Board which were resolved upon by the Supervisory Board on September 13, 2021 and entered into force on the same day.

The Company is legally represented by two members of the Management Board or by one member of the Management Board together with an authorized representative (*Prokurist*); if only one member of the Management board is appointed, such member solely represents the Company. The Supervisory Board may determine that all or specific members of the Management Board are authorized to represent the Company individually.

The internal rules of procedure of the Management Board provide for a delegation of responsibilities to individual members of the Management Board on the basis of the business responsibility plan (*Geschäftsverteilungsplan*). The business responsibility plan is an annex to the rules of procedure of the Management Board and may only be amended on the basis of a unanimous resolution adopted by the Management Board with the consent of the Supervisory Board.

16.2.2 Members of the Management Board

The following table lists the current members of the Management Board and their respective responsibilities:

Name/Position	Born	Appointed from	Appointed until	Responsibilities
Arne Schepker	December 5, 1980	September 13, 2021	September 13, 2024	CEO
Hermione McKee	October 10, 1981	September 13, 2021	September 13, 2024	CFO

The following description provides summaries of the curricula vitae of the current members of the Management Board and indicates their principal activities outside the Group to the extent those activities are significant with respect to Babbel.

Arne Schepker was born on December 5, 1980 in Duisburg, Germany. Since November 2019, Arne Schepker is the Company's Chief Executive Officer and responsible for the overall company performance, strategy, people, organization & culture, communication, brand and the executive team.

He graduated from the WHU Otto Beisheim School of Management, Germany, in 2004 with a degree in business administration (*Diplom-Kaufmann*). He also studied at Indian Institute of Management in Bangalore and HEC Montreal.

Arne Schepker joined Babbel in 2015 as Chief Marketing Officer and was the Company's co-CEO from February to October 2019. Prior to joining Babbel he was the Head of Brand Marketing at Zalando GmbH from 2013 to 2014 and the Vice President of Brand Marketing at Zalando SE from 2014 to 2015. Mr. Schepker was deeply involved in the preparations of Zalando's initial public offering. From 2004 to 2012, Arne Schepker worked in different marketing & sales leadership roles at Procter & Gamble in Germany and in Switzerland.

Alongside his service as a member of the Management Board, Mr. Schepker is not or has not been within the last five years a member of the administrative, management or supervisory bodies of and/or a partner in any companies and partnerships outside of Babbel:

Hermione McKee was born on October 10, 1981 in Tunis, Tunisia. Ms. McKee is the Company's Chief Financial Officer and responsible for the Finance, Business, Intelligence and Legal departments.

Ms. McKee graduated with distinction from INSEAD Business School with a Master of Business Administration in 2008. She also holds a Bachelor of Arts in English and a Bachelor of Science in Physics from the University of Canterbury in New Zealand.

Prior to joining Babbel, Hermione McKee held the position of Chief Financial Officer at Wooga GmbH, a Berlin-based mobile games developer, where she was responsible for all aspects of financial management, business intelligence and data science. In 2015 she worked at Hello Fresh SE as an Investor Relations Manager. Ms. McKee worked for Goldman Sachs in Sydney from 2004 to 2007 in Sales and Trading and was with Morgan Stanley in London from 2008 to 2015, as an Executive Director from 2014.

Alongside her service as a member of the Management Board, Mrs. McKee is, or has within the last five years been, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies and partnerships outside of Babbel:

Current:

- Starberry Games GmbH (Chairperson of the Advisory Board).

Past:

- Spark Networks SE (Member of the Supervisory Board); and
- Wooga GmbH (Chief Financial Officer).

All members of the Management Board may be reached at the Company's offices at Andreasstraße 72, 10243 Berlin, Germany (telephone +49 30 568373836)

16.2.3 Remuneration and other benefits of the members of the Management Board

Arne Schepker and Hermione McKee were appointed as members of the Management Board with effect as from September 13, 2021. Therefore, the current members of the Management Board received no compensation from the Company during the fiscal year ended December 31, 2020.

The members of the Management Board have not been granted or received any compensation by the Company. It is planned that the Company will assume responsibility for remunerating the members of the

Management Board as from completion of the Offering. Once the members of the Management Board are compensated by the Company, they will no longer receive remuneration from Babbel GmbH, except that they remain entitled to the short-term incentive bonus provided for under the service agreements with Babbel GmbH for the fiscal year ending December 31, 2021.

16.2.3.1 Remuneration System

The remuneration system for the Management Board supports the achievement of Babbel's strategic goals and sets incentives for sustainable value creation while also discouraging excessive risk-taking. The proposed target compensation structure for the Management Board members consists of non-performance and performance-based components: approximately 34% - 44% base compensation, 0% - 5% non-monetary benefits and perquisites ("**Fringe Benefits**"), 8% - 18% short-term variable compensation ("**Bonus**") as well as 44% - 54% long-term share-based compensation ("**Performance Stock Options**"). The remuneration system for the Management Board has the following components:

16.2.3.1.1 Non-Performance-Based Components

The members of the Management Board receive a fixed base salary in cash which is paid in twelve equal installments. The annual base salary for Arne Schepker is € 300,000 and Hermione McKee it is € 200,000.

Additionally, Fringe Benefits are granted, such as contributions towards the cost of insurance.

16.2.3.1.2 Performance-Based Components

Performance-based components include a short-term incentive (Bonus) and a long-term incentive (Performance Stock Options):

Short-term incentive (Bonus). The Bonus rewards the contribution made over the previous fiscal year to achieving Babbel's strategic goals. This contribution is measured by two performance criteria: a financial target and an environment, social and corporate governance ("**ESG**") target. The specific targets will be determined by the Supervisory Board prior to the beginning of each fiscal year. The financial target will be sales revenues growth, EBITDA or EBITDA-margin and will be subject to a conversion cost related knock-out criterion to ensure sustainable sales revenues growth. The purpose of Babbel is to create mutual understanding through language. The ESG targets – maximum three at a time – will be closely aligned with this purpose and the business model of Babbel (e.g. learner minutes) as well as Babbel's social and environmental responsibility (e.g. reduction of carbon emissions). The level of target achievement for each of the two performance criteria may vary between 0% and 150%. For a 100% target achievement (target amount), the amount of the Bonus equals approximately 32% or 30% of base compensation for Mr. Schepker and Ms. McKee respectively. 60% of the Bonus depends on financial target achievement, whereas 40% depend on ESG target achievement. If the knock-out criterion is missed, the financial target achievement will be set to 0%. The Bonus is paid out in cash. The Bonus is capped at the maximum possible level of target achievement, i.e., at 150%.

Long-term incentive (Performance Stock Options). The Performance Stock Options reward a sustainable development of Babbel by measuring the achievement of financial and non-financial performance criteria over a four-year period, followed by a three-year exercise period. Forfeitable stock commitments are granted annually to each Management Board member at the beginning of a fiscal year (tranche). The number of Performance Stock Options to be granted to each member of the Management Board *per annum* corresponds to (i) a target Euro amount as defined in the service agreements, divided by (ii) the fair value per Performance Stock Option. The target Euro amount equals approximately 127% or 125% of base compensation for Mr. Schepker and Ms. McKee, respectively. The fair value is determined using a recognized valuation method (e.g., Black Scholes model, Monte Carlo simulation). The number of Performance Stock Options that vest at the end of the four-year period is based on the achievement of certain performance criteria – sum of sales revenues growth and EBITDA-margin (sustainable growth criterion), and ESG targets. The sustainable growth criterion will be subject to a cash flow knock-out criterion to foster sustainable business development in the long-term. The purpose of Babbel is to create mutual understanding through language. The ESG targets – maximum three at a time – will be closely aligned with this purpose and the business model of Babbel (e.g. learner minutes) as well as Babbel's social and environmental responsibility (e.g. reduction of carbon emissions). The achievement of the relevant performance criteria is measured over a period of four years. Each of the relevant criteria is capped at 125%. To calculate the number of Performance Stock Options to be vested at the end of the four-year period, the parameters are weighted as follows: 60% sustainable growth criterion, 40% ESG targets. The vested Performance Stock Options can only be exercised within defined exercise windows of the three years following the performance period if the share price at the time of exercise of the Performance Stock Options exceeds the strike price that is determined by the Supervisory Board prior to the beginning of the tranche. The exercise windows are defined as the three weeks following the publication of the annual financial statements, a half year report or a quarterly financial report. When the Performance Stock Options are exercised – in part or full – the final long-term variable compensation claims of the members of the Management Board equals the number of vested Performance Stock Options (in case of cash settlement: valued at the closing share price of the Company in Xetra-trading at exercise day) that can be bought at a strike price. The long-term incentive is generally paid in shares, but the Supervisory Board may – in its sole discretion – settle the claims in cash.

The members of the Management Board possess EVOPs. Vested EVOPs will be settled upon completion of the Offering with EVOP Compensation Shares, whereas the exercise of yet unvested EVOPs will be subject to a vesting period (for more information, see "*16.2.3.6 Treatment of EVOP Entitlements after the IPO*" and "*16.8.1 EVOP Amendments* "). The long-term incentive will initially be granted in the year following the year of the Offering – to provide a steering effect of the compensation system from an early date on – which leads to an overlap of the yet unvested EVOPs and the Performance Stock Options. In order to prevent double payments from the yet unvested EVOPs and the Performance Stock Options for one year, special conditions apply for each tranche of Performance Stock Options that starts in a year that is subject to the vesting of yet unvested EVOPs. Under these special conditions, the number of Performance Stock Options that is exercisable after the end of the performance period is limited: After the end of the performance period, only that number of vested options is exercisable that exceeds the number of yet unvested EVOPs vested during the grant year of the long-term incentive. Thus, Performance Stock Options that are granted in years that are subject to the vesting of yet unvested EVOPs are only exercisable in parts and in case of strong performance. Based on this mechanism, the Management Board members are incentivized to exceed set targets, while preventing double payments from both incentive mechanisms.

Malus and Clawback. Despite the achievement of the set targets, the Supervisory Board may reduce (malus) the amount due under the Bonus or the Performance Stock Options (down to zero) or seek to recover (claw back) all or parts of past variable compensation already paid out, e.g., in case of severe breaches of duty or certain other events concerning performance (e.g. initial payout was based on incorrect consolidated financial statements). Further, the service agreements provide for customary good leaver/bad leaver clauses.

16.2.3.2 Pension Benefit Commitments

The members of the Management Board do not receive pension benefits.

16.2.3.3 Maximum Amount of Total Compensation

In addition to the cap of the Bonus, an annual maximum amount of total compensation is agreed. If compensation exceeds this maximum, the respective amount in excess of the maximum is forfeited without refund or replacement.

16.2.3.4 Severance Payments

Members of the Management Board are only entitled to a severance payment if the service agreement is terminated by Babbel, without a good cause on part of Babbel according to Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch*). In this case, the severance payment amounts to two and a half monthly base salaries per full year of service, which corresponds to approximately one-twelfth of the Management Board members' expected total annual target compensation and is equivalent to the severance agreements for Babbel's employees. In all other possible cases of Management Board members leaving Babbel, there will be no severance payments. The service agreements do not contain any special clauses for a change-of-control scenario.

16.2.3.5 D&O Insurance

The Management Board and Supervisory Board members and certain employees of the Babbel Group are currently covered by a group liability insurance policy with regard to their management activities. This policy covers personal liability for financial loss associated with performing the respective activity. In the future, the policy provides for a deductible/retention that conforms to the requirements of the German Stock Corporation Act (*Aktiengesetz*).

16.2.3.6 Treatment of EVOP Entitlements after the IPO

To settle claims based on the vested EVOPs, following completion of the Offering, Arne Schepker will receive 250,745 EVOP Compensation Shares and Hermione McKee will receive 25,748 EVOP Compensation Shares (assuming an Offer Price at the mid-point of the Price Range and placement of the maximum number of Offer Shares). The exercise of the yet unvested EVOPs is subject to several exercise conditions following completion of the Offering, including the expiry of the respective vesting period. For more information, see "*16.8.1 EVOP Amendments* ".

16.2.4 Shareholdings of the Members of the Management Board in the Company

The members of the Management Board do not, directly or indirectly, hold any Shares or options on Shares of the Company as of the date of the Prospectus.

To compensate for the forfeiture of EVOPs, Arne Schepker will receive 250,745 EVOP Compensation Shares and Hermione McKee will receive 25,748 EVOP Compensation Shares (assuming an Offer Price at the mid-point of the Price Range and placement of the maximum number of Offer Shares). For more information, see "*16.8.1 EVOP Amendments* ".

16.3 The Supervisory Board

16.3.1 Overview

In accordance with the Articles of Association and Sections 95 and 96 AktG, the Supervisory Board consists of four (4) members. All of the members are elected by the shareholders at the general shareholders' meeting in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*). The shareholders' meeting may, at the time of election of Supervisory Board members, appoint substitute members who shall replace members of the Supervisory Board leaving office before the end of their term or whose election has been successfully contested. The term of office of such substitute members shall terminate at the end of the Company's shareholders' meeting in which a successor is elected and at the latest at the end of the term of office of the leaving member. If the substitute member whose term of office has terminated due to the election of a successor was appointed as substitute member for several members of the Supervisory Board, its position as substitute member shall revive. Re-election of members of the Supervisory Board is possible.

Unless otherwise specified at the time of their election, the term of office of each Supervisory Board member, as well as the term of each substitute member, ends at the conclusion of the shareholders' meeting that resolves on the formal approval of the members' acts for the fourth fiscal year following the commencement of their term of office, not including for this calculation the fiscal year in which the term of office began. For members of the Supervisory Board who leave office before the end of their term, a successor shall be elected for the remaining term of the member who has left office unless the Company's shareholders' meeting specifies another term for such successor. The same applies if a successor has to be elected due to a challenge of the election. Pursuant to German rules on co-determination, the Company is not required to establish a supervisory board subject to co-determination. It employs less than the relevant number of employees and, in accordance with German co-determination rules, employees of other Group companies are not attributed to the Company. The term of office of the members of the initial Supervisory Board will expire at the end of the shareholders' meeting of the Company passing a resolution on the discharge (*Entlastung*) of the Supervisory Board members for the first fiscal year of the Company.

Supervisory Board members elected by the shareholders' meeting may be removed by a resolution of the shareholders' meeting if such resolution is approved by a simple majority of the votes cast. In addition, each member of the Supervisory Board and each substitute member may resign from office even without good cause with one month written notice issued to the chairperson of the Supervisory Board or, in case of a resignation by the chairperson, to his/her deputy. The chairperson of the Supervisory Board or, in case of a resignation by the chairperson, his/her deputy, can consent to a shortening or to a waiver of this period. Following the shareholders' meeting, in the course of which the members of the Supervisory Board have been elected for a new term, the Supervisory Board will elect a chairperson and a deputy chairperson from among its members to serve for the duration of those members' terms of office as members of the Supervisory Board, unless a shorter period is determined at the time of their respective election. If the chairperson or his/her deputy leaves such office before the end of his/her term, the Supervisory Board shall conduct a new election without undue delay.

The Supervisory Board shall adopt internal rules of procedure in accordance with mandatory statutory provisions and the Articles of Association. It is further authorized to establish committees in accordance with the law and the Articles of Association. To the extent permitted by law or by the Articles of Association, the Supervisory Board may delegate any of its duties, decision-making powers and rights to its chairperson, to one of its members or to committees established from among its members. The Supervisory Board shall determine the composition, competences and procedures of the committees. The current version of the Supervisory Board's internal rules of procedure was passed by resolution of the Supervisory Board on September 13, 2021. The Supervisory Board is entitled to resolve amendments to the Articles of Association if such amendments only relate to the wording. The Supervisory Board must hold at least two meetings in each calendar half-year. Meetings of the Supervisory Board must be called at least 14 days in advance by the chairperson of the Supervisory Board, not including the day on which the invitation is sent and the day of the meeting itself. Notice of meetings may be given in writing, by telefax, by email or any other customary means of communication. In urgent cases the chairperson may shorten this period and may call the meeting orally or by telephone.

The Articles of Association and the internal rules of procedure for the Supervisory Board provide that resolutions of the Supervisory Board shall generally be passed in meetings. At the order of the chairperson or with the consent of all Supervisory Board members, meetings of the Supervisory Board may also be held in the form of a telephone conference or by other electronic means of communication (especially by video conference). If agreed, individual members of the Supervisory Board may be connected to the meetings via telephone or by other electronic means of communication (especially by video link), and in such cases, resolutions may also be passed by way of telephone conference or by other electronic means of communication (especially by video conference). Absent members of the Supervisory Board or members who do not participate in, or are not connected to, the telephone or video conference can also participate in the passing of resolutions by submitting their votes in writing through another Supervisory Board member. In addition, they may also cast their vote prior to or during the meeting or following the meeting within a reasonable period as determined by the chairperson of the Supervisory Board in oral form, by telephone, by email or any other customary means of communication. Objections to the form of voting determined by the chairperson are not permitted. Resolutions may also be passed outside of meetings in writing or by email or any other comparable means of communication, whereas the aforementioned forms may also be combined, at the order of the chairperson of the Supervisory Board if preceded by reasonable notice or if all members of the Supervisory Board participate in the adoption of the resolution. Members who abstain from voting are considered to take part in the resolution.

The Articles of Association and the rules of procedure for the Supervisory Board provide that the Supervisory Board has a quorum if at least half of the members of which it has to consist of in total take part in the voting. Absent members of the Supervisory Board or members who do not participate or are connected via telephone or via other electronic means of communication (especially via video conference), and who cast their vote in the aforementioned ways as well as members who abstain from voting, are considered to take part in the voting for purposes of the required quorum. Resolutions of the Supervisory Board are passed, unless otherwise provided by mandatory law, by a simple majority of the votes cast. For purposes of passing a resolution, abstentions do not count as votes cast. If a vote in the Supervisory Board results in a tie, the chairperson has the deciding vote. In the absence of the chairperson of the Supervisory Board, the deputy chairperson’s vote shall not be decisive.

16.3.2 Members of the Supervisory Board

The table below lists the current members of the Supervisory Board.

Name	**Born**	**Member since**	**Appointed until**[1]	**Position**	**Principal occupation**
Markus Witte	July 27, 1970	2021	2025	Chairperson	Supervisory Board chairperson
Kathryn (Kate) Eberle Walker	November 13, 1976	2021	2025	Member	CEO of PresenceLearning
Matthias Hornberger	September 24, 1960	2021	2025	Member	Executive board member of Atevia AG
Annette Messemer	August 14, 1964	2021	2025	Member	Non-executive board member of Société Générale S.A. and Imerys S.A.

1 The members of the Supervisory Board are appointed for a period until the conclusion of the annual shareholders’ meeting of the Company that resolves on the formal discharge (*Entlastung*) for the third fiscal year of the Company following the commencement of their term in office, not including the year in which the term in office commenced.

The following description provides summaries of the curricula vitae of the current members of the Supervisory Board and indicates their principal activities outside the Group to the extent those activities are significant with respect to Babbel.

Markus Witte, born on July 27, 1970 in Beckum, Germany.

Markus Witte is the Chairperson of the Supervisory Board and co-founder of the Company. Mr. Witte holds the degree of a Master of Arts in Cultural Studies from Humboldt University of Berlin, where he graduated in 1997.

After his graduation, Markus Witte worked as a teaching assistant from 1997 to 1998 at New York University and was a research associate at Humboldt University of Berlin from 1999 until early 2001. In 2003, he was a visiting lecturer at the University of Applied Sciences for Engineering and Economics in Berlin. From 2001 to 2007, he held the position of Head of Systems at Native Instruments, a leading manufacturer of software and hardware for computer-based audio production. From its inception until November 2019, Markus Witte led Babbel as Chief Executive Officer. Since August 2017, he also serves as an independent board member of Blinks Labs GmbH, which offers Blinkist, a digital book summary service.

Alongside his service as a member of the Supervisory Board, Mr. Witte is, or has within the last five years been, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies and partnerships outside of Babbel:

Current:

- Blinks Labs GmbH, independent board member.

Kathryn (Kate) Eberle Walker was born on November 13, 1976 in Red Bank, New Jersey, United States.

Kathryn (Kate) Eberle Walker has approximately 20 years of experience leading, managing, advising and investing in education companies and organizations. Ms. Walker graduated from Harvard Business School in 2005 with a Master of Business Administration (*MBA*). She also holds a Bachelor of Science in Finance and Accounting from Georgetown University.

Ms. Walker is currently the CEO of PresenceLearning, Inc., a leading provider of online special education teletherapy services. Prior to leading PresenceLearning, Inc., Ms. Walker was the CEO of The Princeton Review, a leading provider of tutoring, test preparation and admissions services, and led its subsidiary Tutor.com, an online, on-demand homework help service. From 2005 to 2014 she worked at Kaplan Inc., a global education company, where she led the acquisitions of more than 70 companies, invested in multiple education startups and launched the Kaplan Techstars Edtech Accelerator. Ms. Walker has served on several education-focused boards, including Rosetta Stone, a language and literacy company, and Prospect Schools, a charter school management organization that educates a racially and economically diverse student body. After her graduation from Harvard Business School, Ms. Walker worked as an investment banker at Goldman Sachs, advising media and education companies on M&A transactions.

Alongside her service as a member of the Supervisory Board, Ms. Walker is, or has within the last five years been, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies and partnerships outside of Babbel:

Current:

- PresenceLearning, Inc. (Chief Executive Officer).

Past:

- The Princeton Review (Chief Executive Officer); and
- Tutor.com (Chief Executive Officer).

Matthias Hornberger was born on September 24, 1960 in Bad Kreuznach, Germany.

Matthias Hornberger has more than 20 years of experience as an entrepreneur with a focus on web-based or web-augmented business models. Matthias Hornberger studied business administration at the University of Mannheim, Germany, as well as the University of Toronto, Canada, and completed his studies in Mannheim with a degree in business administration (*Diplom-Kaufmann*).

Since 2000, Mr. Hornberger serves as Executive Board Member, from 2007 onwards as Chief Financial Officer, at Atevia AG (formerly TecDAX listed Web.de AG), a development and investment company with a focus on internet services and digital communication, as well as managing director of Atevia AG's real estate focused subsidiaries. He is also a managing director and Chief Financial Officer of Kizoo Technology Capital GmbH, a venture capital and private equity firm founded in 2008, providing seed and early-stage financing with a focus on both digital services and rejuvenation biotech startups. Additionally, he serves as a member of the advisory boards of the companies Kizoo Technology Capital GmbH which is invested in, including, among others, Staffbase GmbH, a Germany based company providing digital employee communications solutions. Since 2010, Mr. Hornberger is the chairperson of the board of the CyberForum e.V. (*Verein*), providing a network for high-tech entrepreneurs.

Alongside his service as a member of the Supervisory Board, Mr. Hornberger is, or has within the last five years been, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies and partnerships outside of Babbel:

Current:

- Atevia AG (Chief Financial Officer);

- Kizoo Technology Capital GmbH (Managing Director);
- Mambu B.V. (Member of the Advisory Board);
- Staffbase GmbH (Member of the Advisory Board);
- Digital Mobility Solutions GmbH (Member of the Advisory Board);
- Shyftplan GmbH (Member of the Advisory Board, Observer);
- SuitePad GmbH (Advisory Board, Observer);
- Forever Healthy Foundation gGmbH (Managing Director);
- CyberForum e.V. (Chairperson of the Board);
- LEA Venturepartner GmbH & Co. KG (Chairperson of the Investor Committee); and
- Rombes Ventures UG (*haftungsbeschränkt*) (Managing Director).

***Past**:*

- Prescreen GmbH (Member of the Advisory Board);
- Brandmaker GmbH (Member of the Advisory Board); and
- Megazebra GmbH (Member of Advisory Board).

Dr. Annette Messemer was born on August 14, 1964 in Ludwigshafen, Germany.

Annette Messemer has more than 25 years of experience in investment and corporate banking, governance, finance and risk management. In 1994 she graduated from the University of Bonn, Germany, with a Ph.D. in Political Sciences and obtained a Master in International Economics from the Fletcher School of Law and Diplomacy at Tufts University, United States in 1992. She also holds a political studies certificate from the Institut d`Etudes Politiques de Paris where she graduated in 1987.

Ms. Messemer started her career in investment banking at J.P. Morgan in New York in 1994 before working in Frankfurt and London. During her time at J.P. Morgan, she gained extensive experience in finance, leading strategic M&A and financing transactions as well as risk management transactions. Ms. Messemer left J.P. Morgan in 2006 to join Merrill Lynch as Managing Director and member of the German Executive Committee. In 2010, the German Ministry of Finance nominated her to the Supervisory Board of WestLB, to oversee the winding-up of the bank in the aftermath of the financial crisis. Annette Messemer joined Commerzbank AG in 2013 as Group Executive and Divisional Board Member and was responsible for the bank's corporate clients department. She left Commerzbank AG in June 2018. Ms. Messemer has a deep commitment to pro bono mandates and is a member of the German Committee (*Verein*) of World Vision Germany and an advisor to TeensInAI, a social enterprise giving young people early exposure to artificial intelligence developed and deployed for social good.

Alongside her service as a member of the Supervisory Board, Ms. Messemer is, or has within the last five years been, a member of the administrative, management or supervisory bodies of and/or a partner in the following companies and partnerships outside of Babbel:

***Current**:*

- Imerys S.A. (Non-executive director);
- Société Générale S.A. (Non-executive director); and
- Savencia S.A. (Non-executive director).

***Past**:*

- EssilorLuxottica S.A. (Non-executive director);
- Essilor S.A. (Non-executive director);
- Commerzbank AG (Group Executive/Divisional Board Member, Corporate Clients); and

- K+S AG (Member of the Supervisory Board).

All members of the Supervisory Board may be reached at the Company's offices at Andreasstraße 72, 10243 Berlin, Germany (telephone +49 30 568373836).

16.3.3 Supervisory Board Committees

According to the Supervisory Board's rules of procedure, the Supervisory Board establishes from among its members an audit and risk committee (*Prüfungs- und Risikoausschuss*) (the "**Audit and Risk Committee**"), a remuneration and nomination committee (*Vergütungs- und Nominierungsausschuss*) (the "**Remuneration and Nomination Committee**"), the CSR committee (*CSR-Ausschuss)* (the "**CSR Committee**") and an employee committee (*Arbeitnehmer:innenausschuss*) (the "**Employee Committee**") as well as other committees as required. A committee shall comprise at least three members. The members of a committee are elected by the Supervisory Board, unless otherwise provided in the Supervisory Board's rules of procedure. The duration of the membership in a committee corresponds to the term of office as Supervisory Board member unless the Supervisory Board determines a shorter duration on the occasion of the election.

16.3.3.1 Audit and Risk Committee

The Audit and Risk Committee comprises three members. The chairperson of the Supervisory Board must not also be the chairperson of the Audit and Risk Committee. The Audit and Risk Committee shall perform its duties in compliance with the laws, in particular, the Regulation (EU) No. 537/2014 of the European Parliament and the Council of April 16, 2014 on specific requirements regarding statutory audits (the "**EU Audit Regulation**"), the Articles of Association and Supervisory Board's rules of procedure. It shall further observe the applicable recommendations of the German Corporate Governance Code as applicable from time to time to the extent such compliance is declared in the declarations of the Supervisory Board pursuant to Section 161 AktG. The Audit and Risk Committee shall, in particular, have the following responsibilities:

- Review of the financial reporting, monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system as well as of the audit of the financial statements, in particular, the selection and independency of the auditor and the additional services rendered by the auditor, and of the compliance;
- Preparation of the decisions of the Supervisory Board in connection with (i) the annual financial statements and the consolidated financial statements and (ii) the Supervisory Board's proposal to the shareholders' meeting regarding the election of the auditor, including, in particular, the conduction of a selection procedure required under the EU Audit Regulation;
- Discussion of the interim financial reports with the Management Board and, if relevant, with the auditor;
- Instruction of the auditor and co-operation with the auditor; and
- Instead of the Supervisory Board, decision on the approval of measures and transactions of the Management Board to the extent such approval of the Audit and Risk Committee is provided for in the rules of procedure of the Management Board.

The chairperson of the Audit and Risk Committee regularly conducts discussions with the internal auditors, as a rule, together with the chief financial officer, but in certain cases also without her participation. In connection with the fulfilment of its responsibilities, the Audit and Risk Committee may request information from the auditor, the Management Board, the internal audit and the senior executives of the Company directly reporting to the management board. The following rules shall apply to the cooperation of the Audit and Risk Committee with the auditor:

- The Audit and Risk Committee shall arrange for the external auditors to inform it, without undue delay, about all findings and issues of importance for its tasks which come to the knowledge of the external auditors during the performance of the audit.
- The Audit and Risk Committee shall arrange for the external auditors to inform it and note in the audit report if, during the performance of the audit, the external auditors identify any facts that indicate an inaccuracy in the declaration of compliance regarding the recommendations of the German Corporate Governance Code issued by the Management Board and Supervisory Board.
- The Audit and Risk Committee shall conduct an evaluation of the quality of the audit on a regular basis.

The current members of the Audit Committee are Matthias Hornberger (Chairperson), Annette Messemer and Kathryn (Kate) Eberle Walker.

16.3.3.2 Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises the chairperson of the Supervisory Board and two further members to be elected by the Supervisory Board. The chairperson of the Supervisory Board shall also be the chairperson of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee shall have the following responsibilities:

- Preparation of the resolution proposals of the Supervisory Board to the shareholders' meeting regarding the election of Supervisory Board members and naming of suitable candidates to the Supervisory Board;
- Preparation of the decisions of the Supervisory Board concerning specific objectives regarding its composition and the profile of skills and expertise;
- Preparation of the self-assessment of the Supervisory Board and its committees;
- Preparation of the decisions of the Supervisory Board concerning the selection, appointment, dismissal and remuneration of the members of the Management Board as well as the conclusion, amendment and termination of their service contracts;
- Preparation of the decisions of the Supervisory Board pursuant to Sections 87a and 162 AktG; and
- Instead of the Supervisory Board, decision on the following matters: (i) transactions and measures vis-à-vis members of the Management Board pursuant to Section 112 AktG except for those which cannot be delegated to a committee pursuant to Section 107 para. 3 sentence 7 AktG; (ii) consents pursuant to Section 88 AktG; (iii) granting loans to the persons defined in Sections 89 and 115 AktG; (iv) approving contracts of members of the Supervisory Board pursuant to Section 114 AktG; and (v) approval of measures and transactions of the Management Board to the extent such approval of the Remuneration and Nomination Committee is provided for in the rules of procedure of the Management Board.

The current members of the Remuneration and Nomination Committee are Kathryn (Kate) Eberle Walker (Chairperson), Matthias Hornberger and Markus Witte.

16.3.3.3 CSR Committee

The CSR Committee comprises three members. At least one of the members of the CSR Committee shall also be an independent member of the Supervisory Board. The CSR Committee shall:

- Monitor and advise the Management Board with regard to social matters, governance, sustainability, international understanding, as well as other social matters (collectively, the "**CSR Matters**");
- monitor the measures taken by the Management Board to implement CSR Matters and establish a suitable monitoring system for CSR Matters, if this is deemed necessary; and
- assist the Audit Committee in the reporting and disclosure of CSR Matters upon its explicit request.

The CSR Committee shall regularly and at any time upon request of the Supervisory Board update the Supervisory Board about committee activities. The CSR Committee shall, in connection with its activities, have such information rights towards the Management Board as are conferred to the Supervisory Board and shall be authorized to engage advisers, as it deems necessary to carry out its duties, in each case in accordance with applicable law.

The current members of the CSR Committee are Markus Witte (Chairperson), Annette Messemer and Kathryn (Kate) Eberle Walker.

16.3.3.4 Employee Committee

The Employee Committee comprises three members. At least one of the members of the Employee Committee shall also be a member of the Remuneration and Nomination Committee competent for the compensation of the Management Board. The Employee Committee shall in particular have the task of monitoring working conditions and personnel planning in the Group and for this purpose regularly obtain reports and other information from the Management Board. The chairperson of the Employee Committee shall regularly, and in addition to the reports prepared by the Management Board, hold discussions with employees of the Group through the intermediary of the Management Board, generally, together with the other members of the Employee Committee, or on a case-by-case basis without their participation. In exceptional cases, the Employee Committee may interview employees of the Group without an involvement of the Management Board, e.g., in order to investigate possible breaches of duty by the Management Board. The Employee Committee shall regularly and at any time upon request of the Supervisory Board update the Supervisory Board about committee activities. The Employee Committee shall, in connection with its activities, have such information rights towards the Management Board as are conferred to the Supervisory Board and shall be authorized to engage advisers, as it deems necessary to carry out its duties, in each case in accordance with applicable law.

The current members of the Employee Committee are Markus Witte (Chairperson), Annette Messemer and Kathryn (Kate) Eberle Walker.

16.3.4 Remuneration of the members of the Supervisory Board

Pursuant to Section 12 of the Articles of Association, the ordinary members of the Supervisory Board will receive an annual base compensation of € 30,000, the chair of the Supervisory Board will receive 2.5 times of said amount, the deputy chair of the Supervisory Board 1.5 times of said amount. In addition, each ordinary member of the Audit Committee will receive € 15,000 and each ordinary member of the other committees will receive € 10,000 per membership in a committee. The chair of a committee will receive twice the amount of an ordinary committee member. There will be no meeting fees for meetings of the Supervisory Board or the committees.

There are no service agreements between the Company, its subsidiaries and any of its Supervisory Board members under which a Supervisory Board member would receive benefits from the Company or its subsidiaries upon termination of his or her services as a member of the Supervisory Board.

16.3.5 Shareholdings of the Supervisory Board members in the Company

As of the date of this Prospectus, Markus Witte holds 4,919,192 shares in the Company. No other member of the Supervisory Board holds shares in the Company.

16.4 Certain information regarding the members of the Management Board and Supervisory Board

In the last five years, no member of the Management Board or Supervisory Board has been convicted of fraudulent offences.

In the last five years, no member of the Management Board or Supervisory Board has been associated with any bankruptcy, receivership, liquidation or companies put into administration acting in its capacity as a member of any administrative, management or supervisory body or as a senior manager.

In the last five years, no official public incriminations and/or sanctions have been made by statutory or legal authorities (including designated professional bodies) against the members of the Management Board or Supervisory Board, nor have sanctions been imposed by the aforementioned authorities.

No court has ever disqualified any of the members of either board from acting as a member of the administrative, management, or supervisory body of an issuer, or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.

Mr. Witte is a shareholder of the Company and Mr. Hornberger is a managing director of the shareholder, Kizoo Technology Capital GmbH. To the extent the interests of Babbel diverge from those of the shareholders, this would result in conflicts of interest for Mr. Witte and Mr. Hornberger, respectively. Otherwise, there are no conflicts of interest or potential conflicts of interest between the members of the Management Board and Supervisory Board as regards the Company on the one side and their private interests, membership in governing bodies of companies, or other obligations on the other side.

Neither the members of the Management Board nor the Supervisory Board have entered into a service agreement with a Group company that provides for benefits upon termination of employment or office.

There are no family relationships between the members of the Management Board and the Supervisory Board, either among themselves or in relation to the members of the other body.

16.5 The General Shareholders' meeting

Pursuant to Section 13 para. 1 of the Articles of Association, the annual shareholders' meeting shall be held at the Company's registered seat, in Berlin, at the location of a German stock exchange or at a place in Germany located within a 50 km radius of the Company's registered seat, Berlin or of the location of a German stock exchange. Except where other persons are authorized to do so by law and by the Articles of Association, the shareholders' meeting shall be convened by the Management Board. Notice must be issued in the German Federal Gazette (*Bundesanzeiger*) at least 30 days prior to the day of the shareholders' meeting, the day of the receipt of the notice not being included when calculating this period.

A shareholders' meeting may be convened by the Management Board, the Supervisory Board, or may be requested by shareholders whose shares collectively make up 5% of the share capital. Shareholders or shareholder associations may solicit other shareholders to make such a request, jointly or by proxy, in the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is also accessible via the website of the German Company Register (*Unternehmensregister*). If, following a request made by shareholders whose Company's shares collectively make up 5% of the share capital, a shareholders' meeting of the Company is not held in due time, the competent local court (*Amtsgericht*) may authorize the shareholders who have requested it or their representatives to convene a shareholders' meeting of the Company.

Pursuant to the Articles of Association, all shareholders who have duly submitted notification of attendance and of evidence of shareholding are entitled to participate in the shareholders' meeting and to exercise their voting rights. The registration for participation must be received by the Company by the end of the sixth day prior to the date of the shareholders' meeting, unless a shorter period of time was set forth in the convening notice of the shareholders' meeting. When calculating this period, the day of the shareholders' meeting and the day of the receipt of the notice shall not be included. The shareholder's registration must be in text form or by way of other electronic means as specified by the Company in greater detail and in German or English. The evidence of the shareholding is to be submitted in the form of proof prepared by a depository institution in German or English in text form. It must refer to the start of the 21st day prior to the shareholders' meeting and be received by the Company at least six days prior to the shareholders' meeting, unless a shorter period of time was set forth in the convening notice of the shareholders' meeting. When calculating such period, the day of the receipt of the notice shall not be included. Voting rights may be exercised by proxy. The granting of a proxy, its revocation and the evidence of authority to be provided to the Company must be in text form unless the convening notice provides for a less strict form. The Management Board is authorized to provide that shareholders may cast their votes in writing or by electronic communication without attending the shareholders' meeting (absentee vote). The Management Board is further authorized to provide that shareholders may participate in the shareholders' meeting without being present in person at the place of the shareholders' meeting or being represented and may exercise all or specific shareholders' rights in total or in part by electronic communication (online participation).

The shareholders' meeting is chaired by the chairperson of the Supervisory Board or by another member of the Supervisory Board appointed by its chairperson. In the event that neither is present, the chairperson of the shareholders' meeting is to be elected by the members of the Supervisory Board present. The chairperson of the shareholders' meeting may decide that topics on the agenda be dealt with in a sequence that differs from the notified sequence. He may determine type, form and sequence of voting. He is entitled to impose a suitable limit on the time allowed for shareholders to speak and ask questions.

According to the German Stock Corporation Act (*Aktiengesetz*), resolutions of fundamental importance (*grundlegende Bedeutung*) require both a majority of votes cast and a majority of at least 75% of the registered share capital represented at the vote on the resolution. Resolutions of fundamental importance include, among others:

- amendments to the business object of the Company;
- approval of contracts within the meaning of Section 179a AktG (transfer of the entire assets of the company) and management actions of special significance that require the approval of the shareholders' meeting in compliance with legal precedents;
- capital increases, including the creation of conditional or authorized capital;
- issuance of, or authorization to issue, convertible and profit-sharing certificates and other profit-sharing rights;
- exclusion of subscription rights as part of an authorization on the use of treasury stock;
- capital reductions;
- liquidation of the Company;
- continuation of the liquidated company after the resolution on liquidation or expiry of the time period;
- approval to conclude, amend or terminate affiliation agreements (*Unternehmensverträge*);
- integration of a stock corporation into another stock corporation and squeeze-out of the minority shareholders; and
- action within the meaning of the German Transformation Act (*Umwandlungsgesetz*).

Pursuant to Section 17 para. 2 of the Articles of Association, resolutions of the shareholders' meeting are passed with a simple majority of the votes cast, and, in so far as a majority of the share capital is necessary, with a simple majority of the registered share capital represented at the voting, unless mandatory law or the Articles of Association stipulate otherwise. If not provided otherwise by mandatory provisions of statute or the Articles of

Association, for amendments of the Articles of Association a simple majority of votes cast suffices if at least half of the share capital is represented.

Neither German law nor the Articles of Association limit the right of foreign shareholders or shareholders not domiciled in Germany to hold shares or exercise the voting rights associated therewith.

16.6 Virtual Shareholders' Meetings

Pursuant to the German Act on Reducing the Effects of the COVID 19 Pandemic in Civil, Insolvency and Criminal Procedure Law (*Gesetz zur Abmilderung der Folgen der COVID 19 Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht*) dated March 27, 2020 as extended by the Act on the Further Reduction of the Procedure for the Relief of Reaming Debt (*Gesetz zur weiteren Verkürzung des Restschuldbefreiungsverfahrens*) dated December 22, 2020 (the "**COVID 19 Act**"), the Management Board may decide, with the approval of the Supervisory Board, to hold shareholders' meetings on or before December 31, 2021 as virtual shareholders' meetings without the physical presence of shareholders or their representatives, provided that the following requirements are fulfilled:

- the entire shareholders' meeting is broadcast via audio and video transmission;
- shareholders may exercise their voting rights via electronic communication (absentee voting or electronic participation) and by authorizing proxy representatives;
- shareholders are granted the opportunity to ask questions via electronic communication; and
- shareholders who have exercised their voting rights are offered the opportunity to object to resolutions of the shareholders' meeting without the requirement to attend in person at the shareholders' meeting.

Under the COVID 19 Act, the Management Board, with the consent of the Supervisory Board, may shorten certain periods in connection with the convocation of, registration and providing evidence of shareholding for, shareholders' meetings held on or before December 31, 2021. In particular, the shareholders' meeting may be convened as late as on the 21st day prior to the day of the meeting.

16.7 Corporate Governance

The German Corporate Governance Code, as amended on December 16, 2019 (the "**Code**"), contains recommendations and suggestions for the management and supervision of German companies listed on a stock exchange. The Code incorporates nationally and internationally recognized standards of good and responsible corporate governance. The purpose of the Code is to increase the transparency of the German system of corporate governance and supervision for investors. The Code includes recommendations and suggestions for management and supervision with regards to shareholders and shareholders' meetings, management and supervisory boards, transparency, accounting and auditing.

There is no obligation to comply with the recommendations or suggestions of the Code. Pursuant to Section 161 para. 1 AktG, the Management Board and the Supervisory Board are, however, required to declare that the Company has either complied or will comply with the recommendations of the Code, or which recommendations have not or will not be complied with, and explain why the Management Board and the Supervisory Board do not or will not comply with certain recommendations. This declaration must be submitted annually and must be made permanently accessible to the shareholders. There is no requirement to disclose any deviations from the suggestions of the Code.

As of the date of this Prospectus, the Company expects to comply with all recommendations of the Code, apart from the following:

B.2 of the Code - Appointments to the Management Board: Contrary to the recommendation included in Section B.2. of the Code, the Supervisory Board and Management Board have not put in place a long-term succession planning for a succession of the current Management Board members as the Management Board has only recently been appointed.

Following the completion of the Offering, Babbel will continuously evaluate its corporate governance against best practices.

16.8 Long-term Incentive Programs

16.8.1 EVOP Amendments

Since 2013, Babbel GmbH has implemented five EVOPs under which a certain number of virtual shares were issued to current and former directors and employees of Babbel and its affiliated companies and to certain consultants. Each virtual share entitles its beneficiary to a cash payment in case of certain monetization events at the level of the shareholders of Babbel GmbH. Any payout due to a beneficiary is reduced in particular by individually agreed strike prices.

Most of the virtual shares have a 48 months vesting period. Furthermore, some of the EVOP agreements provide for cliff provisions stipulating that all virtual shares are lost if the beneficiary ceases to be employed by Babbel within a defined period, typically 12 months, after the grant of the virtual shares.

In preparation of the Offering, Babbel GmbH entered into amendment agreements (the "**EVOP Amendment Agreements**") with all EVOP beneficiaries which provide that Babbel GmbH may, at its sole discretion, deliver shares in the Company to the EVOP beneficiaries in full or partial satisfaction of their cash payment claims under the EVOPs (the "**EVOP Compensation Shares**").

Based upon the EVOP Amendment Agreements, Babbel intends to settle the claims under the EVOPs as follows:

16.8.1.1 Vested virtual shares

The claims arising from vested virtual shares will be settled upon completion of the Offering. It is intended that the relevant EVOP beneficiaries will receive approximately 50% of their payout amount in cash and approximately 50% in the form of EVOP Compensation Shares. The exact amount due to the EVOP beneficiaries will depend upon the final Offer Price. The cash portion will be taken from the proceeds of the sale of the New Shares and will mostly be used to cover the beneficiaries' tax liabilities; in this context the Company's shareholders have contributed 3.7% of the shares in Babbel GmbH to Babbel GmbH in preparation of the Offering. Furthermore, the Company's shareholders are expected to provide 2,362,912 EVOP Compensation Shares to cover the share portion of this settlement.

The obligations to the EVOP beneficiaries will depend on the final Offer Price, and will be highest at the high end of the Price Range. Assuming an Offer Price at the mid-point of the Price Range and placement of the maximum number of Offer Shares, € 38.6 million and 1,654,139 EVOP Compensation Shares will be required to effect the settlement of these EVOP claims. Any EVOP Compensation Shares not so transferred will be returned to the relevant Existing Shareholder.

Any EVOP Compensation Shares received by the former EVOP beneficiaries in the context of the Offering will be subject to a six-month lock up commencing upon receipt of any EVOP Compensation Shares, except for the EVOP Compensation Shares received by the Management Board members who are subject to a twelve-month lock up.

16.8.1.2 Unvested virtual shares

The number of unvested virtual shares of each EVOP beneficiary for which a strike price was to be paid according to the original EVOP agreements was translated into a reduced number of unvested virtual shares for which no strike price is to be paid, based on the Offer Price. The exercise of such adjusted number of unvested virtual shares is subject to several exercise conditions, including (i) the expiry of the respective vesting period and (ii) the commencement of an exercise period. The Company will determine at least two exercise periods per calendar year, starting in the second half of the calendar year 2022 and ending in 2026.

Babbel expects to settle these remaining claims in shares in the Company. The exact amounts due to the EVOP beneficiaries will depend upon the market price prevailing at the time of the settlement. The Company's shareholders have provided 2,362,912 EVOP Compensation Shares to cover this settlement. For the settlement of such claims in shares, Babbel intends to use such EVOP Compensation Shares. Should this not be possible or advisable, Babbel may settle the claims of the beneficiaries in cash or to issue new shares from Authorized Capital 2021 (see "*15.1.3 Authorized capital 2021*") against contribution of the respective EVOP cash payment claims. Any EVOP Compensation Shares not used by Babbel, due to a settlement in cash or in new shares, may be used by the Company for other purposes, e.g., sold on the market or used for M&A activities. Any EVOP Compensation Shares not needed due to a beneficiary leaving Babbel GmbH prior to the expiry of the vesting period, will be returned to the relevant Existing Shareholder.

16.8.2 Future Option Program

The framework for an additional stock option plan was resolved by an extraordinary shareholders' meeting on September 7, 2021. For further details, see "*15.1.7 Authorization to Grant Subscription Rights*".

17. CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

In accordance with IAS 24, transactions with persons or companies that are members of the same group as the Company or that are in control of or controlled by the Company must be disclosed unless they are already included as consolidated companies in Babbel GmbH's consolidated financial statements. Control exists if a shareholder owns more than half of the voting rights in the Company or, by virtue of an agreement, has the power to control the financial and operating policies of the Company's management. The disclosure requirements under IAS 24 also extend to transactions with associated companies, including joint ventures, as well as transactions with persons who have significant influence over the Company's financial and operating policies, including close family members and intermediate entities. This includes the members of the Management Board and the Supervisory Board and close members of their families, as well as those entities over which the members of the Management Board and the Supervisory Board or their close family members are able to exercise a significant influence or in which they hold a significant share of the voting rights.

Set forth below in is a detailed description of such transactions with related parties for the fiscal years ended December 31, 2020, 2019 and 2018, the six-month period ended June 30, 2021 and up to and including the date of this Prospectus. Business relationships between companies of Babbel Group are not included. Further information with respect to related party transactions, including quantitative amounts, are contained in the notes to the audited consolidated financial statements of Babbel GmbH as of and for the fiscal years ended December 31, 2020, 2019, as amended, and 2018, and the unaudited condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2021, which are all included in this Prospectus in the Section "F Financial Information" on pages F 1 et seq.

17.1 Transactions with Related Parties

IAS 24 requires disclosure of transactions with persons or entities that, among other things, are members of the same group as the entity or control the entity or are controlled by the entity, unless they are already included in the audited consolidated financial statements. Control exists when a shareholder owns more than half of the voting rights in the entity or has the power under an agreement to govern the financial and operating policies of an entity. The disclosure requirements under IAS 24 also extend to transactions with associates (including joint ventures) and transactions with persons who have significant influence on the financial and operating policies of the entity, including close family members and intermediate entities. Due to their significant influence on the Group, the members of the Management Board, the first management level and, until the implementation of the current structure of the Group with the Company as the holding company, the former shareholders' committee of Babbel GmbH, are defined as related parties.

17.1.1 Contribution of all Shares in Babbel GmbH

On August 19, 2021, the Company's shareholders' meeting resolved to increase the Company's share capital from € 353,535.00 by € 37,520,378.00 to € 37,873,913.00 by issuing 37,520,378 new shares in the Company against contributions in kind in the form of 96.3% of the shares in Babbel GmbH (the "**Contribution Capital Increase**") by the Existing Shareholders. The remaining 3.7% of the shares in Babbel GmbH were transferred to Babbel GmbH by the Existing Shareholders in connection with the EVOP Amendments (see "*16.8.1 EVOP Amendments*").

The consummation of the Contribution Capital Increase was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on August 26, 2021. ECOVIS Audit AG Wirtschaftsprüfungsgesellschaft acted as auditor with respect to the Contribution Capital Increase pursuant to Section 183 para. 3 AktG.

17.1.2 Cost Sharing and Indemnity Agreement

On September 14, 2021, the Existing Shareholders and the Company entered into an agreement regarding their cooperation relating to the preparation of the Offering. As required by law, the Existing Shareholders have agreed that they will reimburse the Company for all external costs incurred in connection with the preparation and the execution of the Offering (except for costs relating to certain corporate measures such as the IPO Capital Increase) on a pro rata basis calculated in accordance with the ratio of (i) the gross proceeds from the Existing Shares placed in the Offering to (ii) the sum of the gross proceeds from the Existing Shares and the New Shares placed in the Offering. The costs for which the Existing Shareholders will reimburse the Company include legal, auditor and other advisors' fees as well as expenses, for which the Company has agreed to reimburse the Underwriters. With respect to commissions to be paid to the Sole Bookrunner in connection with the Offering, see "*18.3 Commissions*".

The obligations of the Existing Shareholders to reimburse the Company remain unaffected if the Offering is postponed or terminated. As required by law, the Existing Shareholders have also agreed to indemnify the

Company from any potential liability in connection with the Offering on a pro rata basis in accordance with the aforementioned ratio, including for the pro rata share of any reasonable legal costs and expenses. Furthermore, the Company has agreed that upon indemnification by the Existing Shareholders and to the extent legally permissible, it will assign certain claims the Company may have against members of the Management Board or the Supervisory Board or third parties to the Existing Shareholders.

17.1.3 Transactions with related entities

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

	As of June 30	As of December 31		
	2021	2020	2019	2018
	(unaudited)		(audited)	
Balance sheet	(in € million)		(in € million)	
Other provisions for entities that were controlled by related persons/entities	**-**	**-**	**1.8**	**1.8**

	Six months ended June 30	Fiscal year ended December 31		
	2021	2020	2019	2018
	(unaudited)		(audited)	
Consolidated statement of comprehensive income	(in € million)		(in € million)	
Other expenses to (+) /income from (-) related parties or companies controlled by related parties/companies	**-**	0.0	(0.0)	0.4

The provision comprises liabilities relating to the EVOP program for companies controlled by related persons/entities in the respective fiscal year.

17.1.4 Transactions with related persons

Reportable transactions include, inter alia, the conclusion of loan and rental contracts, agreements on guaranties, the settling of services as well as the disbursement or the change in value of shares from the EVOP program, to the extent that these services have been exchanged between a related person or a related entity and the Company.

In the fiscal year ended December 31, 2020 and in the six-month period ended June 30, 2021, no new transactions were concluded with related persons that went beyond remuneration in connection with activities for Babbel GmbH. In fiscal year ended December 31, 2019, a service agreement was concluded with the chairperson of the shareholders' committee of Babbel GmbH. There have no further business and legal transactions been concluded with related persons that would exceed the remuneration paid within the scope of their activities for the Company in the fiscal years ended December 31, 2019 and December 31, 2018.

The members of the Management Board and the members of the first management level received the following compensation in the six-month period ended June 30, 2021 and in the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018:

	Six months ended June 30	Fiscal year ended December 31		
	2021	2020	2019	2018
	(unaudited)		(audited)	
	(in € million)		(in € million)	
Current benefits	0.9	1.7	1.8	1.7
Benefits on the occasion of termination of employment	-	0.2	-	-
Expenses relating to share-based remuneration	9.1	1.7	2.9	2.3

In the six-month period ended June 30, 2021, one member of the shareholders' committee of Babbel GmbH received only share-based remuneration. In the fiscal year ended December 31, 2020, two members of the shareholders' committee of Babbel GmbH received only share-based remuneration. The other members of the shareholders' committee of Babbel GmbH were not remunerated. Only the expenditures of the independent member are reimbursed. These amounted to € 3 thousand in the fiscal year ended December 31, 2020 (fiscal year ended December 31, 2019: € 3 thousand; fiscal year ended December 31, 2018: € 3 thousand).

Provisions for shares from the EVOP programs to former members of management board of Babbel GmbH, the first management level and the former shareholders' committee of Babbel GmbH totaled € 3.6 million in the fiscal year ended December 31, 2020 (six-month period ended June 30, 2021: € 6.4 million, fiscal year ended December 31, 2019: € 1.3 million; fiscal year ended December 31, 2018: "-").

17.2 Relationships with the Founders

Markus Witte and Thomas Holl are Existing Shareholders of the Company. Markus Witte is also Chairperson of the Supervisory Board and Thomas Holl is a managing director of Babbel GmbH and the acting CTO of Babbel.

18. UNDERWRITING

18.1 General

On September 14, 2021, the Company, the Existing Shareholders and the Underwriters entered into the Underwriting Agreement relating to the offer and sale of the Offer Shares in connection with the Offering.

