# XLMEDIA PLC.

## CONSOLIDATED FINANCIAL STATEMENTS

## AS OF 31 DECEMBER 2018

**XLMEDIA PLC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF 31 DECEMBER 2018**

**U.S DOLLARS IN THOUSANDS**

## INDEX



\- - - - - - - - - - - - - - - - -

Kost Forer Gabbay & Kasierer
77 Haenergia st.
Advanced Technologies Park
Beer Sheva 8470912, Israel

Tel: +972-8-6261300
Fax: +972-3-5622555
ey.com

**INDEPENDENT AUDITOR'S REPORT**
**To the Shareholders of**
**XLMedia PLC**

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of XLMedia PLC and its subsidiaries (the Group), which comprise the consolidated statements of financial position as of 31 December 2018 and 2017 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and 2017 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| | Description of Key Audit Matter and why a matter of most significance in the audit | Description of Auditor's Response |
|---|---|---|
| Revenue recognition | Revenues are significant to the consolidated financial statements based on their quantitative materiality. As such, there is inherent risk that revenues may be improperly recognised, inflated or misstated<br><br>Recognition of revenues in the accounts of the Group is a highly automated process. The Group is heavily reliant on the reliability and continuity of its in-house IT platform to support automated data processing in its recognition and recording of revenues. | In 2018 in order to gain the required level of assurance, we performed substantive audit procedures relating to the recognition and recording of revenues, including tests of reconciliations from underlying data to the financial accounts. IT audit specialists were deployed to assist in understanding the design and operation of the relevant IT systems and in performing various data analyses in order to test completeness, accuracy and timing of the recognition of revenues. |
| Goodwill Domains and Websites – impairment test | As of 31 December 2018, the total carrying amount of goodwill, domains and websites with indefinite useful life is approximately USD 115.7 million. In accordance with IFRSs as adopted by the European Union, the Group is required to annually test these assets for impairment. Further, in 2018 the Group recognised an impairment of approximately USD 9 million in respect of goodwill and other intangible assets. This annual impairment test and the calculation of the impairment was significant to our audit because the assessment process is complex and judgmental and based on assumptions that are affected by expected future market or economic conditions. | Our audit procedures included, among others evaluating the assumptions and methodologies used by the Group. In particular, we assessed the recoverability of these assets by reviewing management's forecasts of revenues and profitability. We evaluated and tested the discount rates and allocation of expenses among the various segments. We considered the reasonableness of management's assumptions regarding the fair value of certain assets. We also verified the adequacy of the disclosure of the assumptions and other data in Note 9 to the consolidated financial statements. |
| Taxation | The Group's operations are subject to income tax in various jurisdictions. Taxation is significant to our audit because the assessment process is complex and judgmental and the amounts involved are material to the consolidated financial statements as a whole. | We included in our team tax specialists to analyse and evaluate the assumptions used to determine tax provisions. We evaluated and tested the underlying support, such as transfer price studies, for the calculation of income taxes in the various jurisdictions. We also assessed the adequacy of the Group's disclosures in Note 15 to the consolidated financial statements. |

### Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### Responsibilities of management and the board of directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Group's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

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 to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with ISAs, 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, 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 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 control.
- ► Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ► Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors 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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

The consolidated financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Albert Perez
For and on behalf of
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

25 March 2019
Beer Sheva, Israel

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | As of 31 December 2018 | 2017 |
|---|---|---|---|
| | | USD in thousands | |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | | 44,627 | 38,416 |
| Short-term investments | 6 (a) | 2,996 | 4,861 |
| Trade receivables | 7 (a) | 16,112 | 18,950 |
| Other receivables | 7 (b) | 4,697 | 4,665 |
| Financial derivatives | 12(b) | 805 | 200 |
| | | 69,237 | 67,092 |
| **Non-current assets:** | | | |
| Long-term investments | 6 (b) | 633 | 681 |
| Property and equipment | 8 | 1,296 | 1,230 |
| Goodwill | 9 | 23,652 | 30,052 |
| Domains and websites | 9 | 92,053 | 45,762 |
| Other intangible assets | 9 | 9,146 | 8,585 |
| Deferred taxes | 15 | 99 | 862 |
| Other assets | | 435 | 244 |
| | | 127,314 | 87,416 |
| | | 196,551 | 154,508 |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | As of 31 December | |
|---|---|---|---|
| | | **2018** | **2017** |
| | **Note** | **USD in thousands** | |
| **Liabilities and equity** | | | |
| **Current liabilities:** | | | |
| Trade payables | | 6,416 | 9,813 |
| Other liabilities and accounts payable | 10 | 6,967 | 10,972 |
| Income tax payable | 15 | 9,049 | 8,573 |
| Financial derivatives | 12 (b) | 91 | 1,425 |
| Current maturities of long-term bank loans | 11 | 5,585 | 2,500 |
| | | 28,108 | 33,283 |
| **Non-current liabilities:** | | | |
| Long- term bank loans | 11 | 1,380 | 2,500 |
| Income tax payable | 15 | - | 1,825 |
| Deferred taxes | 15 | - | 42 |
| Other liabilities | | 248 | 201 |
| | | 1,628 | 4,568 |
| **Equity** | 13 | | |
| Share capital | | *) | *) |
| Share premium | | 112,224 | 68,417 |
| Capital reserve from share-based transactions | | 2,590 | 1,227 |
| Capital reserve from transaction with non-controlling interests | | (2,445) | (2,445) |
| Treasury shares | | (468) | - |
| Retained earnings | | 54,623 | 49,167 |
| Equity attributable to equity holders of the Company | | 166,524 | 116,366 |
| Non-controlling interests | | 291 | 291 |
| Total equity | | 166,815 | 116,657 |
| | | 196,551 | 154,508 |