Under the terms of the Underwriting Agreement and subject to certain conditions, including the execution of the pricing agreement, the Underwriters undertake to acquire such number of Offer Shares as will be specified and agreed in the pricing agreement, but in any event only up to the maximum number of Offer Shares set forth opposite the respective Underwriters' name below:

Underwriters	Maximum Number of Offer Shares to be Underwritten[1]	Percentage of Maximum Number Offer Shares Underwritten (in %)
BNP PARIBAS, 16, Boulevard des Italiens, 75009 Paris, France	5,198,000	40
Morgan Stanley Europe SE, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany	5,197,999	40
Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20254 Hamburg, Germany	1,299,499	10
Citigroup Global Markets Europe AG, Reuterweg 16, 60323 Frankfurt am Main, Germany	1,299,499	10
Total	**12,994,997**	**100.00**

1 Assuming placement of the maximum number of Offer Shares and full exercise of the Greenshoe Option.

In connection with the Offering, the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire Offer Shares in the Offering and in that capacity may retain, purchase or sell for their own account such Offer Shares or related investments and may offer or sell such Offer Shares or other investments outside the Offering. Accordingly, references in this Prospectus to Offer Shares being offered or placed should be construed as including any offering or placement of Offer Shares to the Underwriters or any of their respective affiliates acting in such capacity. The Underwriters do not intend to disclose the extent of any such investments or transactions, other than in accordance with any legal or regulatory obligation to do so. In addition, the Underwriters or their respective affiliates may enter into financing arrangements, including swaps with investors, due to which the Underwriters or their affiliates may, from time to time, acquire, hold or dispose of Offer Shares.

18.2 Underwriting Agreement

In the Underwriting Agreement, the Underwriters agreed to underwrite and purchase the Offer Shares with a view to offering them to investors in this Offering, subject to certain conditions, including the execution of a pricing agreement to determine the Offer Price.

The Underwriters agreed to remit the purchase price from the sale of the New Shares, less agreed upon and expenses, to the Company at the time the New Shares are delivered to investors. Furthermore, the Underwriters agreed to acquire the Existing Shares from the holdings of the Existing Shareholders, to sell such shares as part of the Offering and to remit the purchase price, less agreed commissions and expenses, to the Existing Shareholders at the time the Existing Shares are delivered to investors.

For purposes of a potential over-allotment, Morgan Stanley will be provided with 1,694,997 Over-Allotment Shares from the holdings of the Lending Shareholders in the form of a securities loan. The Lending Shareholders have granted Morgan Stanley an option to acquire a number of shares of the Company equal to the number of Over-Allotment Shares at the Offer Price, less agreed commissions.

The obligations of the Underwriters under the Underwriting Agreement are subject to various conditions, including:

- the agreement of the Underwriters, the Company and the Existing Shareholders on the Offer Price and the final number of Offer Shares to be purchased by the Underwriters;
- the absence of a material adverse event (e.g., a material adverse change, or any development involving a reasonably likely prospective material adverse change, in or affecting the condition, business, prospects, management, consolidated financial position, shareholders' equity, or results of operations of the Group, or a suspension in trading (other than for technical reasons) in securities of the Company or in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange or the New York Stock Exchange);
- receipt of certain customary deliverables (e.g., legal opinions); and
- the admission of the Company's shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub segment thereof with additional post admission obligations (Prime Standard).

The Underwriters and their respective affiliates have provided, and may in the future provide, services to the Group in the ordinary course of business and may extend credit to, and have regular business dealings with the Group in their capacity as financial institutions. For a more detailed description of the interests of the Underwriters in the Offering, see "*3.15 Interests of parties participating in the Offering*".

18.3 Commissions

The Underwriters will offer the Offer Shares at the Offer Price. In return, the Underwriters will receive a fixed underwriting commission calculated as a percentage of the gross proceeds from the Offering. In addition, the Company, the Existing Shareholders and the Lending Shareholders may in their sole discretion decide to pay the Underwriters a discretionary fee, which is calculated as a percentage of the gross proceeds from the sale of the New Shares, the Existing Shares and the Over-Allotment Shares, respectively.

The Company will bear any fees in connection with the sale of the New Shares, while the Existing Shareholders and the Lending Shareholders will bear any fees in connection with the sale of the Existing Shares and the Over-Allotment Shares, respectively. Assuming placement of the maximum number of Offer Shares, full exercise of the Greenshoe Option and payment of the discretionary fee in full, the Company estimates that at the mid-point of the Price Range, the Underwriters would receive approximately € 10.1 million in commissions in connection with the Offering.

The Underwriters will withhold the base fees from the proceeds from the sale of the Offer Shares. The Company, the Existing Shareholders and the Lending Shareholders will decide whether to grant the respective discretionary fee, if any, within thirty days after the Offer Price is determined.

18.4 Greenshoe Option and Securities Loan

To cover potential over-allotments, the Lending Shareholders agreed to provide Morgan Stanley with up to 1,694,997 Over-Allotment Shares free of charge in the form of a securities loan. The total number of Over-Allotment Shares will not exceed 15% of the final number of Base Shares placed in the Offering.

The Stabilization Manager may exercise the Greenshoe Option to the extent Over-Allotments were initially made. The number of shares of the Company that can be acquired under the Greenshoe Option is reduced by the number of shares of the Company held by the Stabilization Manager on the date when the Greenshoe Option is exercised and that were acquired by the Stabilization Manager in the context of stabilization measures, if any. However, Morgan Stanley is entitled to exercise the Greenshoe Option during the Stabilization Period even if such exercise follows any sale of shares by the Stabilization Manager which the Stabilization Manager had previously acquired as part of any stabilization measures (so-called refreshing the shoe). The Greenshoe Option will terminate 30 calendar days after commencement of stock exchange trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

18.5 Termination/Indemnification

Under certain circumstances, the Joint Global Coordinators, acting for the account of the Underwriters, may terminate the Underwriting Agreement, including after the Offer Shares have been allocated and admitted to trading, up to closing of the Offering, in particular, if:

- The Company or the Group has sustained since the date of the latest audited financial statements of Babbel GmbH included in this Prospectus a loss or interference with respect to its business from fire, explosion, flood or other calamity (whether or not covered by insurance), or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in this Prospectus, which is materially adverse for the Group as a whole;
- Since June 30, 2021, (A) there has been any material change or development reasonably likely to result in a material change to the share capital of the Company and Babbel GmbH; (B) there has been any material change or development reasonably likely to result in a material change in the long-term debt of the Company or the Group; (C) there has been any material adverse change, or any development involving a prospective material adverse change, in or affecting the condition, business, prospects, management, consolidated financial position, shareholders' equity or results of operations of the Group or such as would prevent the Company from performing any of its material obligations hereunder; or (D) the Company or the Group has incurred any material liability or obligation, direct or contingent, or entered into any material transaction not in the ordinary course of business, otherwise in each of case (A), (B), (C) and (D) than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (A) through (D), is so material and adverse as to make it impractical or inadvisable to proceed with the Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this Prospectus; or
- There has occurred any of the following: (A) a not only temporary suspension or material limitation in trading (other than for technical reasons) in securities generally on the Frankfurt Stock Exchange, the London Stock Exchange or the New York Stock Exchange; (B) a not only temporary general moratorium on banking activities in Frankfurt am Main, London or New York declared by the relevant authorities or a material, not only temporary disruption in commercial banking or securities settlement or clearance services in Germany, the United Kingdom or the United States; (C) a material adverse change or development involving a prospective change in German taxation affecting the Company, the Shares or the transfer thereof or the imposition of exchange controls by Germany, the United Kingdom or the United States; (D) the outbreak or escalation of hostilities involving Germany, the United Kingdom or the United States or the declaration by Germany, the United Kingdom or the United States of a national emergency or war which have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States; or (E) the occurrence of any acts of terrorism or any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates in Germany or the United States which have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States, if the effect of any such event specified in clauses (A) through (E) makes it impractical or inadvisable to proceed with the Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in this Prospectus.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allocations already made to investors will be invalidated and investors will have no claim for delivery of Offer Shares. Claims with respect to purchase fees already paid and costs incurred by an investor in connection with the purchase will solely be governed by the legal relationship between the investor and the financial intermediary to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

In the Underwriting Agreement, the Company and the Existing Shareholders have agreed to indemnify the Underwriters against certain liabilities that may arise in connection with the Offering, including liabilities under applicable securities laws.

18.6 Selling restrictions

The distribution of this Prospectus and the sale of the Offer Shares may be restricted by law in certain jurisdictions. No action has been or will be taken by the Company, the Existing Shareholders, the Lending Shareholders or the Underwriters to permit a public offering of the Offer Shares anywhere other than in Germany or the transmission or distribution of this Prospectus into any other jurisdiction, where additional actions for that purpose may be required.

Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction other than in Germany, except in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required to inform themselves about and observe any such restrictions, including those set out in the following paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

18.6.1 Selling Restrictions with respect to the United States

The Company does not intend to register either the Offering or any portion of the Offering in the United States, or to conduct a public offering of shares in the United States. The Offer Shares are not and will not be registered pursuant to the provisions of the Securities Act or with securities regulators of individual states of the United States. The Offer Shares may not be offered, sold or delivered, directly or indirectly, in or into the United States, except pursuant to an exemption from the registration and reporting requirements of the United States securities laws and in compliance with all other applicable United States legal requirements.

The Offer Shares may only be sold in or into the United States to persons who are qualified institutional buyers as defined in, and in reliance on, Rule 144A, or pursuant to another available exemption from, or transactions not subject to, the registration requirements of the Securities Act, and outside the United States in accordance with Rule 903 of Regulation S and in compliance with other United States legal requirements, and no (i) "direct selling efforts" as defined in Regulation S or (ii) "general advertising" or "general solicitation", each as defined in Regulation D under the Securities Act in relation to the Offer Shares may take place. Any offer or sale of Offer Shares in reliance on Rule 144A will be made by broker dealers who are registered as such under the Securities Act. Terms used above have the meanings ascribed to them by Regulation S and Rule 144A.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the Securities Act, if such offer or sale is does not comply with Rule 144A or another exemption from registration under the Securities Act.

18.6.2 Selling Restrictions with respect to the United Kingdom

In the United Kingdom, no offer of Offer Shares to the public has been or will be made, except:

- to qualified investors as defined under Article 2 of the UK Prospectus Regulation; or
- to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation), subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within section 86 of the Financial Services and Markets Act 2000, as amended ("**FSMA**"),

provided that no such offer of the Offer Shares shall require the Company or any Joint Bookrunner to publish a prospectus pursuant to Section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this paragraph, the expression "offer of Offer Shares to the public" in relation to the United Kingdom means a communication to persons in any form and by any means of sufficient information on the terms of the Offering and any Offer Shares, so as to enable an investor to decide to purchase or subscribe to Offer Shares, including any placing of Offer Shares through financial intermediaries and the expression "UK Prospectus Regulation" means the Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

In the United Kingdom, this Prospectus is only addressed and directed to:

- investors who have professional experience in matters relating to investments falling within Article 19 para. 5 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**");
- investors who are high net worth entities falling within Article 49 para. 2 lit. a) through d) of the Order; and
- other persons to whom it may otherwise lawfully be communicated

(all such persons together being referred to as "**Relevant Persons**").

In the United Kingdom, the Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire Offer Shares in the United Kingdom will only be engaged in with, Relevant

Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

18.6.3 Selling Restrictions with respect to the EEA

In the member states of the EEA, no offer of Offer Shares to the public has been or will be made, except for (i) the offer to the public in Germany and (ii) any offers of Offer Shares in any member state of the EEA (European Economic Area ("**EEA**")) in accordance with the following exceptions under the Prospectus Regulation:

- to qualified investors as defined in Article 2 lit. (e) of the Prospectus Regulation; or
- to fewer than 150 natural or legal persons per member state of the EEA (other than qualified investors as defined in Article 2 lit. (e) of the Prospectus Regulation), subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling within Article 1 para. 4 of the Prospectus Regulation.

For the purposes of this Prospectus, the expression "offer to the public" in relation to any member state of the EEA means a communication to persons in any form and by any means, presenting sufficient information on the terms of the Offering and the Offer Shares, so as to enable an investor to decide to purchase or subscribe to Offer Shares, including any placing of Offer Shares through financial intermediaries.

19. TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The tax legislation of the investor's country of residence and of Germany as the Company's country of incorporation may have an impact on the income received from the securities. Tax consequences may differ according to the provisions of different tax treaties and the investor's particular circumstances. Therefore, investors are urged to consult their own tax advisors as to tax consequences of the acquisition, ownership and disposition of shares in the Company.

Income received from shares in the Company is subject to taxation. In particular, the tax laws of any jurisdiction with authority to impose taxes on the Company's shareholders and the tax laws of the Company's state of incorporation, statutory seat and place of effective management (i.e., Germany) may have an impact on the income received from shares in the Company.

The following section outlines certain key German tax principles that may be relevant with respect to the acquisition, holding or transfer of shares in the Company. It is important to note that the legal situation may change, possibly with retroactive effect. This summary is not and does not purport to be a comprehensive or exhaustive description of all tax considerations that may be relevant to shareholders of the Company. This presentation is based upon domestic German tax laws in effect as of the date of this Prospectus and the provisions of double taxation treaties currently in force between Germany and other countries. We cannot rule out that the German tax authorities or courts will interpret these laws and provisions differently than what is described in this section.

This section does not replace the need for individual shareholders of the Company to seek personal tax advice. Therefore, prospective shareholders are advised to consult their own tax advisors regarding the tax implications of acquiring, holding or transferring shares of the Company and what procedures are necessary to secure the repayment of German withholding tax (Kapitalertragsteuer), if possible. Only qualified tax advisors are in a position to adequately consider the particular tax situation of individual shareholders of the Company.

19.1 General Taxation of Dividends

Shareholders are taxed in particular in connection with the holding of shares (taxation of dividend income), upon the sale or disposal of shares (taxation of capital gains) and the gratuitous transfer of shares (inheritance and gift tax).

19.1.1 No Taxation in Case of Payments from a Tax-Recognized Contribution Account

In the future, the Company may pay dividends out of a tax-recognized contribution account (*steuerliches Einlagekonto*). To the extent the Company pays dividends from such tax-recognized contribution account in accordance with the statutory requirements, such dividends are not subject to withholding tax, personal income tax or corporate income tax, as the case may be (including the solidarity surcharge and church tax, if applicable). Any dividends paid out of a tax-recognized contribution account in accordance with the statutory requirements would, however, lower the acquisition costs of the shares, which may result in a higher amount of taxable capital gains upon the shareholder's sale of the shares. Special rules apply to the extent that dividends from the tax-recognized contribution account exceed the then lowered acquisition costs of the shares (the details are outlined below).

19.1.2 Withholding Tax

Dividends distributed by the Company that are not paid out of the tax-recognized contribution account (*steuerliches Einlagekonto*) in accordance with the statutory requirements are subject to a deduction at source (withholding tax) at a 25% rate plus a solidarity surcharge of 5.5% on the amount of withholding tax (amounting in total to a rate of 26.375%) and church tax (*Kirchensteuer*), if applicable. The basis for determining the dividend withholding tax is the dividend approved for distribution by the Company's shareholders' meeting.

In general, dividend withholding tax is withheld regardless of whether and, if so, to what extent the shareholder must report the dividend for tax purposes and regardless of whether the shareholder is a resident of Germany or of a foreign country.

As the Company's shares are admitted to be held in collective safe custody (*Sammelverwahrung*) with a central securities depository (*Wertpapiersammelbank*) pursuant to Section 5 of the German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such central securities depository for collective safe custody in Germany, the following entities are responsible and authorized to collect withholding tax in Germany and to remit it to the relevant tax authority for the account of the relevant shareholder: (i) a domestic bank or financial service institute (*inländisches Kredit- oder Finanzdienstleistungsinstitut*), a domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or a domestic securities trading bank (*inländische Wertpapierhandelsbank*), including the domestic branches of foreign banks or financial service institutes, which holds the shares in custody or that manages such shares and that pays out or credits the shareholder's investment income or that pays the investment income to a foreign entity, or (ii) the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if it pays the investment income to a foreign entity, or (iii) the Company itself if and to the extent shares that are held in collective safe custody (*girosammelverwahrt*) by the central securities depository (*Wertpapiersammelbank*) are treated as shares being held separately (*abgesetzte Bestände*) (each person within the meaning of (i) through (iii) a "**Dividend Paying Agent**"). Aside from shares being held separately (*abgesetzte Bestände*), the Company generally does not assume any responsibility for the withholding of withholding tax. That means that the Company is released from liability for violation of its legal obligation to withhold and pay the taxes at source, if it provides evidence that it has not breached its duties intentionally or gross negligently.

Where dividends are distributed to a company resident in another member state of the European Union within the meaning of Article 2 of Council Directive 2011/96/EU of November 30, 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states, as amended (the "**Parent-Subsidiary Directive**"), withholding of the dividend withholding tax may not be required (withholding tax exemption) or may be refunded, in each case only upon application and provided that certain additional requirements are met. This also applies to dividends distributed to a permanent establishment located in another member state of the European Union of such parent company or of a parent company that is tax resident in Germany, if the interest in the dividend-paying subsidiary is part of the respective permanent establishment's business assets. Further prerequisites for the exemption from withholding at the source or a refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least 10% of the Company's registered share capital continuously for twelve months at the time at which the withholding tax arises in accordance with the statutory provisions and that the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*), with its registered office in An der Küppe 1, 53225 Bonn, Germany, has certified to the creditor of the dividends, based upon an application filed by such creditor on the officially prescribed form, that the prerequisites for exemption have been met. The exemption from, or the refund of, withholding taxes on dividends is subject to the German anti-treaty shopping rules. These rules, inter alia, generally require that a shareholder maintains its own administrative substance in the country of its tax residence and conducts its own business activities. If there is a holding of at least 10% of the Company's registered share capital and the shares held in collective safe custody by Clearstream are treated as so-called stock being held separately (*abgesetzte Bestände*), the German tax authorities will, based on a decree issued in 2013, not object when the main paying agent (*Hauptzahlstelle*) of the Company disburses dividends without deducting withholding tax, assuming a valid exemption certificate (*Freistellungsbescheinigung*) and proof that the relevant shares have been held separately are presented. An exemption certificate is granted upon application with the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) at the aforementioned offices, subject to the aforementioned requirements.

The dividend withholding tax rate for dividends paid to shareholders without a tax residence in Germany will be reduced in accordance with any applicable double taxation treaty between Germany and the relevant shareholder's country of residence, provided that the shares are neither held as part of the business assets of a permanent establishment or a fixed base in Germany nor as part of the business assets for which a permanent representative in Germany has been appointed. The reduction in the dividend withholding tax is generally obtained by applying to the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) at the aforementioned offices for a refund of the difference between the dividend withholding tax withheld, including the solidarity surcharge, and the amount of withholding tax actually owed under the applicable double taxation treaty, which usually amounts to between 5% and 15%. Depending on the applicable double taxation treaty, a reduced withholding tax rate may be applicable in the tax withholding process, if the shareholder has applied for an exemption certificate (*Freistellungsbescheinigung*) from the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*). The applicable double taxation treaty may also provide for a full exemption from the German dividend withholding tax, if the relevant shareholder has directly held at least 10% of the Company's registered share capital and if further prerequisites are met. Forms for the refund and exemption procedure are available at the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*). Any such reduction of withholding taxes is subject to the German anti-treaty shopping rules.

Corporations (i.e., entities that are considered corporations from a German tax viewpoint) that are not tax residents in Germany will upon application receive a refund of two fifths of the dividend withholding tax that was withheld and remitted to the tax authorities subject to certain requirements. This applies regardless of any further reduction or exemption provided for under the Parent-Subsidiary Directive or a double taxation treaty.

Foreign corporations will generally have to meet certain stringent substance criteria defined by statute in order to receive an exemption from, or (partial) refund of, German dividend withholding tax.

Pursuant to special rules on the restriction of withholding tax credit, the aforementioned relief in accordance with applicable double taxation treaties as well as the credit of withholding tax described for shares held as private and as business assets (see "*19.2 Taxation of Dividends of Shareholders with a Tax Residence in Germany*") is subject to the following three cumulative prerequisites: (i) the relevant shareholder must qualify as beneficial owner of the shares in the Company for a continuous period of at least 45 days occurring within a period of 45 days prior and 45 days after the due date of the dividends ("**Minimum Holding Period**"), (ii) the shareholder has to bear at least 70% of the change in value risk related to the shares in the Company during the Minimum Holding Period without having, in particular, entered into hedging transactions (acting by itself or through a related party), which directly or indirectly lower the change in value risk by more than 30%, and (iii) the shareholder is not required to fully or largely, directly or indirectly, transfer the dividends to third parties (the tests under (i) through (iii) together the "**Minimum Risk Test**").

Should any of the three prerequisites of the Minimum Risk Test not be met, the following applies:

- As regards the taxation of dividends of shareholders with a tax residence in Germany, three fifths of the withholding tax imposed on the dividends may not be credited against the shareholder's (corporate) income tax liability, but may, upon application, be deducted from the shareholder's tax base in an assessment procedure for the relevant assessment period. A shareholder that has received gross dividends without any deduction of withholding tax (i.e., due to a tax exemption without qualifying for a full tax credit) or that has already obtained a refund of taxes withheld, has to notify the competent local tax office accordingly, file a withholding tax return for an amount of 15% of the relevant dividends in accordance with the statutory formal requirements and pay withholding tax in the amount stated on the aforementioned withholding tax return. The special rule on the restriction of withholding tax credit does not apply to a shareholder whose overall dividend earnings within an assessment period do not exceed € 20,000.00 or who has been the beneficial owner of the shares in the Company for at least one uninterrupted year upon receipt of the dividends.
- As regards the taxation of dividends of shareholders without a tax residence in Germany who have applied for a full or partial refund of the withholding tax pursuant to a double taxation treaty, no refund is available. This restriction does not apply to a shareholder (i) that directly holds at least 10% of the shares in the Company and that is subject to taxes on income or profits in the country of its tax residence without being exempted therefrom, or (ii) that has been the beneficial owner of the shares in the Company for at least one uninterrupted year upon receipt of the dividends, or (iii) if the applicable tax rate pursuant to the applicable double taxation treaty is at least 15%.

In addition to the aforementioned statutory provisions, the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) has published a decree outlining the treatment of transactions where the credit of withholding tax will be denied even when the statutory minimum tests described above are met, in order to prevent abuse.

Prospective shareholders should seek their own professional advice as to whether they can obtain a tax credit or tax refund with respect to withholding taxes on dividends.

In case of individual shareholders holding shares in the Company as private assets, the Dividend Paying Agent which keeps or administrates the shares and pays or credits the capital income is required to create so-called pots for offsetting losses (*Verlustverrechnungstöpfe*) to allow for negative capital income to be set off against current and future positive capital income. A set off of negative capital income at one Dividend Paying Agent against positive capital income at another Dividend Paying Agent is only possible in the course of the income tax assessment at the level of the respective shareholder. In such case, the relevant shareholder has to apply for a certificate confirming the amount of losses not offset with the Dividend Paying Agent where the pot for offsetting losses exists. The application is irrevocable and must reach the Dividend Paying Agent until December 15 of the respective year, as otherwise the losses will be carried forward by the respective Dividend Paying Agent to the following year.

Withholding tax will not be withheld by a Dividend Paying Agent if the shareholder provides such Dividend Paying Agent with an application for exemption (*Freistellungsauftrag*) to the extent such shareholder's capital income does not exceed the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals) as outlined on the application for exemption. Furthermore, no withholding tax will be levied if the shareholder provides the Dividend Paying Agent with a non-assessment certificate (*Nichtveranlagungsbescheinigung*) to be applied for with the competent tax office.

19.2 Taxation of Dividends of Shareholders with a Tax Residence in Germany

19.2.1 Individuals who hold the Shares as Private Assets

For individuals who are tax resident in Germany (generally, individuals whose domicile or usual residence is located in Germany) and who hold their shares in the Company as private assets, the withholding tax of 25% plus solidarity surcharge of currently 5.5% thereon, resulting in a total tax rate of 26.375% (plus church tax, if applicable) will generally serve as a final tax (i.e., once such tax has been deducted, the shareholder's income tax liability on the dividends will be settled, and he or she will no longer have to declare them on his annual tax return (*Abgeltungsteuer* (the "**Flat Tax**"))).

The purpose of the Flat Tax is to provide for separate and final taxation of capital investment income earned (i.e., taxation that is irrespective of the individual's personal income tax rate). Shareholders may apply to have their entire capital investment income, including dividends paid by the Company, assessed in accordance with the general rules and with an individual's personal income tax rate if this results in a lower tax burden. In this case, the base for taxation is the gross dividend income less the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals). Subject to the Minimum Risk Test and the related rules as described above, any tax and solidarity surcharge withheld is credited against the income tax and solidarity surcharge so determined, and any overpayment refunded. Income-related expenses cannot be deducted from capital gains in either case. The only possible deduction is the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals) on the entire private capital income. Furthermore, dividend income can only be offset by losses from capital income, except for losses generated by the disposal of shares.

If the individual owns (i) at least 1% of the shares in the Company and – by virtue of his professional activity (*berufliche Tätigkeit*) for the Company – is able to exercise a significant entrepreneurial influence on the business activity of the Company, or (ii) at least 25% of the shares in the Company, the tax authorities may upon application allow for the dividends to be taxed under the partial-income method applying the individual income tax rate instead of the Flat Tax (see "*19.2.4 Sole Proprietors (Individuals)*").

Entities required to collect withholding taxes on capital investment income are required to likewise withhold the church tax on payments to shareholders who are subject to church tax, unless the shareholder objects in writing to the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) against the sharing of his private information regarding his affiliation with a religious denomination (*Sperrvermerk*). If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, the church tax on the dividends is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense (*Sonderausgabe*). 26.375% of the church tax withheld on the dividends is, however, deducted from the withholding tax (including the solidarity surcharge) withheld. If no church tax is withheld along with the withholding of the withholding tax, the shareholder who owes church tax is required to declare his dividends in his income tax return. The church tax on the dividends will then be imposed by way of a tax assessment.

Contrary to the above, dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) in accordance with the statutory requirements and are paid to shareholders who are tax resident in Germany whose shares are held as private assets, do not form part of the shareholder's taxable income, but reduce the acquisition costs for such shares. If the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) in accordance with the statutory requirements exceeds the shareholder's acquisition costs, the German tax authorities take the view that negative acquisition costs can arise. Such negative acquisition costs may result in a higher capital gain in case of a disposal of the shares. This will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the disposal (or the deemed disposal) directly or indirectly held at least 1% of the share capital of the Company (a "**Qualified Participation**") and (ii) the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In case of a Qualified Participation, a dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) is considered a disposal of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceeds the acquisition costs of the shares. In this case the taxation corresponds to the taxation of capital gains of shareholders maintaining a Qualified Participation (see "*19.4 Taxation of Capital Gains*").

19.2.2 Shares Held as Business Assets

The Flat Tax does not apply to dividends from shares of the Company held as business assets of shareholders who are tax resident in Germany. In this case, the taxation depends on whether the shareholder is a corporation, an individual or a partnership. Subject to the Minimum Risk Test, the withholding tax withheld and paid to the tax authorities, including the solidarity surcharge (and church tax, if applicable), is credited against the income or corporate income tax and the solidarity surcharge (and church tax, if applicable) of the shareholder, and any overpayment will be refunded.

Dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) and paid to shareholders who are tax resident in Germany and whose shares are held as business assets are generally fully tax-exempt in the hands of such shareholders. At the same time such dividend payments lead to a corresponding reduction of the acquisition costs/book value for the relevant shares. To the extent the dividend payments funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) exceed the acquisition costs/book value of the shares, a taxable capital gain should occur. The taxation of such gain corresponds to the taxation of shareholders whose shares are held as business assets (see "*19.4 Taxation of Capital Gains*").

19.2.3 Corporations

In general, dividends received by corporations that are tax resident in Germany are effectively 95% exempt from corporate income tax and solidarity surcharge. 5% of the dividends are treated as a non-deductible business expenses and, as such, are subject to corporate income tax (plus the solidarity surcharge) with a total tax rate of 15.825%.

Portfolio dividends (i.e., dividends earned on direct shareholdings in a distributing corporation of less than 10% of its share capital at the beginning of the respective calendar year ("**Portfolio Participation**")) are fully taxed at the corporate income tax rate plus solidarity surcharge thereon of 15.825%. The acquisition of a shareholding of at least 10% during a calendar year is deemed to have occurred at the beginning of the respective calendar year. Participations which a shareholder holds through a commercial partnership are only attributable to such shareholder on a pro rata basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Any dividends (after deducting business expenses related to the dividends) are fully subject to trade tax, unless the corporation held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, entitling it to an intercorporate privilege for trade tax purposes. In such case, the aforementioned exemption of 95% of the dividend income applies also for trade tax purposes. The trade tax rate applicable on the amount of 5% of the respective dividends (being treated as non-deductible business expenses and therefore subject to trade tax) depends on the tax rate imposed by the local municipalities in which the shareholder maintains its operations or permanent establishment.

19.2.4 Sole Proprietors (Individuals)

If the shares in the Company are held as part of the business assets of a sole proprietor (individual) with his tax residence in Germany, only 60% of any dividend are subject to progressive income tax (plus solidarity surcharge (*Solidaritätszuschlag*)) at a total tax rate of up to approximately 47.5% (plus church tax (*Kirchensteuer*), if applicable), the so-called partial income method (*Teileinkünfteverfahren*). Correspondingly, only 60% of the expenses economically related to the dividends are tax deductible. The partial income method does, however, not apply with respect to church tax (if applicable). If the shares are held as business assets of a domestic commercial permanent establishment, the full amount of the dividend income (after deducting business expenses that are economically related to the dividends) is also subject to trade tax, unless the respective shareholder held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. In the latter case, the net dividends (after deducting directly related expenses) are exempt from trade tax. Trade tax is, however, generally credited, in full or in part, as a lump sum against the relevant shareholder's personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder.

19.2.5 Partnerships

If a shareholder is a partnership, the personal income tax or corporate income tax, as the case may be, and the solidarity surcharge (and church tax, if applicable) are levied at the level of each partner rather than at the level of the partnership. The taxation of each partner depends upon whether the partner is a corporation or an individual. If the partner is a corporation, dividends are generally effectively 95% tax exempt. Dividends from a Portfolio Participation of the relevant partner are, however, fully subject to taxation (see "*19.2.3 Corporations*"). If the partner is an individual and the shares are held as business assets of the partnership, only 60% of the dividend income is subject to income tax. In this case, the partial income method does not apply with respect to church tax, if applicable (see "*19.2.4 Sole Proprietors (Individuals)*"). Upon application and subject to further conditions, an individual who is a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, if the shares are held as business assets of a domestic permanent establishment of an actual or presumed commercial partnership, the full amount of dividend income is generally also subject to trade tax at the level of the partnership. In the case of partners who are individuals, the trade tax that the partnership pays on the relevant partner's portion of the partnership's income is generally credited as a lump sum, in full or in part, against the individual's personal income tax liability depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder. If the partnership held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, the dividends (after deduction of business expenses economically related thereto) should generally not be subject to trade tax. In this case, trade tax should, however, be levied on 5% of the dividends to the extent they are attributable to the profit share of such corporate partners to whom at least 10% of the shares in the Company are attributable on a look-through basis, since this portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of the dividend income attributable to partners other than such specific corporate partners (which includes individual partners and should, according to a literal reading of the law, also include corporate partners to whom, on a look-through basis, only portfolio participations are attributable) should not be subject to trade tax. Due to a lack of case law and administrative guidance, the application of the rules for the taxation of Portfolio Participations is, however, unclear. Consequently, shareholders are strongly recommended to consult their own tax advisors.

19.2.6 Financial and Insurance Sector

Special rules apply to companies operating in the financial and insurance sectors, as well as pension funds (see "*19.5 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

19.3 Taxation of Dividends of Shareholders without a Tax Residence in Germany

Dividends paid to shareholders of the Company (individuals and corporations) without a tax residence in Germany are taxed in Germany, provided that the shares are held as part of the business assets of a permanent establishment or a fixed base in Germany or as part of the business assets for which a permanent representative in Germany has been appointed. Subject to the Minimum Risk Test and the related rules, the withholding tax (including solidarity surcharge) withheld and remitted to the German tax authorities is credited against the respective shareholder's personal income tax or corporate income tax liability, and any overpayment will be refunded. The same applies to the solidarity surcharge. These shareholders are essentially subject to the same rules applicable to tax resident shareholders, as discussed above.

In all other cases, the withholding of the dividend withholding tax discharges any tax liability of the shareholder in Germany. A refund or exemption is granted only as discussed with respect to dividend withholding tax (see "*19.1.2 Withholding Tax*").

Dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) are generally not taxable in Germany.

19.4 Taxation of Capital Gains

19.4.1 Taxation of Capital Gains of Shareholders with a Tax Residence in Germany

19.4.1.1 Shares Held as Private Assets

Gains on the sale or disposal of shares of the Company that are held as private assets by shareholders with a tax residence in Germany and which were acquired after December 31, 2008, are generally taxable regardless of the length of time held. The tax rate is generally a uniform 25% plus the current 5.5% solidarity surcharge thereon (resulting in an aggregate tax rate of 26.375%) as well as any church tax, if applicable.

The taxable capital gains are the difference between (i) the proceeds from the disposal of the shares after deducting the direct sales costs and (ii) the acquisition costs of the shares. Under certain conditions, payments from the Company's tax-recognized contribution account (s*teuerliches Einlagekonto*) reduce the acquisition costs of the shares and may lead to negative acquisition costs, which can increase capital gains. Losses on the sale or disposal of shares can only be used to offset gains made on the sale or disposal of shares (in the Company or in other stock corporations) during the same assessment period or in subsequent assessment periods. In case of a derecognition or transfer of worthless shares (or other capital assets), the utilization of such losses is further restricted and can only be offset in an amount of up to € 20,000.00 per calendar year.

If the shares are held in custody or administered by a domestic bank or financial service institute, a domestic securities trading company or a domestic securities trading bank including the domestic branches of foreign banks and financial service institutes, or if such entity or branch sells the shares and pays out or credits the capital gains (each a "**Domestic Paying Agent**"), such Domestic Paying Agent withholds a withholding tax of 25% plus the current 5.5% solidarity surcharge thereon and any church tax, if applicable, and remits such taxes to the tax authority. In such a case, the tax on the capital gain will generally be discharged. If the shares were only held in custody or administered by the respective Domestic Paying Agent continuously after acquisition, the amount of taxes withheld is generally based on the difference between the proceeds from the sale, after deducting expenses directly related to the sale, and the amount paid to acquire such shares. The withholding tax rate of 25% plus the current 5.5% solidarity surcharge thereon and any church tax, if applicable, will, however, be applied to 30% of the gross sales proceeds, if (i) the shares were not administered by the same custodian bank since acquisition, and (ii) the original cost of the shares cannot be verified or such verification is not admissible. In this case, the shareholder is entitled to, and in case the actual gain is higher than 30% of the gross proceeds required to, verify the original costs of the shares in his annual tax return.

Entities required to collect withholding taxes on capital investment income are also required to withhold the church tax for shareholders who are subject to church tax, unless the shareholder objects in writing to the German Federal Central Office of Taxation (*Bundeszentralamt für Steuern*) against the sharing of his private information regarding his affiliation with a denomination (*Sperrvermerk*). If church tax is withheld and remitted to the tax authority as part of the withholding tax deduction, then the church tax on the capital gain is also deemed to be discharged when it is deducted. The withheld church tax cannot be deducted in the tax assessment as a special expense (*Sonderausgabe*). 26.375% of the church tax withheld on the capital gain is, however, deducted from the withholding tax (including the solidarity surcharge) withheld.

If withholding tax or, if applicable, church tax on capital gains is not withheld by a Domestic Paying Agent, the respective shareholder is required to declare the capital gains in his income tax return. The income tax, the solidarity surcharge and any applicable church tax on the capital gains will then be collected by way of assessment.

In general, it is not possible to deduct income-related expenses in connection with capital gains, except for expenses directly related in substance to the disposal, which can be deducted when calculating the capital gains. Only the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals) may be deducted from the entire capital investment income.

A shareholder may request that his entire capital investment income, along with his other taxable income, are subject to the progressive income tax rate instead of the uniform tax rate for private capital investment income if this lowers his tax burden. In such case, the base for taxation would be the gross income less the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals). The prohibition on deducting income-related costs and the restrictions on offsetting losses also apply to tax assessments based on the progressive income tax rate. Any tax withheld is credited against the income tax so determined, and any overpayment refunded subject to the general requirements such as the Minimum Risk Test (if applicable) and the related rules.

Regardless of the holding period and the time of acquisition, gains from the disposal of shares are not subject to a uniform withholding tax but to progressive income tax in case of a Qualified Participation. In this case, 60% of the proceeds from the sale or disposal of shares are subject to the individual income tax rate. Correspondingly, only 60% of the expenses economically related to the proceeds from the sale or disposal of shares are tax-deductible.

In case of a Qualified Participation, withholding tax (including the solidarity surcharge and church tax, if applicable) is also withheld by the Domestic Paying Agent. The tax withheld, however, is not treated as a final tax. Hence, the shareholder is required to declare the gains from the sale in his income tax return. The withholding tax (including solidarity surcharge) withheld and remitted to the German tax authorities is credited against the respective shareholder's personal income tax liability, and any overpayment will be refunded.

Withholding tax will not be withheld by a Domestic Paying Agent if the shareholder provides such Domestic Paying Agent with an application for exemption (*Freistellungsauftrag*), to the extent such shareholder's capital income does not exceed the annual savers' allowance (*Sparerpauschbetrag*) of € 801.00 (€ 1,602.00 for jointly filing individuals). Furthermore, no withholding tax will be levied if the shareholder provides the Domestic Paying Agent with a non-assessment certificate (*Nichtveranlagungsbescheinigung*) to be applied for with the competent tax office.

19.4.1.2 Shares Held as Business Assets

The Flat Tax does not apply to proceeds from the sale or disposal of shares held as business assets by shareholders tax resident in Germany. If the shares form part of a shareholder's business assets, taxation of the capital gains realized will then depend upon whether the shareholder is a corporation, sole proprietor or partnership. Dividend payments that are funded from the Company's tax-recognized contribution account (*steuerliches Einlagekonto*) reduce the original acquisition costs. This may give rise to a higher taxable capital gain in case of a sale or disposal of shares. If the dividend payments funded from the Company's tax-recognized contribution account exceed the original acquisition costs for tax purposes, a taxable capital gain may arise.

1. Corporations: In general, capital gains earned from the sale or disposal of shares by corporations domiciled in Germany are effectively 95% exempt from corporate income tax (including the solidarity surcharge) and trade tax, irrespective of the stake represented by the shares and the holding period of the shares. 5% of the capital gains are treated as a non-deductible business expenses and, as such, are subject to corporate income tax (plus the solidarity surcharge thereon) and to trade tax. Losses from the sale of shares and any reductions in profits connected therewith generally do not qualify as tax-deductible business expenses.

2. Sole proprietors (Individuals): If the shares of the Company form part of the business assets of a sole proprietor (individual) who is tax resident in Germany, only 60% of the capital gains on their sale are subject to the individual's personal tax rate plus the solidarity surcharge thereon (partial income method). Correspondingly, only 60% of losses from such sales and 60% of expenses economically related to such sales are deductible. For church tax, if applicable, the partial income method does not apply. If the shares are held as business assets of a commercial permanent establishment located in Germany, 60% of the capital gains are also subject to trade tax. As a general rule trade tax can be fully

or partially credited as a lump sum against the shareholder's personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of such shareholder.

3. Commercial Partnerships: If the shareholder is a partnership, personal income tax or corporate income tax, as the case may be, is assessed at the level of each partner rather than at the level of the partnership. The taxation of each partner depends upon whether the respective partner is a corporation or an individual. If the partner is a corporation, the tax principles applying to capital gains realized by corporations apply as outlined in subsection 1 above. If the partner is an individual, the tax principles applying to capital gains realized by sole proprietors (individuals) apply as outlined in subsection 2 above. Upon application and provided that additional prerequisites are met, an individual who is a partner may obtain a reduction of his personal income tax rate for profits not withdrawn from the partnership. In addition, capital gains from the sale or disposal of shares attributable to a permanent establishment maintained in Germany by an actual or presumed commercial partnership are subject to trade tax at the level of the partnership. In such case, generally only 60% of the gains are subject to trade tax to the extent the partners in the partnership are individuals, while effectively 5% are subject to trade tax to the extent the partners are corporations and shares in corporations are sold. Under the principles discussed above, losses on sales and other reductions in profits related to the shares sold are generally not deductible if the partner is a corporation, and 60% thereof are taken into account if they are attributable to the share in the profits of an individual. If the partner is an individual, the trade tax the partnership pays on his share of the partnership's income is generally credited as a lump sum, in full or in part, against his personal income tax liability, depending on the tax rate imposed by the local municipality and certain individual tax-relevant circumstances of the respective taxpayer.

Special rules apply to capital gains realized by companies operating in the financial and insurance sectors, as well as pension funds (see "*19.5 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

If a Domestic Paying Agent is involved, the proceeds from the sale or disposal of shares of the Company held as business assets are generally subject to the same withholding tax rate as those of shareholders whose shares are held as private assets (see "*19.4.1.1 Shares Held as Private Assets*"). The Domestic Paying Agent may, however, refrain from withholding the withholding tax if (i) the shareholder is a corporation, association or estate with its tax residence in Germany, or (ii) the shares form part of the shareholder's domestic business assets, and the shareholder informs the Domestic Paying Agent of this on the officially prescribed form and meets certain additional prerequisites. If the Domestic Paying Agent nevertheless withholds taxes, the withholding tax withheld and remitted (including the solidarity surcharge and church tax, if applicable) will be credited against the relevant shareholder's income tax or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) and any excess amount will be refunded, subject to the Minimum Risk Test and related rules.

19.4.2 Taxation of Capital Gains of Shareholders without a Tax Residence in Germany

Capital gains realized by a shareholder without a tax residence in Germany are only subject to German income tax if the selling shareholder holds a Qualified Participation or if the shares form part of the business assets of a permanent establishment in Germany or of business assets for which a permanent representative is appointed.

The German Federal Fiscal Court (*Bundesfinanzhof*) has stated that if the shareholder is a corporation that is neither tax resident in Germany nor maintains a permanent establishment or has appointed a permanent representative in Germany, the capital gains on the disposal of a Qualified Participation are not subject to German taxation. The German tax authorities have adopted this view.

If the shareholder is an individual and holds a Qualified Participation as a private asset, only 60% of the gains on the disposal of the shares are subject to progressive income tax, plus solidarity surcharge thereon. Where a Domestic Paying Agent is involved, withholding tax on capital gains is generally levied at a rate of 25%, plus 5.5% solidarity surcharge thereon. If, however, (i) the shares are not held through a permanent establishment or fixed place of business or as business assets for which a permanent representative is appointed in Germany and (ii) a Domestic Paying Agent is involved, then the German tax authorities have taken the view that the Domestic Paying Agent is, in general, not required to withhold tax on capital investment income, plus solidarity surcharge thereon. In case of a Qualified Participation, the capital gains must be declared in a tax return and are taxed by way of a tax assessment, subject to an exemption under a double taxation treaty or under domestic law.

For gains or losses on the disposal of shares that can be allocated to a domestic permanent establishment or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the aforementioned principles for shareholders with a tax residence in Germany whose shares are business assets apply accordingly (see "*19.4.1.2 Shares Held as Business Assets*"). The Domestic Paying Agent may refrain from deducting withholding tax, if the shareholder declares to the Domestic Paying Agent on the official form that the shares form part of domestic business assets and certain other requirements are met.

Most double taxation treaties provide for an exemption from German taxes, assigning the right of taxation to the shareholder's country of tax residence in the former case.

19.5 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds

As an exception to the aforementioned rules, dividends paid to, and capital gains realized by, certain companies in the financial and insurance sector are generally fully taxable. This applies to dividends received on, as well as gains from the disposal of, shares that are allocated to the trading portfolio of credit institutions and financial services institutions (*Handelsbestand*) within the meaning of Section 340e para. 3 HGB, as well as to shares that, upon acquisition of such shares, are allocated to the current assets (*Umlaufvermögen*) of a financial enterprise (*Finanzunternehmen*) within the meaning of the German Banking Act (*Kreditwesengesetz*), 50% or more of which are directly or indirectly held by a credit institution or financial services institution. The same applies to shares of the Company held as investments by life insurance providers, health insurance providers and pension funds as well as for shares held by a financial institution, financial service institution and financial institution which is tax resident in another member state of the European Union or in a member state of the EEA, and which has a permanent establishment in Germany. An exemption to the foregoing (i.e., and thus a 95% effective tax exemption) does, however, apply to dividends obtained by the aforementioned companies to which the Parent-Subsidiary Directive applies. Further relief from German taxation might be obtained pursuant to an applicable double taxation treaty, subject to further prerequisites.

19.6 Amendments to the Solidarity Surcharge

The solidarity surcharge (Solidaritätszuschlag) has been abolished or reduced for certain German taxpayers, depending on their amount of payable income tax. The new rules apply from the beginning of the assessment period for the fiscal year ending December 31, 2021. Pursuant to the new law, the solidarity surcharge remains in place for purposes of withholding tax, the Flat Tax regime and corporate income tax. Shareholders are advised to monitor additional future developments.

19.7 Inheritance and Gift Tax

The transfer of shares to another person by inheritance or gift is generally only subject to German inheritance or gift tax if:

1. the decedent, donor, heir, beneficiary or other transferee maintained his domicile or habitual abode in Germany, or had its place of management or registered office in Germany at the time of the transfer, or is a German citizen who has spent no more than five consecutive years (this term is extended to ten years for German expatriates with residence in the United States) prior to the transfer outside Germany without maintaining a residence in Germany (special rules apply to certain former German citizens who neither maintain their domicile nor have their habitual abode in Germany); or
2. the shares were held by the decedent or donor as part of business assets for which a permanent establishment was maintained in Germany or for which a permanent representative in Germany had been appointed; or
3. the decedent or donor, either individually or collectively with related parties, held, directly or indirectly, at least 10% of the Company's registered share capital at the time of the inheritance or gift.

The few German double taxation treaties relating to inheritance tax and gift tax currently in force usually provide that the German inheritance tax or gift tax can only be levied in the cases of No. 1 above, and also with certain restrictions in case of No. 2 above. Special provisions apply to certain German nationals living outside Germany and former German nationals.

The fair value of the shares represents the tax assessment base, which generally corresponds to the stock exchange price of the Company's shares. Depending on the degree of relationship between decedent or donor and recipient, different tax-free allowances and tax rates apply.

19.8 Other Taxes

No German transfer tax, value-added tax, stamp duty or similar taxes are assessed on the purchase, sale or other transfer of shares of the Company. Provided that certain requirements are met, an entrepreneur may, however, opt for the payment of value-added tax on transactions that are otherwise tax-exempt. Net wealth tax is currently not imposed in Germany.

On February 14, 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a directive for a common financial transaction tax in certain participating member states of the European Union, including Germany. Such directive could under, depending on the actual circumstances, apply to certain transactions in the Company's shares, including with respect to secondary market transactions. The issuance and subscription of shares should, however, be exempt. The Commission's Proposal remains subject to negotiations between the participating member states of the European Union and it is currently unclear in what form and when the Commission's Proposal will be implemented, if at all. Recently, the German Federal Minister of Finance submitted a proposal to introduce a financial transaction tax, which has also not been adopted or implemented in Germany yet. In addition, the German Federal Finance Ministry further prepared the implementation of a financial transaction tax by the creation of a new department (*Referat*) within the German Federal Finance Ministry. Such new transaction tax is referred to as "**Finanztransaktionssteuer (FTT)**" (Financial Transaction Tax (FTT)). Prospective shareholders are advised to monitor future developments closely and should consult their own tax advisors in relation to the consequences of a financial transaction tax.

20. FINANCIAL INFORMATION

The following audited consolidated financial statements of Babbel GmbH (formerly: Lesson Nine GmbH) as of and for the fiscal years ended December 31, 2020, 2019 and 2018 and the audited unconsolidated financial statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with the German Commercial Code (*HGB*) as of and for the fiscal year ended December 31, 2020 and the respective auditor's reports thereon are translations of the respective German-language audited consolidated financial statements and the respective auditor's reports thereon and audited unconsolidated financial statements of Babbel GmbH (formerly: Lesson Nine GmbH) and the auditor's report thereon.

Unaudited Condensed Consolidated Interim Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as of and for the six-month period ended June 30, 2021

Audited Consolidated Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2020

Audited Amended Consolidated Financial Statements of Lesson Nine GmbH (since April 1, 2021: Babbel GmbH) prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2019

Audited Consolidated Financial Statements of Lesson Nine GmbH prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2018

Audited Unconsolidated Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with the German Commercial Code (HGB) as of and for the fiscal year ended December 31, 2020

Audited Unconsolidated Financial Statements of Babbel Group AG (formerly: Youco B21-H218 Vorrats-AG) prepared in accordance with IFRS as of and for the period from April 19, 2021 to June 30, 2021

Unaudited Condensed Consolidated Interim Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as of and for the six-month period ended June 30, 2021

I. Consolidated Balance Sheet

Assets	Notes disclosure	*Unaudited* 06/30/2021 EUR	12/31/2020 EUR
A. Non-current Assets			
I. Intangible assets	V.6	1,025,102	1,198,794
II. Property, plant and equipment	V.6	45,796,323	4,186,813
III. Other financial assets	V.7	1,241,142	233,537
IV. Deferred tax assets	V.20	380,579	175,535
		48,443,146	**5,794,679**
B. Current Assets			
I. Trade receivables		5,341,359	4,946,072
II. Other financial assets	V.7	54,468,134	33,598,853
III. Other assets		1,855,817	4,251,132
IV. Cash and cash equivalents	V.8	32,740,115	28,908,911
		94,405,426	**71,704,969**
Total Assets		**142,848,572**	**77,499,648**

Shareholders' Equity and Liabilities	Notes disclosure	*Unaudited* 06/30/2021 EUR	12/31/2020 EUR
A. Shareholders' Equity			
I. Subscribed capital		50,198	50,198
II. Capital reserves		28,528,133	28,528,133
III. Retained Earnings and other reserves		(56,592,011)	(47,616,080)
IV. Currency differences		(21,424)	(56,066)
		(28,035,104)	**(19,093,815)**
B. Non-current liabilities			
I. Trade payables and other liabilities	V.10	43,379,076	2,274,346
II. Deferred tax liabilities	V.20	380,579	175,535
		43,759,655	**2,449,881**
C. Current Liabilities			
I. Provisions	V.9	49,465,803	28,900,965
II. Trade payables and other liabilities	V.10	11,566,939	9,465,173
III. Other liabilities	V.11	66,091,279	55,662,234
IV. Income tax debt		0	115,210
		127,124,021	**94,143,582**
Total Shareholders' Equity and Liabilities		**142,848,572**	**77,499,648**

II. Consolidated Statement of Comprehensive Income

		Notes disclosure	*Unaudited* 01/01-06/30/2021 EUR	*Unaudited* 01/01-06/30/2020 EUR
1	Sales revenues	V.12	82,941,216	70,133,927
2	Cost of sales		(11,139,385)	(12,534,889)
	Gross profit or loss on sales		**71,801,831**	**57,599,038**
3	Marketing expenses	V.13	(66,348,511)	(60,048,367)
4	Research and development expenses	V.13	(17,699,940)	(12,125,085)
5	General administrative expenses	V.13	(17,825,022)	(4,695,668)
6	Other operating income		1,081,414	630,756
7	Other operating expenses		(591,825)	(1,239,662)
	Earnings before interest and income taxes		**(29,582,053)**	**(19,878,988)**
8	Financial income		12	1,950
9	Financial expenses		(657,716)	(25,356)
10	Taxes on income	V.20	(118,133)	(21,656)
	Consolidated net result for the period		**(30,357,890)**	**(19,924,050)**
	Other earnings, net			
	Items to be reclassified to the consolidated income statement in the future:			
11	Foreign currency translation differences		34,642	3,283
	Total other earnings		**34,642**	**3,283**
	Consolidated comprehensive income for the period		**(30,323,248)**	**(19,920,766)**
	Period result attributable to:			
	Shareholders of the parent company		(30,357,890)	(19,924,050)
	Consolidated comprehensive income attributable to:			
	Shareholders of the parent company		(30,323,248)	(19,920,766)
	Earnings per share (undiluted and diluted)	V.17	(0.81)	(0.53)

III. Consolidated Statement of Changes in Equity

01/01/2020 – 06/30/2021	Attributable to the owners of the parent company					
		Reserves				
in EUR	Subscribed Capital	Capital Reserves	Retained Earnings	EVOP Reserves	Currency Translation Reserve	Total Equity
Balance sheet as of 01/01/2020	**50,198**	**28,528,133**	**(50,474,436)**	**24,081,096**	**34,389**	**2,219,380**
Net income	0	0	(19,891,392)	0	0	**(19,891,392)**
Other earnings	0	0	0	0	3,283	**3,283**
Overall result	**0**	**0**	**(19,891,392)**	**0**	**3,283**	**(19,888,109)**
Change to the compensation claim from share-based remuneration (EVOP)	0	0	0	1,254,840	0	**1,254,840**
Transactions with owners	**0**	**0**	**0**	**1,254,840**	**0**	**1,254,840**
Balance sheet as of 06/30/2020 *(Unaudited)*	**50,198**	**28,528,133**	**(70,365,828)**	**25,335,936**	**37,672**	**(16,413,889)**
Balance sheet as of 12/31/2020	**50,198**	**28,528,133**	**(74,044,958)**	**26,428,878**	**(56,066)**	**(19,093,815)**
Net income/loss for the year	0	0	(30,357,890)	0	0	**(30,357,890)**
Other earnings	0	0	0	0	34,642	**34,642**
Overall result	**0**	**0**	**(30,357,890)**	**0**	**34,642**	**(30,323,248)**
Change to the compensation claim from share-based remuneration (EVOP)	0	0	0	21,381,959	0	**21,381,959**
Transactions with owners	**0**	**0**	**0**	**21,381,959**	**0**	**21,381,959**
Balance sheet as of 06/30/2021 *(Unaudited)*	**50,198**	**28,528,133**	**(104,402,848))**	**47,810,836**	**(21,424)**	**(28,035,104)**

IV. Consolidated Cash Flow Statement

in EUR		Notes disclosure	*Unaudited* 01/01-06/30/2021	*Unaudited* 01/01-06/30/2020
1	**Cash flow from operating activities**			
	Net income/loss for the period before income tax		(30,239,757)	(19,902,394)
	Depreciation/Amortization of property, plant and equipment and intangible assets (+)	V.6	725,837	403,617
	Amortization, depreciation, and write-downs IFRS 16 (+)	V.6	1,919,297	1,251,785
	Increase (+) in provisions	V.9	20,564,837	1,010,150
	Loss (+) from disposal of fixed assets	V.6	10,816	0
	Other non-cash expenses (+) and income (-)	V.6	(3,690)	0
	Increase (-) / decrease (+) in trade receivables and other assets		1,505,101	(10,396,025)
	Increase (+) in trade payables and other liabilities		11,222,740	20,313,017
	Interest income (-)		(12)	0
	Interest expense (+)		586,386	23,911
	Interest component of lease payments IFRS 16 (-)	V.19	(586,386)	(23,911)
	Interest paid (-)		0	0
	Income taxes paid (-)	V.20	(118,133)	(21,656)
	Cash flow from operating activities		**5,587,036**	**(7,341,507)**
2	**Cash flow from investing activities**			
	Payments made (-) for investments in property, plant and equipment and intangible assets	V.6	(1,573,078)	(426,911)
	Payments received (+) from disposals of property, plant and equipment		0	0
	Acquisition of subsidiaries (-)	V.6	(5,000)	0
	Interest received (+)		11	0
	Cash flow from investing activities		**(1,578,067)**	**(426,911)**
3	**Cash flow from financing activities**			
	Principal element of lease payments IFRS 16 (-)	V.19	(212,408)	(1,276,717)
	Cash flow from financing activities		**(212,408)**	**(1,276,717)**
4	**Cash and cash equivalents at the end of the period**			
	Change in cash and cash equivalents (sub-totals 1 – 3)		3,796,561	(9,045,134)
	Currency-related changes in cash and cash equivalents		34,642	3,283
	Cash and cash equivalents at the beginning of the period		28,908,911	31,194,532
	Cash and cash equivalents at the end of the period		**32,740,115**	**22,152,681**

V. Notes to the Condensed Consolidated Interim Financial Statements

1. Significant Changes in the Current Reporting Period

The impact of the Coronavirus pandemic continues to be felt across the globe, resulting in difficult operating conditions for many businesses, but proving supportive for the core business of the Babbel Group. Digital content and educational offerings continue to see increasing adoption, and we observed the impact of this on our sales revenue in the first half of 2021. Seasonality has also had an influence on sales in the first half of the year, as the Group's products have historically been, and continue to be, in higher demand during the first months of the year due to New Year motivations for learning and self-improvement. New learning experiences in our B2C business, namely Babbel Live, as well as the ongoing expansion of B2B showed strong signs of growth, but remain small relative to our overall business.

The risks affecting the Group's business and presented in the consolidated financial statements as of December 31, 2020 have been reviewed. No new risks have arisen that affect the Group's net assets, financial position and results of operations as of June 30, 2021.

The Group's net assets, financial position and results of operations were impacted, in particular, by the following events and transactions in the first half of 2021:

The strong sales revenue performance in the first half of 2021 resulted in a substantial positive cash inflow, leaving the Group's cash balance materially higher than as at the end of 2020. The Group's liquidity position remains high and is considered sufficient to continue financing the Group's growth. Furthermore, the sales progression resulted in a significant increase in deferred income. This deferred income represents sales that will be recognised over the coming 12 months.

At the beginning of June 2021, Babbel GmbH acquired 100% of the shares in YouCo B21-H218 Vorrats-AG, Berlin, for a purchase price of EUR 55 thousand. The company was subsequently renamed "Babbel Group AG". Babbel Group AG was included in the scope of consolidation of Babbel GmbH for the first time on June 7, 2021.

The relocation of the headquarters of Babbel GmbH and the leasing of new office space led to a significant increase in property, plant and equipment. In particular, in February, the new lease was accounted for for the first time in accordance with IFRS 16.

The provision for share-based remuneration from the employee participation program increased significantly in the reporting period. As a result, a high expense in the consolidated statement of comprehensive income has a large impact on the consolidated result for the period. The expenses from the employee participation program were allocated to the individual functional areas in the consolidated statement of comprehensive income in the first half of 2021 for the first time according to a slightly altered allocation scheme.

In view of the Group's potential upcoming IPO transaction, the costs directly related to the IPO have been accrued to assets on the balance sheet. The accrual was made in the ratio of the expected new shares to be issued in relation to the total capital. After the IPO transaction, these costs will be recognized as a direct deduction from the Group's equity.

2. Principles of the Group

Babbel GmbH (formerly Lesson Nine GmbH, hereinafter also referred to as "Babbel") is a corporation based in Germany. The registered office and headquarters of the company is Andreasstraße 72, in 10243 Berlin (formerly Max-Beer-Straße 2, in 10119 Berlin). The main activities of the Company and its subsidiary Babbel Inc., Wilmington/Delaware (USA) (hereinafter also referred to as "Babbel Inc.") continue to be the development, operation and sale of ELearning systems under the "Babbel" brand.

Through the acquisition of LingoVentura GmbH, Berlin (hereinafter also referred to as "LingoVentura"), in the 2018 financial year, the Group's activities were expanded to include the mediation, organization and evaluation of language trips. Lingo Ventura was merged into the parent company Babbel with effect from October 31, 2020. This merger has no impact on the consolidated financial statements.

In June 2021, 100% of the shares in Youco B21-H218 Vorrats-AG were acquired. In the same month, that company was renamed "Babbel Group AG" by resolution of the Annual General Meeting. The entry in the commercial register took place in July 2021. The main activity of the company will be the provision of other services related to the above-mentioned fields of activity (e-learning systems and language trips). The purpose of this company has not yet been entered in the commercial register.

3. Basics of Accounting of the IFRS Consolidated Interim Financial Statements

The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted in the EU and should be read in conjunction with the last consolidated financial statements for the financial year ending December 31, 2020. Explanatory notes to the financial statements are presented to explain events and transactions that are material to understanding the development of the Group's net assets, financial position and results of operations.

The consolidated interim financial statements follow the classification requirements stipulated in IAS 1. The consolidated income statement is prepared using the cost-of-sales method. The presentation in the consolidated balance sheet distinguishes between current and non-current assets and liabilities. Assets and liabilities due within one year are classified as current.

The consolidated interim financial statements were prepared in euros. Unless otherwise stated, all values are rounded off to thousands of Euros (TEUR). For computational reasons, tables and references may have rounding differences to the mathematically exact values.

The consolidated financial statements are prepared on the assumption of the Company's ability to continue as a going concern.

The consolidated interim financial statements were approved by the Executive Board for the Shareholders' Committee on September 8, 2021.

4. Significant accounting policies

With the exception of the amendments described below, the accounting policies used in the preparation of the consolidated interim financial statements remain unchanged from the preparation of the consolidated financial statements as of December 31, 2020.

The expenses from the allocation to the provision for share-based remuneration from the employee participation program are allocated to the individual functional areas in the consolidated statement of comprehensive income, in some cases via an allocation key. The expenses for those beneficiaries no longer employed by the Group are assigned to General Administrative expenses.

The preparation of consolidated and interim financial statements in accordance with IFRS requires estimates and assessments by management. Management's material discretionary decisions in the application of the Group's accounting policies and the material sources of estimation uncertainties are those of the consolidated financial statements as of December 31, 2020. Only the assumptions and estimates relating to the measurement in accordance with IFRS 2 have resulted in changes compared to the consolidated financial statements as of December 31, 2020. Areas with higher scope for assessment or areas in which assumptions and estimates are of decisive importance for the consolidated interim financial statements are presented in section V.4 of the Notes.

5. Discretionary decisions and use of estimates

When applying accounting policies and preparing the interim consolidated financial statements, management is required to make discretionary decisions and estimates concerning the application of accounting policies and the amount of reported assets, liabilities, income and expenses.

Due to the ongoing corona pandemic, these decisions are associated with greater uncertainty.

Estimates and assumptions have been made, in particular, for the following situations:

a) Judgments

Going Concern premise:

The Babbel Group's equity reported in the balance sheet remains negative as of June 30, 2021. Despite the negative consolidated net income of EUR 30,358 thousand and the negative equity ratio, the Company has no doubts that the going concern assumption will be met, as sufficient liquidity of EUR 32,740 thousand is available as of the reporting date and the deferred income of EUR 61,952 thousand does not include any future financial obligations.

b) Assumptions and estimation uncertainties

Share-based remuneration payments (IFRS 2)

With respect to the accounting for virtual shares, assumptions and estimates must be made regarding the development of performance indicators and fluctuation, the type of exit and the time of exit as well as the determination of the Group's enterprise value. With the exclusion of assumptions and estimates for determining a fair value for the company, all parameters are unchanged from the consolidated financial statements as of December 31, 2020.

The valuation of these EVOP related assets and liabilities for accounting purposes is dependent on amongst other things an estimate of the likelihood of exit, the timing of such exit and a fair value. Given the assumptions around the nature and timing of a potential exit, as well as the availability of more explicit forecasts the value of both the asset and the liability associated with EVOP claims has increased considerably in the first half of 2021.

Leases (IFRS 16)

When assessing leases in accordance with IFRS 16, assumptions and estimates must be made as to the date of provision, the term of the lease and the marginal borrowing rate of the lessee.

Valuation of financial assets

In the valuation of financial assets, the assessment of the value of the company as well as the parameters described above for the valuation of share-based remuneration are of particular importance for the receivables booked against shareholders to back potential future claims of EVOP beneficiaries.

Accounting for and measurement of other provisions

With regard to accounting and valuation for the provisions made during the period, there are uncertainties with regard to future cost increases as well as the amount, timing and probability of the use of the respective provision.

Recognition of deferred tax assets

Assumptions and estimates must be made in relation to the recognition of deferred tax assets on temporary differences and loss carry forwards, particularly in relation to the future development and utilization of such assets. For this purpose an integrated profit and loss and balance sheet model is used. The non-recognition of deferred tax assets results from planning uncertainties with regard to the results of subsequent years. Thus, management continues to refrain from capitalizing the portion of deferred tax assets in excess of deferred tax liabilities.

6. Fixed Assets

Additions between December 30, 2020 until June 30, 2021 are for the most part related to right-of-use assets pursuant to IFRS 16. The right-of-use assets are shown in the balance sheet in property, plant and equipment. Additions to right-of-use assets amounted to a total of EUR 42,510 thousand in the first half of the year. In total, right-of-use assets were depreciated in the amount of EUR 1,919 thousand and this was recognised in the income statement. For more information, please refer to the separate section on leases.

Further investments were made mainly for new operating and office equipment, software, as well as tenant installations for the new office space.

Due to the end of the prior lease for office space, related tenant installations were fully depreciated as of May 31, 2021.

Expenses for the scheduled depreciation of intangible assets and property, plant and equipment are recognized in the three functional areas (Sales and Marketing, Research and Development, General Administration). Advance payments and assets under construction are not amortized. The total amount of depreciation in the financial year can be found in the following table showing development of fixed assets.

As a result of the acquisition of Babbel Group AG (formerly Youco B21-H218 Vorrats-AG), a goodwill of EUR 5 thousand was recognised. Goodwill is not amortized on a scheduled basis.

Fixed assets developed as follows:

		Acquisition and production costs					Accumulated amortization/depreciation					Carrying amount	
		01/01/2021	Additions	Disposals	Reclassifi-cations	**06/30/2021**	**01/01/2021**	Additions	Disposals	Currency effects	**06/30/2021**	**12/31/2020**	**06/30/2021**
	in EUR												
I.	**Intangible assets**												
1.	Goodwill	209,989	5,000	0	0	**214,989**	**209,989**	0	0	0	**209,989**	**0**	**5,000**
2.	Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	1,705,686	54,608	0	0	**1,760,293**	**506,892**	233,300	0	0	**740,192**	**1,198,794**	**1,020,102**
3.	Prepayments made	0	0	0	0	**0**	**0**	0	0	0	**0**	**0**	**0**
	Intangible assets	**1,915,675**	**59,608**	**0**	**0**	**1,975,283**	**716,881**	**233,300**	**0**	**0**	**950,181**	**1,198,794**	**1,025,102**
II.	**Property, plant, and equipment**												
1.	Rights of use for buildings	7,850,059	42,509,999	0	0	**50,360,057**	**4,927,580**	1,919,297	0	0	**6,846,877**	**2,922,479**	**43,513,181**
2.	Other equipment, factory, and office equipment	3,520,231	213,319	1,386,230	1,451,383	**3,798,704**	**2,601,589**	492,537	1,385,213	-3,690	**1,705,223**	**918,642**	**2,093,480**
3.	Prepayments and construction in process	345,692	1,305,152	9,798	-1,451,383	**189,662**	0	0	0	0	**0**	**345,692**	**189,662**
	Property, plant, and equipment	**11,715,982**	**44,028,469**	**1,396,028**	**0**	**54,348,423**	**7,529,169**	**2,411,834**	**1,385,213**	**-3,690**	**8,552,100**	**4,186,813**	**45,796,323**
	Fixed assets	**13,631,657**	**44,088,077**	**1,396,028**	**0**	**56,323,706**	**8,246,050**	**2,645,134**	**1,385,213**	**-3,690**	**9,502,281**	**5,385,607**	**46,821,425**

7. Other Financial Assets

As of June 30, 2021, other financial assets mainly consist of a shareholder receivable in connection with the employee participation program, rental deposits, contractually withheld security deposits from the payment service providers and advance payments in the context of pending transactions.

The most significant change in the past half-year resulted from the increase in the receivable held against shareholders in relation to the EVOP. Further explanations are provided in sections V.5 and V.16.

8. Cash and cash equivalents

Cash and cash equivalents of EUR 32,740 thousand (prior year: EUR 28,909 thousand) are held in bank deposits.

The development during the reporting period can be seen in the consolidated cash flow statement.

9. Provisions

The increase in provisions in the 2021 reporting period is mainly due to the increase in the provision for share-based remuneration. The reasons for this increase are discussed in detail in sections V.5 and V.16 of the Notes.

All provisions in the amount of EUR 49,466 thousand (previous year: EUR 28,901 thousand) are now classified as current due to their expected remaining maturities.

In addition to the provision for share-based remuneration, personnel provisions and other provisions (mainly related to international tax) are recognized.

All provisions are expected to be utilized within the next 12 months.

10. Trade payables and other liabilities

The increase in this item compared to December 31, 2020 is mainly due to the first-time accounting for a new lease in accordance with IFRS 16. This lease liability is discussed in detail in Section V.19 of the Notes.

In addition to the lease liability, trade payables and payables from outstanding invoices are primarily recognized.

11. Other liabilities

Other liabilities mainly result from the deferral of income, resulting from the recognition of subscription revenue in accordance with IFRS 15.

Liabilities from deferred revenue increased by EUR 9,754 thousand in the first half of 2021. This is a direct result from the fact that a larger number of subscriptions were sold, and an increasing proportion of these were longer-term subscriptions.

The revenue accrual as of June 30, 2021 is expected to be almost entirely released over the next 12 months and will be recognized as revenue, because the maximum subscription term is generally 12 months.

12. Sales revenues

Sales revenues developed as follows:

in EUR	*Unaudited* **01/01-06/30/2021**	*Unaudited* **01/01-06/30/2020**
Sales revenues from		
- Subscription and language travel sales to private customers (B2C)	81,337,031	69,417,048
- B2B sales	1,604,186	716,878
Total Sales revenues	**82,941,216**	**70,133,927**

Revenues broken down by group segment are shown in Group Segment Reporting (Section V.14).

13. Operating Expenses

The increase in expenses across all three functional areas (Sales and Marketing, Research and Development, General Administration) compared to the same period of the previous year is mainly due to higher expenses for share-based remuneration and higher allocated personnel expenses. Please refer to sections V.5 and V.16 for further information on the increases in share-based remuneration expenses.

The increase in personnel expenses is due to an increase in the average number of employees compared to the same period in the prior year.

Marketing expenses can be broken down as follows:

in EUR	*Unaudited* **01/01 -06/30/2021**	*Unaudited* **01/01 -06/30/2020**
Non-personnel expenses	(49,931,410)	(52,608,004)
Personnel expenses	(7,904,287)	(6,616,728)
Share-based remuneration	(7,888,231)	(332,608)
Amortisation/Depreciation	(624,582)	(491,026)
Total Marketing Expenses	**(66,348,511)**	**(60,048,367)**

Research and Development expenses can be broken down as follows:

in EUR	*Unaudited* **01/01 -06/30/2021**	*Unaudited* **01/01 -06/30/2020**
Personnel expenses	(11,660,747)	(10,095,194)
Share-based remuneration	(2,698,525)	(638,939)
Nom-personnel expenses	(1,783,070)	(490,833)
Amortisation/Depreciation	(1,557,598)	(900,119)
Total Research and Development Expenses	**(17,699,940)**	**(12,125,085)**

General Administrative expenses can be broken down as follows:

in EUR	*Unaudited* 01/01 -06/30/2021	*Unaudited* 01/01 -06/30/2020
Share-based remuneration	(10,561,631)	(193,215)
Personnel expenses	(3,853,702)	(3,246,907)
Office and IT	(1,709,194)	(421,950)
Amortisation/Depreciation	(462,953)	(264,256)
Auditing and consulting fees	(388,166)	(243,045)
Other purchased services	(370,937)	(53,730)
Cleaning	(81,086)	(90,251)
Gas, electricity, water	(11,724)	(91,084)
Travel, accommodation, and meals	(5,371)	(11,212)
Other expenses	(380,259)	(80,017)
Total General Administrative Expenses	**(17,825,022)**	**(4,695,668)**

14. Group Segment Reporting

The Group's business activities are segmented according to the most important business segments: B2C Global, B2C USA and B2B. The B2C division comprises the Group's businesses with private end customers, geographically divided into the reporting segments USA and Global. The USA segment comprises all business with private customers in the USA. The Global segment is operated as a portfolio, comprising a range of markets where business with customers cannot be geographically assigned to the USA. The B2B area includes those subscriptions and products sold to business customers. The Babbel Group generates exclusively external revenues in all business segments.

All sales that are invoiced to a customer in a given period, before deferred income, are considered Billed Sales. This applies to all segments of the Group. The cash contribution margin is the central operating KPI at segment level.

	For the financial halfyear ended 06/30/2021					
in kEUR	B2B	B2C US	B2C Global	Segments Σ	**Reconciliation**	**IFRS cons.**
Billed Sales	**2,833 €**	**31,116 €**	**58,747 €**	**92,696 €**		
Revenue					-9,755 € (1)	82,941 €
COGS	146 €	4,523 €	5,918 €	10,587 €		
Cost of sales					552 € (2)	11,139 €
Marketing costs	1,188 €	21,155 €	29,887 €	52,229 €		
Sales and marketing expenses					14,119 € (3)	66,349 €
Cash Contribution Margin	**1,500 €**	**5,438 €**	**22,942 €**	**29,880 €**		
Contribution Margin					-24,426 €	5,453 €
Other income						1,081 €
Research and development expenses						17,700 €
General and administrative expenses						17,825 €
Other expenses						592 €
EBIT						**-29,582 €**
Financial result						-658 €
Net loss before taxes						**-30,240 €**
Income tax						118 €
Net loss						**-30,358 €**

	For the financial halfyear ended 06/30/2020					
in kEUR	B2B	B2CUS	B2C Global	Segments Σ	**Reconciliation**	**IFRS cons.**
Billed Sales	**1,079 €**	**26,530 €**	**59,349 €**	**86,958 €**		
Revenue					-16,824 € (1)	70,134 €
COGS	48 €	6,211 €	5,656 €	11,915 €		
Cost of sales					620 € (2)	12,535 €
Marketing costs	929 €	20,362 €	33,886 €	55,177 €		
Sales and marketing expenses					4,871 € (3)	60,048 €
Cash Contribution Margin	**103 €**	**-43 €**	**19,806 €**	**19,867 €**		
Contribution Margin					-22,315 €	-2,449 €
Other income						631 €
Research and development expenses						12,125 €
General and administrative expenses						4,696 €
Other expenses						1,240 €
EBIT						**-19,879 €**
Financial result						-23 €
Net loss before taxes						**-19,902 €**
Income tax						22 €
Net loss						**-19,924 €**

(1) Essentially, the change in the financial year from deferred income (contract liabilities in accordance with IFRS 15) is shown here.
(2) Essentially contains the proportionate web server costs that are required to generate revenue and are therefore to be shown in the cost of sales in accordance with IFRS.
(3) Marketing costs at segment level do not include marketing personnel, other expenses allocated to the marketing functional area, pro rata depreciation (including IFRS 16) and expenses from share-based remuneration.

15. Financial Instruments

All financial assets and liabilities of the Group – with the exception of lease liabilities – are classified as "measured at amortised cost". The following table lists all financial assets:

	Unaudited **06/30/2021**	**12/31/2020**
Other financial assets	7,788,922	7,293,995
Trade receivables and other receivables	5,341,359	4,946,072
Cash and cash equivalents	32,740,115	28,908,911
Trade payables and other liabilities	8,720,427	8,966,164
Lease liabilities	45,046,314	2,773,355

Other financial assets mainly consist of security deposits with payment service providers, advance payments and rental deposits.

Other financial liabilities mainly comprise trade payables, subscription vouchers that have not yet been redeemed and outstanding invoices.

With the exception of certain rental deposits, all other financial assets and liabilities as well as trade receivables and cash and cash equivalents have remaining maturities of less than one year. The fair value of all positions is essentially the same as the book values. This also applies to the non-current component of the rental deposits, as there is no significant deviation from the carrying amount due to the amount and term.

16. Share-Based Payments - IFRS 2

Babbel GmbH has been running share-based compensation programs since 2013 to help senior executives participate in the company's performance and reward their contribution to the Babbel Group's sustainable success compared to the competition. The relevant personnel includes the senior executives of Babbel and affiliated companies of the Babbel Group.

The accounting principles and assessments relating to the share-based remuneration programs are unchanged from the previous balance sheet dates, apart from a slight alteration in the allocation scheme to the functional areas. In this context, reference is made to the consolidated financial statements as of December 31, 2021.

No new share programs were introduced in the first half of the year. A total of 775 new shares were issued for existing share programs. 125 shares were redeemed as part of a legal transaction accounted for as of December 31, 2020 and the allocation was reversed without cash effect.

Total expenses for share-based compensation amounted to EUR 21,148 thousand (previous year: EUR 1,165 thousand) and were divided among the three functional areas of the statement of comprehensive income. The slight alteration in the allocation scheme resulted in a relatively higher allocation of share-based remuneration expenses to General Administration.

The total amount of the provision for share-based remuneration amounts to EUR 47,254 thousand as of June 30, 2021 (previous year: EUR 26,106 thousand). The main reasons for the significant increase in the reporting period include two effects: a higher company valuation (see Section V.5 for further information) and a shorter duration until the expected exit date.

17. Earnings per share

Earnings per share (undiluted and diluted) were calculated on the basis of the losses due to the shares of the parent company divided by the weighted average number of shares outstanding during the reporting period. Due to the loss situation, the result is distributed among all shareholders according to their shares, regardless of preferential rights or dividend exclusion. The weighted average number of company shares corresponds to the initial and final values of the reporting period, as there were no changes in the company shares during the reporting period. The number of shares used for computation of earnings per share reflect the reorganization as described in Note 21 as if it had occurred on January 1, 2020. This presentation is consistent with the principles in IAS 33.64, which requires calculation of earnings per share (undiluted and diluted) for all periods presented to be adjusted retrospectively if changes occur to the capital structure after the reporting period but before the financial statements are authorized for issue.

in EUR	***Unaudited*** **01/01 - 06/30/2021**	***Unaudited*** **01/01 - 06/30/2020**
Consolidated net result for the period (undiluted and diluted)	(30,357,890)	(19,924,050)
Weighted average number of company shares (undiluted and diluted)	37,520,378	37,520,378
Earnings per share (undiluted and diluted)	**(0.81)**	**(0.53)**

18. Relationships with Related Parties

a) Relationships with Related Parties

Transactions with related parties in the financial year had no material impact on the consolidated balance sheet and consolidated statement of comprehensive income in the reporting period.

b) Relationships with Related Persons

Due to their significant influence on the Group, the members of the Management Board, the first management level (C-level) and the Shareholders' Committee (also: Board) including the Executive Chair are defined as persons related to the company.

In the first half of 2021, no new legal transactions were concluded with related parties that went beyond the remuneration in the context of the company's activities.

The Management Board, Executive Chair and the members of the first management level received the following remuneration:

in EUR	***Unaudited*** **01/01 - 06/30/2021**	***Unaudited*** **01/01 - 06/30/2020**
Current benefits	882,843	1,073,080
Expenses relating to share-based remuneration	9,113,286	1,064,290
Total	**9,996,128**	**2,409,592**

For an explanation of the significant increase in share-based remuneration expenses, reference is made to sections V.5 and V.14.

One member of the Shareholders' Committee received only share-based remuneration. The other members of the Shareholders' Committee received no remuneration. Expenses will only be reimbursed to the independent member. They amounted to EUR 0 thousand in the financial year (previous year: EUR 2 thousand).

The provisions for shares from the EVOP programs to former members of the Management Board, the first management level and the Shareholders' Committee amount to EUR 6,370 thousand as of June 30, 2021 (previous year: EUR 1,322 thousand).

19. Leasing arrangements

Leases are recognised as a right-of-use and corresponding lease liability at the time when the leased asset is available for use by the Group.

The group rents various office buildings. This concerns office leases between Babbel GmbH in Berlin and Babbel Inc. in New York. As of Feburary 1, 2021, the lease for new office space of Babbel GmbH was accounted for for the first time. The lease for the previous office space ended on May 31, 2021.

The new lease has a basic lease period of 15 years. The lease liability to be recognised for this new lease amounted to EUR 42,414 thousand as of February 1, 2021. As of June 30, 2021, the following amounts are recognised for this lease: EUR 41,342 thousand (right-of-use) and EUR 42,936 thousand (lease liability). For this new office lease, from April 1, 2028 there is the unilateral potential for a rent increase by the landlord, which is linked to an index. At the present time, the Group does not expect the necessary change in the index to be achieved and therefore a rent increase is unlikely to take place. In addition, there is a three-time extension option of 5 years each for the lease after the basic rental period. Due to the long basic rental period, it is currently not possible to make a valid statement as to whether this option will be used. Consequently, the rent increase and extension options are not included in the calculation of the lease liability.

The following figures are recognised for the office lease of Babbel Inc. as of June 30, 2021: EUR 2,171 thousand (right-of-use) and EUR 2,110 thousand (lease liability). There is a one-time extension option of 3 years after the end of the basic rental period of 5 years. As things stand, the Group is sufficiently certain that this extension option will not be used. Consequently, we have not included that extension in the lease liability calculation.

In addition to the two office leases, there are no other leases subject to capitalization as defined in IFRS 16.

a) Amounts recognised in the balance sheet

The carrying amounts of the right-of-use assets shown in the balance sheet as well as the total additions can be found in the fixed assets schedule.

For the lease liabilities recognised, the balance sheet shows the following amounts:

in EUR	***Unaudited*** **06/30/2021**	**12/31/2020**
Lease liabilities		
Current	2,846,512	499,010
Non-current	42,199,802	2,274,346
	45,046,314	**2,773,355**

b) Amounts recognised in the statement of comprehensive income

Amortisation of the right-of-use assets amounted to a total of EUR 1,919 thousand in the 2021 half year reporting period (previous year: EUR 1,252 thousand). Interest expenses totaled EUR 586 thousand (previous year: EUR 24 thousand).

Current and low-value leasing arrangements caused expenses of EUR 1 thousand (previous year: EUR 1 thousand) in the Statement of Comprehensive Income for the first half reporting period.

c) Amounts recognised in the statement of cash flows

Total payments related to leases in the 2021 first half reporting period amounted to EUR 799 thousand (previous year: EUR 1,301 thousand). The decrease is mainly due to a rent-free period of three months at the beginning of the new lease described above. The interest portion of the disbursements amounted to EUR 586 thousand (previous year: EUR 24 thousand) and the currency effects amounted to EUR 71 thousand (previous year: EUR 2 thousand).

20. Taxes on Income

The income tax expense for the period is recognized based on the estimate of the weighted average annual income tax rate for the full fiscal year. The management expects a tax burden only for the US group company Babbel Inc. The estimated tax rate for the interim period until June 30, 2021 is 21% (previous year 8.71%).

The income / (expense) from income taxes reported in the profit or loss for the period is comprised as follows:

in EUR	***Unaudited*** **01/01-06/30/2021**	***Unaudited*** **01/01-06/30/2020**
Current tax expenses	(118,133)	(21,656)
Deferred tax income / (expense)	95,207	(13,121)
Expected income tax expenses	(22,925)	(34,777)

The current tax expense of EUR 118 thousand for the period up to June 30, 2021 results exclusively from Babbel Inc. and still includes tax arrears for previous years. In this respect, it is already higher than the expected income tax expense for the full financial year. Therefore, the income tax expense is not deferred in accordance with IAS 34.30(c).

The deferred tax liabilities recognised in the balance sheet mainly result from IFRS 16 and the tax-related treatment of the virtual stock option program. Due to the continuing loss situation, deferred tax assets are recognised only in the amount of deferred tax liabilities and not beyond. This approach is a function of the considerable planning uncertainties in estimating future performance in the current environment.

21. Events after the balance sheet date

As the world starts to emerge from the ongoing impact of the coronavirus pandemic, uncertainty around global economic and market developments remains high. There remain both opportunities and risks for the Babbel Group, and this is the subject of ongoing assessment and analysis. The strength of our performance in the first half of 2021, the long-term strategy for expanding our ecosystem and further developing the B2B business, the growth in the broader language learning market add to the confidence of Management that the Group is well positioned to continue its growth trajectory.

With resolution of an extraordinary shareholders' meeting as of August 5, 2021, the registered share capital of Babbel Group AG increased from EUR 50,000.00 by EUR 303,535.00 to EUR 353,535.00 through the issuance of 303,535 new no par-value shares against a cash contribution. The sole shareholder of Babbel Group AG, Babbel GmbH, subscribed for 303.535 new shares. Babbel Group AG received the contribution in cash on August 9, 2021.

Prior to August 19, 2021, Babbel Group AG was a shell company with no active trade, business activities or subsidiaries and all relevant assets and liabilities as well as income and expenses were borne by Babbel GmbH. Therefore, the contribution of Babbel GmbH in Babbel Group AG is treated as a reorganization and presented using the pre-combination book values of Babbel GmbH. Therefore, the comparative figures represent consolidated financial statements of Babbel GmbH. The reorganization will result in increases of subscribed capital from EUR 353,535.00 to EUR 37,873,913.00 with EUR 353,535.00 representing treasury shares and capital reserves from EUR 28,528 thousand to EUR 582,480 thousand with a corresponding decrease of retained earnings and other reserves to present the subscribed capital and capital reserves of Babbel Group AG as the new legal parent in the consolidated financial statements of the Group. The change in the number of shares outstanding as a result of the reorganization was applied for the calculation of earnings per share (see Note 17).

With resolution of an extraordinary shareholders' meeting as of August 19, 2021, the registered share capital of Babbel Group AG increased from EUR 353,535.00 by EUR 37,520,378.00 to EUR 37,873,913.00 by the issuance of 37,520,378 new no-par value shares against contribution in kind. The current shareholders of Babbel GmbH were admitted to subscribe for the new shares against contribution of 48,351 shares in Babbel GmbH. The contribution and transfer of the 48,351 shares in Babbel GmbH to Babbel Group AG became effective upon registration of the capital increase into the commercial register as of August 26, 2021.

Babbel GmbH granted the Group management and selected executive staff members share-based remuneration within the scope of 5 EVOP programs between 2013 and 2021. Amendment agreements have recently been closed to expand the original definition of 'liquidity event' to include an IPO of the shares of Babbel Group AG. In the event of an IPO, Babbel is entitled to settle any payment entitlements, in whole or in part, in shares of Babbel Group AG. If Babbel opts for partial settlement in shares, the beneficiary receives a number of shares in Babbel Group AG corresponding to that partial payment value, based on the value per share at IPO. The vesting of granted virtual shares remains unchanged after the IPO in accordance with the specified vesting plan, however delivery is now expected to be at least partly in shares.

Furthermore, by a share transfer agreement dated August 19, 2021, some of the shareholders of Babbel GmbH contributed 3.7% of the shares in Babbel GmbH to Babbel GmbH in preparation of an event like an IPO. This contribution compensates for approximately 50% of the shareholders' liability for Babbel's EVOP programs.

In a shareholders' agreement dated August 19, 2021, some of the shareholders of Babbel Group AG agreed to provide a certain number of shares in Babbel Group AG to Babbel Group AG to cover the share portion of Babbel's EVOP programs settlements. In fulfillment of this obligation some of the shareholders of Babbel Group AG will transfer shares in Babbel Group AG to Babbel Group AG. This contribution compensates for approximately the other 50% of the shareholders' liability for Babbel's EVOP programs.

Babbel GmbH

Berlin, the September 8, 2021

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Arne Schepker

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Thomas Holl

Audited Consolidated Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2020

I. Consolidated Balance Sheet

Assets		Note disclosure	12/31/2020 EUR	12/31/2019 EUR
A.	**Non-current assets**			
I.	Intangible assets	C.1	1,198,794	958,582
II.	Property, plant, and equipment	C.1	4,186,813	4,524,487
III.	Other financial assets	C.3	233,537	24,745,894
IV.	Deferred tax assets	C.5	175,535	0
			5,794,679	**30,228,964**
B.	**Current assets**			
I.	Trade receivables	C.2	4,946,072	3,116,694
II.	Other financial assets	C.3	33,598,853	4,307,346
III.	Other assets	C.4	4,251,132	3,436,553
IV.	Cash and cash equivalents	C.6	28,908,911	30,529,733
			71,704,969	**41,390,326**
Total assets			**77,499,648**	**71,619,290**

Shareholders' equity and liabilities		Note disclosure	12/31/2020 EUR	12/31/2019 EUR
A.	**Shareholders' equity**	C.7		
I.	Subscribed capital		50,198	50,198
II.	Capital reserves		28,528,133	28,528,133
III.	Retained earnings and other reserves		(47,616,080)	(26,393,340)
IV.	Currency differences		(56,066)	34,389
			(19,093,815)	**2,219,380**
B.	**Non-current liabilities**			
I.	Provisions	C.8	0	24,035,361
II.	Trade payables and other liabilities	C.9	2,274,346	499,428
III.	Deferred tax liabilities	C.5	175,535	0
			2,449,881	**24,534,789**
C.	**Current liabilities**			
I.	Provisions	C.8	28,900,965	2,712,149
II.	Trade payables and other liabilities	C.9	9,465,173	7,201,378
III.	Other liabilities	C.10	55,662,234	34,951,594
IV.	Income tax debt	C.11	115,210	0
			94,143,582	**44,865,121**
Total shareholders' equity and liabilities			**77,499,648**	**71,619,290**

II. Consolidated Statement of Comprehensive Income

		Note disclosure	2020 EUR	2019 EUR
1	Sales revenues	D.1	147,287,055	123,932,266
2	Cost of sales	D.2	(22,926,828)	(13,388,911)
	Gross profit or loss on sales		**124,360,227**	**110,543,355**
3	Marketing expenses	D.3	(110,614,267)	(81,767,046)
4	Research and development expenses	D.4	(24,097,973)	(20,901,690)
5	General administrative expenses	D.5	(11,974,786)	(9,821,725)
6	Other operating income	D.6	1,213,573	1,201,273
7	Other operating expenses	D.7	(2,784,120)	(1,805,443)
	Earnings before interest and income taxes		**(23,897,346)**	**(2,551,276)**
8	Financial income	D.8	359,581	54,599
9	Financial expenses	D.8	(92,660)	(87,080)
10	Taxes on income	D.9	59,904	(421,538)
	Consolidated net result for the period		**(23,570,522)**	**(3,005,296)**
	Other earnings, net			
	Items to be reclassified to the consolidated income statement in the future:			
11	Foreign currency translation differences	C.7	(90,455)	44,436
	Total other earnings		**(90,455)**	**44,436**
	Consolidated comprehensive income for the period		**(23,660,977)**	**(2,960,859)**
	Period result attributable to:			
	Shareholders of the parent company		(23,570,522)	(3,005,296)
	Consolidated comprehensive income attributable to:			
	Shareholders of the parent company		(23,660,977)	(2,960,859)
	Earnings per share (undiluted and diluted)	G.2	(470)	(60)

III. Consolidated Statement of Changes in Equity

1/1/2019 – 12/31/2020	Attributable to the owners of the parent company					
		Reserves				
in EUR	**Subscribed capital**	**Capital reserves**	**Retained earnings**	**EVOP reserves**	**Currency translation reserve**	**Total equity**
Note disclosure	C.7 a)	C.7 a)	C.7 b)	C.7 b)	C.7 c)	
Balance Sheet as of 1/1/2019	**50,198**	**28,528,133**	**(47,469,140)**	**19,937,158**	**(10,047)**	**1,036,302**
				0		
Net income/loss for the year	0	0	(3,005,296)	0	0	**(3,005,296)**
Other earnings	0	0	0	0	44,436	**44,436**
Overall result	**0**	**0**	**(3,005,296)**	**0**	**44,436**	**(2,960,860)**
Change to the compensation claim from share-based remuneration (EVOP)	0	0	0	4,143,937	0	**4,143,937**
Transactions with owners	**0**	**0**	**0**	**4,143,937**	**0**	**4,143,937**
Balance sheet as of 12/31/2019	**50,198**	**28,528,133**	**(50,474,436)**	**24,081,096**	**34,389**	**2,219,380**
Net income/loss for the year	0	0	(23,570,522)	0	0	**(23,570,522)**
Other earnings	0	0	0	0	(90,455)	**(90,455)**
Overall result	**0**	**0**	**(23,570,522)**	**0**	**(90,455)**	**(23,660,977)**
Change to the compensation claim from share-based remuneration (EVOP)	0	0	0	2,347,782	0	**2,347,782**
Transactions with owners	**0**	**0**	**0**	**2,347,782**	**0**	**2,347,782**
Balance Sheet as of 12/31/2020	**50,198**	**28,528,133**	**(74,044,958)**	**26,428,879**	**(56,066)**	**(19,093,815)**

IV. Consolidated Cash Flow Statement

		Note disclosure	2020 EUR	2019 EUR
1	**Cash flow from operating activities**			
	Net income/loss for the period before income taxes		(23,630,426)	(2,583,757)
	Depreciation/amortization of property, plant, and equipment and intangible assets (+)	C.1	1,349,395	777,616
	Goodwill impairment: LingoVentura GmbH (+)	C.1	0	209,989
	Amortization, depreciation, and write-downs IFRS 16 (+)	C.1	2,644,123	2,283,457
	Increase (+) in provisions	C.8	2,070,433	3,990,413
	Loss (+) from the disposal of fixed assets	C.1	20,746	6,674
	Other non-cash expenses (+) and income (-)	C.1	7,176	(2,737)
	Increase (-) / decrease (+) in trade receivables and other assets		(5,250,860)	253,875
	Increase (+) in trade payables and other liabilities		25,155,598	3,957,740
	Interest income (-)	C.8	(1,920)	(54,599)
	Interest expenses (+)	C.8	92,660	75,897
	Interest component of lease payments IFRS 16 (+)	G.9	(92,659)	(75,356)
	Interest paid (-)	C.8	(1)	(541)
	Income taxes paid (-)	D.9	(37,961)	(208,464)
	Cash flow from operating activities		**2,326,306**	**8,630,206**
2	**Cash flow from investing activities**			
	Payments made (-) for investments in property, plant, and equipment and intangible assets	C.1	(1,210,180)	(1,194,796)
	Payments received (+) from disposals of property, plant, and equipment	C.1	0	2,081
	Interest received (+)	C.8	1,920	54,599
	Cash flow from investing activities		**(1,208,260)**	**(1,138,116)**
3	**Cash flow from financing activities**			
	Principal element of lease payments IFRS 16	G.9	(2,648,413)	(2,215,198)
	Cash flow from financing activities		**(2,648,413)**	**(2,215,198)**
4	**Cash and cash equivalents at the end of the period**			
	Changes in cash and cash equivalents (sub-totals 1 – 3)		(1,530,367)	5,276,892
	Currency-related changes in cash and cash equivalents		(90,455)	44,436
	Cash and cash equivalents at the beginning of the period		30,529,733	25,208,404
	Cash and cash equivalents at the end of the period		**28,908,911**	**30,529,733**

V. Notes to the Consolidated Financial Statements

A. General Information on the Consolidated Financial Statements

1. Principles of the Group

Babbel GmbH (formerly Lesson Nine GmbH, hereinafter also referred to as "Babbel") is a corporation domiciled in Germany. The Company's registered head office is located at Andreasstrasse 72, 10243 Berlin (formerly Max-Beer-Strasse 2, 10119 Berlin). The core activities of the Company and its subsidiary, Babbel Inc., Wilmington/Delaware (USA) (hereinafter also referred to as "Babbel Inc.") continues to be the development, operation and sale of e-learning systems under the "Babbel" brand. As a consequence of the acquisition of LingoVentura GmbH, Berlin (hereinafter also referred to as "LingoVentura") in financial year 2018, the Group's activities were extended to include the arrangement, organization and valuation of language study travels. Lingo Ventura was merged into the parent company Babbel with effect from October 31, 2020. This merger does not have any implications for the consolidated financial statements.

2. Basics of Accounting of the IFRS Consolidated Financial Statements

The Babbel consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and published by the International Accounting Standards Board (IASB) as to be applied in the EU. The preparation of the consolidated financial statements was based on the provisions stipulated in EC Regulation No. 1606/2002 of the European Parliament and the European Council of July 19, 2002 concerning the application of international accounting standards in conjunction with Section 315e (3) HGB [German Commercial Code], taking the supplementary commercial provisions into account.

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

The consolidated financial statements have been prepared in euros. Unless otherwise stated all values are rounded off to euros (€). Rounding off differences relative to the exact mathematic values may occur in the tables for computational reasons.

The consolidated financial statements are prepared on the assumption of the Company's ability to continue as a going concern.

These consolidated financial statements will be released by the executive board for the shareholders' committee on June 21, 2021.

The preparation of consolidated financial statements in accordance with IFRS requires estimates and valuation to be made by the management. In the event of a larger measurement scope or if assumptions and estimates of vital importance are concerned, the respective items are explained in more detail in the notes.

B. Group of Consolidated Companies

As of the balance sheet date, the group of consolidated companies comprises the parent company Babbel GmbH, Berlin, and the wholly-owned subsidiary Babbel Inc., Wilmington, Delaware (USA).

C. Notes to the Consolidated Balance Sheet

1. Fixed assets

The additions in financial year 2020 primarily relate to the additions of rights of use for buildings. These rights of use are presented as part of the property, plant, and equipment on the balance sheet. The additions to the rights of use during the financial year totaled € 2,714 thousand. Total amortization of the rights of use in the amount of € 2,644 thousand were recognized on the income statement. Please refer to the separate section on leasing arrangements for more information.

Further investments mainly related to new operating and business equipment, as well as software. In addition, investments were recognized for the planning of new office space.

Expenses for the scheduled amortization/depreciation of intangible assets and property, plant, and equipment are allocated to the three functional areas (marketing, research and development, general administration). Prepayments and construction in progress are not subject to scheduled write-downs. The total amount of write-downs in the financial year is presented in the following schedule of fixed assets.

The goodwill was fully impaired during the year under review. This goodwill resulted entirely from the acquisition of LingoVentura GmbH in financial year 2018.

Property, plant, and equipment are derecognized upon disposal or when no future economic profit from the continued use of the tangible asset can be expected.

Fixed assets have developed as follows:

		Acquisition and production costs					Accumulated amortization/depreciation					Carrying amount	
		01/01/2020	Additions	Disposals	Reclassifications	**31/12/2020**	**01/01/2020**	Additions	Disposals	Currency effects	**31/12/2020**	**31/12/2019**	**31/12/2020**
	in EUR												
I.	**Intangible assets**												
1.	Goodwill	209,989	0	0	0	**209,989**	209,989	0	0	0	**209,989**	**0**	**0**
2.	Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	1,036,994	487,059	220,986	402,618	**1,705,686**	331,979	237,878	62,965	0	**506,892**	**705,015**	**1,198,794**
3.	Prepayments made	253,567	150,833	1,782	-402,618	**0**	0	0	0	0	**0**	**253,567**	**0**
	Intangible assets	**1,500,550**	**637,892**	**222,768**	**0**	**1,915,675**	**541,968**	**237,878**	**62,965**	**0**	**716,881**	**958,582**	**1,198,794**
II.	**Property, plant, and equipment**												
1.	Rights of use for buildings	5,136,260	2,713,799	0	0	**7,850,059**	2,283,457	2,644,123	0	0	**4,927,580**	**2,852,803**	**2,922,479**
2.	Other equipment, factory, and office equipment	3,323,721	266,864	70,354	0	**3,520,231**	1,692,306	953,496	51,390	7,176	**2,601,589**	**1,631,415**	**918,642**
3.	Prepayments and construction in process	40,269	305,423	0	0	**345,692**	0	0	0	0	**0**	**40,269**	**345,692**
	Property, plant, and equipment	**8,500,250**	**3,286,086**	**70,354**	**0**	**11,715,982**	**3,975,763**	**3,597,619**	**51,390**	**7,176**	**7,529,169**	**4,524,487**	**4,186,813**
	Fixed assets	**10,000,800**	**3,923,979**	**293,122**	**0**	**13,631,657**	**4,517,731**	**3,835,498**	**114,355**	**7,176**	**8,246,050**	**5,483,069**	**5,385,607**

	Acquisition and production costs						Accumulated amortization/depreciation					Carrying amount	
	01/01/2019	Additions	Additions due to the first-time application of IFRS 16	Disposals	Reclassifications	**31/12/20219**	**01/01/2019**	Additions	Disposals	Currency effects	**31/12/2019**	**31/12/2018**	**31/12/2019**
in EUR													
I. **Intangible assets**													
1. Goodwill	209,989	0	0	0	0	**209,989**	0	209,989	0	0	**209,989**	**209,989**	**0**
2. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	601,159	358,715	0	0	77,119	**1,036,993**	139,608	192,371	0	0	**331,979**	**461,552**	**705,015**
3. Prepayments made	13,000	317,686	0	0	-77,119	**253,567**	0	0	0	0	**0**	**13,000**	**253,567**
Intangible assets	**824,149**	**676,401**	**0**	**0**	**0**	**1,500,550**	**139,608**	**402,360**	**0**	**0**	**541,968**	**684,541**	**958,582**
II. **Property, plant, and equipment**													
1. Rights of use for buildings	0	1,907,104	3,229,156	0	0	**5,136,260**	0	2,283,457	0	0	**2,283,457**	**0**	**2,852,803**
2. Other equipment, factory, and office equipment	2,963,979	526,419	0	166,677	0	**3,323,721**	1,267,720	585,244	157,922	-2,736	**1,692,306**	**1,696,259**	**1,631,415**
3. Prepayments and construction in process	6,000	34,269	0	0	0	**40,269**	0	0	0	0,00	**0**	**6,000**	**40,269**
Property, plant, and equipment	**2,969,979**	**2,467,791**	**3,229,156**	**166,677**	**0**	**8,500,250**	**1,267,720**	**2,868,701**	**157,922**	**-2,736**	**3,975,763**	**1,702,259**	**4,524,487**
Fixed assets	**3,794,128**	**3,144,192**	**3,229,156**	**166,677**	**0**	**10,000,799**	**1,407,328**	**3,721,061**	**157,922**	**-2,736**	**4,517,731**	**2,386,800**	**5,483,069**

2. Trade receivables

The following table provides an overview of the Group's receivables:

in EUR	12/31/2020	12/31/2019
Trade receivables	4,946,072	3,116,694
Total	**4,946,072**	**3,116,694**
of which current	*4,946,072*	*3,116,694*
of which non-current	*0*	*0*

As of the balance sheet date, the trade receivables primarily relate to payment services providers from the B2C business (€ 3,988 thousand) and to B2B customers (€ 958 thousand).

The maturities structure of the trade receivables is as follows:

in EUR	12/31/2020	12/31/2019
not overdue	*4,718,298*	*2,980,821*
up to 3 months overdue	*213,235*	*135,490*
3 to 6 months overdue	*14,539*	*383*
Total	**4,946,072**	**3,116,694**

When assessing the default risk for trade receivables, the provisions set forth in IFRS 9 and general materiality principles were observed. The probability of occurrence was determined on the basis of historical data and projected future conditions. Appropriate processes for managing payment default risks have been implemented.

There is not a relevant default risk for the private customer sector (B2C). Customers always pay in advance and the current receivables are due from leading payment providers (in particular Apple, Google, Adyen, and PayPal), all of which have a top rating from prestigious rating agencies. Issues with receivable defaults have not arisen in connection with these payment service providers. When the consolidated financial statements were prepared, none of the receivables from the payment service providers which had been due as of December 31, 2020, were still outstanding.

Private end customers have the option of requesting a financial refund. According to the general terms and conditions, the corresponding withdrawal period is 14 days. These refunds are offset against the payments of the security deposits of the payment service providers, which are recognized under the other financial assets. However, the portion of refunds can be classified as immaterial.

The financial default risk in the B2B sector arises from the fact that corporate customers have the option of purchasing on an invoice. The standard term of payment is 30 days.

The historical loss rate with B2B customers, calculated on the basis of in-house data for the current and prior financial years, is around 2 % and thus does not represent a relevant factor. Qualified processes have been established to minimize risk and manage outstanding receivables. When the consolidated financial statements were prepared, only an insignificant amount (< € 10 thousand) of the B2B receivables as of December 31, 2020, were still outstanding. For these reasons, the formation of general value adjustments was foregone.

Appropriate individual value adjustments were performed for overdue receivables from the B2B sector. Receivables totaling € 55 thousand were subject to individual value adjustments throughout the entire financial year 2020.

For reasons of materiality, a separate item was not created to disclose the adjustments in the statement of comprehensive income.

3. Other financial assets

The other assets are structured as follows:

in EUR	12/31/2020	12/31/2019
Reimbursement claims from shareholders	26,538,395	24,081,096
Security deposits	3,781,401	2,273,625
Prepayments and customer advances	2,563,137	1,639,825
Rental deposits	898,347	800,140
Other	51,110	258,553
Total	**33,832,390**	**29,053,240**
of which current	*33,598,853*	*4,307,346*
of which non-current	*233,537*	*24,745,894*

The **reimbursement claims from shareholders** result from the Employee Virtual Ownership Plan. For more details see G.1.c).

The security deposits item includes the securities withheld by the payment service providers in accordance with their contracts. These deposits are calculated as a percentage of sales and withheld for a period of 60 days. They result from the general terms and conditions of the payment service providers and do not reflect an increased receivables default risk. (For more details, see Section C.2. Trade receivables)

The **Prepayments and customer advances** item includes in particular advance payments made for marketing services to be rendered. This line item includes advance payments within the scope of a pending contract. Payments based on service contracts for which the service is still pending are recognized here. Unlike the deferral, the actual amount of the service is not yet known.

The **Rental deposits** item primarily refers to security deposits for the offices in Berlin and New York.

4. Other assets

The other assets are structured as follows:

in EUR	12/31/2020	12/31/2019
Prepaid expenses and deferred charges	4,000,903	3,162,303
Other	250,229	274,250
Total	**4,251,132**	**3,436,553**
of which current	*4,251,132*	*3,436,553*
of which non-current	*0*	*0*

The **Prepaid expenses and deferred charges** item comprises in particular marketing services which have not yet been rendered. The delivery period and amount of the expenses are already known. However, these expenses represent another accounting period, and they are recognized there.

5. Deferred income taxes

Deferred tax liabilities for taxable temporary differences were recognized in the amount of € 176 thousand as of December 31, 2020 (12/31/2019: € 0 thousand). These resulted primarily from the application of IFRS 16, as well as because of the differing tax handling of the Employee Virtual Ownership Plan.

Deferred tax assets for tax losses carried forward and deductible temporary differences are recognized only to the extent that realization of the tax advantage through future tax profits is probable. However, the minimum for this is the amount recognized for deferred tax liabilities. The Group's temporary differences as of December 31, 2020, amounted to € 845 thousand (12/31/2019: € 365 thousand) and mainly result from foreign currency translation and personnel provisions.

Babbel Inc. generates net income thanks to the cost-plus agreement in place with its parent company, Babbel GmbH. Thus, no losses to be carried forward result in the USA.

As of the balance sheet date, there were domestic trade tax losses carried forward in the amount of € 45,291 thousand (12/31/2019: € 25,578 thousand), as well as domestic corporate income tax losses carried forward in the amount of € 46,508 thousand (12/31/2019: € 26,480 thousand). Due to the ongoing loss situation in 2020, no deferred tax assets have been recognized in excess of the amount of the deferred tax liabilities. This non-recognition is the result of significant planning uncertainty with regard to earnings in the following years, which caused management to forego capitalization. The non-recognized deferred tax assets are attributable to the parent company exclusively. The trade tax and corporation tax losses carried forward can be used for an indefinite period of time. The amount of non-recognized deferred tax assets from tax losses carried forward amounts to € 13,859 thousand as of the balance sheet date (prior year: € 7,860 thousand).

Lingo Ventura's losses carried forward were completely eliminated as a result of its merger with Babbel GmbH. This did not have any significant effect on the Group's losses carried forward.

6. Cash and cash equivalents

Cash and cash equivalents are structured as follows:

in EUR	**12/31/2020**	**12/31/2019**
Bank balances	28,906,308	30,527,899
Cash in hand	2,604	1,835
Total	**28,908,911**	**30,529,733**

The development of cash and cash equivalents during the reporting period is reflected in the statement of consolidated of cash flows.

7. Equity

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

a) Subscribed capital and capital reserves

The subscribed capital which is registered in the commercial register and has been fully paid in amounts to € 50 thousand (prior year: € 50 thousand).

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

The capital reserves include additional shareholder contributions to equity from previous financing rounds. The capital reserves have not undergone any change in the financial year under review.

b) Retained earnings and other reserves

The Group's retained earnings and other reserves include the profit/loss carried forward at the beginning of the period, the net loss for the reporting period, the neutral effect from the change in receivables from shareholders relating to the compensation claim from share-based remuneration within the framework of the Employee Virtual Ownership Plan (hereinafter "EVOP").

c) Currency translation reserve

The Group's currency translation reserve includes the period's other comprehensive income (OCI).