*) Lower than USD 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

| 25 March 2019 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Chris Bell<br>Chairman of the Board of Directors | Ory Weihs<br>Chief Executive Officer | Yehuda Dahan<br>Chief Financial Officer |

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2018** | **2017** |
| | **Note** | **USD in thousands (except per share data)** | |
| Revenues | 16 | 117,866 | 137,632 |
| Cost of revenues | | 49,922 | 64,487 |
| Gross profit | | 67,944 | 73,145 |
| Research and development expenses | | 1,358 | 4,474 |
| Selling and marketing expenses | | 7,420 | 6,263 |
| General and administrative expenses | | 23,479 | 21,639 |
| | | 32,257 | 32,376 |
| Operating profit before loss from media activity planned reduction | | 35,687 | 40,769 |
| Loss from media activity planned reduction | 9 | (9,938) | - |
| Operating profit | | 25,749 | 40,769 |
| Finance expenses | | (887) | (2,113) |
| Finance income | | 300 | 689 |
| Finance expenses, net | | (587) | (1,424) |
| Profit before taxes on income | | 25,162 | 39,345 |
| Taxes on income | 15 | 4,387 | 7,474 |
| Net income and other comprehensive income | | 20,775 | 31,871 |
| Attributable to: | | | |
| Equity holders of the Company | | 19,818 | 30,323 |
| Non-controlling interests | | 957 | 1,548 |
| | | 20,775 | 31,871 |
| Earnings per share attributable to equity holders of the Company: | 13(e) | | |
| Basic and diluted earnings per share (in USD) | | 0.09 | 0.15 |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve from share-based transactions | Capital reserve from transactions with non-controlling interests | Treasury shares | Retained earnings | Total | Non-controlling interests | Total Equity |
| | USD in thousands | | | | | | | | |
| Balance as of 1 January 2018 | *) | 68,417 | 1,227 | (2,445) | - | 49,167 | 116,366 | 291 | 116,657 |
| Net income and other comprehensive income | - | - | - | - | - | 19,818 | 19,818 | 957 | 20,775 |
| Share capital issuance (Net of issue cost of USD 1.6 million) | - | 42,618 | - | - | - | - | 42,618 | - | 42,618 |
| Acquisition of treasury shares | - | - | - | - | (468) | - | (468) | - | (468) |
| Cost of share-based payment | - | - | 1,667 | - | - | - | 1,667 | - | 1,667 |
| Dividend to equity holders of the Company | - | - | - | - | - | (14,362) | (14,362) | - | (14,362) |
| Exercise of options | *) | 1,189 | (304) | - | - | - | 885 | - | 885 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | (957) | (957) |
| Balance as of 31 December 2018 | *) | 112,224 | 2,590 | (2,445) | (468) | 54,623 | 166,524 | 291 | 166,815 |