The other comprehensive income for the period contains differences from the currency translation of foreign subsidiaries' financial statements which is neutral in its effect on profit or loss. This value is disclosed separately on the consolidated balance sheet and the consolidated statement of changes in equity.

d) Preferential rights and characteristics of the share categories

	Ordinary shares	Series A shares	Series B shares	Series C shares
Total	25,752	10,048	9,249	5,149
of which without dividend rights	3,954	191	306	0
of which EVOP facilitating shares	6,283	414	654	0

The aforementioned share categories have a priority for the distribution of proceeds. Initially, the total subscription price for each share in Series C, plus all dividends allocable to these shares which have been declared but not yet distributed are paid to the Series C investors. The residual amount is then paid to Series B investors and finally to Series A investors. The balance of the proceeds remaining thereafter (if applicable) is distributed among all shareholders in relation to the number of shares sold or participating in the respective liquidation or sale. Certain shares do not have dividend rights. Individual shareholders dedicated the EVOP facilitating shares for the subsequent servicing of EVOP claims (For more details, see Section G.1. Share-based remuneration).

8. Provisions

The increase in provisions in 2020 results in particular from the addition to the provision for share-based remuneration.

The following table shows the development of provisions and their breakdown by maturity.

in EUR	As of 1/1/2020	Addition/ (Release)	Utilization	Reclassifications	Currency effects	As of 12/31/2020
Provisions						
1 Share-based remuneration	23,880,748	2,334,564	(109,517)	0	0	**26,105,795**
2 Restoration obligations	154,613	(154,613)	0	0	0	**0**
3 Reorganization	1,293,998	(31,420)	(1,262,578)	0	0	**0**
4 Personnel provisions	491,285	1,199,020	(382,431)	0	(13,541)	**1,294,333**
5 Other	926,866	659,805	(85,833)	0	0	**1,500,838**
Total	**26,747,511**	**4,007,356**	**(1,840,359)**	**0**	**(13,541)**	**28,900,965**
of which current	2,712,149	1,827,405	(1,730,842)	26,105,795	(13,541)	**28,900,965**
of which non-current	24,035,361	2,179,950	(109,517)	(26,105,795)	0	**0**

Share-based remuneration

The beneficiaries under the program for share-based remuneration are contractually entitled to the payment of a cash equivalent of the shares issued by the Company. In the event of major changes in the shareholder structure ("Exit"), the respective claims fall due immediately.

The share-based remuneration for employees was measured using an option price model (Black-Scholes Method), applying the value of a call option on the corporate share. The volatilities applied were derived by means of a peer group used within the scope of the process. The term of the options is based on the assumption of an Exit date as of September 30, 2021. The market prices were determined by means of a DCF-based corporate valuation. Consequently, it is expected that the pay-outs will fall due as of this Exit date.

The share-based remuneration is referred to in section G.1. of the Notes.

Restoration obligations

Provisions were established in recent years for leasehold improvements concerning the business premises at Max-Beer-Strasse. These installations must be removed by the end of the rental period. On the basis of a new agreement, the tenant is no longer to remove these at the end of the rental period. Therefore, this provision was released in full during the year under review.

Reorganization

As of the last balance sheet date, provisions had been established for reorganization in the areas of administration and sales. This provision was utilized nearly completely during the year under review, or the remaining amount was released.

Personnel provisions

The personnel provisions primarily comprise settlements, outstanding payments for bonus entitlements and expenses relating to on-call service due to home office arrangements in connection with the ongoing COVID-19 crisis.

Other provisions

The other provisions mainly include those for risks relating to VAT abroad. Measurement is based on the respective settlement amount. Utilization is expected in the following financial year.

9. Trade payables and other liabilities

Trade payables and other liabilities are structured as follows:

in EUR	**12/31/2020**	**12/31/2019**
Trade payables	**8,735,240**	**4,640,338**
of which current	*8,735,240*	*4,640,338*
of which non-current	*0*	*0*
Other liabilities	**3,004,278**	**3,060,468**
from lease liability IFRS 16	*2,773,355*	*2,932,246*
from Other	*230,923*	*128,222*
of which current	*729,933*	*2,561,041*
of which non-current	*2,274,346*	*499,428*
Total	**11,739,519**	**7,700,806**
of which current	*9,465,173*	*7,201,378*
of which non-current	*2,274,346*	*499,428*

10. Other liabilities

Other liabilities are structured as follows:

in EUR	**12/31/2020**	**12/31/2019**
from the deferral of sales revenues	52,197,319	32,295,291
Taxes and levies	2,074,795	1,745,029
to employees	1,152,178	654,331
Remaining other liabilities	237,942	256,943
Total	**55,662,234**	**34,951,594**
of which current	*55,662,234*	*34,951,594*
of which non-current	*0*	*0*

The other liabilities relating to the deferral of sales revenues relate to contractual liabilities within the meaning of IFRS 15. These arise from the sale of subscriptions.

The contractual liabilities relating to the deferral of sales revenues as of December 31, 2019, were recognized as sales revenues in 2020 fully with regard to B2C customers and up to an amount of € 5 thousand with regard to B2B customers. The deferred amount of sales revenues set up as of December 31, 2020, will be reversed nearly completely in 2021 and recognized as sales revenues because the maximum subscription term is generally 12 months. It is not possible to determine a transaction price for the deferred sales revenues as of the balance sheet date due to the variability in transaction prices.

The liabilities from the deferral of sales revenues increased by € 19,902 thousand in financial year 2020. This is result of the fact that the number of subscriptions sold rose sharply in financial year 2020 and more subscriptions with longer terms (6-12 months) were sold.

The other liabilities from taxes and levies largely concern VAT liabilities from wage and church tax.

The other liabilities vis à vis employees largely include employees' claims from vacation not yet taken as of the balance sheet date.

11. Income tax debt

The income tax debt includes liabilities relating to German trade tax.

D. Notes to the Consolidated Statement of Comprehensive Income

1. Sales revenues

Sales revenues developed as follows:

in EUR	2020	2019
Sales revenues from		
– Subscription and language travel sales to private customers (B2C)	145,597,656	122,868,209
– B2B sales	1,689,399	1,064,057
Total	**147,287,055**	**123,932,266**

The sales revenues broken down by the Group's individual segments are illustrated in the Group segment reporting (section F).

2. Cost of sales

The cost of sales are structured as follows:

in EUR	2020	2019
Cost of sale via app stores	(13,449,414)	(9,631,030)
Cost of online payments	(3,349,658)	(2,717,735)
Other cost of sales	(6,127,756)	(1,040,146)
Total	**(22,926,828)**	**(13,388,911)**

Development of the cost of sales in the year under review was heavily shaped by the development of sales revenues: On one hand, the share of app sales revenues rose more sharply, which was reflected in the higher costs relating to sales in the app stores, and on the other hand, these app sales revenues include a higher share of new sales, which cause higher costs.

Marketing expenses for which a direct correlation can be made between the expenditure and sales revenues are recognized as costs of sales. If the expenses only include costs for the placement of marketing content and a direct connection cannot be made between the expenditure and sales revenues, these costs are recognized as marketing expenses.

3. Marketing expenses

The marketing expenses are structured as follows:

in EUR	2020	2019
Non-personnel expenses	(95,514,565)	(62,348,419)
Personnel expenses	(13,277,348)	(16,691,718)
Share-based remuneration	(635,251)	(1,494,621)
Amortization/depreciation	(1,187,104)	(1,232,289)
Total	**(110,614,267)**	**(81,767,046)**

The non-personnel expenses mainly concern advertising expenses for online and offline marketing campaigns and for TV commercials.

With respect to expenses for share-based remuneration (EVOP), reference is made to section G.1.

Write-offs mainly result from the capitalization of rights of use for buildings pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by marketing employees.

4. Research and development expenses

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

in EUR	2020	2019
Personnel expenses	(20,386,493)	(16,319,068)
Share-based remuneration	(1,223,553)	(1,865,318)
Non-personnel expenses	(1,332,441)	(1,162,866)
Amortization/depreciation	(1,155,486)	(1,554,438)
Total	**(24,097,973)**	**(20,901,690)**

With respect to expenses for share-based remuneration (EVOP), reference is made to section G.1.

The non-personnel expenses mainly include expenses for freelance staff and license fees.

Write-offs mainly result from the capitalization of rights of use for buildings pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by employees in research & development.

Given that our further development activities for software and products are conducted using a heuristic approach, the success of which cannot be determined ex ante, it is not possible to make a binding and quantified allocation to the research and development activities, as well as the maintenance and expansion of the respective systems. Therefore, capitalization is still not performed on development expenses.

5. General administrative expenses

The general administration expenses are structured as follows:

in EUR	2020	2019
Personnel expenses	(6,568,944)	(5,584,829)
Amortization/depreciation	(1,650,928)	(484,334)
Office and IT	(1,130,689)	(774,064)
Auditing and consulting fees	(878,222)	(945,400)
Share-based remuneration	(366,243)	(583,651)
Cleaning	(172,723)	(169,658)
Other purchased services	(165,745)	(115,853)
Gas, electricity, water	(159,223)	(183,341)
Travel, accommodation, and meals	(23,647)	(101,529)
Other expenses	(858,423)	(879,066)
Total	**(11,974,786)**	**(9,821,725)**

Write-offs mainly result from the capitalization of rights of use pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by administrative employees.

Office and IT expenses mainly concern server and license fees.

With respect to expenses for share-based remuneration (EVOP), reference is made to section G.1.

6. Other operating income

Other operating income consists of the following:

in EUR	2020	2019
Income from currency translation	934,128	914,246
Out-of-period income	105,990	184,396
Other operating income	173,456	102,631
Total	**1,213,573**	**1,201,273**

7. Other operating expenses

The other operating expenses are structured as follows:

in EUR	2020	2019
Expenses from foreign currency translation	(2,204,681)	(1,206,147)
Out-of-period expenses	(316,107)	(265,175)
Other operating expenses	(263,332)	(334,121)
Total	**(2,784,120)**	**(1,805,443)**

8. Financial results

The 2020 financial result amounting to € 267 thousand (prior year: € -32 thousand) primarily arose from currency gains in connection with IFRS 16.

9. Taxes on income

The income/expense relating to income tax is exclusively attributable to actual income taxes.

Based on the consolidated net result for the year before income taxes and expected income tax, the translation to the actual income tax expense is as follows:

in EUR	2020	2019
Earnings before taxes on income	**(23,630,426)**	**(2,583,757)**
Expected tax income (expected tax rate 2020, 2019: 30.175 %).	**7,130,481**	**779,648**
Adjustment of expected tax income		
Deviating tax rate of the Group	(90,869)	(92,627)
Tax effects from add-ons and reductions for local taxes	(869,889)	(1,519,463)
Effects from the non-recognition of deferred tax assets on temporary differences and losses carried forward	(6,109,819)	410,904
Taxes on income	**59,904**	**(421,538)**

The tax rate to be applied for determining the expected income from income tax corresponds to the parent company's tax rate and is comprised of the corporation tax rate including solidarity surcharge of 15.825 %, and the trade tax rate of 14.35 %.

The differences in the group tax rate result from the varying tax burden on the subsidiary Babbel Inc. in the USA. The statutory tax rate in the USA is 21 %.

The tax effects from add-ons and reductions arise in particular from the different tax handling of the Employee Virtual Ownership Program (€ 671 thousand), as well as further corporate and income tax differences on the tax balance sheet.

Deferred tax assets on temporary differences and tax loss carryforwards are not recognized in excess of the amount of the deferred tax liabilities. The change specified above indicates the fictitious recognition of these deferred tax assets on the basis of the change to the tax loss carryforwards for corporate and income tax, as well as the amount in excess of the deferred tax liabilities.

E. Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement was prepared in accordance with IAS 7. It reflects the inflows and outflows of capital during the reporting year. The cash flows are subdivided into the cash flows from operating activities, investing activities, and financing activities. The cash flow from operating activities is determined using the indirect method pursuant to IAS 7.18 (b). The cash flow from investing activities and from financing activities is determined using the direct method pursuant to IAS 7.21.

The amortization of the rights of use for the building accounted for pursuant to IFRS 16 are recognized under cash flow from operating activities, as is in accordance with IFRS 16.59 (b) the interest element of the payments made for lease liabilities on the basis of the accounting option pursuant to IAS 7.33. In accordance with IFRS 16.50 (a) the payments made for the principal element of the lease liability are shown in cash flow from financing activities.

The cash and cash equivalents considered in the cash flow statement are equivalent to the cash and cash equivalents line item on the balance sheet, corresponding to cash on hand and bank balances. Reference is made to Section I. on the consolidated balance sheet. Cash and cash equivalents amount to € 28,909 thousand as of December 31, 2020 (prior year: € 30,530 thousand). They are not subject to restraints on disposal.

F. Group Segment Reporting

The Babbel Group's business segments were identified in compliance with the management approach on the basis of the internal reporting structure. This internal reporting is the foundation for allocating resources and for the decision makers' assessment of the earning power of the business segments.

The Group's operating activities are segmented based on its most important divisions: B2C Global, B2C USA and B2B. The B2C sector encompasses the entire business of the Group with private end customers, broken down geographically into the USA and Global reporting segments.

The Global reporting unit comprises all transactions with private customers who cannot be geographically allocated to the USA. This distinction is made due to the differing objectives for the two reporting units, which leads to separate approaches for management for governance and control purposes. These approaches are reflected in particular in the marketing strategy for addressing customers. The uniform management within each reporting unit allows cost advantages to be realized which enables the company to offer its products at attractive prices in the respective market.

The B2B sector pools the services for business customers. In all of its business segments, the Babbel Group generates external sales revenues exclusively.

The most important performance indicators on the basis of which management runs the company are the "Billed sales" for each reporting unit and the "Cash Contribution Margin". The billed sales include all the sales revenues which are invoiced during a certain period before deferred income. This applies to all the segments of the Group.

The Cash Contribution Margin at the segment level is defined as Billed Sales less Costs of Goods Sold (COGS) and marketing costs (without allocated personnel and other expenses, pro rata amortization and depreciation (including IFRS 16), as well as the allocated share-based remuneration). The Cash Contribution Margin represents the key internal performance indicator at the segment level.

	For the financial year ended 31/12/2020					
in kEUR	B2B	B2CUS	B2C Global	Segments Σ	**Reconciliation**	**IFRS cons.**
Billed Sales	**2,528 €**	**54,316 €**	**110,345 €**	**167,189 €**		
Revenue					-19,902 € (1)	147,287 €
COGS	285 €	9,626 €	12,145 €	22,056 €		
Cost of sales					872 € (2)	22,927 €
Marketing costs	1,611 €	37,870 €	56,082 €	95,563 €		
Sales and marketing expenses					15,051 € (3)	110,614 €
Cash Contribution Margin	**632 €**	**6,821 €**	**42,118 €**	**49,571 €**		
Contribution Margin					-35,825 €	13,746 €
Other income						1,214 €
Research and development expenses						24,098 €
General and administrative expenses						11,975 €
Other expenses						2,784 €
EBIT						**-23,897 €**
Financial result						267 €
Net loss before taxes						**-23,630 €**
Income tax						-60 €
Net loss						**-23,570 €**

	For the financial year ended 31/12/2019					
in kEUR	B2B	B2CUS	B2C Global	Segments Σ	**Reconciliation**	**IFRS cons**
Billed Sales	**1,106 €**	**31,655 €**	**93,388 €**	**126,149 €**		
Revenue					-2,217 € (1)	123,932 €
COGS	14 €	3,014 €	9,480 €	12,508 €		
Cost of sales					881 € (2)	13,389 €
Marketing costs	755 €	23,800 €	37,142 €	61,697 €		
Sales and marketing expenses					20,070 € (3)	81,767 €
Cash Contribution Margin	**338 €**	**4,841 €**	**46,766 €**	**51,944 €**		
Contribution Margin					-23,168 €	28,776 €
Other income						1,201 €
Research and development expenses						20,902 €
General and administrative expenses						9,822 €
Other expenses						1,805 €
EBIT						**-2,551 €**
Financial result						-32 €
Net loss before taxes						**-2,584 €**
Income tax						422 €
Net loss						**-3,005 €**

	For the financial year ended 31/12/2018					
in kEUR	B2B	B2CUS	B2C Global	Segments Σ	**Reconciliation**	**IFRS cons.**
Billed Sales	**873 €**	**21,980 €**	**90,387 €**	**113,240 €**		
Revenue					-6,817 € (1)	106,422 €
COGS	23 €	2,476 €	9,812 €	12,311 €		
Cost of sales					833 € (2)	13,144 €
Marketing costs	822 €	21,189 €	41,392 €	63,403 €		
Sales and marketing expenses					11,711 € (3)	75,114 €
Cash Contribution Margin	**28 €**	**-1,685 €**	**39,183 €**	**37,525 €**		
Contribution Margin					-19,361 €	18,164 €
Other income						810 €
Research and development expenses						15,674 €
General and administrative expenses						14,529 €
Other expenses						1,184 €
EBIT						**-12,412 €**
Financial result						38 €
Net loss before taxes						**-12,374 €**
Income tax						69 €
Net loss						**-12,443 €**

(1) Change of contractual liabilities within the meaning of IFRS 15 during the financial year.
(2) Pro-rata webserver costs which are needed for revenue recognition and therefore need to be shown in Cost of Sales in the meaning of IFRS.
(3) The marketing costs on segment level do not include any cost allocated to the functional areas, pro-rata depreciation/amortization (incl. IFRS 16) and expenses relating to share-based remuneration.
In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses.

G. Other Disclosures

1. Share-based remuneration – IFRS 2

Since 2013, Babbel GmbH has been operating programs for share-based remuneration in order to enable senior executives to participate in the Company's value development and reward them for their contribution to the sustained success of the Babbel Group in comparison with competition. The group of qualifying beneficiaries includes the upper management levels of Babbel and affiliated companies of the Babbel Group.

a) EVOP: Description of the program

At present, the Company is operating five programs (Employee Virtual Share Program, EVOP I-V). The shares are issued successively following approval by the responsible shareholders' committee. The last programs EVOP IV and V were initiated in financial year 2019.

Based on individual contracts, the qualifying persons are entitled to receive from the Company the payment of a cash equivalent relative to the shares issued or the dividend distributed. In the event of major changes in the shareholder structure ("Exit"), the respective claims fall due immediately. An Exit situation means that more than 50 % of all of the Company's shares are sold, exchanged, or acquired, equivalent to an exchange or an acquisition within the scope of an individual transaction or transactions in immediate chronological order or a transfer of all the Company's assets(and a simultaneous payment of the generated funds to the shareholders) and a liquidation of the Company.

Within the scope of an Exit, all claims from virtual shares already granted are immediately due for payment at the time the transaction is concluded. The number of shares granted is specified individually in the contractual agreements. The offering period and the vesting criteria are defined in a uniform manner in accordance with the specified standard.

The issue prices agreed in the programs vary in accordance with the range shown below, depending on the subscription rights issue date. The shares of the individual programs are allocated as follows:

Program	**EVOP I**	**EVOP II**	**EVOP III**	**EVOP IV**	**EVOP V**
Issue price (in EUR/share)	1-2,331	2,331-3,497	3,497	3,497-5,286	7,000
Shares granted	2,727	1,388	1,275	1,090	400
of which to related persons/entities	*300*	*838*	*50*	*725*	*400*
Lapsed shares	493	187	554	212	0
of which to related persons/entities	*0*	*0*	*0*	*212*	*0*

The maximum number of shares granted is 7,351. As of January 1, 2020, the number of shares granted was 6,640. 240 new shares were granted in 2020. All of the shares granted during the year under review stem from the EVOP program IV and were issued at the prices specified in the table. 483 shares lapsed in 2020, and an early cash settlement was paid for 30 shares (€ 110 thousand); no options were exercised. As of December 31, 2020, 6,880 shares had been granted. There are no shares which can be exercised prior to the aforementioned Exit situation.

The qualifying persons are never granted any rights to the subscription of the Company's GmbH business shares. If the GmbH (limited liability company) were to be converted into a stock corporation, the virtual shares would be transferred to a new stock option program. The exact structure of these stock options following the conversion into a stock corporation, e.g. whether or not compensation is based on shares or cash, has not yet been specified. Therefore, a cash settlement is still expected for the time being.

The EVOPs end as of December 31, 2040, or as of December 31, 2029, respectively (for EVOP V). In the event of a cancellation of the agreements before or as of December 31, 2040, the Company is required to make a settlement payment.

All taxes, other levies or fees associated with the granting of virtual shares or cash payments within the scope of these agreements are to be paid by the qualifying persons and may be retained by the Company and deducted from the payments within the scope of the respective agreement. Employer contributions were not taken into account since the Company assumes that all qualifying persons are above the income thresholds at the payment date.

b) EVOP: Vesting period

The contractual vesting period extends over 48 months unless otherwise stipulated in the individual contractual agreements. An additional blocking period ("cliff") of usually up to 24 months on both the provider side and the recipient side can be agreed between the Company and the qualifying person. These cliffs impact on vesting inasmuch as they present a waiting period up to commencement of the contractual subscription period and non-forfeiture respecting the individual claim may apply only at a later date. If the employment or contractual relationship ends during this blocking period, all virtual shares will lapse irrespective of the reason for the end of employment or contractual relationship.

As a general rule, employees who leave the Company for personal reasons ("bad leavers") are not entitled to a claim for virtual shares. Only EVOP III includes a clause stipulating that just 20 % of the shares already vested shall lapse in the event that the respective person terminates the employee contract.

The share-based payment for employees is measured using an option price model (Black-Scholes Method), based on the value of a call option on the corporate shares of Babbel GmbH. The volatilities assumed to this end, which were derived from a uniformly selected peer group, stand at 56.67 %. The term of the options is based on the assumption of an Exit date as of September 30, 2021. The market prices were determined by means of corporate evaluation. The underlying exercise price corresponds to the strike price stated above. The underlying risk-free interest rate is -0.19 %. In order to derive the underlying corporate value, a DCF based corporate evaluation was performed for the year 2020, which is based on the corporate planning and balance sheet as of the reporting date. The parameters used for discounting the capital returns are presented in the following table:

	2020	**2019**
WACC	10.06 %	12.07%
EBITDA margin	22 %	21 %
Growth of perpetual annuity	2 %	2 %

The valuation performed on the basis of these parameters is reflected below. Any changes in the measurement of the provision for share-based remuneration are recognized in profit/loss for the respective period.

Valuation date	**12/31/2020**	**12/31/2019**
Number of active shares	5,378	5,471
of which to related persons/entities	*2,076*	*2,675*
Number of tendered shares	4,860	4,029
of which to related persons/entities	*1,759*	*1,543*
Number of fully tendered shares	4,074	3,337
of which to related persons/entities	*1,280*	*1,081*
Expected term of the options	9/30/2021	5/31/2022
Fair value in € thousand	26,106	23,881
of which to related persons/entities	*7,894*	*8,447*
Reported total expense for the period in € thousand	2,225	3,944
of which to related persons/entities	*2,070*	*2,876*
Intrinsic value of the liabilities for vested benefits in € thousand	25,799	22,353

After the cliff has been reached, the vesting period is split into full months. Consequently, graded vesting is applied. Due to its different contractual regulations, EVOP V is subject to linear vesting.

c) EVOP: Corresponding receivables from shareholders

In order to discharge the Babbel Group from immediate financial strain that may arise from the Employee Virtual Ownership Plan, the shareholders backed the program with shares that are directly made use of in the event of an Exit event. Consequently, the Babbel Group discloses a receivable from shareholders which is equivalent to this amount. Deviations may result from early payments made by the Company to the qualifying person which had not yet been settled by the shareholder.

2. Earnings per share

The earnings per share (undiluted and diluted) were calculated based on the losses allocable to parent company's shares divided by the weighted average number of the shares in circulation during the reporting period. Due to the loss situation, earnings are divided among all shareholders based on their shares independent of preferential rights or dividend preclusions. The weighted average number of shares corresponds to the beginning and end values of the reporting period because no changes were made to the business shares in the reporting periods shown.

in EUR	**12/31/2020**	**12/31/2019**
Consolidated income (undiluted and diluted)	(23,570,522)	(3,005,296)
weighted average number of business shares (undiluted and diluted)	50,198	50,198
Earnings per share (undiluted and diluted)	**(470)**	**(60)**

3. Financial instruments

Notes to the financial instruments

The following table presents the financial assets and liabilities on the basis of measurement categories and classes:

12/31/2020	**Valuation category pursuant to IFRS 9**	**Measured at amortized cost**	
in EUR		**Carrying amount**	**Fair value**
Security deposits	Amortized cost	3,781,401	-
Prepayments and customer advances	Amortized cost	2,563,137	-
Rental deposits	Amortized cost	898,347	-
Other financial assets	Amortized cost	51,110	-
Other financial assets		**7,293,995**	**-**
Trade receivables	Amortized cost	4,946,072	-
Trade receivables and other receivables		**4,946,072**	**-**
Cash and cash equivalents	Amortized cost	**28,908,911**	**-**
Total financial assets		**41,148,979**	**-**
Trade payables	Amortized cost	8,735,240	-
Other liabilities	Amortized cost	230,923	-
Trade payables and other liabilities		**8,966,164**	**-**
Total financial liabilities		**8,966,164**	**-**
Lease liabilities	n/a	2,773,355	n/a
Total lease liabilities		**2,773,355**	**n/a**

12/31/2019	Measurement category pursuant to IFRS 9	Measured at amortized cost	
in EUR		**Carrying amount**	**Fair value**
Security deposits	Amortized cost	2,273,625	-
Prepayments and customer advances	Amortized cost	1,639,825	-
Rental deposits	Amortized cost	800,140	-
Other financial assets	Amortized cost	258,553	-
Other financial assets		**4,972,144**	**-**
Trade receivables	Amortized cost	3,116,694	-
Trade receivables and other receivables		**3,116,694**	**-**
Cash and cash equivalents	Amortized cost	**30,529,733**	**-**
Total financial assets		**38,618,571**	**-**
Trade payables	Amortized cost	4,640,338	-
Other liabilities	Amortized cost	128,222	-
Trade payables and other liabilities		**4,768,560**	**-**
Total financial liabilities		**4,768,560**	**-**
Lease liabilities	n/a	2,932,246	n/a
Total lease liabilities		**2,932,246**	**n/a**

The carrying amounts of the security deposits, prepayments, rental deposits, other financial assets, trade receivables, cash and cash equivalents, trade payables and other financial liabilities primarily have residual terms of less than one year. The fair value of all the line items essentially corresponds to their carrying amounts.

a) Risk management

The Babbel Group considers itself to be exposed to default risks, liquidity risks and market risks due to the use of financial instruments. Default risks relate, in particular, to individual receivables, especially if these are not securitized. In addition, the Group is also exposed to fraud risks given various payment options (Fraud & Fake). Babbel monitors and controls these risks proactively within the framework of an effective risk management system. The risk management function is integrated into Group Controlling.

b) Default risk

The Babbel Group monitors and actively controls the credit risk via credit standing reviews and optimization of payment processes.

The credit or default risk relates to the risk that business partners, mainly the payment service providers, fail to comply with their payment obligations. This could lead to a loss for the Babbel Group. Furthermore, according to the general terms and conditions, there is a risk for 14 days that end customers request a refund for the service rendered. These monetary refunds are offset against the payments of the security deposits with the payment service providers. These risks concern, in particular, current trade receivables. Besides the refund option, the Babbel Group does not consider itself exposed to material credit risks in connection with a single customer because payment is made in advance. Based on the business model applied under which customers generally pay for products in advance and the receivables are due from renowned payment service providers with ratings issued by well-known rating agencies, the default risk is to be regarded as low overall.

In this context, the highest possible default risk corresponds to the carrying amount of the financial assets.

With regard to the default risk for trade receivables, we make reference to the separate section under Number C.2.

The other financial assets primarily encompass security deposits with Adyen and PayPal, both of which have a top rating from prestigious rating agencies, as well as prepayments and rental deposits. Concerning the default risk for security deposits, we also refer to Sections C.2 and C.3. Receivable defaults have not yet arisen in connection with prepayments and rental deposits. As of the closing date, there were no indications that this would change with regard to financial assets and trade receivables. The establishment of general adjustments was foregone.

There is no identifiable default risk for the reimbursement claims from shareholders in connection with the Employee Virtual Ownership Program because the underlying shareholder shares can be utilized in an Exit situation and the payment obligations to the Company would be serviced from the Exit proceeds. Please refer to our further comments in G.1.c).

The following table indicates the age structure of the financial assets and trade receivables which were not yet due and overdue but had not been written down as of the closing date. When assessing the default risk, the provisions set forth in IFRS 9 and general materiality principles were observed.

Classes of financial instruments	**Carrying amount**	**of which neither overdue nor value-adjusted**	**of which overdue but not value-adjusted as of the reporting date (in days)**		
in EUR			**1-120**	**120-180**	**> 180**
as of December 31, 2020					
Security deposits	3,781,401	3,781,401	0	0	0
Prepayments and customer advances	2,563,137	2,563,137	0	0	0
Rental deposits	898,347	898,347	0	0	0
Other financial assets	51,110	51,110	0	0	0
Reimbursement claims from shareholders	26,538,395	26,538,395	0	0	0
Trade receivables	4,946,072	4,714,848	213,235	14,539	3,450
Total	**38,778,462**	**38,547,238**	**213,235**	**14,539**	**3,450**
as of December 31, 2019					
Security deposits	2,273,625	2,273,625	0	0	0
Prepayments and customer advances	1,639,825	1,639,825	0	0	0
Rental deposits	800,140	800,140	0	0	0
Other financial assets	258,553	258,553	0	0	0
Reimbursement claims from shareholders	24,081,096	24,081,096	0	0	0
Trade receivables and other receivables	3,116,694	2,980,821	135,490	383	0
Total	**32,169,934**	**32,034,061**	**135,490**	**383**	**0**

c) Liquidity risks

The Babbel Group's liquidity management ensures the availability of liquid funds through appropriate budget planning. Moreover, the financing of operating activities is secured through an always sufficient liquid assets portfolio. At present, the Babbel Group does not report any significant interest or repayment obligations.

The following table presents the contractually agreed (not discounted) interest and repayment obligations concerning non-derivative financial liabilities:

Type of liabilities		Residual terms in years		
in EUR	Nominal value	< 1	1 - 5	> 5
as of December 31, 2020				
Trade payables	8,735,240	8,735,240	0	0
Lease liabilities	3,080,772	1,074,762	2,006,010	0
Other liabilities	230,923	230,923	0	0
Total	**12,046,936**	**10,040,925**	**2,006,010**	**0**
as of December 31, 2019				
Trade payables	4,640,338	4,640,338	0	0
Lease liabilities	2,985,960	2,484,452	501,508	0
Other liabilities	128,222	112,332	15,890	0
Total	**7,754,520**	**7,237,122**	**517,398**	**0**

d) Market risks

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

With regard to the transaction volumes, the most business transactions are carried out in EUR and USD. The substantial part of the transactions carried out in foreign currencies were performed in USD.

The other foreign currencies (GBP, CHF, SEK, AUD, CAD, PLN) are of minor importance. The bank balances held in these currencies – translated into EUR – only accounted for around 10 % of the Group's total holdings in cash and cash equivalents.

The Babbel Group generally strives to generate expenses and income and receive and make payments in the same functional currencies in order to reduce the currency risk. Nevertheless, the Babbel Group is exposed to a currency risk when transactions are concluded and the resulting payment flows are not denominated in the functional currency of the respective company. The following table shows the effects on the group statement of comprehensive income which would have arisen if the most relevant foreign currency (USD) had been appreciated by 10 % or devalued by 10 %, respectively, as of the balance sheet date.

Changes	12/31/2020		12/31/2019	
in EUR	+10 %	-10 %	+10 %	-10 %
EUR-USD	943,562	(943,562)	633,455	(633,455)

Furthermore, via its investment in the US subsidiary, the Babbel Group is exposed to a minor currency risk which arises from the translation of net assets. However, this translation risk does not present a currency risk in terms of IFRS 7.

4. Capital management

The objectives of the Babbel Group's capital management are primarily designed to finance the Group's growth strategy and minimize risks associated with the investment of liquid assets. This holistic strategy of capital management has remained unchanged in comparison with the previous year.

The Group is not subject to any external capital requirements.

The capital structure is managed based on an envisaged liquidity level. The liquidity level is defined as the relation between current liabilities and liquid assets (cash and cash equivalents).

The gearing ratio developed as follows in the reporting year:

in EUR	12/31/2020	12/31/2019
Cash and cash equivalents	28,908,911	30,529,733
Current liabilities*	15,840,469	12,569,830
Gearing ratio	**0.55**	**0.41**

* Due to its business model, the Group discloses a high deferred income line item. However, this line item does not give rise to financial debt. Instead, it only represents a future non-financial benefit obligation. Compared to the prior year, the deferred income line item was separated from the current liabilities for purposes of determining the gearing ratio because this better represents the Group's actual capital structure or gearing ratio, respectively. The prior year's calculation has been adjusted accordingly. The provisions for the EVOP programs represent short-term provisions. However, they are covered by shareholder receivables and are therefore not included when calculating the gearing ratio.

5. Notes on the cost of sales accounting method

Information relating to the cost of sales accounting method can be obtained from the following table:

in EUR	2020	2019
Expense for payments made to employees	**40,038,321**	**40,055,004**
of which wages and salaries	*32,225,759*	*30,976,871*
of which share-based remuneration	*2,225,046*	*3,943,590*
of which social security(Section 314 (1) No. 4 HGB)	*5,587,516*	*5,134,544*
of which defined contribution pension plans	*2,474,954*	*2,314,104*
of which costs for other benefits (Section 314 (1) No. 4 HGB)	*129,450*	*107,393*
Expenses for scheduled amortization and depreciation	**1,349,395**	**772,688**

6. Number of employees

The Babbel Group had an average of 555 employees in financial year 2020 (prior year: 567 employees). The classification according to employee groups is shown in the following table:

Designation	2020	2019
Sales	196	246
Research & Development	264	229
Administration	95	92
Total	**555**	**567**

7. Total auditor's fees

The auditor's fees are allocated to the following services:

in EUR	2020	2019
Services for the audit of the financial statements	165,750	102,000
Total	**165,750**	**102,000**

8. Relationships with related parties

a) Relationships with related entities

Related entities to the Group within the meaning of IAS 24 include various classes of entities that are under significant control by the Group or can exert significant control over the Group. Furthermore, this also applies to companies which are significantly influenced by persons related to the Company. For more information relating to the definition of related persons, please refer to the explanations below.

The following compilations illustrate the impact of business transactions with related parties on the consolidated balance sheet and the consolidated statement of comprehensive income:

in EUR	12/31/2020	12/31/2019
Balance Sheet		
Other provisions for entities that were controlled by related persons/entities	0	1,750,752

in EUR	2020	2019
Statement of comprehensive income		
Other expenses to (+) / income from (-) related persons or entities controlled by related persons/entities.	12,230	(31,033)

This provision comprises liabilities relating to the employee virtual ownership program for companies controlled by related persons/entities in the year under review. For information regarding the terms of the EVOP program, please refer to Section V.G.1.

b) Relationships to related persons

In accordance with the provisions stipulated in Standard IAS 24, the Group discloses its relationships with related persons. Due to their significant influence on the Group, the members of management, the first management tier (C level) and the shareholders' committee (the "Board") are defined as related persons of the Company. The group of related persons also extends to close family members of these persons. Close family members include the children and spouses or civil partners of these persons, as well as the children of the spouses or civil partners of these people, and finally the dependants of the people or their spouses or civil partners.

Reportable transactions include, inter alia, the conclusion of loan and rental contracts, agreements on guarantees as well as the invoicing of services, as well as the issuance or value changes of shares from the EVOP program to the extent that these services have been exchanged between a related person and the Group or a related entity.

In financial year 2020, no new legal transactions were concluded with related persons that would exceed the remuneration paid within the scope of their activities for the Company.

The managing directors and the members of the top management tier received the following remuneration:

in EUR	2020	2019
Current benefits	1,664,861	1,844,822
Payments on account of the termination of employment	215,075	0
Expenses relating to share-based remuneration	1,696,689	2,877,596

Two members of the shareholders' committee received only share-based remuneration. The other members of the shareholders' committee were not remunerated. Only the expenditures of the independent member are reimbursed. These amounted to € 3 thousand in the financial year under review (prior year: € 3 thousand).

The protection clause pursuant to Section 315e (1) in connection with Section 314 (3) and Section 286 (4) HGB was employed for the disclosure of executive management remunerations.

The provisions for shares from the EVOP programs for former members of the management board, the highest management tier and the shareholders' committee totaled € 3,638 thousand as of December 31, 2020 (prior year: € 1,322 thousand).

The provisions for liabilities relating to the EVOP programs for current related persons are broken down in Section V.G.1.

9. Leasing arrangements

Leasing arrangements are recognized as a right of use and corresponding lease liability on the date where the leased object is available for the Group's use.

The Group rents various office buildings. This relates to the office rental agreements of Babbel GmbH in Berlin and Babbel Inc. in New York. The office lease agreements in Berlin provide for a five-year extension option at the end of the basic lease. This was due in 2019, but use was not made of it. Furthermore, there are two extension options of three months each for the same rental agreement. These options became due in 2020 but were not utilized. There are no termination options, variable lease payments or residual value guarantees for these leasing arrangements.

Babbel GmbH's office rental agreement ends on May 31, 2021. An additional leasing arrangement for a new office rental agreement has already been entered into, but it is not yet recognized because the contractual term (basic rental period: 15 years) had not yet begun as of the balance sheet date. As matters stand, the nominal future rent payments total € 53,445 thousand and will be capitalized at their cash value as a right of use and lease liability for the first time in financial year 2021. The landlord has the unilateral option to raise the rent for this new office rental agreement beginning April 1, 2028. This option is linked to an index. At present the Group does not expect this index to reach the required variation to trigger a rent increase. Furthermore, the same rental agreement is subject to three extension options of five years each following the basic rental term. Due to the long basic rental term, it is currently not possible to make a sufficiently meaningful statement regarding whether this option will be utilized. Consequently, the rental increase and extension options are not being considered when measuring the lease liability.

Babbel Inc.'s office rental agreement ended on May 30, 2020. Since then the Company has been located in new office space under a new office rental agreement beginning July 1, 2020. Accordingly, the right of use from this new office rental agreement is recognized pursuant to IFRS 16 and amounted to € 2,714 thousand on the date of initial disclosure. The lease liability to be recognized for this rental agreement came to € 2,688 thousand as of July 31, 2020. The following values have been disclosed for this rental agreement as of December 31, 2020: € 2,442 thousand (right of use) and € 2,274 thousand (lease liability). There is a one-time extension option of three years after the five-year basic rental term elapses. As of the balance sheet date, the Group is sufficiently certain that this extension option will not be utilized. Consequently, it is not being considered when measuring the lease liability.

Besides the office rental agreements, there were no additional leasing arrangements subject to capitalization according to the definition in IFRS 16.

a) Amounts recognized on the balance sheet

The carrying amounts of the rights of use recognized on the balance sheet and the total of the additions during financial year 2020 can be found in the fixed-asset movement schedule.

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

in EUR	**12/31/2020**	**12/31/2019**
Lease liabilities		
Current	499,010	2,448,708
Non-current	2,274,346	483,537
	2,773,355	**2,932,246**

b) Amounts recognized in the statement of comprehensive income

The amortization on the rights of use totaled € 2,644 thousand in financial year 2020 (prior year: € 2,283 thousand). Interest expenses amounted to a total of € 93 thousand (prior year: € 75 thousand).

The total payments made for leasing in financial year 2020 came to € 2,741 thousand (prior year: € 2,291 thousand). Of this amount, € 93 thousand related to the interest element (prior year: € 75 thousand), and € 198 thousand related to currency effects (prior year: € 11 thousand). Current and low-value leasing arrangements gave rise to expenses of € 16 thousand (prior year: € 186 thousand) on the statement of comprehensive income during the year under review.

10. List of shareholdings

As of December 31, 2020, Babbel GmbH holds a share in Babbel Inc.

The following table indicates the shareholdings as of December 31, 2020:

Name and registered office of the company	Percentage of share in capital (%)	Functional currency	Equity in € thousand	Profit/loss for the financial year in € thousand
Babbel Inc., Wilmington, Delaware, USA	100	USD	604	386

The following table indicates the shareholdings as of December 31, 2019:

Name and registered office of the company	Percentage of share in capital (%)	Functional currency	Equity in € thousand	Profit/loss for the financial year in € thousand
Babbel Inc., Wilmington, Delaware, USA	100	USD	548	142
LingoVentura GmbH, Berlin	100	EUR	-155	-809

11. Executive management

The management included the following persons in the reporting period:

- Arne Schepker, Chief Executive Officer, Berlin
- Thomas Oliver Holl, Chief Technology Officer, Berlin

12. Shareholders' committee (Board)

The shareholders' committee of Babbel comprises seven members. The shareholders' meeting selected the following members:

- Markus Witte, Chairman
- Arne Schepker
- Anthony Askew
- Marco Zeller
- Simon Guild (independent member, until November 30, 2020)
- Thomas Holl
- Stuart Paterson
- Debby Soo (independent member, since December 1, 2020)
- Walter Masalin (non-voting member)
- Matthias Hornberger (non-voting member)

In his capacity as Chairman, the vote of Markus Witte is decisive in the event of tied decisions. The other members of the shareholders' committee have one vote each.

All financial statements of the Group are presented to the shareholders' committee for approval and release. The previous year's financial statements as of December 31, 2019 were approved by the shareholders' committee and released for publication.

H. Accounting Methods

The financial statements of Babbel GmbH and its two subsidiaries are prepared in accordance with uniform accounting and valuation principles. In doing so, the principles for all periods and reporting dates presented in the consolidated financial statements have been consistently applied.

As a general rule, all assets are accounted for in compliance with the acquisition cost principle.

1. Consolidation methods

Babbel GmbH prepares the consolidated financial statements for the largest and smallest group of companies belonging to the parent company as subsidiaries. The consolidated financial statements are disclosed in the German Federal Gazette (*Bundesanzeiger*). Babbel GmbH and its subsidiaries Babbel Inc. and Lingo Ventura are fully consolidated in the consolidated financial statements of the Babbel Group. Initial consolidation took place at the date when control was of achieved. Babbel GmbH controls an equity investment if it is exposed to fluctuating returns from the exposure and is capable of influencing these returns by means of power of disposal. The respective subsidiary is deconsolidated when Babbel GmbH is no longer in a position to control the equity investment.

Acquired companies are recognized under application of the acquisition method, i.e., the acquisition costs of the acquired shares are set off against the prorated fair value of the acquired assets, debts and contingent liabilities of the subsidiary at the acquisition date. Any positive difference resulting from the set-off is capitalized as goodwill. Any negative goodwill resulting from capital consolidation is immediately resolved and reported under profit/loss.

If the Group is no longer in a position to control a subsidiary, the assets and liabilities of the subsidiary including all pertaining non-controlling shares and other equity components are derecognized. Any resulting profit or loss is reported under profit or loss. Any retained share in the former subsidiary is measured at the fair value on the date when control was lost.

Expenses and income, receivables and liabilities between consolidated entities as well as the interim results from intercompany transactions are eliminated.

2. Foreign currency translation

Foreign currency translation is based on the concept of functional currency. The functional currency of the subsidiaries included in the consolidated financial statements is the respective local currency. The consolidated financial statements are prepared in Euro (reporting currency).

Transactions concluded by a consolidated entity in a currency other than its functional currency (foreign currency transactions) are translated into the functional currency of the respective entity at the rate applicable as at the transaction date. Currency gains and losses arising from the processing of such transactions and from the measurement of monetary assets and liabilities as at the financial statements reporting date rate are recognized in the income statement.

Subsidiaries with a functional currency other than the Euro translate their financial statements prepared in local currency into the Euro reporting currency for purposes of inclusion in the consolidated financial statements of Babbel GmbH as follows:

- Assets and liabilities are translated at the reporting date rate, income and expenses at the average rate for the year. Any differences resulting from currency translation are disclosed separately under equity.
- Equity, which is subject to initial consolidation within the scope of an acquisition of foreign subsidiaries, is translated as of the respective balance sheet date using the historical rate applicable on the date of acquisition. Any differences resulting from the currency translation are disclosed separately under equity.
- As long as the subsidiary is included in the scope of consolidation, the translation differences are shown under consolidated equity. If a subsidiary is no longer part of the scope of consolidation, the respective translation difference is released through profit or loss.
- Goodwill and adjustments to the fair values of assets and liabilities resulting from acquisitions of foreign subsidiaries are treated as assets and liabilities of the foreign entity and are translated at the rate applicable as of the balance sheet date.
- The Company has no subsidiaries which are domiciled in a hyperinflationary country as specified by IAS 29.
- Currency translation differences from the conversion of shares in a foreign subsidiary and from loans that are part of the net investment in this foreign subsidiary, are reported under equity. If the subsidiary is no longer part of the scope of consolidation, the currency translation differences are derecognized and released through profit or loss.

The following exchange rates (rounded) were used for purposes of currency translation:

1 EUR corresponds to US Dollar (USD):	Reporting date rate as of 12/31/	Average rate for the year
2020	1.227	1.141
2019	1.123	1.120

3. Income and expense recognition

Expenses and income are not netted unless the IFRS accounting provisions permit or require the netting of expenses and income.

a) Sales revenues

Sales revenues are recognized and accounted for pursuant to IFRS 15.

In general, sales revenues are recognized when control over the product or services is transferred to the customer. This may be a specified point in time or period-related. Sales are then reported at the amount which is expected as a consideration for the products or services transferred. The model is based on five steps:

- Identifying the contract concluded with the customer
- Identifying the separate service obligations stipulated in the contract
- Fixing the transaction price
- Allocating the transaction price to the service obligations identified
- Recognizing the sales revenues when the entity fulfills the service obligations

IFRS defines a contract as an agreement between two or several parties which leads to legally enforceable rights and obligations. Contracts can be concluded in writing, orally or by implication on the basis of common business practice. Under certain circumstances, several contracts must be assessed jointly. In a second step, the Babbel Group identifies the separate service obligations and subsequently determines the transaction price which corresponds to the consideration for the products and services transferred. Generally, the customers make their payments to the Babbel Group immediately after receipt of the service via connected payment providers. In the private customer sector (B2C), customers make their payments to the Babbel Group in advance before receiving the service via connected payment providers. Purchases on account are possible for business customers (B2B) as well as for the travel business in the B2C segment; the standard term of payment here is 30 days after invoicing, which means that the amount of the service need not be adjusted to the time value of money. As a rule, the contracts with customers only receive a separate contractual obligation. Therefore, it is not necessary to distribute the transaction price. Sales are recognized when the service obligation is fulfilled.

The simplification provision under IFRS 15.94 is used of with respect to the capitalization of contract costs since, due the business model, the contract asset values would not have had a term of more than one year.

The Babbel Group has two types of contracts:

Sale of subscriptions to private customers (B2C):

The Babbel Group realizes revenues from the sale of usage rights ("software as a service") for language learning software to private end customers. The software can be used on mobile terminals and on browsers.

The software is sold by means of subscriptions for a period of between one and twelve months. The sale to the end customer can be processed via Babbel's internal web platform or via the sales platforms provided by Apple and Google. Being the principal in all its sales transactions, the Babbel Group has concluded that it acts as contracting authority in all sales transactions, that is has a certain freedom of action when setting prices and that it bears the inventory and credit risk. A credit risk results either from the payment service provider not honoring its payment obligations or the private customers requesting a refund for the services rendered.

Sales revenues are recognized in keeping with the accrual-based provision of services. The determination of the accrual-based provision of service is based on the acquired time contingent. Contractual liabilities arise from these prepayments made by customers. They are disclosed as deferral of sales revenues on the consolidated balance sheet (see C.9). An adjustment to the IFRS 15 nomenclature was not made.

The sales revenues from language travel is recognized as soon as the service obligation has been met and the travel has taken place. The customers are invoiced for payment. Babbel acts as the contracting entity and bears the credit risk. This credit risk includes the fact that private end customers may not meet their payment obligations.

Sale of subscriptions to business customers (B2B):

The Group realizes revenues from the sale of rights of use ("software as a service") for language learning software to business customers. The business customers can then make these rights of use available for their employees to use.

The software is sold by means of subscriptions for a period of between one and twelve months. The sales are processed either via Babbel's own web platform or by its own sales staff. Being the principal in all its sales transactions, the Babbel Group has concluded that it acts as contracting authority in all sales transactions, that is has a certain freedom of action when setting prices and that it bears the inventory and credit risk. This credit risk includes the fact that business customers may not meet their payment obligations.

The sales revenues with B2B customers are also recognized in the appropriate period as soon as the customer has been provided with the power of disposition for the subscription by activating the product.

Contractual liabilities arise from these prepayments made by customers. They are disclosed as deferral of sales revenues on the consolidated balance sheet (see C.9).

b) Interest and similar income

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

c) Expenses

Expenses are stated in the income statement as soon as the underlying services have been provided.

4. Property, plant, and equipment

Property, plant, and equipment are stated at acquisition or production costs net of scheduled depreciation and impairments. Acquisition costs include incidental acquisition costs less price deductions.

Depreciation is performed on a straight-line basis over the asset's expected useful life. The expected useful lives, residual values and depreciation methods are reviewed on each reporting date. The necessary estimated changes are taken into account prospectively.

The following useful lives were applied in the reporting year:

Useful life in years	**2020**	**2019**
Operating and office equipment	2-13	2-13

The separate section on the leasing arrangements contains more information on the rights of use and their terms which are recognized pursuant to IFRS 16.

In addition, processes were introduced to account for IAS 36 requirements with respected to further asset impairments. Residual carrying amounts as well as the estimated useful lives are reviewed on each balance sheet date with a view to identifying events that would lead to a change in measurement. If the carrying amount of individual assets is above the recoverable amount, additional impairments are recognized in the income statement. If the requirements for impairments no longer apply in later years, the previous adjustments are reversed.

Maintenance expenses are recognized in the period in which they arise. Significant new features and improvements are capitalized.

5. Intangible assets

Intangible assets acquired from third parties are stated at amortized cost. They are amortized according to schedule over their expected useful lives using the straight-line method. Given that our software and product development activities are conducted using a heuristic approach, the success of which cannot be determined ex-ante, it is not possible to make a binding and quantified allocation to the research and development activities, as well as the maintenance and expansion of the respective systems. Therefore, capitalization is still not performed on the software and products which are developed in-house. Development expenses are capitalized only if the development costs can be reliably assessed, the product or procedure is suitable in both technical and commercial terms, a future commercial benefit is likely to result from the product or procedure and the Group intends (and has the necessary resources) to finalize the development and use or sell the asset. Other development expenses are recognized in profit or loss as they occur. Capitalized development expenses are measured net of accumulated amortization and accumulated impairment losses. Expenses incurred for research activities are recognized in profit or loss as they occur.

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

a) the total of:

- i) the consideration transferred
- ii) the amount of all non-controlling interests in the acquired entity which are measured in accordance with this IFRS, and
- iii) in the event of a successive business combination, the fair value of the equity component previously held by the acquirer in the acquired entity as of the acquisition date.

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

The acquired goodwill is not subject to scheduled amortization.

The Babbel Group reviews intangible assets and goodwill at annual intervals in order to identify any need for non-scheduled amortization in accordance with IAS 36. In doing so, it is examined whether there are any indications of impairment. If this is the case, the achievable amount for the respective asset is determined. It corresponds to the higher value from fair value net of sales costs or the value of use. Discounting is based on market rates before taxes.

Amortization of intangible assets during the reporting year was based on the following useful lives:

Useful life in years	**2020**	**2019**
Licenses and similar rights	1-3	1-3
Software	3-5	3-5

6. Leasing arrangements

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

IFRS 16 regulates the recognition, measurement, disclosure and information requirements concerning the lease both contractual parties, i.e., the lessee and the lessor. During financial year 2020 the Group as exclusively a lessee.

In compliance with the provisions set forth in IFRS 16, leasing arrangements are recognized as a right of use and corresponding lease liability on the date where the leased object is available for the Group's use.

The Group decided to apply the modified retrospective approach for the first-time application of the provisions set forth in IFRS 16 as of January 1, 2019.

According to the above exemptions for the first-time application, an amount equalling the equivalent lease liability is recognized for the rights of use.

The rights of use are disclosed on the balance sheet as property, plant, and equipment, and the lease liabilities are recognized as part of the "Trade payables and other liabilities" line item.

As a whole, the Group exercised the following exemptions as part of this first-time application:

- The application of a uniform incremental borrowing rate for a portfolio of leasing agreements with similar arrangements.

- The non-consideration of the initial direct costs in valuing the rights of use.

- The retroactive determination of the term of leasing arrangements for arrangements with extension or termination options.

The agreements can include both leasing and non-leasing components. At this point, the Group will exercise the exemption not to differentiate between leasing and non-leasing components – providing there are any – and instead recognize the agreement as a whole.

Short-term leasing arrangements (contractual term =< 12 months) and low-value leasing arrangements (new value of max. $5,000 pursuant to IASB explanatory report, translated into EUR by Babbel at the respective rate as of the first-time provision date of the leasing arrangement) are not subject to mandatory recognition. The Group is exercising this option and not recognizing these leasing arrangements. There were two leasing arrangements of this kind in the year under review.

Because the above exemptions arise only in connection with first-time application, rights of use added during the reporting year cannot be recognized as lease liabilities in the same way. Instead, the following expenses must be recognized:

a) Amount arising from the recognition of the lease liability

b) All the lease payments which had been made at the time of or prior to delivery, less any leasing incentives included

c) All initial direct costs which are incurred

d) All estimated costs for the reinstatement, disassembly, or removal following the end of the contractual term

The rights of use are written down based on the acquisition cost model using the straight-line method throughout the expected right of use. The provisions set out in IAS 16 are observed in this context. The right of use ends with the earlier incident of (a) end of the term of the leasing arrangement or (b) the useful life of the rights of use. The expected useful lives, residual values and depreciation methods, as well as the valuation of the corresponding lease liability, are reviewed on each reporting date. The necessary estimated changes are taken into account prospectively.

Scheduled amortization on the rights of use during the reporting year was based on the following useful lives:

Useful life in years	**2020**	**2019**
Rights of use	2-5	2-3

The rights of use are examined annually to determine whether non-scheduled impairment must be performed according to IAS 36. In doing so, it is examined whether there are any indications of impairment due to changes in contractual relationships. If this is the case and the recoverable amount is less than the current carrying amount, impairment is performed.

Lease liabilities are valued at the present value of the future lease payments which had been contractually stipulated as of December 31, 2020, but not yet been made, discounted using the incremental borrowing rate of the lessee as of December 31, 2020. The incremental borrowing rates which were applied as of December 31, 2020, amounted to 2.0 % and 4.6 %. Variable lease payments, residual value guaranties or termination options have not been regulated for all the relevant leasing arrangements. Thus, the valuation of the lease liability only comprises fixed rental payments.

Following the first-time recognition, the Group values the lease liabilities as follows:

e) Increase of the carrying amount by the interest expenses for the lease liability

f) Reduction of the carrying amount by the actual cash outflows

g) Revaluation in case of any adjustments to the contractual parameters

7. Taxes on income

The income taxes for the period include the total of actual and deferred income taxes. They are recognized in the income statement unless they relate directly to equity or to items recognized in other comprehensive income. In this case the income taxes are also recognized directly in equity capital or other comprehensive income.

a) Actual income taxes

The actual income tax expense is determined using the applicable tax provisions as of the balance sheet date in the countries where the Babbel Group operates and where the taxable income is generated. In part, estimates have to be made to assess the income tax receivables and liabilities. In this context, a deviating tax assessment by the respective financial authorities cannot be ruled out. The associated uncertainty is accounted for by recognizing uncertain tax receivables and liabilities only to the extent that the probability of occurrence is higher than 50 % from Babbel's perspective. Recognized contingent income tax items take the prospective expected tax payment as their best estimate.

b) Deferred income taxes

Deferred tax liabilities are accounted for all taxable temporary differences between the carrying amounts of the assets and liabilities reported in the consolidated financial statements and the respective tax values recognized within the scope of calculating the taxable income.

Deferred tax assets are determined for all temporary differences and for tax loss carry-forwards. Deferred tax assets are recognized to the extent that future taxable income will probably be available against which the deductible temporary differences or loss carry-forwards can be utilized. As a result of the planning uncertainty which is described in Section C.5., deferred tax assets were only recognized as of the balance sheet date up to the amount of the deferred tax liabilities.

Deferred taxes are measured in accordance with IAS 12. The tax rate applied corresponds to the tax rate adopted or almost adopted for the period of reversal of the temporary difference or the losses carried forward, respectively.

Changes in deferred taxes are reported in the income statement provided that they relate to balance sheet items that were recognized in the income statement. If the balance sheet items relate directly to equity or other comprehensive income, the corresponding deferred taxes are also reported under these positions.

Deferred tax assets and deferred tax liabilities that are associated with shares in subsidiaries due to temporary differences, are taken into account unless the date of reversal of the temporary differences cannot be determined at Group level and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are netted if the Group has an enforceable legal right to set off actual tax refund claims against actual tax liabilities and the deferred tax assets and tax liabilities relate to income taxes levied by the same tax authority and concern the same tax subject. In addition, deferred taxes are netted that concern balance sheet items with identical maturities.

8. Financial instruments

a) Financial assets

In accordance with IFRS 9, financial assets are allocated to the following categories:

a.) financial assets measured at amortized cost
b.) financial assets measured at fair value through other comprehensive income
c.) financial assets measured at fair value through profit or loss

This classification is performed upon initial recognition in the balance sheet.

Regular purchases and sales of financial assets are recognized uniformly in all categories as of the trading date, the date when Babbel agrees to buy or sell the asset.

Regarding a)
The Group measures its financial assets at amortized cost if both of the following conditions are fulfilled:

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

Regarding b)
Financial assets measured at fair value through other comprehensive income include the following positions:

- Equity instruments not held for trading purposes and where, upon initial recognition, the Group has made the irrevocable decision to disclose the respective equity instrument under this category.
- Debt instruments where the contractual cash flows are solely payments of principle and interest on the principal amount outstanding and which are held within a business model whose objective is to collect the contractual cash flows and also to sell financial assets.

Regarding c)
The Group measures the following assets at fair value through profit or loss:

- Equity instruments held for trading purposes and equity instruments where the Group has decided not to report changes in fair values in other comprehensive income.
- Debt instruments which are neither measured at amortized cost nor at fair value in equity.

b) Financial liabilities

In accordance with IFRS 9, financial liabilities are allocated to the following categories:

a.) measured at amortized cost
b.) measured at fair value through profit or loss

Regarding a)
All liabilities are generally to be classified as measured at amortized cost in accordance with IFRS 9. Exceptions mainly relate to:

- Financial liabilities which, upon initial recognition, were irrevocably designated as measured at fair value through profit or loss
- Derivatives
- Financial guaranties

c) Derecognition

In general, a financial asset is derecognized when one of the following preconditions is met:

- The contractual rights to receive cash flows from the financial assets have lapsed, or
- The Group has transferred its contractual rights to receive cash flow from the financial assets to a third party or has assumed a contractual obligation to pay the cash flows immediately to a third party as part of an agreement under which the Group either (a) essentially transferred all risks and rewards in connection with the ownership in the financial asset, or (b) essentially transferred none of the risks and rewards in connection with the ownership in the financial asset but has transferred the power of control over the asset.

A financial liability is derecognized when the obligation underlying the liability is cancelled or has expired. If an existing financial liability is replaced by another financial liability of the same lender with substantially different contractual conditions or if the conditions of an existing liability undergo major changes, such replacement or such change is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

9. Employee benefits

Babbel GmbH grants the Group management and selected executive staff members share-based remuneration within the scope of the EVOP program. The remuneration from the plan falls if an Exit event occurs. An Exit event is defined as the acquisition of more than 50 % of the shares or the assets of Babbel GmbH by one or several investors as well as a liquidation of the Company.

The components to be recognized in the income statement over time correspond to the fair value of the remuneration claims at the respective vesting phase date since Babbel GmbH settles the obligation in the form of cash or cash equivalents. The liability or the decrease/increase in fair value is recognized via the personnel expenses of administration costs.

The shareholders of Babbel GmbH allocated business shares to this employee program ("facilitating shares") in order to secure payments to Babbel GmbH to relieve the Company in the event of a dividend distribution or Exit. The receivable from the shareholders is measured analogously to the provision (cf. Section G.1). The obligation to allocate the business shares to the program is also caused by the corporate relationship. Consequently, the recognition and change in the receivable is presented in equity with no effect on profit or loss.

10. Provisions

Provisions are set up to account for a legal or factual obligation vis à vis the Babbel Group that results from a past event, the fulfillment of which is probable and the amount of the obligation can be reliably determined. Recognition is based on the expected settlement amount.

In order to meet the current obligation, the recognized amount of the provision is the best estimate that results on the balance sheet date from the service rendered. All inherent risks and uncertainties are to be taken into consideration in this context. If a provision is measured on the basis of the cash flows estimated in the context of settling the obligation, the respective cash flows must be discounted in the event of a material interest effect.

If it can be assumed that the economic benefit necessary for settling the provision is refunded by an external third party even in part or as a whole, the respective claim is recognized as an asset provided the refund is as good as certain and the amount can be reliably estimated.

In view of the estimation uncertainty when determining the amount, the actual outflows of resources may differ from the amounts initially recognized on the basis of estimates.

Non-current provisions are recognized on the basis of corresponding term-adequate and risk-adjusted interest rates at their settlement amount discounted to the balance sheet date.

11. Determination of fair value

In accordance with IFRS 13 provisions, the fair value represents the price that can be achieved on the principal market or, if not available, on the most advantageous market through the sale of an asset or that would have to be paid for the transfer of a liability. The fair value is to be determined on the basis of measurement parameters as close to the market as possible. The fair value hierarchy prioritizes the input factors included in the measurement procedure into three descending levels:

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

To the extent that different input factors are of relevance for measurement, the fair value is allocated to the hierarchy level that corresponds to the input factor of the lowest level which is material for the measurement as a whole.

12. Discretionary decisions and use of estimates

The application of recognition and measurement methods and the preparation of consolidated financial statements require the management to make discretionary decisions and estimates. In the current situation caused by the coronavirus crisis, these decisions are associated with greater uncertainty.

Discretionary decisions and estimates have to be made for the following issues in particular:

a) Discretionary decisions

Going concern premise:

The Babbel Group's equity ratio stands at -25 % as of December 31, 2020. Despite the consolidated net loss for the year in the amount of € -23,571 thousand and the negative equity ratio, the Company has no doubts that the going concern assumption can be fulfilled since sufficient liquidity in the amount of € 28,909 thousand is available as of the reporting date and since the deferred income totaling € 52,197 thousand does not include any future financial benefit obligations.

b) Assumptions and estimation uncertainties

Share-based payment (IFRS 2)

The accounting treatment of virtual shares, requires assumptions and estimates to be made with respect to the development of performance indicators and fluctuation, the type of Exit, the Exit date, as well as with respect to the determination of corporate value. The determination of the corporate value is based on discounted cash flow models.

Measurement of financial assets

When measuring financial assets, the assessment of corporate value as well as the parameters described above are crucial for the measurement of share-based remuneration.

Accounting treatment and measurement of other provisions

The accounting treatment and measurement of other provisions involves uncertainty with regard to future price increases and the amount, point in time and probability of utilization of the respective provision.

Recognition of deferred tax assets

The recognition of deferred tax assets on temporary differences and losses carried forward requires assumptions and estimates to be made with respect to the future development and use of these deferred tax losses carried forward. The determination is based on an integrated balance sheet and profit/loss planning model. The non-recognition of deferred tax assets is the result of significant planning uncertainty with regard to earnings in the following years, which caused management to continue to forego capitalization of the portion of the deferred tax assets in excess of the deferred tax liabilities.

I. New Regulations Concerning International Accounting Pursuant to IFRS

The following accounting provisions were to be applied for the first time in the year under review:

Amendments to IAS 1 and IAS 8	Definition of materiality
Amendments to IFRS 3	Definition of business operations
Amendments to IFRS 9, IFRS 39 and IFRS 7	Interest Rate Benchmark Reform

- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are intended to refine the definition of materiality through standardizing the wording in various standards and pronouncements. In accordance with this, materiality is defined as follows:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

- The amendments to IFRS 3 Business Combinations serve to clarify the definition of a business operation.
- The amendments to the Interest Rate Benchmark Reform are in connection with the reform of the interest rate benchmarks (IBOR reform) specifically with regard to the presentation of amendments to contractual cash flows and hedging relationships which became necessary in this context, i.e. if this is a direct consequence of the IBOR reform and the old and new basis for the determination of the contractual cash flows are economically offset

The new or amended provisions, respectively, do not lead to changes in the accounting of the Company.

The following new or amended standards and interpretations have already been adopted by the IASB, but they are not yet subject to mandatory application. These regulations were not applied early.

Amendments to IFRS 16	COVID-19-Related Rent Concessions	Applies to financial years beginning on or after June 1, 2020
Amendsments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	Interest Rate Benchmark Reform – Phase 2	Applies to financial years beginning on or after January 1, 2021
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract	Applies to financial years beginning on or after January 1, 2022
Annual Improvements to IFRS	Cycle 2018-2020	Applies to financial years beginning on or after January 1, 2022
Amendments to IAS 16	Property, Plant, and Equipment: Proceeds before Intended Use	Applies to financial years beginning on or after January 1, 2022
Amendments to IFRS 3	Reference to the Framework	Applies to financial years beginning on or after January 1, 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	Applies to financial years beginning on or after January 1, 2023; EU-endorsement still pending
IFRS 17	Insurance Contracts	Applies to financial years beginning on or after January 1, 2023; EU-endorsement still pending

At present, Babbel is examining the new standards with respect to their impact on the information provided in the consolidated financial statements. It is not assumed that the amendments will significantly impact the consolidated financial statements for the period under review and future periods.

J. Events after the Balance Sheet Date

COVID-19 is continuing to define global economic and market development even after the balance sheet date. An end to the challenges and risks arising from the pandemic cannot be foreseen at present. This situation continues to give rise to opportunities for the Group, as well as risks and challenges. Management's current assessment of the situation is presented in the statements in the opportunities and risk reporting, as well as within the forecast in the group management report. The management is aware of all the associated risks but is also convinced of the Group's potential in 2021.

The Company was renamed "Babbel GmbH" in April 2021. At the same time, the Company moved into its new offices at Andreasstr. 72, 10243 Berlin.

At the beginning of June 2021, Babbel GmbH acquired 100% of the shares in YouCo B21-H218 Vorrats-AG, Berlin, for a purchase price of € 55 thousand. The company will be renamed "Babbel Group AG" in June 2021.

Babbel GmbH

Berlin, June 18, 2021

Arne Schepker

Thomas Holl

The following independent auditor‘s report (Bestätigungsvermerk des unabhängigen Abschlussprüfers) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the consolidated financial statements and group management report (Konzernlagebericht) of Babbel GmbH (formerly: Lesson Nine GmbH), Berlin, as of and for the fiscal year ended December 31, 2020. The group management report is neither included nor incorporated by reference in this Prospectus.

VI. INDEPENDENT AUDITOR'S REPORT

To Babbel GmbH (formerly: Lesson Nine GmbH), Berlin

Audit Opinions

We have audited the consolidated financial statements of Babbel GmbH (formerly: Lesson Nine GmbH), Berlin, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Babbel GmbH (formerly: Lesson Nine GmbH) for the financial year from January 1 through December 31, 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities,

financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Berlin, June 18, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Philipp Medrow) Wirtschaftsprüfer (German Public Auditor)	(ppa. sgd. Johannes Häner) Wirtschaftsprüfer (German Public Auditor)

Audited Amended Consolidated Financial Statements of Lesson Nine GmbH (since April 1, 2021: Babbel GmbH) prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2019

I. Consolidated Balance Sheet

Assets		Note disclosure	12/31/2019 EUR	12/31/2018 EUR
A.	**Non-current assets**			
I.	Intangible assets	C.1	958,582	684,541
II.	Property, plant, and equipment	C.1	4,524,487	1,702,259
III.	Other financial assets*	C.3	24,745,894	20,720,180
			30,228,964	**23,106,981**
B.	**Current assets**			
I.	Trade receivables	C.2	3,116,694	3,289,758
II.	Other financial assets*	C.3	4,307,346	3,632,884
III.	Other assets	C.4	3,436,553	4,073,604
IV.	Cash and cash equivalents*	C.6	30,529,733	25,208,404
			41,390,326	**36,204,650**
Total assets			**71,619,290**	**59,311,631**

Shareholders' equity and liabilities		Note disclosure	12/31/2019 EUR	12/31/2018 EUR
A.	**Shareholders' equity**	C.7		
I.	Subscribed capital		50,198	50,198
II.	Capital reserves		28,528,133	28,528,133
III.	Retained earnings and other reserves		(26,393,340)	(27,531,982)
IV.	Currency differences		34,389	(10,047)
			2,219,380	**1,036,303**
B.	**Non-current liabilities**			
I.	Provisions	C.8	24,035,361	20,044,949
II.	Trade payables and other liabilities	C.9	499,428	44,239
			24,534,789	**20,089,188**
C.	**Current liabilities**			
I.	Other provisions	C.8	2,712,149	1,510,292
II.	Trade payables and other liabilities	C.9	7,201,378	4,541,939
III.	Other liabilities	C.10	34,951,594	32,133,713
IV.	Income tax debt		0	197
			44,865,121	**38,186,140**
Total shareholders' equity and liabilities			**71,619,290**	**59,311,631**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

II. Consolidated Statement of Comprehensive Income

		Note disclosure	2019 EUR	2018 EUR
1	Sales revenues	D.1	123,932,266	106,421,615
2	Cost of sales revenue	D.2	(13,388,911)	(13,143,703)
	Gross profit on sales		**110,543,355**	**93,277,913**
3	Marketing expenses*	D.3	(81,767,046)	(77,209,323)
4	Research and development expenses*	D.4	(20,901,690)	(19,300,083)
5	General administrative expenses*	D.5	(9,821,725)	(8,807,148)
6	Other operating income	D.6	1,201,273	809,983
7	Other operating expenses	D.7	(1,805,443)	(1,184,024)
	Earnings before interest and income taxes		**(2,551,276)**	**(12,412,683)**
8	Financial income	D.8	54,599	38,625
9	Financial expenses	D.8	(87,080)	(824)
10	Taxes on income	D.9	(421,538)	(68,690)
	Consolidated net result for the period		**(3,005,296)**	**(12,443,572)**
	Other earnings, net			
	Items to be reclassified to the consolidated income statement in the future:			
11	Foreign currency translation differences	C.7	44,436	18,740
	Total other earnings		**44,436**	**18,740**
	Consolidated comprehensive income for the period		**(2,960,859)**	**(12,424,832)**
	Period result attributable to:			
	Shareholders of the parent company		(3,005,296)	(12,443,572)
	Consolidated comprehensive income attributable to:			
	Shareholders of the parent company		(2,960,859)	(12,424,832)

* In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) were adjusted accordingly to allow improved comparability.

III. Consolidated Statement of Changes in Equity

1/1/2018 - 12/31/2019	Attributable to the owners of the parent company				
		Reserves			
in EUR	Subscribed capital	Capital reserves	Retained earnings & other reserves	Currency translation reserve	Total equity
Note disclosure	C.7 a)	C.7 a)	C.7 b)	C.7 b)	
Balance sheet as of 1/1/2018	**50,198**	**28,528,133**	**(21,956,797)**	**(28,787)**	**6,592,747**
Net income/loss for the year	0	0	(12,443,572)	0	**(12,443,572)**
Other earnings	0	0	0	18,740	**18,740**
Overall result	**0**	**0**	**(12,443,572)**	**18,740**	**(12,424,832)**
Other changes	0	0	6,868,388	0	**6,868,388**
Transactions with owners	**0**	**0**	**6,868,388**	**0**	**6,868,388**
Balance Sheet as of 12/31/2018	**50,198**	**28,528,133**	**(27,531,981)**	**(10,047)**	**1,036,303**
Net income/loss for the year	0	0	(3,005,296)	0	**(3,005,296)**
Other earnings	0	0	0	44,436	**44,436**
Overall result	**0**	**0**	**(3,005,296)**	**44,436**	**(2,960,860)**
Other changes	0	0	4,143,937	0	**4,143,937**
Transactions with owners	**0**	**0**	**4,143,937**	**0**	**4,143,937**
Balance sheet as of 12/31/2019	**50,198**	**28,528,133**	**(26,393,340)**	**34,389**	**2,219,380**

IV. Consolidated Cash Flow Statement

		Note disclosure	2019 EUR	2018 EUR
1	**Cash flow from operating activities**			
	Net income/loss for the period before income taxes		(2,583,757)	(12,374,882)
	Depreciation/amortization of property, plant, and equipment and intangible assets (+)	C.1	777,616	571,814
	Goodwill impairment: LingoVentura GmbH (+)	C.1	209,989	0
	Amortization, depreciation, and write-downs IFRS 16 (+)	C.1	2,283,457	0
	Increase (+) in provisions	C.8	3,990,413	6,910,280
	Loss (+) from the disposal of fixed assets	C.1	6,674	18,629
	Other non-cash expenses and income		(2,737)	(1,775)
	Decrease (+) / increase (-) in trade receivables and other assets*		253,875	(4,329,639)
	Increase (+) in trade payables and other liabilities		3,957,740	8,180,697
	Interest income (-)	C.8	(54,599)	(38,707)
	Interest expenses (+)	C.8	75,897	907
	Interest element of lease payments IFRS 16 (+)	F.8 b)	(75,356)	0
	Other interest paid (-)	C.8	(541)	0
	Income taxes paid (-)	D.9	(208,464)	(68,690)
	Cash flow from operating activities*		**8,630,206**	**(1,131,367)**
2	**Cash flow from investing activities**			
	Payments made (-) for investments in property, plant, and equipment and intangible assets	C.1	(1,194,796)	(744,300)
	Payments received (+) from disposals of property, plant, and equipment	C.1	2,081	3,380
	Acquisition of subsidiaries		0	(158,413)
	Interest received (+)	C.8	54,599	38,625
	Cash flow from investing activities		**(1,138,116)**	**(860,708)**
3	**Cash flow from financing activities**			
	Principal element of lease payments IFRS 16	F.8 b)	(2,215,198)	0
	Cash flow from financing activities		**(2,215,198)**	**0**
4	**Cash and cash equivalents at the end of the period**			
	Changes in cash and cash equivalents (sub-totals 1 – 3)*		5,276,892	(1,992,075)
	Currency-related changes in cash and cash equivalents		44,436	18,740
	Cash and cash equivalents at the beginning of the period*		25,208,404	27,181,740
	Cash and cash equivalents at the end of the period*		**30,529,733**	**25,208,404**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

V. Notes to the Consolidated Financial Statements

A. General Information Concerning the Consolidated Financial Statements

1. Principles of the Group

Lesson Nine GmbH (hereinafter also referred to as "Lesson Nine") is a corporation domiciled in Germany. The Company's registered head office is located at Max-Beer-Strasse 2, 10119 Berlin. The core activities of the Company and its subsidiary, Babbel Inc., Wilmington/Delaware (USA) (hereinafter also referred to as "Babbel Inc.") continues to be the development, operation and sale of e-learning systems under the "Babbel" brand. As a consequence of the acquisition of LingoVentura GmbH, Berlin (hereinafter also referred to as "LingoVentura") in financial year 2018, the Group's activities were extended to include the arrangement, organization and valuation of language study travels.

2. Amendments to the Consolidated Financial Statements 2019

The Consolidated Financial Statements, released for publishing on June 5, 2020, have been amended on June 17, 2021 as follows:

- Amendment to the presentation of rent deposits from "Cash and cash equivalents" to "Other financial assets" in the consolidated balance sheet as well as changes of individual items of the consolidated Cash Flow statement and the adjustment of the related explanations in the Notes to the Consolidated Financial Statements
- Addition of information regarding IAS 24 (section F.7 "Relationships with Related Parties")
- Correction of information regarding future lease arrangements (section F.8 "Leasing arrangements")

3. Basics of Accounting of the IFRS Consolidated Financial Statements

The Babbel Group's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and published by the International Accounting Standards Board (IASB) as to be applied in the EU. The preparation of the consolidated financial statements was based on the provisions stipulated in EC Regulation No. 1606/2002 of the European Parliament and the European Council of July 19, 2002 concerning the application of international accounting standards in conjunction with Section 315e (3) HGB [German Commercial Code], taking the supplementary commercial provisions into account.

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

The consolidated financial statements have been prepared in euros. Unless otherwise stated all values are rounded off to euros (€). Rounding off differences relative to the exact mathematic values may occur in the tables for computational reasons.

The consolidated financial statements are prepared on the assumption of the Company's ability to continue as a going concern.

The preparation of consolidated financial statements in accordance with IFRS requires estimates and valuation to be made by the Management. In the event of a larger measurement scope or if assumptions and estimates of vital importance are concerned, the respective items are explained in more detail in the Notes.

B. Group of Consolidated Companies

The group of consolidated companies was not amended during the year under review. As of the balance sheet date, it still comprised the parent company, Lesson Nine GmbH, the wholly-owned (100%) subsidiary, Babbel Inc., and the wholly-owned (100%) subsidiary, LingoVentura GmbH, Berlin

C. Notes to the Consolidated Balance Sheet

1. Fixed Assets

The additions in financial year 2019 primarily relate to the additions of rights of use for buildings arising from the first-time application of IFRS 16. These are presented as part of the property, plant, and equipment on the balance sheet. During the financial year, additions totaled € 5,136 thousand. Total amortization of the rights of use in the amount of € 2,283 thousand were recognized on the income statement. Please refer to the separate section on leasing arrangements for more information.

Further investments mainly related to new operating and business equipment, as well as new software.

Expenses for scheduled amortization/depreciation of intangible assets and property, plant, and equipment are allocated to the respective expense group (marketing, research and development, general administration). Goodwill is not subject to scheduled amortization and the goodwill resulted fully from the acquisition of LingoVentura GmbH in the prior year. The previously recognized value (prior to impairment testing) does not cover the future cash flows expected by the subsidiary as of the reference date of December 31, 2019. The CGU (cash-generating unit) for goodwill is the Company LingoVentura GmbH as a whole. The recoverable amount corresponds to the current value in use of the CGU and amounted to € 0 thousand as of December 31, 2019. Therefore, impairment was necessary as of the reference date. A DCF-based valuation of the CGU was performed to derive the underlying value of use for 2019. The underlying discount rate used for the DCF valuation was 11.53%.

Therefore, non-scheduled write-downs from goodwill impairment testing was necessary in the amount of € 210 thousand in financial year 2019. The total amount of write-downs in the financial year is also presented in the following development of fixed assets.

Property, plant, and equipment are derecognized upon disposal or when no future economic profit from the continued use of the tangible asset can be expected. As in the preceding financial year, a loss from the scrapping of property, plant, and equipment was reported in financial year 2019. The loss was recognized in profit or loss and is measured on the basis of the asset's remaining carrying amount and sales proceeds, if any.

Fixed assets have developed as follows:

	Acquisition and production costs						Accumulated amortization/depreciation					Carrying amount	
	01/01/2019	Additions	Additions due to the first-time application of IFRS 16	Disposals	Reclassifications	**31/12/20219**	**01/01/2019**	Additions	Disposals	Currency effects	**31/12/2019**	**31/12/2018**	**31/12/2019**
in EUR													
I. Intangible assets													
1. Goodwill	209,989	0	0	0	0	**209,989**	0	209,989	0	0	**209,989**	**209,989**	**0**
2. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	601,159	358,715	0	0	77,119	**1,036,993**	139,608	192,371	0	0	**331,979**	**461,552**	**705,015**
3. Prepayments made	13,000	317,686	0	0	-77,119	**253,567**	0	0	0	0	**0**	**13,000**	**253,567**
Intangible assets	**824,149**	**676,401**	**0**	**0**	**0**	**1,500,550**	**139,608**	**402,360**	**0**	**0**	**541,968**	**684,541**	**958,582**
II. Property, plant, and equipment													
1. Rights of use for buildings	0	1,907,104	3,229,156	0	0	**5,136,260**	0	2,283,457	0	0	**2,283,457**	**0**	**2,852,803**
2. Other equipment, factory, and office equipment	2,963,979	526,419	0	166,677	0	**3,323,721**	1,267,720	585,244	157,922	-2,736	**1,692,306**	**1,696,259**	**1,631,415**
3. Prepayments and construction in process	6,000	34,269	0	0	0	**40,269**	0	0	0	0,00	**0**	**6,000**	**40,269**
Property, plant, and equipment	**2,969,979**	**2,467,791**	**3,229,156**	**166,677**	**0**	**8,500,250**	**1,267,720**	**2,868,701**	**157,922**	**-2,736**	**3,975,763**	**1,702,259**	**4,524,487**
Fixed assets	**3,794,128**	**3,144,192**	**3,229,156**	**166,677**	**0**	**10,000,799**	**1,407,328**	**3,271,061**	**157,922**	**-2,736**	**4,517,731**	**2,386,800**	**5,483,069**

	Acquisition and production costs						Accumulated amortization/depreciation					Carrying amount	
	01/01/2018	Additions	Additions from first-time consolidation	Disposals	Reclassifications	**31/12/20218**	**01/01/2018**	Additions	Disposals	Currency effects	**31/12/2018**	**31/12/2017**	**31/12/2018**
in EUR													
I. **Intangible assets**													
1. Goodwill	0	209,989	0	0	0	**209,989**	0	0	0	0	**0**	**0**	**209,989**
2. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets acquired for a consideration	278,356	79,286	33,895	0	209,622	**601,159**	73,464	66,144	0	0	**139,608**	**204,892**	**461,552**
3. Prepayments made	0	251,697	0	29,074	-209,622	**13,000**	0	0	0	0	**0**	**0**	**13,000**
Intangible assets	**278,356**	**540,972**	**33,895**	**29,074**	**0**	**824,149**	**73,464**	**66,144**	**0**	**0**	**139,608**	**204,892**	**684,541**
II. **Property, plant, and equipment**													
. Other equipment, factory, and office equipment	2,636,887	464,313	0	131,221	0	**2,969,979**	872,212	505,670	109,211	-951	**1,267,720**	**1,764,675**	**1,702,259**
Property, plant, and equipment	**2,636,887**	**464,313**	**0**	**131,221**	**0**	**2,969,979**	**872,212**	**505,670**	**109,211**	**-951**	**1,267,720**	**1,764,675**	**1,702,259**
Fixed assets	**2,915,243**	**1,005,285**	**33,895**	**160,295**	**0**	**3,794,128**	**945,676**	**571,814**	**109,211**	**-951**	**1,407,328**	**1,969,567**	**2,386,800**

2. Trade Receivables

The following table provides an overview of the Group's receivables:

in EUR	12/31/2019	12/31/2018
Trade receivables	3,116,694	3,289,758
Total	**3,116,694**	**3,289,758**
of which current	*3,116,694*	*3,289,758*
of which non-current	*0*	*0*

As of the balance sheet date, the trade receivables primarily relate to payment providers from the B2C business (€ 2,968 thousand) and from B2B customers (€ 122 thousand).

The maturities structure of the trade receivables is as follows:

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

When assessing the default risk for trade receivables, the provisions set forth in IFRS 9 and general materiality principles were observed. The probability of occurrence was determined on the basis of historical data and projected future conditions. Appropriate processes for managing payment default risks have been implemented.

There is no relevant default risk in the private customer sector (B2C) because customers fundamentally pay in advance. The receivables of this type were also primarily from renowned resellers and payment providers (in particular Apple, Google, Adyen, and PayPal), all of which have a top rating from prestigious rating agencies. Issues with receivable defaults have not yet arisen in the private customer sector.

At the moment there is only a financial default risk in the business-to-business (B2B) sector because business customers have the option of buying on account. The historical loss rate, calculated on the basis of in-house data for the current and prior financial years, is around 1%. Adequate value adjustments in the amount of € 14,000 were set up with respect to overdue receivables from the B2B sector in the reporting year. In proportion to the B2B sales in the year under review, this corresponds to the above loss rate (cf. Section D.1). For reasons of materiality, a separate item was not created to disclose the adjustments in the statement of comprehensive income. At present there is no reason to assume that this loss rate will increase significantly over the next few years despite the general growth of the B2B sector. Qualified processes have been established to minimize risk and manage outstanding receivables. Due to the low amount of outstanding receivables from the B2B sector in relation to the total amount of trade receivables as of the reference date (see above), as well as the aforementioned factors, the risk of future losses on the existing B2B receivables as of the reference date is classified as very low overall. For reasons of materiality, a general adjustment was not created. When the consolidated financial statements were prepared, there were no more outstanding B2B receivables which had reported as of December 31, 2019.

The receivables from the language travel segment were only of minor significance as of December 31, 2019.

3. Other Financial Assets

The other assets are structured as follows:

in EUR	12/31/2019	12/31/2018
Reimbursement claims from shareholders	24,081,096	19,937,158
Prepayments and customer advances	1,639,825	1,376,298
Rent deposits*	800,140	783,022
Other*	2,532,179	2,256,586
Total	**29,053,240**	**24,353,064**
*of which current**	*4,307,346*	*3,632,884*
*of which non-current**	*24,745,894*	*20,720,180*

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

The **reimbursement claims from shareholders** result from the Employee Virtual Ownership Plan. For more detail see F.1.c).

The **Prepayments and customer advances** item includes in particular advance payments made for marketing services to be rendered.

The **Other** item largely includes deposits or security deposits of the various payment providers.

4. Other Assets

The other assets are structured as follows:

in EUR	12/31/2019	12/31/2018
Prepaid expenses and deferred charges	3,162,303	3,381,853
Other	274,250	691,751
Total	**3,436,553**	**4,073,604**
of which current	*3,436,553*	*4,073,604*
of which non-current	*0*	*0*

The **Prepaid expenses and deferred charges** item comprises in particular marketing services which have not yet been received.

5. Deferred Income Taxes

Deferred tax assets for tax losses carried-forwards and deductable temporary differences are recognized only to the extent that realization of the tax advantage through future tax profits is probable. The Group's temporary differences as of December 31, 2019 amounted to € 365 thousand (12/31/2018: € 120 thousand) and primarily result from provisions for impending commercial losses, the differing tax treatment of the employee virtual ownership plan, as well as foreign currency translations.

The first-time recognition of the Company's leases in the year beginning January 1, 2019 was taken into account by establishing tax assets and liabilities in the same amount and netting them.

Furthermore, despite the partial utilization of loss carryforwards in 2019, no deferred tax assets were recognized for domestic trade tax losses carried forward in the amount of € 25,578 thousand (12/31/2018: € 26,727 thousand) or for domestic corporate income tax losses carried forward in the amount of € 26,480 thousand (12/31/2018: € 27,350 thousand). This non-recognition is the result of significant planning uncertainty with regard to earnings in the following years, which caused management to forego capitalization. The non-recognized deferred tax assets are mainly attributable to the parent company. The trade tax and corporation tax losses carried forward can be used for an indefinite period of time. The amount of non-recognized deferred tax assets from tax losses carried forward amounts to € 7,860 thousand as of the balance sheet date (prior year: € 8,269 thousand).

6. Cash and Cash Equivalents

Cash and cash equivalents are structured as follows:

in EUR	12/31/2019	12/31/2018
Bank balances*	30,527,899	25,207,650
Cash in hand	1,835	754
Total*	**30,529,733**	**25,208,404**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

The development of cash and cash equivalents during the reporting period is reflected in the statement of consolidated of cash flows.

7. Equity

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

a) Subscribed capital and capital reserves

The subscribed capital which is registered in the commercial register and has been fully paid in amounts to € 50 thousand (previous year: € 50 thousand).

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

The capital reserves include additional shareholder contributions to equity from previous financing rounds. The capital reserves have not undergone any change in the financial year under review.

b) Retained earnings and other reserves

The Group's retained earnings and other reserves include the profit/loss carried forward at the beginning of the period, the net loss for the reporting period, the neutral effect from the change in receivables from shareholders relating to the compensation claim from share-based remuneration within the framework of the Employee Virtual Ownership Plan (hereinafter "EVOP") and the other result for the period (Other comprehensive Income – OCI).

The other comprehensive income for the period contains differences from the currency translation of foreign subsidiaries' financial statements which is neutral in its effect on profit or loss. This value is disclosed separately in the consolidated balance sheet.

8. Provisions

The increase in provisions in 2019 results in particular from the addition to the provision for share-based remuneration.

The following table shows the development of other provisions including respective maturity allocation.

in EUR	As of 1/1/2019	Addition	Utilization	Interest effects	Currency effects	As of 12/31/2019
Other provisions						
1 Share-based remuneration	19,937,158	3,943,590	0	0	0	**23,880,748**
2 Restoration obligations	107,790	46,879	0	(56)	0	**154,613**
3 Reorganization	0	1,293,998	0	0	0	**1,293,998**
4 Other	1,510,292	1,068,671	(1,145,811)	0	(15,000)	**1,418,151**
Total	**21,555,241**	**6,353,138**	**(1,145,811)**	**(56)**	**(15,000)**	**26,747,511**
of which current	1,510,292	2,362,669	(1,145,811)	0	(15,000)	**2,712,149**
of which non-current	20,044,949	3,990,469	0	0	0	**24,035,361**

Share-based remuneration

The beneficiaries under the program for share-based remuneration are contractually entitled to the payment of a cash equivalent of the shares issued by the Company. In the event of major changes in the shareholder structure ("Exit"), the respective claims fall due immediately.

The share-based remuneration for employees was measured using an option price model (Black-Scholes Method), applying the value of a call option on the corporate share. The volatilities applied were derived by means of a peer group used within the scope of the process. The term of the options is based on the assumption of an Exit date as of May 31, 2022. The market prices were determined by means of a DCF-based corporate valuation. Consequently, it is expected that the pay-outs will fall due as of this Exit date.

The share-based remuneration is referred to in section F.1. of the Notes.

Restoration obligations

Provisions for leasehold improvements concern the business premises at Max-Beer-Strasse. They must be removed by the end of the rental period. The provision was measured on the basis of an assessment of the costs at the occurrence date, discounted to December 31, 2019. At present, the provision is not expected to be released before the end of the rental period.

Reorganization

As of the balance sheet date, provisions had been established for reorganization in the areas of administration and sales. Measurement is based on the expected settlement amount. Utilization is expected in the following financial year.

Other provisions

The other provisions mainly comprise those for personnel matters and VAT risks. Measurement is based on the respective settlement amount. Utilization is expected in the following financial year.

9. Trade Payables and Other Liabilities

Trade payables and other liabilities are structured as follows:

in EUR	12/31/2019	12/31/2018
Trade payables	**2,951,804**	**3,070,313**
of which current	*2,951,804*	*3,070,313*
of which non-current	*0*	*0*
Other liabilities	**4,749,002**	**1,515,865**
from outstanding invoices	*1,688,533*	*1,363,135*
from lease liability IFRS 16	*2,932,246*	*0*
from Other	*128,222*	*152,730*
of which current	*4,249,574*	*1,471,626*
of which non-current	*499,428*	*44,239*
Total	**7,700,806**	**4,586,179**
of which current	*7,201,378*	*4,541,939*
of which non-current	*499,428*	*44,239*

10. Other Liabilities

Other liabilities are structured as follows:

in EUR	12/31/2019	12/31/2018
from the deferral of sales revenues	32,295,291	30,064,588
Taxes and levies	1,745,029	1,305,025
to employees	654,331	585,306
Remaining other liabilities	256,943	178,793
Total	**34,951,594**	**32,133,713**
of which current	*34,951,594*	*32,133,713*
of which non-current	*0*	*0*

The other liabilities relating to the deferral of sales revenues relate to contractual liabilities within the meaning of IFRS 15. These arise from the sale of subscriptions.

The contractual liabilities relating to the deferral of sales revenues as of December 31, 2018, were recognized as sales revenues in 2019 fully with regard to B2C customers and up to an amount of € 5 thousand with regard to B2B customers. The deferred amount of sales revenues set up as of December 31, 2019, will be reversed nearly completely in 2020 and recognized as sales revenues because the maximum subscription term is generally 12 months. It is not possible to determine a transaction price for the deferred sales revenues as of the balance sheet date due to the variability in transaction prices. The liabilities from the deferral of sales revenues increased by € 2,231 thousand in financial year 2019. This is result of the fact that sales revenues rose in financial year 2019 and more subscriptions with longer terms were sold.

The other liabilities from taxes and levies largely concern VAT liabilities from wage and church tax.

The other liabilities vis à vis employees largely include employees' claims from vacation not yet taken as of the balance sheet date.

D. Notes to the Consolidated Statement of Comprehensive Income

1. Sales Revenues

Sales revenues developed as follows:

in EUR	2019	2018
Sales revenues from		
- Subscription sales to private customers	122,820,175	105,733,734
- Other sales (Business-to-Business, language travel)	1,112,091	687,881
Total	**123,932,266**	**106,421,615**

Revenue was generated in the following geographical markets:

in %	2019	2018
Subscription sales to private customers		
Rest of the world	43%	42%
Germany	29%	30%
European Union (excluding Germany)	28%	28%
Total	**100%**	**100%**

in %	2019	2018
Other sales (Business-to-Business, language travel)		
Germany	52%	47%
European Union (excluding Germany)	30%	33%
Rest of the world	18%	20%
Total	**100%**	**100%**

2. Cost of Sales Revenue

The cost of sales are structured as follows:

in EUR	2019	2018
Cost of sale via app stores	(9,631,030)	(9,978,582)
Cost of online payments	(2,717,735)	(2,238,888)
Other cost of sales	(1,040,146)	(926,233)
Total	**(13,388,911)**	**(13,143,703)**

Development of the cost of sales in the year under review was heavily shaped by the development of sales revenues: On one hand, the share of web sales revenues rose, which was reflected in the higher costs for online payments, and on the other hand, app sales revenues include a higher share of subscription renewals, which cause lower costs.

3. Marketing Expenses

The marketing expenses are structured as follows:

in EUR	2019	2018
Non-personnel expenses	(62,348,419)	(63,346,757)
Personnel expenses	(16,691,718)	(11,574,712)
Share-based remuneration*	(1,494,621)	(2,094,858)
Amortization/depreciation	(1,232,289)	(192,995)
Total	**(81,767,046)**	**(77,209,323)**

* In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) were adjusted accordingly to allow improved comparability.

The non-personnel expenses mainly concern advertising expenses for online and offline marketing campaigns and for TV commercials.

The increase in write-offs mainly resulted from the first-time capitalization of rights of use for buildings pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by marketing employees.

4. Research and Development Expenses

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

in EUR	2019	2018
Personnel expenses	(16,319,068)	(14,201,490)
Share-based remuneration*	(1,865,318)	(3,626,509)
Non-personnel expenses	(1,162,866)	(1,177,287)
Amortization/depreciation	(1,554,438)	(294,797)
Total	**(20,901,690)**	**(19,300,083)**

* In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) were adjusted accordingly to allow improved comparability.

The non-personnel expenses mainly include expenses for freelance staff and license fees.

The increase in write-offs mainly resulted from the first-time capitalization of rights of use for buildings pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by employees in research & development.

Given that our further development activities for software and products are conducted using a heuristic approach, the success of which cannot be determined ex ante, it is not possible to make a binding and quantified allocation to the research and development activities and maintenance of the respective systems. Therefore, capitalization is still not performed on development expenses.

5. General Administrative Expenses

The general administration expenses are structured as follows:

in EUR	2019	2018
Personnel expenses	(5,584,829)	(4,057,420)
Auditing and consulting fees	(945,400)	(655,543)
Office and IT	(774,064)	(667,904)
Share-based remuneration*	(583,651)	(1,147,021)
Amortization/depreciation	(484,334)	(84,021)
Gas, electricity, water	(183,341)	(222,966)
Other purchased services	(115,853)	(142,415)
Travel, accommodation, and meals	(101,529)	(82,341)
Other expenses	(1,048,724)	(1,747,517)
Total	**(9,821,725)**	**(8,807,148)**

* In 2019, the expenses for share-based remuneration (EVOP) were broken down among the three functional areas of marketing, research and development, and administration for the first time to provide a better presentation of the results of operations. Prior to that, these were all recognized under the general administration expenses. Therefore, the prior year's recognition of expenses for share-based remuneration (EVOP) were adjusted accordingly to allow improved comparability.

With respect to expenses for share-based remuneration (EVOP), reference is made to section F.1.

Office and IT expenses mainly concern server and license fees.

The increase in write-offs mainly resulted from the first-time capitalization of rights of use pursuant to IFRS 16. The amortization expenses relating to these rights of use substantively represent the loss of value for the right of use by administrative employees.

6. Other Operating Income

Other operating income consists of the following:

in EUR	2019	2018
Income from currency translation	914,246	569,322
Out-of-period income	184,396	71,513
Other operating income	102,631	169,148
Total	**1,201,273**	**809,983**

7. Other Operating Expenses

The other operating expenses are structured as follows:

in EUR	2019	2018
Expenses from foreign currency translation	(1,206,147)	(760,665)
Out-of-period expenses	(265,175)	(125,163)
Other operating expenses	(334,121)	(298,196)
Total	**(1,805,443)**	**(1,184,024)**

8. Financial Results

The 2019 financial result amounting to € -32 thousand (prior year: € 38 thousand) primarily arose from interest expenses in connection with IFRS 16.

9. Taxes on income

The income/expense relating to income tax is exclusively attributable to actual income taxes.

Based on the consolidated net result for the year before income taxes and expected income tax, the transition to the actual income tax expense is as follows:

in EUR	2019	2018
Earnings before taxes on income	**(2,583,757)**	**(12,374,882)**
Expected tax income (expected tax rate 2019, 2018: 30.175%)	**779,648**	**3,734,121**
Adjustment of expected tax income		
Deviating tax rate of the Group	(92,627)	(14,283)
Tax effects from add-ons and reductions for local taxes	(1,519,463)	(2,082,282)
Effects from the non-recognition of deferred tax assets on losses carried forward	410,904	(1,706,246)
Taxes on income	**(421,538)**	**(68,690)**

The tax rate to be applied for determining the expected income from income tax corresponds to the parent company's tax rate and is comprised of the corporation tax rate including solidarity surcharge of 15.825%, and the trade tax rate of 14.35%.

E. Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement was prepared in accordance with IAS 7. It reflects the inflows and outflows of capital during the reporting year. The cash flows are subdivided into the cash flows from operating activities, investing activities, and financing activities. The cash flow from operating activities is determined using the indirect method pursuant to IAS 7.18 (b). The cash flow from investing activities and from financing activities is determined using the direct method pursuant to IAS 7.21.

Movements from IFRS 16 are being recognized in the consolidated cash flow statement for the first time in financial year 2019 The amortization of the rights of use are recognized under cash flow from operating activities, as is in accordance with IFRS16.59 b) the interest element of the payments made for lease liabilities on the basis of the accounting option pursuant to IAS 7.33. In accordance with IFRS 16.50 (a) the payments made for the principal element of the lease liability are shown in cash flow from financing activities.

The cash and cash equivalents considered in the cash flow statement are equivalent to the cash and cash equivalents line item on the balance sheet, corresponding to cash on hand and bank balances. Reference is made to Section I. on the consolidated balance sheet. As of December 31, 2019, the cash and cash equivalents totaled € 30,530 thousand* (prior year: € 25,208 thousand)* and is not subject to any restraints on disposal.

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

F. Other Disclosures

1. Share-Based Remuneration - IFRS 2

Since 2013 Lesson Nine GmbH has been operating programs for share-based remuneration in order to enable senior executives to participate in the Company's value development and reward them for their contribution to the sustained success of the Babbel Group in comparison with competition. The group of qualifying beneficiaries includes the upper management levels of Lesson Nine and affiliated companies of the Babbel Group.

a) EVOP: Description of the program

At present, the Company is operating five programs (Employee Virtual Share Program, EVOP I -V). The shares are issued successively following approval by the responsible shareholders' committee. The EVOP IV and V programs were rolled out in financial year 2019.

Based on individual contracts, the qualifying persons are entitled to receive from the Company the payment of a cash equivalent relative to the shares issued or the dividend distributed. In the event of major changes in the shareholder structure ("Exit"), the respective claims fall due immediately. An Exit situation means that more than 50% of all of the Company's shares are sold, exchanged, or acquired, equaling an exchange or an acquisition within the scope of an individual transaction or transactions in immediate chronological order or a transfer of all the Company's assets(an a simultaneous payment of the generated funds to the shareholders) and a liquidation of the Company.

Within the scope of an Exit, all claims from virtual shares already granted are immediately due for payment at the time the transaction is concluded. The number of shares granted is specified individually in the contractual agreements. The offering period and the vesting criteria are defined in a uniform manner in accordance with the specified standard.

The issue prices agreed in the programs vary in accordance with the range shown below, depending on the subscription rights issue date. The shares of the individual programs are allocated as follows:

Program	**EVOP I**	**EVOP II**	**EVOP III**	**EVOP IV**	**EVOP V**
Issue price (in EUR/share)	1-2,331	2,331-3,497	3,497	3,497-5,286	7,000
Shares granted	2,727	1,388	1,275	850	400
of which lapsed	493	188	250	0	0

The maximum number of shares granted is 7,351. As of January 1, 2019, the number of shares granted was 4,327. 2,325 new shares were granted in 2019. This relates to the EVOP programs III, IV and V at the issue prices specified in the table. 350 shares lapsed in 2019 when no options were exercised. As of January 1, 2019, the number of shares granted was 6,640. There are no shares which can be exercised prior to the aforementioned Exit situation.

The qualifying persons are never granted any rights to the subscription of the Company's GmbH business shares. If the GmbH (limited liability company) were to be converted into a stock corporation, the virtual shares would be converted into stock options. The structure of these stock options following the conversion into a stock corporation, e.g. whether or not compensation is based on shares or cash, has not yet been specified.

The EVOP end as of December 31, 2040, or as of December 31, 2029, respectively (for EVOP V). In the event of a cancellation of the agreements before, after or as of December 31, 2040, the Company is required to make a severance payment.

All taxes, other levies or fees associated with the granting of virtual shares or cash payments within the scope of these agreements are to be paid by the qualifying persons and may be retained by the Company and deducted from the payments within the scope of the respective agreement. Employer contributions were not taken into account since the Company assumes that all qualifying persons are above the income thresholds at the payment date.

b) EVOP: Vesting period

The contractual vesting period extends over 48 months unless otherwise stipulated in the individual contractual agreements. An additional blocking period ("cliff") of usually up to 24 months on both the provider side and the recipient side can be agreed between the Company and the qualifying person. These cliffs impact on vesting inasmuch as they present a waiting period up to commencement of the contractual subscription period and non-forfeiture respecting the individual claim may apply only at a later date. If the employment or contractual relationship ends during this blocking period, all virtual shares will lapse irrespective of the reason for the end of employment or contractual relationship.

As a general rule, employees who leave the Company for personal reasons ("bad leavers") are not entitled to a claim for virtual shares. Only EVOP III includes a clause stipulating that 20% of the shares already vested shall lapse in the event that the respective person terminates the employee contract.

The share-based payment for employees is measured using an option price model (Black-Scholes Method), based on the value of a call option on the corporate shares of Lesson Nine. The volatilities assumed to this end, which were derived from a uniformly selected peer group, stand at 42.68%. The term of the options is based on the assumption of an Exit date as of May 31, 2022. The market prices were determined by means of corporate evaluation. The underlying exercise price corresponds to the strike price stated above. The underlying risk-free interest rate is 0.17%. In order to derive the underlying corporate value, a DCF based corporate evaluation was performed for the year 2019, which is based on the corporate planning and balance sheet as of the reporting date. The parameters used for discounting the capital returns are presented in the following table:

	2019	**2018**
WACC	12.07%	12.29%
EBITDA margin	21%	21%
Growth of perpetual annuity	2%	2%

The valuation performed on the basis of these parameters is reflected below. Any changes in the measurement of the provision for share-based remuneration are recognized in profit/loss for the respective period.

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

After the cliff has been reached, the vesting period is split into full months. Consequently, graded vesting is applied.

c) EVOP: Corresponding receivables from shareholders

In order to discharge the Babbel Group from immediate financial strain that may arise from the Employee Virtual Ownership Plan, the shareholders backed the program with business shares that are directly made use of in the event of a dividend distribution or an Exit situation. Consequently, the Babbel Group discloses a receivable from shareholders which is equivalent to this amount. Any deviations can result from early payments made by the Company to the qualifying person.

2. Financial Instruments

a) Notes to the financial instruments

The following table presents the financial assets and liabilities on the basis of measurement categories and classes:

12/31/2019	Valuation category pursuant to IFRS 9	Measured at amortized cost	
in EUR		**Carrying amount**	**Fair value**
Prepayments and customer advances	Amortized cost	1,639,825	1,639,825
Rent deposits*	Amortized cost	800,140	800,140
Other financial assets*	Amortized cost	2,532,179	2,532,179
Other financial assets*		**4,972,144**	**4,972,144**
Trade receivables	Amortized cost	3,116,694	3,116,694
Trade receivables and other receivables		**3,116,694**	**3,116,694**
Cash and cash equivalents*	Amortized cost	**30,529,733**	**30,529,733**
Total financial assets		**38,618,571**	**38,618,571**
Trade payables	Amortized cost	2,951,804	2,951,804
Other liabilities	Amortized cost	1,816,756	1,816,756
Trade Payables and Other Liabilities		**4,768,560**	**4,768,560**
Total financial liabilities		**4,768,560**	**4,768,560**
Lease liabilities	n/a	2,932,246	n/a
Total lease liabilities		**2,932,246**	**n/a**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

12/31/2018	Valuation category pursuant to IFRS 9	Measured at amortized cost	
in EUR		Carrying amount	Fair value
Deposits lodged*	Amortized cost	783,022	783,022
Other financial assets*	Amortized cost	3,632,884	3,632,884
Other financial assets*		**4,415,906**	**4,415,906**
Trade receivables	Amortized cost	3,289,758	3,289,758
Trade receivables and other receivables		**3,289,758**	**3,289,758**
Cash and cash equivalents*	Amortized cost	**25,208,404**	**25,208,404**
Total financial assets		**32,914,068**	**32,914,068**
Trade payables	Amortized cost	3,070,313	3,070,313
Other liabilities	Amortized cost	1,515,865	1,515,865
Trade Payables and Other Liabilities		**4,586,178**	**4,586,178**
Total financial liabilities		**4,586,178**	**4,586,178**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

The residual terms of the carrying amounts of other financial assets, cash and cash equivalents, trade receivables, trade payables and other financial liabilities are current for the most part and represent the respective fair values as of the reporting date.

b) Risk management

The Babbel Group considers itself to be exposed to default risks, liquidity risks and market risks due to the use of financial instruments. Default risks relate, in particular, to individual receivables, especially if these are not securitized. In addition, the Group is also exposed to fraud risks given various payment options (Fraud & Fake). Lesson Nine monitors and controls these risks proactively within the framework of an effective risk management system. The risk management function is integrated into Group Controlling.

c) Default risk

The credit or default risk relates to the risk that business partners, mainly the payment providers, fail to comply with their payment obligations. This could lead to a loss for the Babbel Group. The respective losses concern, in particular, current trade receivables. The Babbel Group does not consider itself exposed to any material credit risk relating to an individual customer. The concentration of the credit risk is limited because payment is made in advance by private customers. The Babbel-Group monitors and actively controls the credit risk via credit standing reviews and optimization of payment processes. In all, we establish that, based on the business model applied, customers generally pay for the products in advance and the receivables are due from renowned resellers and payment providers with ratings issued by well-known rating agencies. Thus, the default risk is to be regarded as low.

In this context, the highest possible default risk corresponds to the carrying amount of the financial assets.

The following table indicates the age structure of the financial assets and trade receivables which were not yet due and overdue but had not been written down as of the closing date. When assessing the default risk, the provisions set forth in IFRS 9 and general materiality principles were observed.

The other financial assets primarily comprise security deposits to and payment providers (in particular Apple, Google, Adyen, and PayPal), all of which have a top rating from prestigious rating agencies. Issues with receivable defaults have not yet arisen in connection with financial assets. As of the closing date, there were no indications that anything would change in this regard. Because there have not been any defaults on receivables, general adjustments have not been created.

There is no identifiable default risk for the reimbursement claims from shareholders in connection with the employee virtual ownership program because the underlying shareholder shares can be utilized in an Exit situation. Please refer to our further comments in section F.1.c).

With regard to trade receivables, we make reference to section C.2.

Classes of financial instruments	**Carrying amount**	**of which neither overdue nor value-adjusted**	**of which overdue but not value-adjusted as of the reporting date (in days)**		
in EUR			**1-120**	**120-180**	**> 180**
as of December 31, 2019					
Prepayments and customer advances	1,639,825	1,639,825	0	0	0
Rent deposits*	800,140	800,140	0	0	0
Other financial assets*	2,532,179	2,532,179	0	0	0
Reimbursement claims from shareholders	24,081,096	24,081,096	0	0	0
Trade receivables	3,116,694	2,980,821	135,490	383	0
Total	**32,169,934**	**32,034,061**	**135,490**	**383**	**0**
as of December 31, 2018					
Prepayments and customer advances	1,376,298	1,376,298	0	0	0
Rent deposits*	783,022	783,022	0	0	0
Other financial assets*	2,256,586	2,256,586	0	0	0
Reimbursement claims from shareholders	19,937,158	19,937,158	0	0	0
Trade receivables and other receivables	3,289,758	3,289,758	0	13,746	1,800
Total	**27,642,822**	**27,642,822**	**0**	**13,746**	**1,800**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

d) Liquidity risks

The Babbel Group's liquidity management ensures the availability of liquid funds through appropriate budget planning. Moreover, the financing of operative activities is secured through an always sufficient liquid assets portfolio. At present, the Babbel Group does not report any significant interest or repayment obligations.

The following table presents the contractually agreed (not discounted) interest and repayment obligations concerning non-derivative financial liabilities:

Type of liabilities		Residual terms in years		
in EUR	Nominal value	< 1	1 - 5	> 5
as of December 31, 2019				
Trade payables	2,951,804	2,951,804	0	0
Lease liabilities	2,985,960	2,484,452	501,508	0
Outstanding invoices	1,688,533	1,688,533	0	0
Other liabilities	128,222	112,332	15,890	0
Total	**7,754,519**	**7,237,122**	**517,398**	**0**
as of December 31, 2018				
Trade payables	3,070,313	3,070,313	0	0
Outstanding invoices	1,365,206	1,365,206	0	0
Other liabilities	150,660	106,420	44,239	0
Total	**4,586,179**	**4,541,939**	**44,239**	**0**

e) Market risks

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

The Babbel Group generally strives to generate expenses and income and receive and make payments in the same functional currency in order to reduce the currency risk. Nevertheless, the Babbel Group is exposed to a currency risk when transactions are concluded and the resulting payment flows are not denominated in the functional currency of the respective company. The following table shows the effects on the income statement which would have arisen if the foreign currencies had been appreciated by 10% or devalued by 10%, respectively, as of the balance sheet date.

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

The substantial part of the transactions carried out in foreign currencies were performed in USD. The other foreign currencies mentioned above were of minor significance as of the reference date. The bank balances held in these currencies – translated into EUR – only accounted for around 6% of the Group's total holdings in cash and cash equivalents.

Furthermore, via its investment in the foreign subsidiary, the Babbel Group is exposed to a minor currency risk which arises from the translation of net assets. However, this translation risk does not present a currency risk in terms of IFRS 7.

3. Capital Management

The objectives of the Babbel Group's capital management are primarily designed to finance the Group's growth strategy and minimize risks associated with the investment of liquid assets. This holistic strategy of capital management has remained unchanged in comparison with the previous year.

The Group is not subject to any external capital requirements.

The capital structure is controlled on the basis of an aimed-at liquidity level. The liquidity level is defined as the relation between current liabilities and liquid assets (cash and cash equivalents).

The gearing ratio developed as follows in the reporting year:

in EUR	12/31/2019	12/31/2018
Cash and cash equivalents*	30,529,733	25,208,404
Current liabilities	44,865,121	38,186,140
Gearing ratio*	**1.47**	**1.51**

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

4. Notes on the Cost of Sales Accounting Method

Information relating to the cost of sales accounting method can be obtained from the following table:

in EUR	2019	2018
Expense for payments made to employees	**40,055,004**	**34,273,749**
of which wages and salaries	*30,976,871*	*23,673,319*
of which share-based remuneration	*3,943,590*	*6,868,388*
of which relating to social security	*5,134,544*	*3,732,042*
Expenses for scheduled amortization and depreciation (without IFRS 16)	**772,688**	**571,814**

5. Number of Employees

The Babbel Group had an average of 567 employees in financial year 2019 (prior year: 465). The classification according to employee groups is shown in the following table:

Designation	2019	2018
Sales	246	205
Research & Development	229	169
Administration	92	91
Total	**567**	**465**

6. Total Auditor's Fees

The auditor's fees are allocated to the following services:

in EUR	2019	2018
Services relating to the audit of financial statements	102,000	88,000
Other services	0	48,000
Total	**102,000**	**136,000**

7. Relationships with Related Parties

a) Relationships with related entities*

Related parties within the meaning of IAS 24 include various classes of entities and people that are under significant control by the Company or can exert significant control over the Company. Furthermore, this also applies to companies which are significantly influenced by persons related to the Company. For more information relating to the definition of related persons, please refer to the explanations below.

The following compilations illustrate the impact of business transactions with related parties on the consolidated balance sheet and the consolidated statement of comprehensive income:

in EUR	12/31/2019	12/31/2018
Balance Sheet		
Other provisions for entities that were controlled by related persons/entities	1,750,752	1,784,805

in EUR	2019	2018
Statement of comprehensive income		
Other expenses to (+) / income from (-) related persons or entities controlled by related persons/entities.	(31,033)	384,875

This provision comprises liabilities relating to the employee virtual ownership program for companies controlled by related persons/entities in the year under review. For the terms and conditions of the employee virtual ownership program please refer to section V.F.1.

b) Relationships to related persons*

In accordance with the provisions stipulated in Standard IAS 24, the Group discloses its relationships with related persons. Due to their significant influence on the Group, the members of management, the first management tier (C level) and the shareholders' committee (the "Board") are defined as related persons of the Group. The group of related persons also extends to close family members of these persons. Close family members include the children and spouses or civil partners of these persons, as well as the children of the spouses or civil partners of these people, and finally the dependants of the people or their spouses or civil partners.

Reportable transactions include, inter alia, the conclusion of loan and rental contracts, agreements on guarantees as well as the invoicing of services, as well as the issuance or value changes of shares from the EVOP program to the extent that these services have been exchanged between a related person and the Group or a related entity. In financial year 2019, a service agreement was concluded with the executive chairman of the board. There were no further business and legal transactions concluded with related persons that would exceed the remuneration paid within the scope of their activities for the Group.

The managing directors and the members of the top management tier received the following remuneration:

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

One member of the shareholders' committee received only share-based remuneration. The other members of the shareholders' committee were not remunerated. Only the expenditures of the independent member are reimbursed. These amounted to € 3 thousand in the financial year under review (prior year: € 3 thousand).

The protection clause pursuant to Section 315e (1) in connection with Section 314 (3) and Section 286 (4) HGB was employed for the disclosure of executive management remunerations.

The provisions for shares from the EVOP programs for former members of the management board, the highest management tier and the shareholders' committee totaled € 1,322 thousand as of December 31, 2020 (prior year: € 0 thousand).

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

8. Leasing Arrangements

Up to and including in financial year 2018, the Group's leases were categorized as operating leasing agreements and recognized and shown in accordance with IAS 17. Since January 1, 2019, leasing arrangements are recognized as a right of use and corresponding lease liability on the date where the leased object is available for the Group's use.

The Group rents various office buildings. This relates to the office rental agreements of Lesson Nine in Berlin and Babbel Inc. in New York. The office lease agreements in Berlin provide for a five-year extension option at the end of the basic lease. This was due in 2019, but use was not made of it. Furthermore, there are two extension options of three months each for the same rental agreement. These options can be exercised in 2020. There are no termination options, variable lease payments or residual value guarantees for these leasing arrangements.

An additional leasing arrangement for a new office rental agreement has already been entered into, but it is not yet recognized because the contractual term (basic rental period: 15 years) had not yet begun as of the balance sheet date. As matters stand, the nominal future rent payments total € 53,445 thousand and will be capitalized at their fair value as a right of use asset and lease liability for the first time in financial year 2021.*

Besides the office rental agreements, there were no additional leasing arrangements subject to capitalization according to the definition in IFRS 16.

*Amendments to the Consolidated Financial Statements 2019, see more details in section V.A.2 "Amendments to the Consolidated Financial Statements 2019"

a) Amounts recognized on the balance sheet

The carrying amounts of the rights of use recognized on the balance sheet and the total of the additions during financial year 2019 can be found in the fixed-asset movement schedule. Additions amounted to € 3,229 thousand for the first time at the beginning of the financial year.

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

in EUR	**12/31/2019**	**1/1/2019**
Lease liabilities		
Current	2,448,708	1,471,485
Non-current	483,537	1,757,671
	2,932,246	**3,229,156**

b) Amounts recognized in the statement of comprehensive income

The amortization on the rights of use totaled € 2,283 thousand in financial year 2019. Interest expenses amounted to a total of € 75 thousand.

The total payments made for leasing in financial year 2019 came to € 2,291 thousand. Of this amount, € 75 thousand related to the interest element, and € 11 thousand related to currency effects. Current and low-value leasing arrangements gave rise to expenses of € 186 thousand on the statement of comprehensive income during the year under review.

9. List of Shareholdings

As of December 31, 2019, Lesson Nine holds an interest in the following fully consolidated companies:

Name and registered office of the company	Percentage of share in capital (%)	Functional currency	Equity in € thousand	Profit/loss for the financial year in € thousand
Babbel Inc., Wilmington, Delaware, USA	100	USD	548	142
LingoVentura GmbH, Berlin	100	EUR	-155	-809

10. Management

The management included the following persons in the reporting period:

- Thomas Oliver Holl, Chief Technology Officer, Lesson Nine GmbH
- Markus Witte, Chief Executive Officer, Berlin (until 10/31/2019)
- Arne Schepker, Chief Executive Officer, Berlin (beginning 11/1/2019)

11. Shareholders' Committee (Board)

The shareholders' committee of Lesson Nine comprises seven members. The shareholders' meeting selected the following members:

- Markus Witte, Chairman
- Arne Schepker (since 10/28/2019)
- Anthony Askew
- Marco Zeller
- Simon Guild (independent member)
- Thomas Holl
- Stuart Paterson

In addition, the Board includes the non-voting members, Walter Masalin and Matthias Hornberger. In his capacity as Chairman, the vote of Markus Witte is decisive in the event of tied decisions. The other members of the shareholders' committee have one vote each.

All financial statements of the Group are presented to the shareholders' committee for approval and release. The previous year's financial statements as of December 31, 2018 were adopted by the shareholders' committee and released for publication.

G. Accounting Methods

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

As a general rule, all assets are accounted for in compliance with the acquisition cost principle.

1. Methods of Consolidation

Lesson Nine and its subsidiaries, Babbel Inc. and Lingo Ventura, which are under the direct control of Lesson Nine, are fully consolidated in the consolidated financial statements of the Babbel Group. Initial consolidation took place at the date when control was of achieved. Lesson Nine controls an equity investment if it is exposed to fluctuating returns from the exposure and is capable of influencing these returns by means of power of disposal. The respective subsidiary is deconsolidated when Lesson Nine is no longer in a position to control the equity investment.

Acquired entities are accounted for using the acquisition method, i.e., the acquisition costs of the acquired shares are set off against the prorated fair value of the acquired assets, debts and contingent liabilities of the subsidiary at the acquisition date. Any positive difference resulting from the set-off is capitalized as goodwill. Any negative goodwill resulting from capital consolidation is immediately resolved and reported under profit/loss.

If the Group is no longer in a position to control a subsidiary, the assets and liabilities of the subsidiary including all pertaining non-controlling shares and other equity components are derecognized. Any resulting profit or loss is reported under profit or loss. Any retained share in the former subsidiary is measured at the fair value on the date when control was lost.

Expenses and income, receivables and liabilities between consolidated entities as well as the interim results from intercompany transactions are eliminated.

2. Foreign Currency Translation

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

Transactions concluded by a consolidated entity in a currency other than its functional currency (foreign currency transactions) are translated into the functional currency of the respective entity at the rate applicable as at the transaction date. Currency gains and losses arising from the processing of such transactions and from the measurement of monetary assets and liabilities as at the financial statements reporting date rate are recognized in the income statement.

Subsidiaries with a functional currency other than the Euro translate their financial statements prepared in local currency into the Euro reporting currency for purposes of inclusion in the consolidated financial statements of Lesson Nine as follows:

- Assets and liabilities are translated at the reporting date rate, income and expenses at the average rate for the year. Any differences resulting from currency translation are disclosed separately under equity.
- Equity, which is subject to initial consolidation within the scope of an acquisition of foreign subsidiaries, is translated as of the respective balance sheet date using the historical rate applicable on the date of acquisition. Any differences resulting from the currency translation are disclosed separately under equity.
- As long as the subsidiary is included in the scope of consolidation, the translation differences are shown under consolidated equity. If a subsidiary is no longer part of the scope of consolidation, the respective translation difference is released through profit or loss.
- Goodwill and adjustments to the fair values of assets and liabilities resulting from acquisitions of foreign subsidiaries are treated as assets and liabilities of the foreign entity and are translated at the rate applicable as of the balance sheet date.
- The Company has no subsidiaries which are domiciled in a hyperinflationary country as specified by IAS 29.
- Currency translation differences from the conversion of shares in a foreign subsidiary and from loans that are part of the net investment in this foreign subsidiary, are reported under equity. If the subsidiary is no longer part of the scope of consolidation, the currency translation differences are derecognized and released through profit or loss.

The following exchange rates (rounded) were used for purposes of currency translation:

1 EUR corresponds to US Dollar (USD):	Reporting date rate as of 12/31/	Average rate for the year
2019	1.123	1.120
2018	1.145	1.182

3. Income and Expense Recognition

Expenses and income are not netted unless the IFRS accounting provisions permit or require the netting of expenses and income.

a) Sales revenues

Sales revenues are recognized and accounted for pursuant to IFRS 15.

In general, sales revenues are recognized when control over the product or services is transferred to the customer. This may be a specified point in time or period-related. Sales are then reported at the amount which is expected as a consideration for the products or services transferred. The model is based on five steps:

- Identifying the contract concluded with the customer
- Identifying the separate service obligations stipulated in the contract
- Fixing the transaction price
- Allocating the transaction price to the service obligations identified
- Recognizing the sales revenues when the entity fulfils the service obligations

IFRS defines a contract as an agreement between two or several parties which leads to legally enforceable rights and obligations. Contracts can be concluded in writing, orally or by implication on the basis of common business practice. Under certain circumstances, several contracts must be assessed jointly. In a second step, the Babbel Group identifies the separate service obligations and subsequently determines the transaction price which corresponds to the consideration for the products and services transferred. Generally, customers make their payments to the Group immediately after receipt of the consideration via connected payment providers. Only business customers can buy their purchases on account; the payment must be made not later than 30 days after fulfilment of the service obligation, which means that the amount of the consideration need not be adjusted to the time value of money. The contracts with customers generally only include one separate service obligation and no transaction price allocation is therefore required. Sales are recognized when the service obligation is fulfilled.

The Babbel Group has two types of contracts:

Sale of subscriptions to private customers:

The Babbel Group realizes revenues from the sale of usage rights ("software as a service") for language learning software to private end customers, in particular. The software can be used on mobile terminals and browser-based.

The software is sold by means of subscriptions for a period of between one and twelve months. The sale to the end customer can be processed via Lesson Nine's internal web platform or via the known sales platforms provided by Apple and Google. Being the principal in all its sales transactions, the Babbel Group has concluded that it acts as contracting authority in all sales transactions, that is has a certain freedom of action when setting prices and that it bears the inventory and credit risk.

The Babbel Group meets its service obligation arising from the contracts as soon as the customer is provided with full control over the subscription.

Sales revenues are recognized in keeping with the accrual-based provision of services. The determination of the accrual-based provision of service is based on the acquired time contingent. The prepayments made by customers result in liabilities which are recognized in the consolidated balance sheet as deferral of sales revenue (see C.9). An adjustment to the IFRS 15 nomenclature was not made.

Other sales (Babbel-to-Business & language travel):

The group "sales revenues from other contracts" is also recognized on an accrual basis as soon as the customer is provided with full control over the subscription or when the travel occurs.

The simplification provision under IFRS 15.94 is used of with respect to the capitalization of contract costs since, due the business model, the contract asset values would not have had a term of more than one year.

b) Interest and similar income

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

c) Expenses

Expenses are stated in the income statement as soon as the underlying services have been provided.

4. Property, Plant, and Equipment

Property, plant, and equipment are stated at acquisition or production costs net of scheduled depreciation and impairments. Acquisition costs include incidental acquisition costs less price deductions.

Depreciation is performed on a straight-line basis over the asset's expected useful life. The expected useful lives, residual values and depreciation methods are reviewed on each reporting date. The necessary estimated changes are taken into account prospectively.

The following useful lives were applied in the reporting year:

Useful life in years	**2019**	**2018**
Operating and office equipment	2-13	2-13

The separate section on the leasing arrangements contains more information on the rights of use which are recognized pursuant to IFRS 16.

In addition, processes were introduced to account for IAS 36 requirements with respected to further asset impairments. Residual carrying amounts as well as the estimated useful lives are reviewed on each balance sheet date with a view to identifying events that would lead to a change in measurement. If the carrying amount of individual assets is above the recoverable amount, additional impairments are recognized in the income statement. If the requirements for impairments no longer apply in later years, the previous adjustments are reversed.

Maintenance expenses are recognized in the period in which they arise. Significant new features and improvements are capitalized.

5. Intangible Assets

Intangible assets acquired from third parties are stated at amortized cost. They are amortized according to schedule over their expected useful lives using the straight-line method. Given that our software and product development activities are conducted using a heuristic approach, the success of which cannot be determined ex-ante, it is not possible to make a binding and quantified allocation to the research and development activities and maintenance of the respective systems. Therefore, capitalization is still not performed on the software and products which are developed in-house. Development expenses are capitalized only if the development costs can be reliably assessed, the product or procedure is suitable in both technical and commercial terms, a future commercial benefit is likely to result from the product or procedure and the Group intends (and has the necessary resources) to finalize the development and use or sell the asset. Other development expenses are recognized in profit or loss as they occur. Capitalized development expenses are measured net of accumulated amortization and accumulated impairment losses. Expenses incurred for research activities are recognized in profit or loss as they occur.

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

a) the total of:

 i) the consideration transferred

 ii) the amount of all non-controlling interests in the acquired entity which are measured in accordance with this IFRS, and

 iii) in the event of a successive business combination, the fair value of the equity component previously held by the acquirer in the acquired entity as of the acquisition date.

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

The acquired goodwill is not subject to scheduled amortization.

The Babbel Group reviews intangible assets and goodwill at annual intervals in order to identify any need for non-scheduled amortization in accordance with IAS 36. In doing so, it is examined whether there are any indications of impairment. If this is the case, the achievable amount for the respective asset is determined. It corresponds to the higher value from fair value net of sales costs or the value of use. Discounting is based on market rates before taxes.

Amortization of intangible assets during the reporting year was based on the following useful lives:

Useful life in years	**2019**	**2018**
Licenses and similar rights	1-3	1-3
Software	3-5	3-5

6. Leasing Arrangements

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

IFRS 16 regulates the recognition, measurement, disclosure and information requirements concerning the lease relationships of both contractual parties, i.e., the lessee and the lessor. During financial year 2019 the Group as exclusively a lessee.

In compliance with the provisions set forth in IFRS 16, leasing arrangements are recognized as a right of use and corresponding lease liability on the date where the leased object is available for the Group's use.

The Group has decided to apply the modified retrospective approach for the first-time application of the provisions set forth in IFRS 16 as of January 1, 2019.

According to the above exemptions for the first-time application, an amount equalling the equivalent lease liability is recognized for the rights of use.

The rights of use are disclosed on the balance sheet as property, plant, and equipment, and the lease liabilities are recognized as part of the "Trade payables and other liabilities" line item. As of January 1, 2019 (date of the first-time application), rights of use in the amount of € 3,229 thousand and lease liabilities of the same amount were recognized.

As a whole, the Group exercised the following exemptions as part of this first-time application:

- The application of a uniform incremental borrowing rate for a portfolio of leasing agreements with similar arrangements.

- The non-consideration of the initial direct costs in valuing the rights of use.

- The retroactive determination of the term of leasing arrangements for arrangements with extension or termination options.

The agreements can include both leasing and non-leasing components. At this point, the Group will exercise the exemption not to differentiate between leasing and non-leasing components – providing there are any – and instead recognize the agreement as a whole.

Short-term leasing arrangements (contractual term =< 12 months beginning January 1, 2019) and low-value leasing arrangements (new value of max. $5,000) do not have to be disclosed. The Group is exercising this option and not recognizing these leasing arrangements. As of December 31, 2019 there were three corresponding agreements.

Because the above exemptions arise only in connection with first-time application, rights of use added during the reporting year cannot be recognized as lease liabilities in the same way. Instead, the following expenses must be recognized:

a) Amount arising from the recognition of the lease liability

b) All the lease payments which had been made at the time of or prior to delivery, less any leasing incentives included

c) All initial direct costs which are incurred

d) All estimated costs for the reinstatement, disassembly, or removal following the end of the contractual term

The rights of use are written down based on the acquisition cost model using the straight-line method throughout the expected right of use. The provisions set out in IAS 16 are observed in this context. The right of use ends with the earlier incident of (a) end of the term of the leasing arrangement or (b) the useful life of the rights of use. The expected useful lives, residual values and depreciation methods, as well as the valuation of the corresponding lease liability, are reviewed on each reporting date. The necessary estimated changes are taken into account prospectively.

The rights of use are examined annually to determine whether non-scheduled impairment must be performed according to IAS 36. In doing so, it is examined whether there are any indications of impairment due to changes in contractual relationships. If this is the case and the recoverable amount is less than the current carrying amount, impairment is performed.

Lease liabilities are valued at the present value of the future lease payments which had been contractually stipulated as of January 1, 2019, but not yet been made, discounted using the incremental borrowing rate of the lessee as of January 1, 2019. The incremental borrowing rate as of January 1, 2019, was 2.0%. Variable lease payments, residual value guaranties or termination options have not been regulated for the relevant leasing arrangements. There was a contractual extension option for one leasing arrangement (which could be exercised until December 31, 2019). However, these options were not utilized. Thus, the valuation of the lease liability only comprises fixed rental payments. Furthermore, there are two extension options of three months each for the same rental agreement. This option can only be exercised if there were delays in finishing construction on the new leased object, which is not assumed at present. Thus, it is unlikely that the extension option will be exercised. Because this option was not considered, € 570 thousand in fixed rental payments were not included in the leasing arrangement.

Following the first-time recognition, the Group values the lease liabilities as follows:

e) Increase of the carrying amount by the interest expenses for the lease liability

f) Reduction of the carrying amount by the actual cash outflows

g) Revaluation in case of any adjustments to the contractual parameters

7. Taxes on Income

The income taxes for the period include the total of actual and deferred income taxes. They are recognized in the income statement unless they relate directly to equity or to items recognized in other comprehensive income. In this case the income taxes are also recognized directly in equity capital or other comprehensive income.

a) Actual income taxes

The actual income tax expense is determined using the tax provisions applying as of the balance sheet date in the countries where the Babbel Group operates and where the taxable income is generated. In part, estimates have to be made to assess the income tax receivables and liabilities. In this context, a deviating tax assessment by the respective financial authorities cannot be ruled out. The associated uncertainty is accounted for by recognizing uncertain tax receivables and liabilities only to the extent that the probability of occurrence is higher than 50 % from the viewpoint of Lesson Nine. Recognized contingent income tax items take the prospective expected tax payment as their best estimate.

b) Deferred income taxes

Deferred taxes are determined to account for temporary differences between the carrying amounts of the assets and liabilities reported in the consolidated financial statements and the respective tax values recognized within the scope of taxable income calculation. Deferred tax assets are not taken into account.

Deferred tax liabilities are recorded to account for all taxable temporary differences.

Deferred tax assets for temporary differences are recognized to the extent that future taxable income will probably be available against which the deductible temporary differences can be set off.

Deferred taxes are measured in accordance with IAS 12. The tax rate applied corresponds to the tax rate adopted or almost adopted for the period of reversal of the temporary difference or the losses carried forward, respectively.

Changes in deferred taxes are reported in the income statement provided that they relate to balance sheet items that were recognized in the income statement. If the balance sheet items relate directly to equity or other comprehensive income, the corresponding deferred taxes are also reported under these positions.

Deferred tax assets and deferred tax liabilities that are associated with shares in subsidiaries due to temporary differences, are taken into account unless the date of reversal of the temporary differences cannot be determined at Group level and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are netted if the Group has an enforceable legal right to set off actual tax refund claims against actual tax liabilities and the deferred tax assets and tax liabilities relate to income taxes levied by the same tax authority and concern the same tax subject. In addition, deferred taxes are netted that concern balance sheet items with identical maturities.

8. Financial Instruments

a) Financial assets

In accordance with IFRS 9, financial assets are allocated to the following categories:

a.) financial assets measured at amortized cost
b.) financial assets measured at fair value through other comprehensive income
c.) financial assets measured at fair value through profit or loss

This classification is performed upon initial recognition in the balance sheet.

Regular purchases and sales of financial assets are recognized uniformly in all categories as of the trading date, the date when Lesson Nine agrees to buy or sell the asset.

Regarding a)
The Group measures its financial assets at amortized cost if both of the following conditions are fulfilled:

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

Regarding b)
Financial assets measured at fair value through other comprehensive income include the following positions:

- Equity instruments not held for trading purposes and where, upon initial recognition, the Group has made the irrevocable decision to disclose the respective equity instrument under this category.
- Debt instruments where the contractual cash flows are solely payments of principle and interest on the principal amount outstanding and which are held within a business model whose objective is to collect the contractual cash flows and also to sell financial assets.

Regarding c)
The Group measures the following assets at fair value through profit or loss:

- Equity instruments held for trading purposes and equity instruments where the Group has decided not to report changes in fair values in other comprehensive income.
- Debt instruments which are neither measured at amortized cost nor at fair value in equity.

b) Financial liabilities

In accordance with IFRS 9, financial liabilities are allocated to the following categories:

a.) measured at amortized cost
b.) measured at fair value through profit or loss

Regarding a)
All liabilities are generally to be classified as measured at amortized cost in accordance with IFRS 9. Exceptions mainly relate to:

- Financial liabilities which, upon initial recognition, were irrevocably designated as measured at fair value through profit or loss
- Derivatives
- Financial guaranties

c) Derecognition

In general, a financial asset is derecognized when one of the following preconditions is met:

- The contractual rights to receive cash flows from the financial assets have lapsed, or
- The Group has transferred its contractual rights to receive cash flow from the financial assets to a third party or has assumed a contractual obligation to pay the cash flows immediately to a third party as part of an agreement under which the Group either (a) essentially transferred all risks and rewards in connection with the ownership in the financial asset, or (b) essentially transferred none of the risks and rewards in connection with the ownership in the financial asset but has transferred the power of control over the asset.

A financial liability is derecognized when the obligation underlying the liability is cancelled or has expired. If an existing financial liability is replaced by another financial liability of the same lender with substantially different contractual conditions or if the conditions of an existing liability undergo major changes, such replacement or such change is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

9. Employee Benefits

Lesson Nine grants the Group management and selected executive staff members share-based remuneration within the scope of the EVOP program. The remuneration from the plan falls if an Exit event occurs. An Exit event is defined as the acquisition of more than 50% of the shares or the assets of Lesson Nine by one or several investors as well as a liquidation of the Company.

The components to be recognized in the income statement over time correspond to the fair value of the remuneration claims at the respective vesting phase date since Lesson Nine settles the obligation in the form of cash or cash equivalents. The liability or the decrease/increase in fair value is recognized via the personnel expenses of administration costs.

The shareholders of Lesson Nine allocated business shares to this employee program in order to secure the program and discharge the Company in the event of a dividend distribution or Exit. The receivable from the shareholders is measured analogously to the provision (cf. F.01). The obligation to allocate the business shares to the program is also caused by the corporate relationship. Consequently, the recognition and change in the receivable is presented in equity with no effect on profit or loss.

10. Other Provisions

The other provisions are set up to account for a legal or factual obligation vis à vis the Babbel Group that results from a past event, the fulfillment of which is probable and the amount of the obligation can be reliably determined. Recognition is based on the expected settlement amount.

In order to meet the current obligation, the recognized amount of the provision is the best estimate that results on the balance sheet date from the service rendered. All inherent risks and uncertainties are to be taken into consideration in this context. If a provision is measured on the basis of the cash flows estimated in the context of settling the obligation, the respective cash flows must be discounted in the event of a material interest effect.

If it can be assumed that the economic benefit necessary for settling the provision is refunded by an external third party even in part or as a whole, the respective claim is recognized as an asset provided the refund is as good as certain and the amount can be reliably estimated.

In view of the estimation uncertainty when determining the amount, the actual outflows of resources may differ from the amounts initially recognized on the basis of estimates.

Non-current provisions are recognized on the basis of corresponding term-adequate and risk-adjusted interest rates at their settlement amount discounted to the balance sheet date.

11. Determination of Fair Value

In accordance with IFRS 13 provisions, the fair value represents the price that can be achieved on the principal market or, if not available, on the most advantageous market through the sale of an asset or that would have to be paid for the transfer of a liability. The fair value is to be determined on the basis of measurement parameters as close to the market as possible. The fair value hierarchy prioritizes the input factors included in the measurement procedure into three descending levels:

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

To the extent that different input factors are of relevance for measurement, the fair value is allocated to the hierarchy level that corresponds to the input factor of the lowest level which is material for the measurement as a whole.

12. Discretionary Decisions and Use of Estimates

The application of recognition and measurement methods and the preparation of consolidated financial statements require the management to make discretionary decisions and estimates. In the current situation caused by the coronavirus crisis, these decisions are associated with greater uncertainty.

Discretionary decisions and estimates have to be made for the following issues in particular:

a) Discretionary decisions

Going concern premise:

The Babbel Group's equity ratio stands at 3% as of December 31, 2019. Despite the consolidated net loss for the year in the amount of € -2,956 thousand and the lower equity ratio, the Company has not doubts that the going concern assumption can be fulfilled since sufficient liquidity in the amount of € 30,530 thousand* is available as of the reporting date.

*Change of consolidated financial statements 2019, see more details in section V.A.2 "Change of consolidated financial statements 2019"

b) Assumptions and estimation uncertainties

Share-based payment (IFRS 2)

The accounting treatment of virtual shares, requires assumptions and estimates to be made with respect to the development of performance indicators and fluctuation, the Exit date, as well as with respect to the determination of corporate value. The determination of the corporate value is based on discounted cash flow models.

Measurement of financial assets

When measuring financial assets, the assessment of corporate value as well as the parameters described above are crucial for the measurement of share-based remuneration.

Accounting treatment and measurement of other provisions

The accounting treatment and measurement of other provisions involves uncertainty with regard to future price increases and the amount, point in time and probability of utilization of the respective provision.

Recognition of deferred tax assets

The recognition of deferred tax assets on losses carried forward requires assumptions and estimates to be made with respect to the development and use of the tax losses carried forward. The determination is based on an integrated balance sheet and profit/loss planning model. The non-recognition of deferred tax assets is the result of significant planning uncertainty with regard to earnings in the following years, which caused management to forego capitalization.

New Regulations concerning International Accounting pursuant to IFRS

The following accounting provisions were to be applied for the first time in the year under review:

IFRS 16	IFRS 16 mainly modifies the accounting by lessees and results in recognition of nearly all leasing arrangements on the balance sheet. This standard annuls the former distinction between operating and finance leasing for the lessee and requires the recognition of a right of use and a financial liability for almost all leasing agreements. The income statement is also impacted by the new standard because the total expenses are typically higher in the early years of a leasing arrangement and lower in later years. Furthermore, operating expenses are replaced by interest and write-downs, which means that key indicators such as EBITDA change. The operating cash flow will be higher because the payments made to repay the lease liability are assigned to the financing activities.

IFRIC 23 "Recognition of uncertain tax positions"	The interpretation explains how to recognize and measure deferred and ongoing income tax claims and liabilities if there is uncertainty relating to tax treatment. This relates to a clarification of existing obligations rather than to new disclosure requirements.
Prepayment Features with Negative Compensation – Amendments to IFRS 9	The amendments to IFRS 9 allow companies to measure certain prepaid financial assets with negative compensation at amortized cost. These assets, which include several credit and debt instruments would otherwise have to be recognized at fair value through profit or loss.
Long-Term Interests in Associates and Joint Ventures – Amendments to IAS 28	These amendments clarify the recognition of long-term interests which are not measured using the equity method although they form part of the net investment in a company measured using the equity method. The interests must be accounted for and valued pursuant to IFRS 9. Thus, any impairment of these interests is determined according to the provisions set forth in IFRS 9. However, the provision set forth in IAS 28.8 remains in place to consider interests of this type in the loss allocation within the course of applying the equity method to the value of the equity investments.
Annual improvements to IFRS (cycle 2015 -2017)	An amendment has been made to the following standards as of January 1, 2019: - IFRS 3 Business combinations – If a Company acquires further shares and as a result takes control within the meaning of IFRS 10 over a former joint operation which represents a business operation, this constitutes a business combination achieved in stages. - IFRS 11 Joint Arrangements – If a Company acquires further shares and as a result takes joint leadership over a former joint operation which represents a business operation, the previously held shares are revalued. - IAS 12 Income Taxes – Clarification that the income tax consequences of dividend payments on the financial instruments classified as equity must be treated according to the treatment of an underlying transaction for the tax impact. - IAS 23 Borrowing Costs – Clarification that borrowed funds which have not yet been repaid and which were originally taken up to procure a qualified asset must be considered in the determination of the general borrowed capital rate for other qualified assets which were not taken up for special borrowed funds from the date from which this qualified asset is prepared in principle for its intended use or sale.
Plan amendments, curtailment or settlement – Amendments to IAS 19	The amendments to IAS 19 "Employee Benefits" include specifications for the recognition of plan amendments, curtailments, and settlements.

The Company applied IFRS 16 "Leases" and the resulting amendments to other standards for the first time in the current year. Please refer the relevant sections on fixed assets and leases for a description of the amendments with regard to the consolidated financial statements.

IFRIC 23 on the recognition of uncertain tax positions was taken into account accordingly for recognition.

The other new or amended provisions are not relevant for the Company.

The following new or amended standards and interpretations have already been adopted by the IASB, but they are not yet subject to mandatory application. These regulations were not applied early.

IFRS 17	Insurance Contracts	Applies to financial years beginning on or after January 1, 2023
Amendments to IAS 1 and IAS 8	Definition of materiality	Applies to financial years beginning on or after January 1, 2020
Amendments to IAS 1	Classification of liabilities	Applies to financial years beginning on or after January 1, 2023
Amendments to IFRS 3	Definition of a business	Applies to financial years beginning on or after January 1, 2020
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16	Interest Rate Benchmark Reform – Phase 2	Applies to financial years beginning on or after January 1, 2021
Conceptional framework	Revised conceptional framework	Applies to financial years beginning on or after January 1, 2020

At present, Lesson Nine is examining the new standards with respect to their impact on the information provided in the consolidated financial statements. At the time of preparation of the consolidated financial statements for the 2019 reporting period, Lesson Nine is not in a position to fully assess the impact of the new regulations. Lesson Nine will perform a more precise assessment of the respective impacts in the near future. It is not assumed that the amendments will impact significantly on the consolidated financial statements.

- IFRS 17 specifies the principles for the recognition, measurement, presentation and disclosure of insurance contracts. It replaces IFRS 4. Because the Company is not an insurance company and no insurance has been issued, IFRS 17 will not have any implications for the consolidated financial statements.
- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are intended to refine the definition of materiality through standardizing the wording in various standards and pronouncements. In accordance with this, materiality is defined as follows: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."*
- The amendments to IAS 1 Classification of liabilities should clarify that the classification of liabilities as current or non-current is based on the rights which the Company has at its disposal as of the closing date. According to the amendment, liabilities are categorized as non-current if the Company holds a substantial right at the end of the reporting period to postpone the fulfilment of the debt by at least 12 months after the balance sheet date. For this assessment it is irrelevant whether the Company will also exercise its option.
- The amendments to IFRS 3 Business Combinations serve to clarify the definition of a business operation.
- The amendments to the interest rate benchmark reform are in connection with the reform of the interest rate benchmarks (IBOR reform) specifically with regard to the presentation of amendments to contractual cash flows and hedging relationships which became necessary in this context, i.e. if this is a direct consequence of the IBOR reform and the old and new basis for the determination of the contractual cash flows are economically offset.
- Amendments to the conceptual framework concern several issues, such as emphasis on the precautionary principle, reworking of the definition of asset and liability as well as on recycling via OCI.

H. Events after the Balance Sheet Date

The worldwide spread of the coronavirus in the first quarter 2020 has resulted in opportunities for the Babbel Group, but also presented new challenges and risks whose duration and intensity are unpredictable at present. Potential risks which are not yet quantifiable for Lesson Nine GmbH can arise from external economic and market developments, as well as in-house processes. Management is aware of all risks. Appropriate measures have been taken to minimize risk. For more information, please refer to the reporting in the group management report (both the opportunities and risk report and the forecast).

Lesson Nine GmbH

Berlin, June 17, 2021

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Arne Schepker

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Thomas Holl

The following independent auditor's report (Bestätigungsvermerk des unabhängigen Abschlussprüfers) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the amended consolidated financial statements and the amended group management report (Konzernlagebericht) of Lesson Nine GmbH (since April 1, 2021: Babbel GmbH), Berlin, as of and for the fiscal year ended December 31, 2019. The amended group management report is neither included nor incorporated by reference in this Prospectus.

VI. INDEPENDENT AUDITOR'S REPORT

To Lesson Nine GmbH, Berlin

Audit Opinions

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

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities,

financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Note on Supplementary Audit

We issue this auditor's report on the amended consolidated financial statements and amended group management report on the basis of our audit, duly completed as at June 5, 2020, and our supplementary audit completed as at June 17, 2021 related to the amendment of the disclosure of rental deposits in the "Cash and cash equivalents" and "Other financial assets" line items in the consolidated financial statements and the related disclosures in the notes of the consolidated balance sheet and the resulting amendment to the consolidated cash flow statement and to the corresponding disclosures in the consolidated financial statements and the group management report, as well as to the amendment to the disclosures of related persons/entities and leasing arrangements in the notes to the consolidated financial statements. We refer to the presentation of the amendment by the executive directors in the amended notes to the consolidated financial statements, section V.A.2. "Amendments to the consolidated financial statements 2019", as well as the amended group management report, section I.A. "Amendments to the group management report 2019.

Berlin, June 5, 2020
limited to the amendments specified in the note on supplementary audit: June 17, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Philipp Medrow) Wirtschaftsprüfer (German Public Auditor)	(ppa. sgd. Johannes Häner) Wirtschaftsprüfer (German Public Auditor)

Audited Consolidated Financial Statements of Lesson Nine GmbH prepared in accordance with IFRS as of and for the fiscal year ended December 31, 2018

I. Consolidated Balance Sheet

Assets		Note disclosure	12/31/2018 EUR	12/31/2017 EUR
A.	**Non-current assets**			
I.	Intangible assets	C.1	684,541	204,892
II.	Tangible assets	C.1	1,702,259	1,764,675
III.	Other assets	C.3	19,937,158	13,068,771
			22,323,959	**15,038,338**
B.	**Current assets**			
I.	Trade receivables and other assets	C.2	3,289,758	3,620,459
II.	Other financial assets	C.3	3,765,711	1,944,257
III.	Other assets	C.3	4,073,604	1,862,586
IV.	Cash and cash equivalents	C.5	25,858,600	27,181,740
			36,987,672	**34,609,043**
Total assets			**59,311,631**	**49,647,381**

Equity and liabilities		Note disclosure	12/31/2018 EUR	12/31/2017 EUR
A.	**Equity**	C.6		
I.	Subscribed capital		50,198	50,198
II.	Capital reserves		28,528,133	28,528,133
III.	Revenue- and other reserves		-27,531,982	-21,956,797
IV.	Currency differences		-10,047	-28,787
			1,036,303	**6,592,747**
B.	**Non-current liabilities**			
I.	Provisions	C.7	20,044,949	13,132,169
II.	Trade payables and other liabilities	C.8	44,239	20,920
			20,089,188	**13,153,088**
A.	**Current liabilities**			
I.	Other provisions	C.7	1,510,292	1,118,109
II.	Trade payables and other liabilities	C.8	4,541,939	3,616,685
III.	Other liabilities	C.9	32,133,713	25,157,984
IV.	Income tax liabilities		197	8,767
			38,186,140	**29,901,545**
Total equity and liabilities			**59,311,631**	**49,647,381**

II. Consolidated Statement of Comprehensive Income

	Note disclosure	2018 EUR	2017 EUR
1 Sales revenues	D.1	106,421,615	84,008,086
2 Cost of sales	D.2	-13,143,703	-10,517,047
Gross profit on sales		**93,277,913**	**73,491,039**
3 Marketing expenses	D.3	-75,114,465	-60,128,844
4 Research- and development expenses	D.4	-15,673,575	-10,642,355
5 General administration expenses	D.5	-14,528,515	-11,578,268
6 Other operating income	D.6	809,983	1,052,873
7 Other operating expenses	D.7	-1,184,024	-1,157,275
Result before interest and income taxes		**-12,412,683**	**-8,962,830**
8 Financial income	D.8	38,625	2
9 Financial expenses	D.8	-824	-4,358
10 Income taxes	D.9	-68,690	-47,849
Consolidated result for the period		**-12,443,572**	**-9,015,036**
Other result, net			
Items to be reclassified to the consolidated income statement in the future			
11 Currency translation differences	C.6	18,740	2,612
Total result		**18,740**	**2,612**
Consolidated comprehensive income for the period		**-12,424,832**	**-9,012,424**
Period result attributable to:			
Shareholders of the parent company		-12,443,572	-9,015,036
Consolidated comprehensive income attributable to:			
Shareholders of the parent company		-12,424,832	-9,012,424

III. Consolidated Statement of Changes in Equity

01/01/2017 - 12/31/2018	Attributable to the owners of the parent company				
		Reserves			
in EUR	Subscribed capital	**Capital-reserves**	**Revenue- and other reserves**	**Currency translation reserve**	**Total equity**
Note disclosure	C. 6 a)	C. 6 a)	C. 6 b)	C. 6 b)	
Balance sheet as of 01/01/2017	**50,198**	**28,528,133**	**-17,888,814**	**-31,398**	**10,658,119**
Net result for the year	0	0	-9,015,036	0	**-9,015,036**
Other result	0	0	0	2,612	**2,612**
Total result	**0**	**0**	**-9,015,036**	**2,612**	**-9,012,424**
Other changes	0	0	4,947,053	0	**4,947,053**
Transactions with owners	**0**	**0**	**4,947,053**	**0**	**4,947,053**
Balance sheet as of 12/31/2017	**50,198**	**28,528,133**	**-21,956,797**	**-28,787**	**6,592,747**
Net result for the year	0	0	-12,443,572	0	**-12,443,572**
Other result	0	0	0	18,740	**18,740**
Total result	**0**	**0**	**-12,443,572**	**18,740**	**-12,424,832**
Other changes	0	0	6,868,388	0	**6,868,388**
Transactions with owners	**0**	**0**	**6,868,388**	**0**	**6,868,388**
Balance sheet as of 12/31/2018	**50,198**	**28,528,133**	**-27,531,982**	**-10,047**	**1,036,303**

IV. Consolidated Cash Flow Statement

		Notes disclosure	2018 EUR	2017 EUR
1	**Cash flow from operating activities**			
	Period result before income taxes		-12,374,882	-8,967,187
	Amortization/depreciation of tangible assets and of intangible assets (+)		571,814	456,701
	Increase (+) in provisions	C.7	6,910,280	4,899,235
	Loss (+) from the disposal of fixed assets	C.1	18,629	14,830
	Other non-cash expenses and income		-1,775	94
	Increase (-) in trade receivables and other assets		-3,679,444	-1,639,988
	Increase (+) in trade payables and other liabilities		8,180,697	6,601,146
	Interest received (-)		-38,707	0
	Interest expenses (+)		907	18
	Income taxes paid (-)		-68,690	-47,849
	Cash flow from operating activities		**-481,172**	**1,317,001**
2	**Cash flow from investing activities**			
	Payments made (-) for investments in tangible assets and intangible assets	C.1	-744,300	-350,971
	Payments received from disposals of tangible assets		3,380	446
	Acquisition of subsidiaries		-158,413	0
	Interest received (+)		38,625	2
	Cash flow from investing activities		**-860,708**	**-350,523**
3	**Cash flow from financing activities**			
	Interest paid (-)		0	-20
	Cash flow from financing activities		**0**	**-20**
4	**Cash and cash equivalents at end of period**			
	Changes in cash and cash equivalents (sub-totals 1 – 3)		-1,341,880	966,458
	Currency-related changes in cash and cash equivalents		18,740	2,612
	Cash and cash equivalents at beginning of period		27,181,740	26,212,671
	Cash and cash equivalents at end of period		**25,858,600**	**27,181,740**

V. Notes to the Consolidated Financial Statements

A. General Information on the Consolidated Financial Statements

1. Fundamentals of the Group

Lesson Nine GmbH (hereinafter also referred to as "Lesson Nine") is a corporation domiciled in Germany. The Company's registered head office is located at Beer-Strasse 2, 10119 Berlin. The core activities of the Company and its subsidiary, Babbel Inc., Wilmington/Delaware (USA) (hereinafter also referred to as "Babbel Inc.") continues to be the development, operation and sale of eLearning systems under the "Babbel" brand. As a consequence of the acquisition of LingoVentura GmbH, Berlin (hereinafter also referred to as "LingoVentura"), the Group's activities were extended in the financial year 2018 to include the arrangement, organization and valuation of language studytravels.

2. Basics of Accounting of the IFRS Consolidated Financial Statements

The Babbel Group's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and published by the International Accounting Standards Board (IASB), and as to be applied in the EU. The preparation of the consolidated financial statements was based on the provisions stipulated in EC Regulation No. 1606/2002 of the European Parliament and the European Council of July 19, 2002 concerning the application of international accounting standards in conjunction with Section 315e (3) HGB [German Commercial Code], taking the supplementary commercial provisions into account.

The consolidated financial statements follow the classification regulations stipulated in IAS 1. The consolidated income statements are prepared using the type-of-expenditure format. The presentation in the consolidated balance sheet distinguishes between current and non-current assets and liabilities. Assets and liabilities due within one year are classified as current. Individual items of the consolidated statement of comprehensive income and the balance sheet have been combined in order to improve the clarity of presentation. These items are explained in the notes to the consolidated financial statements ("**Notes**").

The consolidated financial statements were prepared in Euro currency. Unless otherwise stated all values are rounded off to Euro (€). Rounding off differences relative to the exact arithmetical values may occur in the tables for computational reasons.

The consolidated financial statements are prepared on the assumption of the Company's ability to continue as a going concern.

The preparation of consolidated financial statements in accordance with IFRS requires estimates and valuation to be made by the Management. In the event of a larger measurement scope or if assumptions and estimates of vital importance are concerned, the respective items are explained in more detail in the Notes.

B. Scope of Consolidation

The scope of consolidation has changed over time. As of the balance sheet date it includes the parent company, Lesson Nine GmbH, the fully-owned (100%) subsidiary, Babbel Inc., and, as of September 30, 2018 the fully-owned (100%) subsidiary, LingoVentura GmbH, Berlin.

C. Notes to the Consolidated Balance Sheet

1. Fixed assets

Additions in 2018 mainly concerned investments in new operating and office equipment and in new software. Furthermore, 100% of the shares in LingoVentura were acquired in the financial year under review, resulting in additions from initial consolidation. A goodwill resulted from purchase price allocation which was capitalized in the reporting year.

Expenses for scheduled amortization/depreciation of intangible assets and tangible assets are allocated to the expense group concerned (Marketing, Research- and Development, General Administration). The goodwill is not subject to scheduled amortization. Unscheduled write-downs from impairment tests were not required to be reported in the financial year. The total amount of write- downs in the financial year is presented in the following Development of Fixed Assets.

Tangible asset items are derecognized upon disposal or when no future economic profit from the continued use of the tangible asset can be expected. As in the preceding financial year, a loss from the scrapping of tangible assets was reported in the financial year 2018. The loss was recognized in profit or loss and is measured on the basis of the asset's carrying amount and sales proceeds, ifany.

Fixed assets have developed as follows:

	Acquisition and manufacturing costs						Accumulated amortization/depreciation						Book value	
	01/01/2018	Additions	Additions from initial consolidation	Disposals	Reclassifications	**12/31/2018**	**01/01/2018**	Additions	Additions from initial consolidation	Disposals	Currency effects	**12/31/2018**	**12/31/2017**	**12/31/2018**
in EUR														
I, Intangible assets														
1. Goodwill	**0**	209,989	0	0	0	**209,989**	**0**	0	0	0	0	**0**	**0**	**209,989**
2. Acquired concessions, industrial property rights and other rights and assets and licenses in such rights and assets	278,356	79,286	33,895	0	209,622	**601,159**	**73,464**	66,144	0	0	0	139,608	204,892	461,552
3. Prepayments made	0	251,697	0	29,074	-209,622	**13,000**	**0**	**0**	0	0	0	**0**	**0**	**13,000**
Intangible assets	**278,356**	**540,972**	**33,895**	**29,074**	**0**	**824,149**	**73,464**	**66,144**	**0**	**0**	**0**	**139,608**	**204,892**	**684,541**
II, Tangible assets														
Other equipment, operating and office equipment	2,636,887	464,313	0	131,221	0	2,969,979	872,212	505,670	0	109,211	-951	1,267,720	1,764,675	1,702,259
Tangible assets	**2,636,887**	**464,313**	**0**	**131,221**	**0**	**2,969,979**	**872,212**	**505,670**	**0**	**109,211**	**-951**	**1,267,720**	**1,764,675**	**1,702,259**
Fixed assets	**2,915,243**	**1,005,285**	**33,895**	**160,295**	**0**	**3,794,128**	**945,676**	**571,814**	**0**	**109,211**	**-951**	**1,407,328**	**1,969,567**	**2,386,800**

		Acquisition and manufacturing costs					Accumulated amortization/depreciation						Book value	
		01/01/2017	Additions	Additions from initial consolidation	Disposals	Reclassifications	12/31/2017	01/01/2017	Additions	Additions from initial consolidation	Disposals	Currency effects	12/31/2017	12/31/2016	12/31/2017
	in EUR														
I.	**Intangible assets**														
1	Acquired concessions, industrial property rights and other rights and assets and licenses in such rights and assets	**250,756**	27,600	0	0	0	**278,356**	**25,190**	48,274	0	0	0	**73,464**	**225,566**	**204,892**
	Intangible assets	**250,756**	**27,600**	**0**	**0**	**0**	**278,356**	**25,190**	**48,274**	**0**	**0**	**0**	**73,464**	**225,566**	**204,892**
II.	**Tangible assets**														
	Other equipment, operating and office equipment	**2,359,064**	334,364	0	56,541	0	**2,636,887**	**503,698**	408,427	0	41,265	1,352	**872,212**	**1,855,365**	**1,764,675**
	Tangible assets	**2,359,064**	**334,364**	**0**	**56,541**	**0**	**2,636,887**	**503,698**	**408,427**	**0**	**41,265**	**1,352**	**872,212**	**1,855,365**	**1,764,675**
	Fixed assets	**2,609,820**	**361,964**	**0**	**56,541**	**0**	**2,915,243**	**528,888**	**456,701**	**0**	**41,265**	**1,352**	**945,676**	**2,080,931**	**1,969,567**

2. Trade receivables and other receivables

The following table provides an overview of the Group's receivables:

in EUR	12/31/2018	12/31/2017
Trade receivables	3,289,758	3,620,459
Total	**3,289,758**	**3,620,459**
of which current	*3,289,758*	*3,620,459*
of which non-current	*0*	*0*

As of the balance sheet date, the trade receivables and other receivables are largely due from payment providers. The r maturities are stated above.

The due dates of the trade receivables and other receivables are as follows:

in EUR	12/31/2018
not overdue	*3,276,809*
overdue up to 3 months	*12,929*
overdue 3 to 6 months	*20*
Total	**3,289,758**

The provisions of IFRS 9 have been observed when assessing the default risk associated with trade receivables and other receivables. The probability of occurrence was determined on the basis of historical data and projected future conditions. Appropriate processes for managing payment default risks have been implemented. The historical loss rate, measured on the basis of internal data comes to 1.58% for the sales area that is subject to a default risk. Given these factors, the risk of future losses on receivables is assessed as very low overall. Adequate value adjustments in the amount of € 16,419 were set up with respect to receivables overdue in the reporting year. For reasons of materiality, a separate item was not reported in the statement of comprehensive income. In all we establish that the default risk is considered as low due to the existing business model. which generally provides for advance payments made on the part of the customers and, in addition, due to the fact that the receivables mainly relate to renowned resellers and payment providers (in particular Apple, Google and PayPal). These customers have been given top ratings by prestigious ratingagencies.

3. Other assets and other financial assets

The other assets are structured as follows:

in EUR	12/31/2018	12/31/2017
Refund claims from shareholders	19,937,158	13,068,771
Prepayments/prepaid expenses	4,758,151	1,447,424
Other	3,081,163	2,359,419
Total	**27,776,473**	**16,875,614**
of which current	*7,839,315*	*3,806,843*
of which non-current	*19,937,158*	*13,068,771*

The **refund claims from shareholders** result from the Employee Virtual Ownership Plan. For more detail see V.F.1.c).

Within the scope of Other assets, the item, **Prepayments/prepaid expenses**, primarily concerns marketing services not yet provided as well as prepayments on services yet to be rendered, deposits and retention money of the various payment providers.

The item **Other** within the scope of other assets largely includes deposits or retention money of the various payment providers.

4. Deferred income taxes

Deferred tax assets for tax losses carried forward and deductible temporary differences are recognized only to the extent that realization of the tax advantage through future tax profits is probable. The Group's temporary differences as of 12/31/2018 amounted to amounted to € 119,946 (12/31/2017: € 0) and resulted mainly from tax losses carried forward by subsidiaries.

No deferred tax assets were recognized for domestic trade taxy losses carried forward in the amount of € 26,726,775 (12/31/2017: € 21,373,402) and for domestic corporation tax losses carried forward in the amount of € 27,349,611 (12/31/2017: € 21,829,428). The non-recognized deferred tax assets are mainly attributable to the parent company. The trade tax and corporation tax losses carried forward can be used for an indefinite period of time. The amount of non-recognized deferred tax assets from tax losses carried forward amounts to k€ 8,163 as of the balance sheet date.

5. Cash and cash equivalents

Cash and cash equivalents are structured as follows:

in EUR	**12/31/2018**	**12/31/2017**
Bank balances	25,857,846	27,180,513
Cash inventories	754	1,227
Total	**25,858,600**	**27,181,740**

The development of cash and cash equivalents during the reporting period is reflected in the statement of consolidated of cash flows.

6. Equity

The change in equity components is presented in the consolidated statement of changes in equity

a) Subscribed capital and capital reserves

The subscribed capital entered into the Commercial Register is fully paid in and amounts to € 50,198 (prior year € 50,198).

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

The capital reserves include additional shareholder contributions to equity from previous financing rounds. The capital reserves have not undergone any change in the financial year under review.

b) Revenue- and other reserves

The Group's revenue- and other reserves include the profit/loss carried forward at the beginning of the period, the net loss for the reporting period, the neutral effect from the change in receivables from shareholders relating to the compensation claim from share-based remuneration within the framework of the Employee Virtual Ownership Plan (hereinafter "EVOP") and the other result for the period (Other comprehensive Income – OCI).
The other comprehensive income for the period contains differences from the currency translation of foreign subsidiaries' financial statements which is neutral in its effect on profit or loss. This value is disclosed separately in the consolidated balance sheet.

7. Provisions

The increase in provisions in 2018 results, in particular, from the addition to the provision for share- based remuneration.

The following table shows the development of other provisions including respective maturity allocation.

in EUR	As of 01/01/2018	Reclassi-fications	Addition	Utilization	Release	As of 12/31/2018
Other provisions						
1. Share-based remuneration	13,068,771	0	6,868,388	0	0	**19,937,158**
2. Restoration obligations	63,398	0	44,392	0	0	**107,790**
3. Other	1,118,109	0	1,220,207	-828,024	0	**1,510,292**
Total	**14,250,278**	**0**	**8,132,987**	**-828,024**	**0**	**21,555,241**
of which current	1,118,109	0	1,220,207	-828,024	0	**1,510,292**
of which non-current	13,132,169	0	6,912,780	0	0	**20,044,949**

Share-based remuneration

The beneficiaries under the program for share-based remuneration are contractually entitled to the payment of a cash equivalent of the shares issued by the Company. The respective claims fall due immediately in the event of a material change in the shareholder structure ("Exit").

The share-based remuneration for employees was measured using an option price model (Black- Scholes Method), applying the value of a call option on the corporate share. The volatilities applied were derived by means of a peer group used within the scope of the process. The maturity of the option was assumed to be on the May 31, 2005 Exit date. The market prices were determined by means of a DCF-based corporate valuation. Consequently, it is expected that the expenses will fall due as of this Exit date.

The share-based remuneration is referred to in section V.F.1. of the Notes.

Restoration obligations

The restoration obligations relate to leasehold improvements at old and new business premises. Part of the provision was used in the context of the cancellation agreement concluded with respect to the old business rooms.

Provisions for leasehold improvements concern the business premises at Max-Beer- Strasse. They must be removed by the end of the rental period (in 2025 at the latest). The provision was measured on the basis of an assessment of the costs at the occurrence date, discounted to December 31, 2018. At present, the provision is not expected to be released before the end of the rental period.

Other provisions

The other provisions mainly include employee bonus payments, VAT risks and expenses for the preparation and audit of annual financial statements. Measurement is based on the settlement amount in each case. Utilization is expected in the following financial year.

8. Trade payables and other liabilities

Trade payables and other liabilities are structured as follows:

in EUR	**12/31/2018**	**12/31/2017**
Trade payables	3,070,313	2,179,107
Financial liabilities		
from invoices outstanding	*1,363,135*	*1,437,655*
from Other	*152,730*	*20,843*
Total	**4,586,179**	**3,637,605**
of which current	*4,541,939*	*3,616,685*
of which non-current	*44,240*	*20,920*

The maturities of trade payables and other liabilities are stated above.

9. Other liabilities

Other liabilities are structured as follows:

in EUR	**12/31/2018**	**12/31/2017**
from the deferral of sales revenues	30,064,588	23,253,921
Taxes and levies	1,305,025	1,347,989
Vis à vis employees	585,306	422,734
Remaining other liabilities	178,793	133,340
Total	**32,133,713**	**25,157,984**
of which current	*32,133,713*	*25,157,984*
of which non-current	*0*	*0*

The other liabilities from the deferral of sales revenues result from the sale of subscriptions.

The other liabilities from taxes and levies largely concern VAT liabilities from wage- and church tax.

The other liabilities vis à vis employees largely include employees' claims from vacation not yet taken as of the balance sheet date.

D. Notes to the Consolidated Statement of Comprehensive Income

1. Sales revenues

Sales revenues developed as follows:

in EUR	**2018**	**2017**
Sales revenues from		
- subscription sales to private customers	105,733,734	83,649,901
- Other sales (Babbel-to-Business)	687,881	358,185
Total	**106,421,615**	**84,008,086**

2. Cost of sales

The cost of sales are structured as follows:

in EUR	2018	2017
Cost of sale via App Stores	-9,978,582	-8,051,102
Cost of online payments	-2,238,888	-1,724,733
Other cost of sales	-926,233	-741,212
Total	**-13,143,703**	**-10,517,047**

3. Marketing expenses

The marketing expenses are structured as follows:

in EUR	2018	2017
Non-personnel expenses	-63,346,757	-51,053,979
Personnel expenses	-11,574,712	-8,915,215
Amortization/depreciation	-192,995	-159,650
Total	**-75,114,465**	**-60,128,844**

The non-personnel expenses mainly concern advertising expenses for online- and offline marketing campaigns and for TV commercials.

4. Research- and development expenses

The expenses for research and development result from the following costgroups:

in EUR	2018	2017
Personnel expenses	-14,201,490	-9,776,110
Non-personnel expenses	-1,177,287	-646,842
Amortization/depreciation	-294,797	-219,404
Total	**-15,673,575**	**-10,642,355**

The non-personnel expenses mainly include expenses for free-lance staff and license costs.

5. General administration expenses

The general administration expenses are structured as follows:

in EUR	2018	2017
Share-based remuneration	-6,868,388	-4,947,053
Personnel expenses	-4,057,420	-3,445,571
Rental and lease expense	-1,315,391	-1,226,030
Office and IT	-667,904	-623,621
Audit- and consulting expense	-655,543	-542,044
Gas, electricity, water	-222,966	-215,279
Other purchased services	-142,415	-50,980
Amortization/depreciation	-84,021	-77,647
Travel costs, accommodation and cost of meals	-82,341	-78,887
Other expenses	-432,127	-371,156
Total	**-14,528,515**	**-11,578,268**

With respect to expenses for share-based remuneration (EVOP) reference is made to section V.F.1. Rental and lease expenses mainly concern office space rentals.
Costs relating to Office and IT mainly concern server- and license costs.

6. Other operating income

The other operating income is structured as follows:

in EUR	2018	2017
Income from currency translation	569,322	188,238
Off-period income	71,513	32,372
Other operating income	169,148	832,263
Total	**809,983**	**1,052,873**

7. Other operating expenses

The other operating expenses are structured as follows:

in EUR	2018	2017
Expense from currency translation	-760,665	-935,704
Off-period expenses	-125,163	-73,194
Other operating expenses	-298,196	-148,376
Total	**-1,184,024**	**-1,157,275**

8. Financial Result

The financial result 2018 in the amount of € 37.801 EUR (prior year € -4.357 EUR) is attributable mainly to other interest income.

9. Income taxes

The income/expense relating to income tax is exclusively attributable to actual income taxes.

Based on the consolidated net result for the year before income taxes and expected income tax, the transition to the actual income tax expense is as follows:

in EUR	2018	2017
Result before income taxes	**-12,374,882**	**-8,962,830**
Expected tax income (expected tax rate 2018, 2017: 30.175%)	**3,734,121**	**2,705,849**
Adjustment of expected tax income		
Deviating tax rate of the Group	-14,283	-5,372
Tax effects from add-ons and reductions for local taxes	-2,082,282	-1,645,902
Effects from the non-recognition of deferred tax assets on losses carried forward	-1,706,246	-1,102,424
Income taxes	**-68,690**	**-47,849**

The tax rate to be applied for determining the expected income from income tax corresponds to the parent company's tax rate and cis comprised of the corporation tax rate including solidarity surcharge of 15.825%, and the trade tax rate of 14.35%.

E. Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement was prepared in accordance with IAS 7. It reflects the inflows and outflows of capital during the reporting year. The cash flows are subdivided into the cash flows from operating activities, investing activities and financing activities. The cash flow from operating activities is determined using the indirect method pursuant to IAS 7.18 (b). The cash flow from investing activities and from financing activities is determined using the direct method pursuant to IAS 7.21.

The cash flow from the acquisition of the shares in LingoVentura GmbH is presented separately in accordance with IAS 7.39 and allocated to investing activities. The Company was acquired for a purchase price of € 200,000. In all, the assets acquired amounted to k€ 100, of which k€ 42 cash and cash equivalents at the time of initial consolidation. .

The cash and cash equivalents stated in the cash flow statement correspond to the cash and cash equivalents reported in the balance sheet, i.e., cash on hand and bank credit balances. Reference in this respect is made to the consolidated balance sheet in section I. Cash and cash equivalents amount to. € 25,858,600 EUR (prior year € 27,181,740) as of December 31, 2018. They are not subject to restraints on disposal.

F. Other Notes

1. Share-based payment – IFRS 2

Since 2013 Lesson Nine GmbH has been operating programs for share-based remuneration in order to enable senior executives to participate in the Company's value development and reward them for their contribution to the sustained success of the Babbel Group in comparison with competition. The group of qualifying beneficiaries includes the upper management levels of Lesson Nine GmbH and affiliated companies of the Babbel Group.

a) EVOP: Description of the program

At present, the Company is operating three programs (Employee Virtual Share Program, EVOP I, II & III). The shares are issued successively following approval by the responsible shareholders committee.

Based on individual contracts, the qualifying persons are entitled to receive from the Company the payment of a cash equivalent relative to the shares issued or the dividend distributed. In the event of major changes in the shareholder structure ("**Exit**"), the respective claims fall due immediately. An Exit situation means that more than 50% of all shares are sold or transferred, equaling an exchange or an acquisition within the scope of an individual transaction or transactions in immediate chronological order or a sale or transfer of more than 50% of assets or the de facto liquidation of the Company.

Within the scope of an Exit, all claims from virtual shares already granted are immediately due for payment at the time the transaction is concluded. The number of shares granted is specified individually in the contractual agreements. The offering period and the vesting criteria are defined in a uniform manner in accordance with the specified standard.

The strike prices agreed in the programs vary in accordance with the bandwidth shown below, depending on the subscription rights issue date. The shares of the individual programs are allocated as follows:

Program	**EVOP I**	**EVOP II**	**EVOP III**
Strike price (in EUR/share)	1-2,331	2,331-3,497	3,497
Shares granted	2,727	1,400	200
of which lapsed	431	150	0

The qualifying persons are never granted any rights to the subscription of the Company's GmbH business shares. If the GmbH (limited liability company) were to be converted into a stock corporation, the virtual shares would be converted into stock options. The structure of these stock options following the conversion into a stock corporation, e.g. whether or not compensation is based on shares or cash, has not yet been specified.

The EVOP end as of December 31, 2040. In the event of a cancellation of the agreements before, after or as of December 31, 2040, the Company is required to make a severance payment.

All taxes, other levies or fees associated with the granting of virtual shares or cash payments within the scope of these agreements are to be paid by the qualifying persons and may be retained by the Company and deducted form the payments within the scope of the respective agreement. Employer contributions were not taken into account since the Company assumes that all qualifying persons are above the income thresholds at the payment date.

b) EVOP: Vesting period

The contractual vesting period extends over 48 months unless otherwise stipulated in the individual contractual agreements. An additional blocking period ("cliff") of up to 18 months on both the provider side and the recipient side can be agreed between the Company and the qualifying person. These cliffs impact on vesting inasmuch as they present a waiting period up to commencement of the contractual subscription period and non-forfeiture respecting the individual claim may apply only at a later date. If the employment or contractual relationship ends during this blocking period, all virtual shares will lapse irrespective of the reason for the end of employment or contractual relationship.

As a general rule, employees who leave the Company for personal reasons ("bad leavers") are not entitled to a claim for virtual shares. In addition, EVOP III includes a clause stipulating that 20% of the shares already vested shall lapse in the event that the respective person terminates the employee contract.

The share-based payment for employees is measured using an option price model (Black-Scholes Method), based on the value of a call option on the corporate shares. The volatilities assumed to this end, which were derived from the uniformly selected peer group, stand at 42.4%. The term of the options is based on the assumption of an Exit date as of May 31, 2022. The market prices were determined by means of corporate evaluation. The underlying exercise price corresponds to the strike price stated above. The underlying risk-free interest rate is 1.09%. In order to derive the underlying corporate value, a DCF based corporate evaluation was performed for the year 2018, which is based on the corporate planning and balance sheet as of the reporting date. The parameters used for discounting the capital returns are presented in the following table:

	2018	**2017**
WACC	12.29%	12.47%
EBITDA margin	21%	22%
Growth of perpetual annuity	2%	1%

The valuation performed on the basis of these parameters is reflected below. Any changes in the measurement of liabilities from share-based payment are recognized in profit/loss for the respective period.

Valuation date	**12/31/2018**	**12/31/2017**
Number of active shares	3,689	3,196
Number of shares tendered	3,120	2,661
Number of fully tendered share	2,478	1,987
Expected term of the options	05/31/2022	05/31/2020
Fair value in k€	19,937	13,069
Reported total expense for the period in k€	6,868	4,947
Intrinsic value of the liabilities for vested benefits in k€	17,935	12,101

c) EVOP: Corresponding receivables from shareholders

In order to discharge the Babbel Group from immediate financial strain that may arise from the Employee Virtual Ownership Plan, the shareholders backed the program with business shares that are directly made use of in the event of a dividend distribution or an Exit situation. Consequently, the Babbel Group discloses a receivable from shareholders which is equivalent to this amount.

2. Financial instruments

a) Notes to financial instruments

The following table presents the financial assets and liabilities on the basis of measurement categories and classes:

In the previous year, the following abbreviations were used with respect to the measurement categories:

- LaR: Loans and Receivables
- FLaC: Financial Liability at Cost

12/31/2018	Measurement category pursuant to IFRS 9	Measured at amortized cost	
in EUR		**Carrying amount**	**Fair value**
Deposits lodged	amortized cost	1,376,298	1,376,298
Other financial assets	amortized cost	2,389,412	2,389,412
Other financial assets		**3,765,711**	**3,765,711**
Trade receivables	amortized cost	3,289,758	3,289,758
Trade receivables and other receivables		**3,289,758**	**3,289,758**
Cash and cash equivalents	amortized cost	**25,858,600**	**25,858,600**
Total financial assets		**32,914,068**	**32,914,068**
Trade payables	amortized cost	3,070,313	3,070,313
Other financial liabilities	amortized cost	1,515,865	1,515,865
Trade payables and other liabilities		**4,586,179**	**4,586,179**
Total financial liabilities		**4,586,179**	**4,586,179**

12/31/2017	Measurement category pursuant to IAS 39	Measurement category pursuant to IFRS 9	Measured at amortized cost	
in EUR	31/12/2017	01/01/2018	**Carrying amount**	**Fair value**
Deposits lodged	LaR	amortized cost	199,222	199,222
Other financial assets	LaR	amortized cost	1,745,035	1,745,035
Other financial assets			**1,944,257**	**1,944,257**
Trade receivables	LaR	amortized cost	3,620,459	3,620,459
Trade receivables and other receivables			**3,620,459**	**3,620,459**
Cash and cash equivalents		amortized cost	**27,181,740**	**27,181,740**
Total financial assets			**32,746,456**	**32,746,456**
Trade payables	FLaC	amortized cost	**2,179,107**	**2,179,107**
Other financial liabilities	FLaC	amortized cost	**1,458,498**	**1,458,498**
Trade payables and other liabilities			**3,637,605**	**3,637,605**
Total financial liabilities			**3,637,605**	**3,637,605**

The residual terms of the carrying amounts of other financial assets, cash and cash equivalents, trade receivables, trade payables and other liabilities are current for the most part and approximate the respective fair values as of the reporting date.

b) Risk management

The Babbel Group considers itself to be exposed to default risks, liquidity risks and market risks due to the use of financial instruments. Default risks relate, in particular, to individual receivables, especially if these are not securitized. In addition, the Group is also exposed to fraud risks given various payment options (Fraud & Fake). Babbel monitors and controls these risks proactively within the framework of an effective risk management system. The risk management function is integrated into Group Controlling.

c) Default risk

The credit or default risks relates to the risk that business partners, mainly the payment providers, fail to comply with their payment obligations. This could lead to a loss for the Babbel Group. The respective losses concern, in particular, current trade receivables. The Babbel Group does not consider itself to be exposed to material credit risks from the default of individual customers since the credit risk is limited due to the principle of advance payment. The Babbel-Group monitors and actively controls the credit risk via credit standing reviews and optimization of payment processes. In all, we establish that, based on the business model applied, customers generally pay for the products in advance and the receivables are due from renowned resellers and payment providers with ratings issued by well-known rating agencies. The default risk is to be regarded as low.
The highest possible default risk corresponds to the carrying amount of the financial assets.

The table below illustrates the age structure of both the financial assets not yet due and overdue financial assets which are not yet written down as of the balance sheet date. With respect to the receivables inventory that is not delayed in payment and is not value-adjusted, there are no indications that debtor would fail to comply with their payment obligations.

Classes of financial instruments	**Carrying amount**	**of which neither overdue nor value- adjusted**	**of which overdue but not value adjusted as of the reporting date (in days)**		
in EUR			**1-120**	**120-180**	**> 180**
as of December 31, 2018					
Deposits lodged	1,376,298	1,376,298	0	0	0
Other financial assets	2,389,412	2,389,412	0	0	0
Trade receivables and other receivables	3,289,758	3,289,758	0	13,746	1,800
Total	**7,055,468**	**7,055,468**	**0**	**13,746**	**1,800**
as of December 31, 2017					
Deposits lodged	199,222	199,222	0	0	0
Other financial assets	1,745,035	1,745,035	0	0	0
Trade receivables and other receivables	3,620,459	3,620,459	0	0	0
Total	**5,564,716**	**5,564,716**	**0**	**0**	**0**

d) Liquidity risks

The Babbel Group's liquidity management ensures the availability of liquid funds through appropriate budget planning. Moreover, the financing of operative activities is secured through an always sufficient liquid assets portfolio. At present, the Babbel Group does not report any significant interest or repayment obligations.

The following table presents the contractually agreed (not discounted) interest and repayment obligations concerning non-derivative financial liabilities:

Type of liabilities		**Residual terms in years**		
in EUR	**Carrying amount**	**< 1**	**1 - 5**	**> 5**
as of December 31, 2018				
Trade payables	3,070,313	3,070,313	0	0
Invoices outstanding	1,365,206	1,365,206	0	0
Other liabilities	150,660	106,420	44,239	0
Total	**4,586,179**	**4,541,939**	**44,239**	**0**
as of December 31, 2017				
Trade payables	2,179,107	2,179,107	0	0
Invoices outstanding	1,437,655	1,437,655	0	0
Other liabilities	20,843	0	20,843	0
Total	**3,637,605**	**3,616,762**	**20,843**	**0**

e) Market risks

The Babbel Group generates a substantial proportion of its sales revenues in foreign currency. The Babbel Group generally strives at generating expenses and income in the same functional currency in order to reduce the currency risk. Nevertheless, the Babbel Group is exposed to a currency risk when transactions are concluded and the resulting payment flows are not denominated in the functional currency of the respective company. The following table illustrates the income statement effects that would have resulted if the foreign currencies presented had been higher or lower by 10% as of the balance sheet date.

Changes in	**12/31/2018**		**12/31/2017**	
EUR	**+10%**	**-10%**	**+10%**	**-10%**
EUR-USD	+315,824	-315,824	+20,606	-20,606

Furthermore, via its investment in the foreign subsidiary, the Babbel Group is exposed to a minor currency risk which arises from the translation of net assets. However, this translation risk does not present a currency risk in terms of IFRS 7.

3. Capital management

The objectives of the Babbel Group's capital management are primarily designed to finance the Group's growth strategy and minimize risks associated with the investment of liquid assets. This holistic strategy of capital management has remained unchanged in comparison with the previous year.

The Group is not subject to any external capital requirements.

The capital structure is controlled on the basis of an aimed-at liquidity level. The liquidity level is defined as the relation between current liabilities and liquid assets (cash and cash equivalents).

The leverage ratio developed as follows in the reporting year:

in EUR	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	25,858,600	27,181,740
Current liabilities	38,186,140	29,901,545
Leverage ratio	**1.48**	**1.10**

4. Notes on the cost of sales accounting method

Information relating to the cost of sales accounting method can be obtained from the following table:

in EUR	**2018**	**2017**
Expense for payments made to employees	**34,273,749**	**27,083,969**
of which wages and salaries	*23,673,319*	*19,252,298*
of which share-based payment	*6,868,388*	*4,947,053*
of which respecting social security	*3,732,042*	*2,884,619*
Expenses for scheduled amortization and depreciation	**571,814**	**456,701**

5. Number of employees

The Babbel Group had an average of 465 employees in the financial year 2018 (prior year 350). The classification according to employee groups is shown in the following table:

Average number of employees per group	2018	2017
Marketing & Sales	203	142
Didactics	42	40
IT Development	93	64
Management	2	2
Office Admin	125	102
Total	**465**	**350**

6. Total auditor's fees

The auditor's fees are allocated to the following services:

in TSD EUR	2018	2017
Services relating to the audit of financial statements	88	92
Tax consulting services	0	3
Other services	48	0
Total	**136**	**95**

7. Relationships with related parties

a) Relationships with related parties

Related parties within the meaning of IAS 24 include various classes of entities and people that are under significant control by the Company or can exert significant control over the Company. This also applies to entities that are significantly controlled by related parties of the Company. With respect to the definition of related parties, reference is made to the following comments.

The following compilations illustrate the impact of business transactions with related parties on the consolidated balance sheet and the consolidated statement of comprehensive income:

in EUR	12/31/2018	12/31/2017
Balance sheet		
Other provisions for entities that were controlled by related persons/entities	1,784,805	1,402,703
Trade payables	0	479

In the reporting period, transactions were concluded with affiliated companies concerning the use of consulting services provided by Lesson Nine.

b) Relationships with related persons

In accordance with the provisions stipulated in Standard IAS 24, the Company discloses its relationships with related persons. Due to their significant influence on the Company, the members of management and the shareholders committee (the "Board") are defined as related persons of the Company. The group of related persons also extends to these persons' family members.

Reportable transactions include, inter alia, the conclusion of loan and rental contracts, agreements on guaranties as well as the settling of services to the extent that these services have been exchanged between a related person or a related entity and the Company.

No business and legal transaction were concluded with related persons in the financial years 2017 and 2018 that would exceed the remuneration paid within the scope of their activities for the Company. The following table includes expenses for consulting services provided for the Company in the years 2013 and 2014. Remuneration was based on the issue of shares from the EVOP I program. The shares are fully vested. The expense results from the Company's value growth (see section V.F.1.).

in EUR	2018	2017
Statement of comprehensive income		
Other expenses concerning entities controlled by related persons/entities	382,102	123,983

Management received remuneration as follows in the reporting period:

in EUR	2018	2017
Current benefits	577,000	459,000
Total	**577,000**	**459,000**

The members of the shareholders' committee are not remunerated separately; disbursements are refunded only to the independent member. With respect to the management, reference is made to the above table.

8. Lessee relationships and other financial obligations

Future cumulative minimum lease payments from operating leases are presented in the following table, taking the respective residual terms into account:

in EUR	< 1	1 - 5	> 5	Total
as of 12/31/2018	2,504,380	17,759,359	38,041,416	**58,305,155**
as of 12/31/2017	2,430,908	3,066,763	0	**5,497,671**

The operating lease agreements initially relate to office lease agreements of Lesson Nine GmbH in Berlin and Babbel Inc. in New York. Additional agreements were concluded concerning licenses for server applications. The office lease agreement in Berlin provides for a five-year extension option at the end of the basic lease. These agreements serve current business operations and are advantageous in that the necessity of investing measures and associated outflows of cash does not immediately arise.

The cost of minimum lease payments in financial year 2018 amounted to € 2,549,589 (2017: k€ 1,271).

9. List of shareholdings

As of December 31, 2018, Lesson Nine holds an interest in the following fully consolidated companies:

Name and registered head office of the company	Percentage of share in capital (%)	Functional currency	Equity in k€	Profit/loss for the financial year in k€
Babbel Inc., Wilmington, Delaware, USA	100	USD	281	257
LingoVentura GmbH, Berlin	100	EUR	40	115

10. Management

The management included the following persons in the reporting period:

- Thomas Oliver Holl, Chief Technology Officer, Lesson Nine GmbH
- Markus Witte, Chief Executive Officer, Lesson Nine GmbH

11. Shareholders' committee (Board)

The shareholders' committee of Lesson Nine comprises six members. The shareholders' meeting selected the following members:

- Markus Witte, Chairman
- Anthony Askew
- Marco Zeller
- Simon Guild (independent member)
- Thomas Holl
- Stuart Paterson

In addition, the Board includes the non-voting members, Walter Masalin and Matthias Hornberger. In his capacity as Chairman, the vote of Markus Witte is decisive in the event of balanced decisions. The residual members of the shareholders' committee have one vote each.

All financial statements of the Group are presented to the shareholders' committee for approval and release. The previous year's financial statements as of December 31, 2017 were adopted by the shareholders' committee and released for publication.

G. Accounting Methods

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

As a general rule, all assets are accounted for in compliance with the acquisition cost principle.

1. Consolidation methods

Lesson Nine GmbH, its subsidiaries, Babbel Inc. and Lingo Ventura GmbH, which are under the direct control of Lesson Nine, are fully consolidated in the consolidated financial statements of the Babbel Group. Initial consolidation took place at the date when control was of achieved. Lesson Nine controls an equity investment if it is exposed to fluctuating returns from the exposure and is capable of influencing these returns by means of power of disposal. The respective subsidiary is deconsolidated when Lesson Nine is no longer in a position to control the equity investment.

Acquired entities are accounted for using the acquisition method, i.e., the acquisition costs of the acquired shares are set off against the prorated fair value of the acquired assets, debts and contingent liabilities of the subsidiary at the acquisition date. Any positive difference resulting from the set-off is capitalized as goodwill. Any negative goodwill resulting from capital consolidation is immediately resolved and reported under profit/loss.

Non-controlling interests represent the share of the net result and net assets which is not attributable to the shareholders of the parent company. They are disclosed separately. They are measured at the acquisition date with their respective share in the identifiable net assets of the acquired entity. Changes in the Group's share in a subsidiary, that do not result in a loss of control, are accounted for as equity capital transactions.

If the Group is no longer in a position to control a subsidiary, the assets and liabilities of the subsidiary including all pertaining non-controlling shares and other equity components are derecognized. Any resulting profit or loss is reported under profit or loss. Any retained share in the former subsidiary is measured at fair value at the date when control was lost.

Expenses and income, receivables and liabilities between consolidated entities as well as the interim results from intercompany transactions are eliminated.

2. Foreign currency translation

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

Transactions concluded by a consolidated entity in a currency other than its functional currency (foreign currency transactions) are translated into the functional currency of the respective entity at the rate applicable as at the transaction date. Currency gains and losses arising from the processing of such transactions and from the measurement of monetary assets and liabilities as at the financial statements reporting date rate are recognized in the income statement.

Subsidiaries with a functional currency other than the Euro translate their financial statements prepared in local currency into the Euro reporting currency for purposes of inclusion in the consolidated financial statements of Lesson Nine as follows:

- Assets and liabilities are translated at the reporting date rate, income and expenses at the average rate for the year. Any differences resulting from currency translation are disclosed separately under equity.
- Equity, which is subject to initial consolidation within the scope of an acquisition of foreign subsidiaries, is translated as of the respective balance sheet date using the historical rate applicable on the date of acquisition. Any differences resulting from the currency translation are disclosed separately under equity.
- As long as the subsidiary is included in the scope of consolidation, the translation differences are shown under consolidated equity. If a subsidiary is no longer part of the scope of consolidation, the respective translation difference is released through profit or loss.
- Goodwill and adjustments to the fair values of assets and liabilities resulting from acquisitions of foreign subsidiaries are treated as assets and liabilities of the foreign entity and are translated at the rate applicable as of the balance sheet date.
- The Company has no subsidiaries which are domiciled in a hyperinflationary country as specified by IAS 29.
- Currency translation differences from the conversion of shares in a foreign subsidiary and from loans that are part of the net investment in this foreign subsidiary, are reported under equity. If the subsidiary is no longer part of the scope of consolidation, the currency translation differences are derecognized and released through profit or loss.

The following exchange rates (rounded) were used for purposes of currency translation:

1 EUR corresponds to US Dollar (USD):	**Reporting date rate as of 12/31/**	**Average rate for the year**
2018	1.145	1.182
2017	1.199	1.129

3. Income and expense realization

Expenses and income are not netted unless the IFRS accounting provisions permit or require the netting of expenses and income.

IFRS 15, Sales Revenues, defines a comprehensive framework in order to determine the amount and timing when sales revenues are to be recognized. It replaces the existing guidelines on the recognition of sales revenues including IAS 18 "Sales Revenues" (formerly relevant for theGroup).

The Group applied the new standard for the first time within the scope of the modified retrospective transition method. Consequently, no comparative information from previous years needs to be adjusted to the present financial statements. IFRS 15 provides a uniform model for the reporting of sales revenues from contracts with customers, excluding those contracts that are covered by other IFRS (leases, insurance contracts or financial instruments). In general, the model stipulates that sales revenues are recognized when control over the product or services is transferred to the customer. This may be a specified point in time or period-related. Sales are then reported at the amount which is expected as a consideration for the products or services transferred. The model is based on five steps:

- Identifying the contract concluded with the customer
- Identifying the separate service obligations stipulated in the contract
- Fixing the transaction price
- Allocating the transaction price to the service obligations identified
- Recognizing the sales revenues when the entity fulfills the service obligations

IFRS defines a contract as an agreement between two or several parties which leads to legally enforceable rights and obligations. Contracts can be concluded in writing, orally or by implication on the basis of common business practice. Under certain circumstances, several contracts must be assessed jointly. In a second step, the Group identifies the separate service obligations and subsequently determines the transaction price which corresponds to the consideration for the products and services transferred. Generally, the customers make their payments to the Group immediately after receipt of the consideration via connected payment providers. Only business customers can buy their purchases on account. In such case, the payment must be made not later than 30 days after fulfillment of the service obligation which means that the amount of the consideration need not be adjusted to the time value of money. The contracts with customers generally only include one separate service obligation and no transaction price allocation is therefore required. Sales are recognized when the service obligation is fulfilled.

The Group has two types of contracts:

Sale of subscriptions to private customers:

The Babbel Group realizes revenues from the sale of usage rights ("software as a service") for language learning software to private end customers, in particular. The software can be used on mobile terminals and browser-based.

The software is sold by means of subscriptions for a period of between one and twelve months. The sale to the end customer can be processed via Lesson Nine's internal web platform or via the known sales platforms provided by Apple and Google. Being the principal in all its sales transactions, the Group has concluded that it acts as contracting authority in all sales transactions, that is has a certain freedom of action when setting prices and that it bears the inventory and credit risk.

The Group meets its service obligation arising from the contracts as soon as the customer is provided with full control over the subscription.

Sales revenues are recognized in keeping with the accrual-based provision of services. The determination of the accrual-based provision of service is based on the acquired time contingent. The prepayments made by customers result in liabilities which are recognized in the consolidated balance sheet as deferral of sales revenue (see C.9). An adjustment to the IFRS 15 nomenclature was not made.

Other sales (Babbel to business):

The group "sales revenues from other contracts" is also recognized on an accrual basis as soon as the customer is provided with full control over the subscription.

The simplification provision under IFRS 15.94 is used of with respect to the capitalization of contract costs since, due the business model, the contract asset values would not have had a term of more than one year. In all, no changes have resulted from the application of IFRS 15 since the Group's sales revenues were recognized with the same parameters before application of IFRS 15.

a) Interest and similar income

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

b) Expenses

Expenses are stated in the income statement as soon as the underlying services have been provided.

4. Tangible assets

Tangible assets are stated at acquisition or production costs net of scheduled depreciation and impairments. Acquisition costs include incidental acquisition costs less price deductions.

Tangible assets are depreciated on a straight-line basis over the asset's expected useful life. The expected useful lives, residual values and depreciation methods are reviewed on each reporting date. The necessary estimated changes are taken into account prospectively.

The following useful lives were applied in the reporting year:

Useful life in years	**2018**	**2017**
Operating and business equipment	2-13	2-13

In addition, processes were introduced to account for IAS 36 requirements with respected to further asset impairments. Residual values as well as the estimated useful lives are reviewed at each balance sheet date with a view to identifying events that would lead to a change in measurement. If the carrying amount of individual assets is above the achievable amount, additional impairments are recognized in the income statement. If the requirements for impairments no longer apply in later years, the previous adjustments are reversed.

Maintenance expenses are expensed at the time of their origination. Significant new features and improvements are capitalized.

5. Intangible assets

Intangible assets acquired from third parties are stated at amortized cost. They are amortized according to schedule over their expected useful lives using the straight-line method. Internally developed intangible assets are measured at manufacturing costs and amortized according to schedule over their expected useful life. Development expenses are capitalized only if the development costs can be reliably assessed, the product or procedure is suitable in both technical and commercial terms, a future commercial benefit is likely to result from the product or procedure and the Group intends (and has the necessary resources) to finalize the development and use or sell the asset. Other development expenses are recognized in profit or loss as they occur. Capitalized development expenses are measured net of accumulated amortization and accumulated impairment losses. Expenses incurred for research activities are recognized in profit or loss as they occur.

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

a) the total of:

  i) the consideration transferred

  ii) the amount of all non-controlling interests in the acquired entity which are measured in accordance with this IFRS, and

  iii) in the event of a successive business combination, the fair value of the equity component previously held by the acquirer in the acquired entity as of the acquisition date.

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

The acquired goodwill is not subject to scheduled amortization.

The Babbel Group reviews intangible assets and goodwill at annual intervals in order to identify any need for non-scheduled amortization in accordance with IAS 36. In doing so, it is examined whether there are any indications of impairment. If this is the case, the achievable amount for the respective asset is determined. It corresponds to the higher value from fair value net of sales costs or the usage value. Discounting is based on market rates before taxes.

Amortization of intangible assets during the reporting year was based on the following useful lives:

Useful life in years	**2018**	**2017**

Licenses and similar rights	1-3	1-3
Software	3-5	3-5

6. Lease relationships

The lease relationships of the Babbel Group do not meet the criteria of finance leases and are therefore classified as operating lease agreements. The lease payments are recognized as expense on a straight-line basis.

7. Income taxes

The income taxes for the period include the total of actual and deferred income taxes. They are recognized in the income statement unless they relate directly to equity or to items recognized in other comprehensive income. In this case the income taxes are also recognized directly in equity capital or other comprehensive income.

a) Actual income taxes

The actual income tax expense is determined using the tax provisions applying as of the balance sheet date in the countries where the Babbel Group operates and where the taxable income is generated. The assessment of income tax receivables and liabilities may require estimates to be made in some cases and it cannot be ruled out that the respective fiscal authorities arrive at another tax assessment. The associated uncertainty is accounted for by recognizing uncertain tax receivables and liabilities only to the extent that the probability of occurrence is higher than 50 % from the viewpoint of Lesson Nine. With respect to recognized uncertain income tax positions, the expected tax payment is considered to be the best estimate.

b) Deferred income taxes

Deferred taxes are determined to account for temporary differences between the carrying amounts of the assets and liabilities reported in the consolidated financial statements and the respective tax values recognized within the scope of taxable income calculation. Deferred tax assets are not taken into account.

Deferred tax liabilities are recorded to account for all taxable temporary differences.

Deferred tax assets for temporary differences are recognized to the extent that future taxable income will probably be available against which the deductible temporary differences can be set off.

Deferred taxes are measured in accordance with IAS 12. The tax rate applied corresponds to the tax rate adopted or almost adopted for the period of reversal of the temporary difference or the losses carried forward, respectively.

Changes in deferred taxes are reported in the income statement provided that they relate to balance sheet items that were recognized in the income statement. If the balance sheet items relate directly to equity or other comprehensive income, the corresponding deferred taxes are also reported under these positions.

Deferred tax assets and deferred tax liabilities that are associated with shares in subsidiaries due to temporary differences, are taken into account unless the date of reversal of the temporary differences cannot be determined at Group level and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are netted if the Group has an enforceable legal right to set off actual tax refund claims against actual tax liabilities and the deferred tax assets and tax liabilities relate to income taxes levied by the same tax authority and concern the same tax subject. In addition, deferred taxes are netted that concern balance sheet items with identical maturities.

8. Financial instruments

a) Financial assets

In accordance with IFRS 9, financial assets are allocated to the following categories:

a.) financial assets measured at amortized cost
b.) financial asset measured at fair value through other comprehensive income
c.) financial assets measured at fair value through profit or loss

The classification applies upon initial recognition in the balance sheet.

Regular purchases and sales of financial assets are recognized uniformly in all categories as of the trading date, the date when Lesson Nine agrees to buy or sell the asset.

re a)
The Group measures its financial assets at amortized cost if both of the following conditions are fulfilled:

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

re b)

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

- Equity instruments not held for trading purposes and where, upon initial recognition, the Group has made the irrevocable decision to disclose the respective equity instrument under this category.
- Debt instruments where the contractual cash flows are solely payments of principle and interest on the principal amount outstanding and which are held within a business model whose objective is to collect the contractual cash flows and also to sell financial assets.

re c)
The Group measures the following assets at fair value through profit or loss:

- Equity instruments held for trading purposes and equity instruments where the Group has decided not to report changes in fair values in other comprehensive income.
- Debt instruments which are neither measured at amortized cost nor at fair value in equity.

b) Financial liabilities

In accordance with IFRS 9, financial liabilities are allocated to the following categories:

a.) measured at amortized cost
b.) measured at fair value through profit or loss

re a)
In accordance with IFRS 9, generally all liabilities are to be classified as measured at amortized cost. Exception relate mainly to:

- Financial liabilities which, upon initial recognition, were irrevocably designated as measured at fair value through profit or loss
- Derivatives
- Financial guaranties

c) Derecognition

A financial asset is derecognized, in particular, when one of the following preconditions is met:

- The contractual rights to receive cash flows from the financial assets have lapsed, or
- The Group has transferred its contractual rights to receive cash flow from the financial assets to a third party or has assumed a contractual obligation to pay the cash flows immediately to a third party as part of an agreement under which the Group either (a) essentially transferred all risks and rewards in connection with the ownership in the financial asset, or (b) essentially transferred none of the risks and rewards in

connection with the ownership in the financial asset but has transferred the power of control over the asset.

A financial liability is derecognized when the obligation underlying the liability is cancelled or has expired. If an existing financial liability is replaced by another financial liability of the same lender with substantially different contractual conditions or if the conditions of an existing liability undergo major changes, such replacement or such change is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

9. Grants from public authorities

Grants from public authorities are recognized provided that there is sufficient security that the associated conditions are fulfilled and that the grants are actually granted by the grant authorities.

Granted benefits which meet the above stated requirements are accounted for in the statement of comprehensive income with an impact on profit/loss and liquidity. The item is presented unnetted under the item "Other operating income" in the statement of comprehensive income.

10. Employee benefits

Lesson Nine grants the Group management and selected executive staff members share-based remuneration within the scope of the EVOP program. The remuneration from the plan falls if an Exit event occurs. An Exit event is defined as the acquisition of more than 50% of the shares or the assets of Lesson Nine by one or several investors as well as a liquidation of the Company.

The components to be recognized in the income statement over time correspond to the fair value of the remuneration claims at the respective vesting phase date since Lesson Nine settles the obligation in the form of cash or cash equivalents. The liability or the decrease/increase in fair value is recognized via the personnel expenses of administration costs.

The shareholders of Lesson Nine allocated business shares to this employee program in order to secure the program and discharge the Company in the event of a dividend distribution or Exit. The receivable from the shareholders is measured analogously to the provision (cf. F.01). The obligation to allocate the business shares to the program is also caused by the corporate relationship. Consequently, the recognition and change in the receivable is presented in equity with neutral effect on profit or loss.

11. Other provisions

The other provisions are set up to account for a legal or factual obligation vis à vis the Babbel Group that results from a past event, the fulfillment of which is probable and the amount of the obligation can be reliably determined. Recognition is based on the expected settlement amount.

In order to meet the current obligation, the recognized amount of the provision is the best estimate that results on the balance sheet date from the service rendered. All inherent risks and uncertainties are to be taken into consideration in this context. If a provision is measured on the basis of the cash flows estimated in the context of settling the obligation, the respective cash flows must be discounted in the event of a material interest effect.

If it can be assumed that the economic benefit necessary for settling the provision is refunded by an external third party even in part or as a whole, the respective claim is recognized as an asset provided the refund is as good as certain and the amount can be reliably estimated.

In view of the estimation uncertainty when determining the amount, the actual outflows of resources may differ from the amounts initially recognized on the basis of estimates.

Non-current provisions are term-adeqarecognized on the basis of corresponding term-adequate and risk-adjusted interest rates at their settlement amount discounted to the balance sheet date.

12. Fair values of financial instruments

The fair values of financial instruments are determined on the basis of applicable market values or valuation methods. The fair values of liquid assets and other short term non-derivative financial instruments approximate the carrying amounts recognized as of the respective reporting dates.

The fair value of non-current receivables and other assets and liabilities is determined on the basis of expected cash flows applying the reference interest rate valid as of the balance sheet date. The fair value of derivative financial instruments is determined on the basis of option price models.

The fair value of financial instruments to be recognized at fair value is generally determined by means of respective market or stock exchange prices. In the absence of market or stock exchange prices, measurement is based on valuation methods generally accepted in the market, taking instrument- specific market parameters into account. The fair value is determined using the discounted cash flow method, taking the individual credit standing and other market forces in the form of general credit and liquidity spreads in cash value determination into account.

13. Determination of fair value

In accordance with IFRS 13 provisions, the fair value represents the price that can be achieved on the principal market or, if not available, on the most advantageous market through the sale of an asset or that would have to be paid for the transfer of a liability. The fair value is to be determined on the basis of measurement parameters as close to the market as possible. The fair value hierarchy prioritizes the input factors included in the measurement procedure into three descending levels:

- Level 1: The quoted market prices used on an active market (unadjusted) for identical assets and liabilities that the entity can access at the measurement date.
- Level 2: Measurement parameters other than the quoted prices of Level1 that are observable for the asset or liability either directly (as price) or indirectly (derived from the price).
- Level 3: Measurement parameters of assets or liabilities that are not based on observable market data.

To the extent that different input factors are of relevance for measurement, the fair value is allocated to the hierarchy level that corresponds to the input factor of the lowest level which is material for the measurement as a whole.

14. Discretionary decisions and use of estimates

The application of recognition and measurement methods and the preparation of consolidated financial statements require the management to make discretionary decisions and estimates. This applies to the following matters, in particular:

a) Discretionary decisions

Going concern assumption:

The Babel Group's equity ratio stands at 2% as of December 31, 2018. Despite the consolidated net loss for the year in the amount of k€ 12,425 and the lower EC ratio, the Company has not doubts that the going concern assumption can be fulfilled since sufficient liquidity in the amount of k€ 25,859 is available as of the reporting date.

b) Assumptions and estimation uncertainties

Share-based payment (IFRS 2)

The accounting treatment of virtual shares, requires assumptions and estimates to be made with respect to the development of performance indicators and fluctuation as well as with respect to the determination of corporate value. The determination is based on discounted cash flow models.

Measurement of financial assets

When measuring financial assets, the assessment of corporate value as well as the parameters described above are crucial for the measurement of share-based payment.

Accounting treatment and measurement of other provisions

The accounting treatment and measurement of other provisions involves uncertainty with regard to future price increases and the amount, point in time and probability of utilization of the respective provision.

Recognition of deferred tax assets

The recognition of deferred tax assets on losses carried forward requires assumptions and estimates to be made with respect to the development and use of the tax losses carried forward. The determination is based on an integrated balance sheet and profit/loss planning model.

H. New Regulations concerning International Accounting pursuant to IFRS

The following accounting provisions were applied for the first time in the financial year 2018.

IFRS 9	Financial Instruments
IFRS 15	Revenue from contracts with customers
Annual improvements to IFRS	Cycle 2014-2016
Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IAS 40	Transfer of investment property
IFRIC 22	Foreign currency transactions and prepayments

The Company applied IFRS 9 "Financial Instruments" and the resulting amendments to other standards for the first time in the current year.

IFRS 9 specifies the requirements for the recognition and measurement of financial assets, financial liabilities and some contracts for the purchase or sale of non-financial contracts. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement".

Due to the transitional methods in the application of this standard, the comparative information in the present financial statements was not adjusted retrospectively to the requirements of the new standard.

The initial application of IFRS 9 as of January 1, 2018 did not result in changes to the measurement of financial assets. Changes concerned the disclosure of financial assets and financial liabilities - a comparison of the classification pursuant to IAS 39 relative to IFRS 9 is included in the comment on the financial instruments.

The Group has not yet implemented the subsequent amendments to IAS 1 due to the introduction of IFRS 9. Consequently, an impairment of financial assets is not disclosed in a separate item in the statement of comprehensive income but continues to be reported under Other operating expenses.

The Company applied IFRS 15 "Revenue from Contracts with Customers" for the first time in the current year.

The amendments to IFRS 2 concern the classification and measurement of business transactions involving share-based payment. The Group does not report share-based payment models in the reporting year, i.e., no payments from the EVOP have been made and, consequently, no changes in this respect have occurred.

The amendments to IAS 40 "Transfer of Investment Property" are irrelevant for Lesson Nine since no property is held.

IFRIC 22 provides guidance on the definition of exchange rates in the event of prepayments made within the scope of foreign currency transactions. The application of IFRIC 22 had no impact on the consolidated financial statements since the Group has already accounted for the foreign currency transactions which involve prepayments in accordance with the intentions of the interpretation.

The following new or amended standards or interpretations were already adopted by the IASB but do not yet require mandatory application. These regulations were not applied prematurely.

IFRS 16	Leases	Applies to financial years beginning on or after January 1, 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	Applies to financial years beginning on or after January 1, 2019
Amendments to IFRS 9	Prepayment features with negative compensation	Applies to financial years beginning on or after January 1, 2019
Annual Improvements to IFRS	Cycle 2015-2017	Applies to financial years beginning on or after 1 January 2019
Amendments to IAS 19	Plan amendment, curtailment or settlement	Applies to financial years beginning on or after 1 January 2019
Amendments to IFRS 3	Definition of business operations	Applies to financial years beginning on or after January 1, 2019; EU-endorsement still pending
IFRIC 23	Uncertainty over income tax treatments	Applies to financial years beginning on or after January 1, 2019
Amendments to IAS 1 and IAS 8	Definition of materiality	Applies to financial years beginning on or after January 1, 2019; EU-endorsement still pending
Amendments to the conceptual framework		Applies to financial years beginning on or after January 1, 2019; EU-Endorsement still pending
IFRS 17	Insurance contracts	Applies to financial years beginning on or after January 1, 2019; EU-endorsement still pending

At present, Lesson Nine is examining the new standards with respect to their impact on the information provided in the consolidated financial statements. At the time of preparation of the consolidated financial statements for the 2018 reporting period, with the exception of IFRS 16, Lesson Nine is not in a position to fully assess the impact of the new regulations. Lesson Nine will perform a more precise assessment of the respective impacts in the near future. It is not assumed that the amendments will impact significantly on the consolidated financial statements.

- Amendments to IFRS 9: The new regulation provides clarity with respect to prepayment features and negative compensation, specifically that for purposes of assessing whether an early termination right including compensation violates the cash flow condition, it is irrelevant whether or not the party exercising the option must pay compensation or receives compensation.
- IFRS 16 regulates the recognition, measurement, disclosure and information requirements concerning the lease relationships of both contractual parties, i.e., the lessee and the lessor. The most significant change arising from the new standard is that all assets from lease agreements are accounted for in the balance sheet of the lessee. Exceptions relate to certain current or low- value items. The Group has begun assessing the possible impact on the consolidated financial statements. Lesson Nine will implement the amendments resulting from the changed accounting treatment by taking into account the effects from the adjustments at the date of initial IFRS 16 application in the measurement of the lease liability. With effect from January 1, 2019, a lease liability as well as the usage right in the amount of k€ 3,600 is disclosed in the balance sheet.
- IFRS 17 specifies the principles for the recognition, measurement, presentation and disclosure of insurance contracts. It replaces IFRS 4.
- The amendments to IAS 19 relate to the accounting requirements for long-term obligations to employees that result from the change of plan amendments-, curtailments- or settlements.
- The amendments to IFRS 3 Business Combinations serve to clarify the definition of a business operation.

- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are intended to refine the definition of materiality through standardizing the wording in various standards and pronouncements.
- IFRIC 23 specifies how to account for current and deferred tax liabilities that involve uncertainties with respect to the treatment of income tax. Such uncertainty arises when the application of the relevant valid tax laws on a specific transaction lacks clarity and, as a consequence, depends (also) on the interpretation by the tax authorities which, however, is not known to the entity at the time of preparing the annual financial statements.
- Amendments to the conceptual framework concern several issues, such as emphasis on the precautionary principle, reworking of the definition of asset and liability as well as on recycling via OCI.

I. Events after the Balance Sheet Date

No significant events have occurred after the balance sheet date.

Berlin, May 8, 2019

Markus Witte

Thomas Holl

The following independent auditor‘s report (Bestätigungsvermerk des unabhängigen Abschlussprüfers) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the consolidated financial statements and the group management report (Konzernlagebericht) of Lesson Nine GmbH, Berlin, as of and for the fiscal year ended December 31, 2018. The group management report is neither included nor incorporated by reference in this Prospectus.

VI. INDEPENDENT AUDITOR'S REPORT

To Lesson Nine GmbH, Berlin

Audit Opinions

We have audited the consolidated financial statements of Lesson Nine GmbH, Berlin, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Lesson Nine GmbH for the financial year from January 1 to December 31, 2018.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and all IFRS, and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 (3) Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor’s report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibility of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB and all IFRS and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities,

financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and all IFRS.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Berlin, May 8, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Philipp Medrow)	(sgd. ppa. Johannes Häner)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Audited Unconsolidated Financial Statements of Babbel GmbH (formerly: Lesson Nine GmbH) prepared in accordance with the German Commercial Code (HGB) as of and for the fiscal year ended December 31, 2020

Babbel GmbH (formerly: Lesson Nine GmbH), Berlin
Balance Sheet as at December 31, 2020

Assets				12/31/2019
		€	€	€
A.	**Fixed assets**			
I.	**Intangible assets**			
	1. Acquired concessions, industrial property rights, and similar rights and assets, and licenses in such rights and assets	1,198,794.19		396,692.48
	2. Prepayments made	0.00		253,567.00
			1,198,794.19	650,259.48
II.	**Property, plant, and equipment**			
	1. Other equipment, factory and office equipment	830,768.33		1,533,605.31
	2. Prepayments and construction in process	345,692.08		40,268.66
			1,176,460.41	1,573,873.97
III.	**Financial assets**			
	1. Shares in affiliated companies	1,225.31		1,225.31
	2. Loans to affiliated companies	544,675.63		542,236.54
			545,900.94	543,461.85
			2,921,155.54	2,767,595.30
B.	**Current assets**			
I.	**Receivables and other assets**			
	1. Trade receivables	4,956,483.08		3,106,475.83
	2. Receivables from affiliated companies	0.00		134,392.96
	3. Receivables from shareholders	26,231,565.15		22,552,968.38
	4. Other assets*	7,655,502.37		5,226,204.41
			38,843,550.60	31,020,041.58
II.	**Cashback on hand and bank balances***		27,816,336.91	29,490,024.19
			66,659,887.51	60,510,065.77
C.	**Prepaid expenses and deferred charges**		3,995,832.95	3,147,933.61
D.	**Loss not covered by equity**		20,215,060.41	--
			93,791,936.41	66,425,594.68

* The prior year's disclosure has been adjusted. In 2019, rental deposits in the amount of € 665 thousand had been recognised under the bank balances.

Shareholders' equity and liabilities				12/31/2019
		€	**€**	**€**
A.	**Shareholders' equity**			
I.	**Subscribed capital**	50,198.00		50,198.00
II.	**Capital reserve**	28,528,133.28		28,528,133.28
III.	**Losses carried forward**	-27,291,808.50		-27,887,342.63
IV.	**Net loss for the year (2019 net income for the year)**	-21,501,583.19		595,534.13
V.	**Loss not covered by equity**	20,215,060.41		0.00
			0.00	1,286,522.78
B.	**Provisions**			
	1. Tax provisions	115,210.00		213,074.46
	2. Other provisions	33,916,099.53		27,666,494.74
			34,031,309.53	27,879,569.20
C.	**Liabilities**			
	1. Trade payables thereof with a residual term of under 1 year € 4,836,343.57 (2019: € 3,084 thousand).	4,836,343.57		3,084,258.51
	2. Liabilities to affiliated companies thereof with a residual term of under 1 year € 546,032.31 (2019: € 465 thousand).	546,032.31		464,816.94
	3. Other liabilities	2,180,932.24		1,415,135.97
	thereof relating to taxes: € 2,151,041.11 (2019: € 1,347 thousand). thereof related to social security € 21,966.14 (2019: € 48 thousand) thereof with a residual term of under 1 year € 2,180,932.24 (2019: € 1,415 thousand).			
			7,563,308.12	4.964.211.42
D.	**Prepaid income**		52,197,318.76	32,295,291.28
			93,791,936.41	66,425,594.68

Babbel GmbH (formerly: Lesson Nine GmbH), Berlin
Income Statement for Financial Year 2020

		€	€	2019 €
1.	Sales revenues	147,277,434.55		123,883,856.40
2.	Other operating income thereof income from currency translation € 428,140.29 (2019: € 534 thousand)	5,608,354.39		6,307,271.09
			152,885,788.94	130,191,127.49
3	Costs of materials Cost of purchased services	19,956,049.60		10,843,054.84
			19,956,049.60	10,843,054.84
4.	Personnel expenses			
	a) Wages and salaries	31,133,124.07		32,019,032.68
	b) Social security, pension, and other benefits	5,198,409.61		4,787,470.07
			36,331,533.68	36,806,502.75
5.	Amortization/depreciation			
	a) Amortization on intangible assets	1,159,558.23		663,269.26
	b) Amortization and depreciation on fixed assets and property, plant, and equipment	603,112.40		0.00
			1,762,670.63	663,269.26
6.	Other operating expenses thereof expenses from currency translation € 1,138,301.92 (2019: € 441 thousand)		115,890,361.60	79,583,746.39
7.	Income from other securities and loans of financial assets thereof from affiliated companies € 4,330.94 (2019: € 12 thousand)		4,330.94	12,454.01
8.	Other interest and similar income thereof from affiliated companies € 0.00 (2019: € 0 thousand)		25.00	41,592.84
9.	Amortization of financial assets		450,000.00	1,525,059.25
10.	Interest and similar expenses of which from the compounding of provisions € 1.13 (2019: € 1 thousand) thereof to affiliated companies € 0.00 (2019: € 0 thousand)		1.13	536.25
11.	Taxes on income		1,111.43	227,471.47
12.	Profit or loss after taxes		-21,501,583.19	595,534.13
13.	Net loss for the year (2019: net income for the year)		-21,501,583.19	595,534.13

Notes to the Financial Statements

I. General Information

Babbel GmbH (formerly: Lesson Nine GmbH) has its registered head office in Berlin and is entered under number HRB 110215 B in the commercial registry maintained at the Berlin-Charlottenburg District Court.

As of the December 31, 2020, balance sheet date, the Company is a large corporation within the meaning of Section 267 (3) HGB.

The annual financial statements are prepared in compliance with the accounting rules of the German Commercial Code (HGB) in the version of the German Accounting Directive Implementation Act (BilRUG) for corporations, thereby taking into account the German Limited Liability Companies Act (GmbHG).

The financial year corresponds to the calendar year.

To enhance the clarity of presentation, some of the comments where there is an option of including them in the balance sheet are included in the notes to the balance sheet.

The income statement was prepared using the total cost method pursuant to Section 275 (2) HGB.

With effect from October 31, 2020, the Company merged the wholly-owned subsidiary LingoVentura GmbH, which was entered with its registered head office in Berlin under number HRB 200530 B in the commercial registry maintained at the Berlin-Charlottenburg District Court, into its company. This was entered in the commercial register on January 29, 2021.

In particular due to making greater investments in the growth of the Company, Babbel GmbH concluded the financial year with a net loss for the year of € 21,502 thousand (prior year: net income for the year totaling € 596 thousand).

As a result of the substantial net loss for the year in 2020, the Company discloses net loss not covered by equity in the amount of € 20,215 thousand as of the balance sheet date. However, the liquidity position remains high at € 27,816 thousand as of the balance sheet date and is considered sufficient for the further financing of the operating activities. Therefore, the annual financial statements were prepared based on the assumption that the Company would continue as a going concern.

II. Information Concerning the Accounting, Valuation, and Disclosure Methods

A. Accounting and Valuation Requirements

The annual financial statements were largely prepared in accordance with the following accounting and valuation principles.

ASSETS

1. Fixed assets

Intangible assets acquired from third parties are recognized at acquisition cost and are amortized using the straight-line method over their estimated useful lives; amortization is recognized on a pro rata basis in the year of acquisition. In this context, EDP programs acquired for a consideration are written down over a standard useful life between two and 13 years. An exception is IT programs costing less than € 250.01. These are immediately charged to expenses in their full amount.

Property, plant, and equipment are measured at their acquisition or production costs less scheduled straight-line amortization or depreciation. Additions to property, plant, and equipment are generally depreciated on a pro rata basis. The standard useful life of property, plant, and equipment is between two and thirteen years.

With regard to the recognition of **low-value assets**, the tax law regulation of Section 6 (2) German Income Tax Act [Einkommensteuergesetz – EStG] has been used under commercial law. The acquisition or production costs of depreciable movable fixed assets which are capable of being used independently are recognized in full as expenses in the business year in which the assets are acquired, if the acquisition or production costs, less any amount of input tax included therein, of the individual asset do not exceed € 250. Low-value fixed assets with acquisition costs of more than € 250 but not exceeding € 800 are added to the list of investments specifying their date of acquisition and acquisition costs. At the same time, they are written down in full and recognized fictitiously as a disposal (fictitious disposal).

Shares in affiliated companies reported under **financial assets** are stated at acquisition cost or at the lower fair values. If the reasons for impairment cease to exist, corresponding write-ups are recognized.

Loans to affiliated companies are recognized at their nominal value.

If there are indications of probable permanent impairment for items of fixed assets, non-scheduled amortization is performed. The option to perform non-scheduled amortization on financial assets when impairment is not expected to be permanent has not been exercised.

2. Current assets

Receivables and other assets are stated at their nominal value or the lower fair value attributable as at the balance sheet date. Adequate valuation allowances are recorded for receivables whose recoverability is subject to identifiable risk; unrecoverable receivables are written off.

Cash and cash equivalents are stated at nominal value as of the balance sheet date.

Prepaid expenses and deferred charges relate to expenses incurred before the balance sheet date which represent expenses for a certain period thereafter.

SHAREHOLDERS' EQUITY AND LIABILITIES

Subscribed capital is recognized at nominal value.

Provisions were recognized in the settlement amount necessary in accordance with prudent commercial judgement. Future price and cost increases are taken into account if there is sufficient objective evidence that they will materialise. Provisions with a residual term of longer than one year are discounted with the average market interest rate of the past seven financial years relevant for their residual terms as published by the Deutsche Bundesbank.

Liabilities are recognized at their settlement amount.

Prepaid expenses and deferred income relate to revenue accepted before the balance sheet date provided it represents income for a certain period thereafter.

For the determination of **deferred taxes** due to temporary or quasi-permanent differences between the commercial law values of assets, liabilities, and deferred income and their tax value approaches or due to tax loss carry-forwards, they are valued using the tax rates applicable to the individual company at the time when the differences are reversed, and the amounts of the resulting tax burden or relief are not discounted. Deferred tax assets and deferred tax liabilities are netted. The capitalization of any existing surplus of deferred tax assets is waived if the option to recognise deferred tax assets is exercised.

A tax rate of 30.175 % was used for this valuation.

1. Foreign currency translation

As a general rule, transactions denominated in foreign currencies are stated at the exchange rate applicable when they originated. Pursuant to Section 256a HGB, at the end of the reporting period, assets and liabilities denominated in foreign currencies are translated applying the average spot exchange rate. The principle of prudence and the acquisition cost principle are observed if the residual term is longer than one year.

III. Notes to Balance Sheet Items

1. Fixed assets

The development of the individual fixed assets items is shown with write-downs stated in the fixed-asset movement schedule. Intangible assets increased as a result of two issues. Firstly, LingoVentura GmbH was merged into Babbel GmbH, leading to the assumption of intangible fixed assets totaling € 371 thousand. Furthermore, new software in the amount of € 665 thousand was acquired. The fixed-asset movement schedule is attached as an appendix to these notes to the financial statements.

The shares **in affiliated companies** (shareholdings) reported under financial assets are broken down as follows:

Name	Registered head office	Percentage of share in capital (%)	Shareholders' equity	Profit/loss for the financial year	Most recent available annual financial statements
Babbel Inc.	Wilmington, Delaware	100	USD 616 thousand	USD 441 thousand	2020

2. Receivables and other assets

The due dates of the **trade receivables** are as follows:

in EUR	**12/31/2020**	**12/31/2019**
not overdue	4,725,259	2,970,603
up to 3 months overdue	201,504	135,490
3 to 6 months overdue	26,270	383
6 to 12 months overdue	3,450	0
Total	**4,956,483**	**3,106,476**

Receivables from affiliated companies in the amount of € 0 thousand (prior year: € 134 thousand) resulted from trade receivables and have a residual term of less than one year.

There are **receivables from shareholders** in connection with the employee virtual ownership program in the amount of € 26,232 thousand (prior year: € 22,553 thousand). These receivables have a residual term of up to one year.

Other assets totaling € 7,656 thousand (prior year: € 5,226 thousand)* primarily comprise security deposits of payment providers of € 3,778 thousand (prior year: € 2,274 thousand), prepayments of € 2,563 thousand (prior year: € 1,847 thousand), rental deposits of € 665 thousand (prior year: € 665 thousand)* and other tax receivables of € 249 thousand (prior year: € 64 thousand). All other assets have a remaining term of up to one year.

** The prior year's disclosure has been adjusted. Rental deposits had still been recognized as bank balances in the prior year.*

3. Prepaid expenses and deferred charges

The **prepaid expenses and deferred changes**, for which payments were recognized before the closing date and which represent expenses for a certain period thereafter, amount to € 3,996 thousand (prior year: € 3,148 thousand) and are predominantly a result of various marketing campaigns and annual license fees which extend past the balance sheet date.

4. Deferred taxes

After offsetting deferred tax assets and deferred tax liabilities as of the December 31, 2020, balance sheet date (total difference approach), a surplus in deferred tax assets was reported. The Company does not exercise the capitalization option set forth in Section 274 (1) Clause 2 HGB, which means that the deferred tax assets are not disclosed on the balance sheet. The resulting deferred tax assets primarily relate to differences arising from tax loss carry-forwards. There were no material deferred tax liabilities.

5. Shareholder's equity

The subscribed capital entered into the Commercial Register is fully paid in and is unchanged at € 50,198.

6. Provisions

The tax provisions in the amount of € 115 thousand (prior year: € 213 thousand) relate to trade tax liabilities for financial year 2019.

Sundry other provisions were established for risks and contingent liabilities. These amount to € 33,916 thousand (prior year: € 27,667 thousand).

They primarily related to creating provisions for outstanding invoices (€ 4,211 thousand), other sales tax risks abroad (€ 1,486 thousand), and the preparation and audit of the annual financial statements (€ 151 thousand).

The personnel provisions mainly include provisions for annual leave which has not yet been paid out (€ 1,152 thousand) and for outstanding bonus payments (€ 880 thousand). In addition, the Company operates an employee virtual ownership program. As of the balance sheet date, the liabilities from this program amounted to € 25,799 thousand (prior year: € 22,353 thousand) (cf. the explanations to Pt. V. Employee virtual ownership program).

7. Liabilities

Trade payables totaled € 4,836 thousand (prior year: € 3,084 thousand).

As of the balance date, **liabilities to affiliated companies** amounted to € 546 thousand (prior year: € 465 thousand) and predominantly relate to services from the intragroup service agreement with Babbel Inc.

Other liabilities in the amount of € 2,181 thousand (prior year: € 1,415 thousand) mainly comprise liabilities from value-added tax (MOSS), as well as wage and church tax.

Schedule of Liabilities:

		Due date		
in EUR	**Total**	**Up to 1 year**	**> 1 year and < 5 years**	**> 5 years**
Trade payables	4,836,344	4,836,344	0	0
(prior year)	(3,084,258)	(3,084,258)	(0)	(0)
Liabilities to affiliated companies	546,032	546,032	0	0
(prior year)	(464,817)	(464,817)	(0)	(0)
Other liabilities	2,180,932	2,180,932	0	0
(prior year)	(1,415,136)	(1,415,136)	(0)	(0)
Total, current year	**7,563,308**	**7,563,098**	**0**	**0**
(Total, prior year)	(4,964,211)	(4,964,211)	(0)	(0)

8. Deferred income

As at December 31, 2020, **deferred income** totaled € 52,197 thousand (prior year: € 32,295 thousand) and discloses all revenue from the Company's subscription model, which represent income for a certain period after the balance sheet date.

IV. Notes to the Income Statement

1. Sales revenues

The sales revenues in financial year 2020 amounted to € 147,277 thousand (prior year: € 123,884 thousand). This relates exclusively to revenue from the Company's subscription model.

Revenue was generated in the following revenue areas and in the following geographical markets:

in %	2020	2019
Subscription and language travel sales to private customers (B2C)		
USA	32%	24%
Germany	26%	29%
European Union (excluding Germany)	27%	28%
Rest of the world	15%	19%
Total	**100%**	**100%**

in %	2020	2019
B2B sales		
Germany	46%	52%
European Union (excluding Germany)	24%	30%
USA	10%	8%
Rest of the world	20%	10%
Total	**100%**	**100%**

2. Other operating income

Other operating income primarily includes income from foreign currency translation of € 934 thousand (prior year: € 914 thousand), income from the release of provisions of € 541 thousand (prior year: € 232 thousand), reimbursement from health insurance companies of € 109 thousand (prior year: € 149 thousand) and income from setting off other benefits in kind of € 114 thousand (prior year: € 68 thousand).

Furthermore, the item includes an increase in receivables from shareholders relating to the employee virtual ownership program of € 3,679 thousand (prior year: € 4,620 thousand). The corresponding expense is recognized under the personnel expenses.

3. Other operating expenses

Other operating expenses mainly comprise marketing expenses in the amount of € 94,930 thousand (prior year: € 61,427 thousand), general administration expenses totaling € 14,845 thousand (prior year: € 13,649 thousand), payment service provider fees totaling € 3,544 (prior year: € 3,031), expenses relating to foreign currency translation of € 2,204 thousand (prior year: € 1,204 thousand), as well as out-of-period expenses (primarily for marketing and support service costs) in the amount of € 312 thousand (prior year: € 265 thousand).

V. Employee Share Ownership Program

Babbel GmbH operates programs for share-based remuneration (EVOP). In total, shares have been issued in five programs (EVOP I – V) since 2013. The shares are issued successively following approval by the responsible shareholders' committee. These programs were established to continue offering key company employees with incentives for their involvement. By means of these programs, the respective employees participate in distributions in case of an exit or in dividends if certain conditions occur. The programs will end as of December 31, 2040, or as of December 31, 2029, respectively (for EVOP V). If no events within the meaning of the programs have occurred by this time, the employees will be entitled to a settlement from the Company, or negotiations should be undertaken to arrive at an economic equivalent. In order to enable the Company to maintain this involvement with employees, these programs were hedged with shares of several shareholders, which will be utilized for this purpose. As at the balance sheet date, liabilities totaling € 25,799 thousand resulting from the employee share ownership program were reported under other provisions and the corresponding claims for compensation are being reported under the receivables from shareholders at an amount of € 26,232 thousand. The employee virtual ownership programs were valued at the intrinsic value of the vested eligibility, which is derived from the DCF-based corporate evaluation as of the reference date, as well as the applicable issue prices. This calculation was performed applying an expected Exit date of September 30, 2021 (prior year: May 31, 2022), which is why the claims for compensation and the provisions are considered short-term as of the balance sheet date.

VI. Other Disclosures

1. Employees

On average, the Company employed 519 persons (prior year: 529 employees) in financial year 2020.

The employees can be broken down by department as follows:

Designation	**2020**	**2019**
Research & Development	258	229
Sales	172	209
Administration	89	91
Total	**519**	**529**

2. Executive management

During the financial year, the Company's Managing Directors were:

- Arne Schepker, Chief Executive Officer, Berlin
- Thomas Oliver Holl, Chief Technology Officer, Berlin

The protection clause pursuant to Section 286 (4) HGB was employed for the disclosure of executive management remunerations.

There is not a statutory supervisory body in place.

3. Other financial liabilities

	Remaining terms			**Total**
in EUR	**up to 1 year**	**1 to 5 years**	**More than 5 years**	
Other financial commitments are classified as follows:				
From rental and lease agreements	2,318,758	18,115,000	33,512,750	53,946,508
thereof to affiliated companies	0	0	0	0
Total	**2,318,758**	**18,115,000**	**33,512,750**	**53,946,508**

The rental and lease agreements concern the current and future administration buildings, additional leased office space, and warehouses. There are no other contingent liabilities.

4. Significant events after the balance sheet date

COVID-19 is continuing to define global economic and market development even after the balance sheet date. An end to the challenges and risks arising from the pandemic cannot be foreseen at present. This situation continues to give rise to opportunities for the Company, as well as risks and challenges. Management's current assessment of the situation is presented in the statements in the opportunities and risk reporting, as well as within the forecast in the management report. The management is aware of all the associated risks, but is also convinced of the Company's potential in 2021.

The Company was renamed "Babbel GmbH" in April 2021. At the same time, the Company moved into its new offices at Andreasstr. 72, 10243 Berlin.

At the beginning of June 2021, Babbel GmbH acquired 100 % of the shares in YouCo B21-H218 Vorrats-AG, Berlin, at a purchase price of € 55 thousand. The Company will be renamed "Babbel Group AG" in June 2021.

5. Group relations

As the parent company, Babbel GmbH has prepared its consolidated financial statements in 2020 in compliance with the IFRS as to be applied in the EU and the supplementary commercial law provisions under Section 315e (1) HGB. Its sole subsidiary is Babbel Inc., which is referred to under III.1. "Fixed assets". Babbel GmbH holds 100% of Babbel Inc. This Company is included in the consolidated financial statements of Babbel GmbH (largest and smallest group of consolidated companies). The consolidated financial statements will be published in the Federal Gazette and will be available at www.bundesanzeiger.de.

6. Auditor's fee

With regard to the disclosures pursuant to Section 285 (17) HGB, we refer to the notes to the consolidated financial statements of Babbel GmbH.

7. Proposed appropriation of profits

We will propose to the shareholders' meeting to carry the net loss for the year as at December 31, 2020, amounting to € -21,502 thousand forward to new account.

Babbel GmbH

Berlin, June 18, 2021

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Arne Schepker

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Thomas Holl

Gross fixed-asset movement schedule as of 12/31/2020

Gross fixed-asset movement schedule as of 12/31/2020

Babbel GmbH (formerly: Lesson Nine GmbH), Berlin

	Acquisition /production costs 1/1/2020	Additions	Additions from mergers	Reclassification	Disposals	Acquisition /production costs 12/31/2020
	€	€	€	€	€	€
I. Intangible assets						
1. Purchased concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets	636,809.70	266,104.38	371,257.57	402,618.00	0.00	1,676,789.65
2. Prepayments made	253,567.00	150,833.00	0.00	-402,618.00	1,782.00	0.00
	890,376.70	416,937.38	371,257.57	0.00	1,782.00	1,676,789.65
II. Property, plant, and equipment						
1. Other equipment, factory and office equipment	3,165,848.23	219,566.13	0.00	0.00	35,045.27	3,350,369.09
2. Prepayments and construction in process	40,268.66	305,423.42	0.00	0.00	0.00	345,692.08
	3,206,116.89	524,989.55	0.00	0.00	35,045.27	3,696,061.17
III. Financial assets						
1. Shares in affiliated companies	268,973.62	0.00	0.00	0.00	267,748.31	1,225.31
2. Loans to affiliated companies	1,799,547.48	452,439.09	0.00	0.00	1,707,310.94	544,675.63
	2,068,521.10	452,439.09	0.00	0.00	1,975,059.25	545,900.94
	6,165,014.69	1,394,366.02	371,257.57	0.00	2,011,886.52	5,918,751.76

	Cumulative amortization and depreciation 1/1/2020	Additions	Additions from mergers	Disposals	Cumulative amortization and depreciation 12/31/2020	Carrying amount 12/31/2020	Carrying amount 12/31/2019
	€	€	€	€	€	€	€
I. Intangible assets							
1. Purchased concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets	240,117.22	79,857.81	158,020.43	0.00	477,995.46	1,198,794.19	396,692.48
2. Prepayments made	0.00	0.00	0.00	0.00	0.00	0.00	253,567.00
	240,117.22	79,857.81	158,020.43	0.00	477,995.46	1,198,794.19	650,259.48
II. Property, plant, and equipment							
1. Other equipment, factory and office equipment	1,632,242.92	921,679.99	0.00	34,322.15	2,519,600.76	830,768.33	1,533,605.31
2. Prepayments and construction in process	0.00	0.00	0.00	0.00	0.00	345,692.08	40,268.66
	1,632,242.92	921,679.99	0.00	34,322.15	2,519,600.76	1,176,460.41	1,573,873.97
III. Financial assets							
1. Shares in affiliated companies	267,748.31	0.00	0.00	267,748.31	0.00	1,225.31	1,225.31
2. Loans to affiliated companies	1,257,310.94	450,000.00	0.00	1,707,310.94	0.00	544,675.63	542,236.54
	1,525,059.25	450,000.00	0.00	1,975,059.25	0.00	545,900.94	543,461.85
	3,397,419.39	1,451,537.80	158,020.43	2,009,381.40	2,997,596.22	2,921,155.54	2,767,595.30

The following independent auditor‘s report (Bestätigungsvermerk des unabhängigen Abschlussprüfers) has been issued in accordance with Section 322 German Commercial Code (Handelsgesetzbuch) on the financial statements and management report (Lagebericht) of Babbel GmbH (formerly: lesson Nine GmbH), Berlin, as of and for the fiscal year ended December 31, 2020. The management report is neither included nor incorporated by reference in this Prospectus.

INDEPENDENT AUDITOR'S REPORT

To Babbel GmbH (formerly: Lesson Nine GmbH), Berlin

Audit Opinions

We have audited the annual financial statements of Babbel GmbH (formerly: Lesson Nine GmbH), Berlin, which comprise the balance sheet as at 31 December 2020, and the statement of profit and loss for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Babbel GmbH (formerly: Lesson Nine GmbH) for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the financial year from 1 January through 31 December 2020 in compliance with German Legally Required Accounting Principles**,** and

- the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and standards are further described in the "Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Responsibilities of the Executive Directors for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless there are no actual or legal circumstances which conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Berlin, June 18, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Philipp Medrow) Wirtschaftsprüfer (German Public Auditor)	(ppa. sgd. Johannes Häner) Wirtschaftsprüfer (German Public Auditor)

Audited Unconsolidated Financial Statements of Babbel Group AG (formerly: Youco B21-H218 Vorrats-AG) prepared in accordance with IFRS as of and for the period from April 19, 2021 to June 30, 2021

I. Balance Sheet

Assets	Notes Reference	06/30/2021 EUR	04/19/2021 EUR
A. Current assets			
I. Cash and cash equivalents	V.4 (a)	50,000	12,500
		50,000	**12,500**
Total Assets		**50,000**	**12,500**

Shareholder’s Equity and Liabilities	Notes Reference	06/30/2021 EUR	04/19/2021 EUR
A. Shareholder’s Equity	V.4 b)		
I. Subscribed capital		50,000	*50,000*
Unpaid Capital			*(37,500)*
Paid in Capital			12,500
II. Retained Earnings		(220)	0
		49,780	**12,500**
B. Current liabilities			
I. Other Liabilities	V.4 (c)	220	0
		220	**0**
Total Liabilities		**50,000**	**12,500**

II. Statement of Comprehensive Income

	Notes Reference	04/19-06/30/2021 EUR
Other Operating Expenses	V.5	(220)
Result for the Period		**(220)**
Total Comprehensive Income for the Period		**(220)**
Period result attributable to:		
Shareholders		(220)
Comprehensive Income attributable to:		
Shareholders		(220)
Earnings per share (basic and diluted)	V.6	(0)

III. Statement of Changes in Equity

04/19/2021 – 06/30/2021			
	Reserves		
in EUR	**Paid In Capital**	**Retained Earnings**	**Total Equity**
Notes Reference	V.4 b)	V.4 b)	**V.4 b)**
Balance Sheet at 04/19/2021	**12,500**	**0**	**12,500**
Deposits	37,500	0	**37,500**
Net loss for the period	0	(220)	**(220)**
Total	**37,500**	**(220)**	**37,280**
Balance Sheet as at 06/30/2021	**50,000**	**(220)**	**(49,780)**

IV. Cash Flow Statement

in EUR		Notes reference	04/19-06/30/2021
1	**Cash flow from operating activities**		
	Loss for the period before income taxes		(220)
	Increase in other liabilities	V.5	220
	Cash flow from operating activities		**0**
2	**Cash flow from financing activities**		
	Payments into equity	V.4 b)	37,500
	Cash flow from financing activities		**37,500**
3	**Cash and cash equivalents at the end of the period**		
	Cash-effective change in cash and cash equivalents (subtotals 1 – 2)		37,500
	Cash and cash equivalents at the beginning of the period		12,500
	Cash and cash equivalents at the end of the period		**50,000**

V. Notes to the IFRS Financial Statements

1. Principles of the Company

Babbel Group AG is a corporation based in Germany. The registered office and headquarters of the company is Andreasstraße 72, in 10243 Berlin.

The Company was founded on April 19, 2021 as Youco B21-H218 Vorrats-AG and entered in the commercial register on April 22, 2021. As of April 19, 2021, an opening balance sheet was drawn up in accordance with german tax and commercial law regulations.

With a purchase agreement dated June 7, 2021, 100% of the shares of the company were sold to Babbel GmbH. By resolution of the Annual General Meeting on June 9, 2021, the company was renamed "Babbel Group AG". The entry in the commercial register took place on July 6, 2021.

The Company is a 100% subsidiary of Babbel GmbH based in Berlin. The Company is included in the consolidated financial statements and all consolidated interim financial statements of Babbel GmbH.

The main activity of the Company is the provision of services related to the activities of Babbel GmbH (e-learning systems and language trips). This purpose of the Company has not yet been entered in the commercial register. However, the Company has not yet become economically active.

The financial year of the Company is the calendar year (short financial year from April 19, 2021 until December 31, 2021).

2. Accounting Principles of IFRS Financial Statements

These IFRS financial statements are prepared by the Company on a voluntary basis.

The Company has not previously drawn up any annual or consolidated financial statements in accordance with IFRS. Consequently, retroactive application of the requirements of IFRS is not necessary. Comparative data will not be provided. The first-time application of IFRS has no impact on the company's equity or net profit or loss for the period.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as adopted and published in the European Union. The preparation of financial statements was carried out in accordance with the provisions of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards.

The financial statements were drawn up for the first time on June 30, 2021.

The financial statements are presented in euros. For computational reasons, tables and references may have rounding differences to the mathematically exact values.

The financial statements follow the requirements of IAS 1. The Statement of Comprehensive Income is drawn up using the cost of sales method. The presentation of assets and liabilities distinguishes between current and non-current assets and liabilities. Assets or liabilities are classified as current if they mature within one year. Individual items of the Statement of Comprehensive Income and the Balance Sheet are combined to improve the clarity of the presentation. These items are explained in the notes.

The financial statements are prepared on the assumption of the Company's ability to continue as a going concern.

These financial statements were approved by the Executive Board for the Shareholders' Committee on July 28th, 2021.

3. Significant accounting policies

When preparing the financial statements, the accounting policies applied in the preparation of the opening balance sheet as of April 19, 2021 are unchanged. There are no material effects on the company's net assets, financial position or results of operations.

The preparation of financial statements in accordance with IFRS requires estimates and assessments by management. Management's material discretionary decisions in the application of the Company's accounting policies and the material sources of estimation uncertainties are in line with those of the opening balance sheet dated April 19, 2021. There were no areas with broader scope for assessment or areas where assumptions and estimates are of crucial importance for the financial statements in the reporting period.

4. Information on the balance sheet

a) Cash and cash equivalents

Cash and cash equivalents include the company's required and fully paid-up subscribed capital of EUR 50 thousand, which is fully paid into a German bank account.

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

b) Equity

The subscribed capital entered in the commercial register and fully paid in amounts to EUR 50 thousand.

The subscribed capital is divided into 50,000 shares assigned a nominal value of one euro each.

On April 19, 2021, EUR 12.5 thousand was paid in. The outstanding, unpaid contribution of EUR 37.5 thousand was made on June 1, 2021.

The development of the equity position in the balance sheet can be seen in the Statement of Changes in Equity.

c) Other Liabilities

Other liabilities are measured at amortised cost and have a remaining term of less than one year.

5. Information on the statement of comprehensive income

Other operating expenses relate to registration fees.

6. Earnings per share

Babbel Group AG provides information on the loss per share for its ordinary shares. Earnings per share (basic and diluted) are calculated on the basis of the losses attributable to the holdings of the parent company divided by the weighted average number of shares outstanding during the reporting period (50,000 shares).

7. Disclosures on the Cash Flow Statement

The cash flow statement has been prepared in accordance with IAS 7 and shows the inflows and outflows during the reporting period. Cash flows are divided into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Cash flow from operating activities is calculated using the indirect method used in accordance with IAS 7.18 (b). The cash flows due to investing activities and financing activities are calculated using the direct method in accordance with IAS 7.21.

8. Financial instruments

Cash and cash equivalents are assigned to the category "measured at cost". The carrying amount corresponds to the fair value and has a remaining term of less than one year.

9. Relationships with related parties

For the purposes of IAS 24, related parties of the Company are companies that are under the significant influence of the Company or can exercise significant influence over the Company. Furthermore, this also applies to companies that are significantly influenced by related parties of the Company.

Due to their significant influence on the Company, the members of the Executive Board and the Supervisory Board are defined as related parties to the Company. The circle of close persons also extends to their close family members. Close family members include children and spouses or life partners or children of that person's spouse or partner and dependent relatives of that person or of that person's spouse or partner.

Reportable transactions include, but are not limited to, the conclusion of loan and lease agreements, the agreement of guarantees or the billing of services, provided that they take place between a related party and the Company or related party.

In the reporting period, no legal transactions were concluded with related parties that are significantly influenced by related parties or persons.

The members of the Executive Board and Supervisory Board did not receive any remuneration from the Company in the reporting period.

10. Board

In the period under review, the Executive Board consisted of the following persons:

- Steffi Brettschneider, Bonn (until June 4, 2021)
- Hermione McKee, Berlin (since June 4, 2021)
- Arne Schepker, Berlin (since June 4, 2021)

By resolution of the Supervisory Board dated June 4, 2021, the previous Executive Board was dismissed. The new members of the Executive Board were appointed on the same date.

11. Supervisory Board

In the period under review, the Supervisory Board consisted of the following persons:

- Angelika Hundt (until June 4, 2021)
- Simon Fritzsche (until June 4, 2021)
- Michael Korbik (until June 4, 2021)
- Negar Hosan-Aghaie, Berlin (since June 4, 2021)
- Jens Gifhorn, Woltersdorf (since June 4, 2021)
- Björn Maack, Berlin (since June 4, 2021)

The members of the first Supervisory Board resigned from their positions at an extraordinary general meeting with effect from June 4, 2021. The new members of the Supervisory Board were appointed on the same date.

12. Events after the Balance Sheet Date

The Coronavirus continues to determine global economic and market developments in the period after the balance sheet date. An end to the challenges and risks arising from the pandemic is currently not in sight. For the Company, there are still opportunities, but also risks and challenges from this situation. The Management Board is aware of all risks, but is also convinced of the potential for the company for the second half of 2021

Babbel Group AG

Berlin, the July 28, 2021

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Hermione McKee

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Arne Schepker

VI. INDEPENDENT AUDITOR’S REPORT

To Babbel Group AG, Berlin

Audit Opinion

We have audited the IFRS financial statements of Babbel Group AG (formerly: Youco B21-H218 Vorrats-AG), Berlin, which comprise the balance sheet as at June 30, 2021**,** and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from April 19, 2021 through June 30, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying IFRS financial statements comply, in all material respects, with the IFRSs as adopted by the EU and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Company as at June 30, 2021, and of its financial performance for the period from April 19, 2021 through June 30, 2021.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the IFRS financial statements.

Basis for the Audit Opinion

We conducted our audit of the IFRS financial statements in accordance with § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the IFRS Financial Statements” section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the IFRS financial statements.

Responsibilities of the Executive Directors and the Supervisory Board for the IFRS Financial Statements

The executive directors are responsible for the preparation of the IFRS financial statements that comply, in all material respects, with IFRSs as adopted by the EU and that the IFRS financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Company. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of IFRS financial statements that are free from material misstatement, whether due to fraud or error.

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

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the IFRS financial statements.

Auditor’s Responsibilities for the Audit of the IFRS Financial Statements

Our objectives are to obtain reasonable assurance about whether the IFRS financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor’s report that includes our audit opinion on the IFRS financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these IFRS financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the IFRS financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the IFRS financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of this system of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the IFRS financial statements or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the IFRS financial statements, including the disclosures, and whether the IFRS financial statements present the underlying transactions and events in a manner that the IFRS financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with IFRSs as adopted by the EU.

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

Berlin, July 28, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Philipp Medrow) Wirtschaftsprüfer (German Public Auditor)	(ppa. sgd. Johannes Häner) Wirtschaftsprüfer (German Public Auditor)

21. GLOSSARY

Adjusted Cash EBITDA.............	Adjusted EBITDA based on Billed Sales, i.e. adjusted for the change in deferred income, and adjusted for cash payments for lease obligations.
Adjusted Cash EBITDA Margin	The percentage of Adjusted Cash EBITDA based on Billed Sales, i.e. adjusted for the change in deferred income and adjusted for cash payments for lease obligations.
Adjusted EBITDA	EBITDA adjusted for non-operating effects (share-based remuneration expenses (EVOP) and unrealized foreign exchange gains/losses).
AktG	The German Stock Corporation Act (*Aktiengesetz*).
Alternative Performance Measures......................................	Financial information and operating data not prepared in accordance with IFRS or any other internationally accepted accounting principles, including Billed Sales, Gross Profit Margin, EBIT Margin, EBITDA, Adjusted EBITDA, Adjusted Cash EBITDA, Adjusted Cash EBITDA Margin, B2C ARPPS, Contribution Margin, Cash Contribution Margin, Capital Expenditures, Gearing Ratio and Working Capital.
App Store Operator....................	Apple and Google.
Apple..	Apple Inc.
Articles of Association................	The Company's articles of association.
Audit and Risk Committee	The audit and risk committee (*Prüfungs- und Risikoausschuss*) of the Supervisory Board of the Company.
Audited Consolidated Financial Statements	Babbel GmbH's audited consolidated financial statements prepared in accordance with the IFRS, and the additional requirements of German commercial law pursuant to Section 315e para. 1 HGB, for the fiscal years ended December 31, 2020, December 31, 2019 and December 31, 2018.
Audited Financial Statements.....	The Company's audited unconsolidated financial statements as of June 30, 2021 and for the period from April 19, 2021 until June 30, 2021 prepared in accordance with IFRS together with the Audited Consolidated Financial Statements and Babbel GmbH's audited unconsolidated financial statements as of and for the fiscal year ended December 31, 2020 prepared in accordance with HGB.
Authorized Capital 2021	The authorization of the Company's Management Board to increase the Company's share capital with the consent of the Supervisory Board on one or more occasions on or prior to September 6, 2026 by up to € 18,936,956 against contributions in cash and/or in kind by issuing new no-par value bearer shares pursuant to Section 4 para. 3 of the Articles of Association.
B2B...	Business-to-business, i.e. business with professional customers.
B2C	Business-to-consumer, i.e. business with private customers.
B2C ARPPS.................................	B2C sales revenues divided by the average subscriptions for the period, which is defined as the sum of the number of subscriptions at the beginning and the end of the respective period divided by two, with the result being divided by the number of months in the respective period.
Babbel or Babbel Group	The Company, together with its consolidated subsidiaries.
BaFin..	The German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany (telephone +49 228 4108 0; Website: www.bafin.de).
Base Shares..................................	The Existing Offer Shares together with the New Shares.

Berenberg .... Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20254 Hamburg, Germany, LEI 529900UC2OD7II24Z667.

Billed Sales .... The full amount invoiced to customers during a period prior to reductions for the change in deferred income.

BNP PARIBAS............................ BNP PARIBAS, 16, boulevard des Italiens, 75009 Paris, France, LEI R0MUWSFPU8MPRO8K5P83.

Bonus .... Short-term variable compensation for the Management Board that rewards the contribution to achieve Babbel's strategic goals made over the previous fiscal year.

CAGR .... Compound annual growth rate, which indicates the annual mean rate of growth for each year of the relevant period.

Capital Expenditures.................. Payments made for investments in property, plant and equipment and payments made for either the development or purchase of intangible assets.

CARIS... Cash average revenue at initial sale.

Cash Contribution Margin .... Billed Sales less Cost of Goods Sold, as cost of sales less pro-rata server costs related to sales revenues, and Marketing Costs, as marketing expenses under IFRS less allocated personnel and other expenses and less pro rata amortization and depreciation (including IFRS 16), as well as allocated share-based remuneration.

CCPA.. The California Consumer Privacy Act.

CPRA.. The California Privacy Rights Act.

CET or CEST.............................. Central European Time or Central European Summertime, as the case may be.

Citigroup .... Citigroup Global Markets Europe AG, Reuterweg 16, 60323 Frankfurt am Main, Germany, LEI 6TJCK1B7E7UTXP528Y04.

Clearstream................................. Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany.

Code .... The German Corporate Governance Code, as amended on December 16, 2019.

Commercial Register.................. Commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Charlottenburg, Germany.

Company .... Babbel Group AG, with its registered office at Andreasstraße 72, 10243 Berlin, Germany, LEI 391200OICV5ACZA8Z633.

Conditional Capital 2021-I.......... The conditional increase of the Company's share capital by up to € 15,149,565.

Conditional Capital 2021-II........ The conditional increase of the Company's share capital by up to € 3,787,391.

Consumer Rights Directive......... Directive (EU) 2011/83 of the European Parliament and of the Council of October 25, 2011 on consumer rights, as amended.

Contribution Capital Increase.... A capital increase against contribution of 96.3% of the shares in Babbel GmbH by the Existing Shareholders against 37,520,378 newly issued bearer shares with no par value (*Stückaktien*).

Contribution Margin.................. Sales revenues less cost of sales and marketing expenses.

Cost of Goods Sold...................... The sum of all fees related to a purchase of a subscription or product and those costs directly allocable to the provision of such subscription or product on a user by user basis.

COVID 19 Act............................. The German Act on Reducing the Effects of the COVID 19 Pandemic in Civil, Insolvency and Criminal Procedure Law (*Gesetz zur Abmilderung der Folgen der COVID 19 Pandemie im Zivil-, Insolvenz- und*

	Strafverfahrensrecht) dated March 27, 2020 as extended by the Act on the Further Reduction of the Procedure for the Relief of Reaming Debt (*Gesetz zur weiteren Verkürzung des Restschuldbefreiungsverfahrens*) dated December 22, 2020.
CPO...	Cost per order.
CPRA...	The California Privacy Rights Act.
CSR Committee	The CSR committee (*CSR-Ausschuss)* of the Supervisory Board.
CSR Matters...............................	Social matters, governance, sustainability, international understanding, as well as other social matters.
D&O..	Directors and officers.
Data Protection Act	The German Federal Data Protection Act (*Bundesdatenschutzgesetz*).
DENIC	DENIC eG, a German non-profit organization.
DST	Digital services taxes.
EBIT Margin...............................	EBIT as a percentage of sales revenues.
EBITDA.......................................	EBIT adjusted for depreciation/amortization of property, plant, and equipment and intangible assets, amortization, depreciation, and write-downs IFRS 16 and goodwill impairment as stated in the audited consolidated cash flow statement.
EEA..	European Economic Area.
Employee Committee	The employee committee (*Arbeitnehmer:innenausschuss*) of the Supervisory Board of the Company.
ESG..	Environmental, social and corporate governance.
EU	The European Union.
EU Audit Regulation	Regulation (EU) No. 537/2014 of the European Parliament and the Council of April 16, 2014 on specific requirements regarding statutory audits.
Euro or €......................................	The single European currency adopted by certain participating member states of the European Union, including Germany.
EVOP...	One of Babbel GmbH's five employee virtual ownership programs**.**
EVOP Amendment Agreements.	The amendment agreements with all EVOP beneficiaries that Babbel GmbH entered into in preparation of the Offering and which provide that the Babbel GmbH may, at its sole discretion, deliver EVOP Compensation Shares to the EVOP beneficiaries in full or partial satisfaction of their cash payment claims under the EVOPs.
EVOP Compensation Shares......	Shares in the Company that Babbel GmbH may, at its sole discretion, deliver to the EVOP beneficiaries in full or partial satisfaction of their cash payment claims under the EVOPs.
Existing Offer Shares	4,000,000 existing bearer shares with no-par value (*Stückaktien*) from the holdings of the Existing Shareholders.
Existing Shareholders.................	Lorenz Heine, Markus Witte, Thomas Holl, Toine Roger Martin Diepstraten, KIZOO, Nokia, Reed Elsevier, SEP, VC Fonds I and VC Fonds II.
Existing Shares............................	37,873,913 existing bearer shares of the Company with no par value (*Stückaktien*).
Founder Shareholders................	Lorenz Heine, Markus Witte, Thomas Holl and Toine Roger Martin Diepstraten.
Fringe Benefits	Non-monetary benefits and perquisites.
FSMA...	The U.K. Financial Services and Markets Act 2000.

Gearing Ratio	The ratio of current liabilities (excluding deferred income and provisions for the EVOP programs) to cash and cash equivalents.
General Data Protection Regulation	Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.
Germany	The Federal Republic of Germany.
Google	Google LLC.
Greenshoe Option	The Lending Shareholders have granted the Underwriters an option to acquire a number of Company's shares equal to the borrowed shares at the Offer Price less agreed commissions.
Gross Profit Margin	Gross profit on sales as a percentage of sales revenues.
HGB	The German Commercial Code (*Handelsgesetzbuch*).
HolonIQ	HolonIQ Pty Ltd.
HolonIQ Study	The study of HolonIQ, dated May 11, 2021 and titled '$60B D2C language learning market to double by 2025, led by digital delivering 3X growth', available at available at: https://www.holoniq.com/notes/60b-d2c-language-learning-market-to-double-by-2025-led-by-digital-delivering-3x-growth/,
ICANN	The Internet Corporation for Assigned Names and Numbers, which is a U.S. based non-profit organization.
IFRS	International Financial Reporting Standards, as adopted by the European Union.
IPO Capital Increase	A capital increase against cash contributions of 7,300,000 newly issued bearer shares with no par value (*Stückaktien*) expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021.
ISIN	International Securities Identification Number.
Joint Bookrunners	The Joint Global Coordinators, together with Berenberg and Citigroup.
Joint Global Coordinators	BNP PARIBAS and Morgan Stanley.
KIZOO	KIZOO Technology Capital GmbH.
KWG	The German Banking Act (*Kreditwesengesetz*).
LEI	Legal entity identifier.
Lending Shareholders	KIZOO, Nokia, Reed Elsevier, SEP, VC Fonds I and VC Fonds II.
Majority Shareholder	A shareholder holding 95% of the share capital of a stock corporation pursuant to the German Stock Corporation Act (*Aktiengesetz*).
Management Board	The management board (*Vorstand*) of the Company.
MAR	Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse, as amended.
Marketing Costs	Marketing expenses under IFRS less allocated personnel and other expenses and less pro rata amortization and depreciation (including IFRS 16), as well as allocated share-based remuneration.
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments, as amended.
MiFID II Requirements	MiFID II, Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 of April 7, 2016 supplementing MiFID II and local implementing measures.
MMA	The Madrid Agreement Concerning the International Registration of Marks of April 14, 1891, as amended.

Morgan Stanley	Morgan Stanley Europe SE, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany, LEI 54930056FHWP7GIWYY08.
New Shares	7,300,000 newly issued bearer shares with no par value (*Stückaktien*) from a capital increase against cash contributions expected to be resolved by a shareholders' meeting of the Company on or about September 15, 2021.
Nokia	Nokia Growth Partners III, L.P.
OC&C	OC&C Strategy and Analytics GmbH, Germany.
OC&C Report	Independent market study from OC&C on the language learning market, titled "*Digital Language Market Study".*
Order	The U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended.
Offer Period	The period during which investors may submit purchase orders for the Offer Shares is expected to commence on September 15, 2021 and to expire on September 22, 2021.
Offer Price	The final price of the Offer Shares in the Offering.
Offer Shares	The Base Shares together with the Over-Allotment Shares.
Offering	The offering of 12,994,997 bearer shares of the Company with no par value (*Stückaktien*).
Over-Allotment	Over-Allotment Shares as part of the allocation of the Offer Shares, which may, in addition to the Offer Shares, be allocated to investors as part of the allocation of the Offer Shares under the possible stabilization measures.
Over-Allotment Shares	1,694,997 bearer shares with no par value (*Stückaktien*) in connection with a possible over-allotment.
P2B-Regulation	Regulation (EU) 2019/1150 of June 20, 2019 on promoting fairness and transparency for business users of online intermediation services, which entered into force on July 12, 2020.
Package Travel Directive	Directive (EU) 2015/2302 of November 25, 2015 on package travel and linked travel arrangements as implemented into German law through the Third Act amending the regulations governing package travel (*Drittes Gesetz zur Änderung reiserechtlicher Vorschriften)*.
Parent-Subsidiary Directive	Council Directive 2011/96/EU of November 30, 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states, as amended.
Performance Stock Options	Long-term share-based compensation fort the Management Board.
PMMA	The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks of June 27, 1989, as amended.
Post-IPO Equity	The adjusted net book value expressed as a per share figure, assuming 45,173,913 shares of the Company outstanding upon completion of the Offering.
Remuneration and Nomination Committee	The remuneration and nomination committee (*Vergütungs- und Nominierungsausschuss*) of the Supervisory Board of the Company.
Pre-IPO Cash Capital Increase	The increase of the Company's share capital from € 50,000.00 by € 303,535.00 to € 353,535.00 against contributions in cash, resolved upon on August 5, 2021 by the Company's shareholders' meeting and registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany on August 10, 2021.
Preferential Allocation Program	The preferential allocation program the Company has set up for the benefit of the Qualifying Employees.

Price Range	The price range for the Offering within which purchase orders may be placed of € 24.00 to € 28.00 per Offer Share.
Prospectus	This prospectus.
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, as amended.
PwC	PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kapelle-Ufer 4, 10117 Berlin, Germany.
Reed Elsevier	The Reed Elsevier Ventures 2013 Partnership L.P.
Relevant Persons	Persons to whom the Prospectus is addressed in the United Kingdom, comprising of (i) investors who have professional experience in matters relating to investments falling within Article 19 para. 5 of the Order, (ii) investors who are high net worth entities falling within Article 49 para. 2 lit. a) through d) of the Order and (iii) other persons to whom it may otherwise lawfully be communicated.
Securities Act	The United States Securities Act of 1933, as amended.
SEP	SEP IV LP.
SLV	Expected subscription lifetime value (i.e., the forecast revenue of a subscription over the full subscription term including extensions, with the calculation capped at 5 years less COGS).
SLM	Subscription lifetime margin, which is defined as SLV minus CPO as a percentage of SLV.
Stabilization Manager	Morgan Stanley, acting for the account of the Underwriters in connection with the placement of the Offer Shares.
Stabilization Period	Period for stabilization measures, which may be taken from the date the Company's shares are listed on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and must be terminated no later than the thirtieth calendar day after such date.
Supervisory Board	The supervisory board (*Aufsichtsrat*) of the Company.
Target Market Assessment	Compatibility with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II, and eligibility for distribution through all distribution channels permitted by MiFID II.
Tele Media Act	The German Tele Media Act (*Telemediengesetz*).
The 2016 Babbel Efficacy Study	The study of Vesselinov, R., & Grego, J. of September 2016, titled 'The Babbel Efficacy Study (Rep.)', available at: https://press.babbel.com/en/releases/downloads/Babbel-Efficacy-Study.pdf.
The 2021 Babbel/University of Potsdam Study	The study of Mendes de Oliveira, Milene & Sporn, Zachary & Kliemann, Lea & Borschke, Alexandra & Meyering, Meike, 2021, titled 'The impact of Babbel's virtual-classroom solution on workplace communication', available at: https://press.babbel.com/shared/downloads/studies_research/The%20impact%20of%20Babbel's%20virtual-classroom%20solution%20on%20workplace%20communication.pdf.
UK Prospectus Regulation	The U.K. Prospectus Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

Unaudited Condensed Consolidated Interim Financial Statements	Babbel GmbH's unaudited consolidated interim financial statements as of and for the six-month period ended June 30, 2021, with comparative figures for the six-month period ended June 30, 2020, prepared in accordance with IFRS applicable to interim financial reporting (IAS 34).
Underwriters	The Joint Global Coordinators, together with Berenberg and Citigroup.
Underwriting Agreement	The underwriting agreement, entered into between the Company, the Existing Shareholders and the Underwriters on September 14, 2021.
United States or U.S.	The United States of America.
VAT	Value-added tax.
VC Fonds I	VC Fonds Berlin GmbH.
VC Fonds II	VC Fonds Technologie Berlin GmbH.
WebCAPE	The Web Based Computer Adaptive Placement Exam.
WpHG	The German Securities Trading Act (*Wertpapierhandelsgesetz*).
WpÜG	The German Securities and Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

22. RECENT DEVELOPMENTS AND OUTLOOK

22.1 Recent developments

On August 5, 2021 the Company's shareholders' meeting resolved on the Pre-IPO Cash Capital Increase to increase the Company's share capital from € 50,000.00 by € 303,535.00 to € 353,535.00 against contributions in cash. The Pre-IPO Cash Capital Increase was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany on August 10, 2021.

On August 19, 2021, the Company's shareholders' meeting resolved on the Contribution Capital Increase. The contribution and transfer of 96.3% of the shares in Babbel GmbH was registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on August 26, 2021.

Upon registration of the IPO Capital Increase, the Company's share capital will be increased from € 37,873,913.00 by up to € 7,300,000.00 to up to € 45,173,913.00. The consummation of the IPO Capital Increase is expected to be registered in the commercial register of the local court (*Amtsgericht*) of Charlottenburg (Berlin), Germany, on or about September 23, 2021.

Except as described above, there have been no significant changes to our financial position between June 30, 2021 and the date of this Prospectus.

22.2 Trend Information

In the short term, we expect our business growth to moderate following a strong 2020 financial year in our core business. In the mid-term, our business growth will increasingly be driven by those areas that are small today but are becoming increasingly relevant drivers of the topline.

For 2021, we expect sales revenues growth in the low-teens, with extension revenues providing a strong base against subscription growth in the mid-single digits and flat B2C ARPPS. In the mid-term sales revenues growth is expected to move towards the mid-teens, as a result of B2C ARPPS growth via our ecosystem's increasing monetization, and steady subscription growth.

At a segment level, Billed Sales in our B2C Global segment is expected to grow in the low single digits for the remainder of 2021, given both the challenging year-on-year comparison with the strong growth we achieved in 2020 and the expiration of 12 month subscriptions purchased from the cohorts that we acquired during the peak of COVID-19. We expect the initially moderate growth to gain momentum over the mid-term due to monetization of our ecosystem and broader pricing effects. Ware confident that we will sustainably benefit from the significantly enlarged base of subscribers compared to our subscriber base prior to the COVID-19 pandemic. Moreover, we expect our investments into our ecosystem to achieve noticeable economies of scale in the mid-term with monetization expected to drive growth to high single digits across our B2C Global portfolio. Our B2C US business is expected to deliver high-teens growth in Billed Sales through 2021, representing a temporarily lower growth trajectory subject to the same post-COVID dynamics as outlined for B2C Global. In the mid-term, our growth momentum should return to the low to mid-twenties facilitated by an increasing base of extension revenues, continued investment in subscription growth and complemented by improving monetization.

Our Cash Contribution Margin for the B2C business is expected to be broadly flat in the short term as a result of steady B2C Global Markets with continued B2C U.S. investment. Over the mid-term, as the US margin grows due to increasing marketing efficiency and a growing base of extension revenues, the full B2C segment Cash Contribution margin should see slight increases from current levels.

Sales revenues for our B2B business is expected to more than double in the near term, with a mid-term target of delivering 10-15% of group sales revenues. Billed Sales will follow a very similar trajectory, although our deferred income as a % of sales revenues is expected to fall over time as slower growth rates reduce the magnitude of the difference between sales revenues and Billed Sales. Drivers of this growth are expected to include the SaaS-like model supporting high renewal rates, a shift towards pro-active outbound revenues sourcing and the ramp up in size and efficiency of our sales force. Ultimately, a larger base of renewing revenues, a shift in revenue sourcing and increasing efficiency should translate into improvements in profitability. We expect a Cash Contribution Margin in the high thirties for the remainder of 2021, improving to 60% + in the mid-term.

We expect our other operating expenses, e.g. operating items below our Cash Contribution Margin including marketing overheads and marketing personnel, to remain stable as a percentage share of sales revenues. In absolute terms, this would reflect slightly higher costs attributable to the continuous expansion of our multiproduct ecosystem by adding new learning experiences as well as the extension of our B2B sales team. We do, however, expect the continuous optimization and development of our content and product platform to provide an enhanced operating leverage in the foreseeable future, leading to a gradual increase of our Adjusted EBITDA Margin in the medium to high single digits. Over the long term, we anticipate both Adjusted EBITDA and Adjusted Cash EBITDA to reach a stable level of more than 25%.

Over the medium term, we expect adjusting items for cash flow to remain fairly stable in absolute terms. Costs related to share based compensation are expected to exceptionally peak related to the settlement of vested EVOP claims in connection with the Offering (see "*16.8.1.1 Vested virtual shares*"). In the mid-term, we expect EVOP-related costs to rapidly move towards 1% of our sales revenues and to stabilize around this level. The amortization of leases pursuant to IFRS 16 is expected to be € 4 million in 2021 and having just signed leases in both Berlin and New York, we expect this to be stable in absolute terms over the mid-term. In 2021, we have a very slight increase in Capital Expenditures to € 2 million due to the fit-out of new offices, but we do expect this to stabilize at a slightly lower level over the medium term. Excluding deferred income, we also expect Working Capital to be also stable in absolute terms. Finally, as a result of the utilization of tax loss carry forwards in Germany, we expect tax payments in the short and medium term to be largely driven by U.S. taxes paid on a cost basis in the State of New York. In the longer term, however, we expect that our effective tax rate will likely converge to the general corporate tax rate just over 30%.