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve from share-based transactions | Capital reserve from transactions with non-controlling interests | Retained earnings | Total | Non-controlling interests | Total Equity |
| | USD in thousands | | | | | | | |
| Balance as of 1 January 2017 | *) | 66,812 | 1,208 | (506) | 34,349 | 101,863 | 1,422 | 103,285 |
| Net income and other comprehensive income | - | - | - | - | 30,323 | 30,323 | 1,548 | 31,871 |
| Cost of share-based payment | - | - | 419 | - | - | 419 | - | 419 |
| Dividend to equity holders of the Company | - | - | - | - | (15,505) | (15,505) | - | (15,505) |
| Exercise of options | *) | 1,605 | (400) | - | - | 1,205 | - | 1,205 |
| Acquisition of non-controlling interests | - | - | - | (1,939) | - | (1,939) | (311) | (2,250) |
| Dividend to non-controlling interests | - | - | - | - | - | - | (2,368) | (2,368) |
| Balance as of 31 December 2017 | *) | 68,417 | 1,227 | (2,445) | 49,167 | 116,366 | 291 | 116,657 |

*) Lower than USD 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| **Cash flows from operating activities:** | | |
| Net income | 20,775 | 31,871 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Adjustments to the profit or loss items: | | |
| Depreciation, amortisation and impairment | 6,503 | 5,932 |
| Finance expense (income), net | (1,577) | 2,813 |
| Gain from sale of property | (10) | - |
| Loss from media activity planned reduction | 9,938 | - |
| Cost of share-based payment | 1,667 | 419 |
| Taxes on income | 4,387 | 7,474 |
| Exchange differences on balances of cash and cash equivalents | 954 | (1,545) |
| | 21,862 | 15,093 |
| **Changes in asset and liability items:** | | |
| Decrease (increase) in trade receivables | 2,838 | (1,875) |
| Increase in other receivables | (509) | (982) |
| Increase (decrease) in trade payables | (3,397) | 539 |
| Increase (decrease) in other accounts payable | (4,571) | 286 |
| Increase (decrease) in other long-term liabilities | 47 | (27) |
| | (5,592) | (2,059) |
| **Cash received (paid) during the year for:** | | |
| Interest paid | (469) | - |
| Interest received | 196 | 17 |
| Taxes paid | (5,544) | (4,154) |
| Taxes received | 557 | 305 |
| | (5,260) | (3,832) |
| Net cash provided by operating activities | 31,785 | 41,073 |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | (553) | (388) |
| Proceeds from sale of assets and property | 270 | 300 |
| Payment for acquired business | - | (5,100) |
| Acquisition of and additions to domains, websites, technology and other intangible assets | (55,516) | (16,160) |
| Short- term and long-term investments, net | 1,735 | (1,595) |
| Net cash used in investing activities | (54,064) | (22,943) |
| **Cash flows from financing activities:** | | |
| Dividend paid to equity holders of the Company | (14,362) | (15,505) |
| Share capital issuance, net of issuance costs | 42,618 | - |
| Acquisition of treasury shares | (468) | - |
| Acquisition of non-controlling interests | - | (2,250) |
| Dividend paid to non-controlling interests | (1,285) | (1,804) |
| Exercise of options | 976 | 1,205 |
| Repayment of long and short-term liability | (4,000) | - |
| Receipt of long-term loan from bank | 5,965 | 5,000 |
| Net cash provided by (used in) financing activities | 29,444 | (13,354) |
| Exchange differences on balances of cash and cash equivalents | (954) | 1,545 |
| Increase in cash and cash equivalents | 6,211 | 6,321 |
| Cash and cash equivalents at the beginning of the year | 38,416 | 32,095 |
| Cash and cash equivalents at the end of the year | 44,627 | 38,416 |

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: GENERAL

(a) General description of the Group and its operations:

The Group is an online performance marketing company. The Group attracts paying users from multiple online and mobile channels and directs them to online businesses who, in turn, convert such traffic into paying customers.

Online traffic is attracted by the Group's publications and advertisements and are then directed, by the Group, to its customers in return for mainly a share of the revenue generated by such user, a fee generated per user acquired, fixed fees or a hybrid of any of these models.

The Company is incorporated in Jersey, and commenced its operations in 2012.

Since March 2014, the Company's shares are traded on the London Stock Exchange's Alternative Investment Market (AIM).

(b) Definitions:

In these financial statements:

| | | |
|---|---|---|
| The Company | - | XLMedia PLC. |
| The Group | - | The Company and its consolidated subsidiaries |
| Subsidiaries | - | Entities that are controlled (as defined in IFRS 10) by the Company and whose accounts are consolidated with those of the Company. For a list of the main subsidiaries see Note 21. |
| Related parties | - | as defined in IAS 24 |
| Dollar/USD | - | U.S. dollar |

(c) Assessment of going concern:

The Board of Directors has adopted the going concern basis of accounting in preparing the consolidated financial statements.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

(a) Basis of presentation of the consolidated financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU") and in accordance with the requirements of the Companies (Jersey) Law 1991.

The financial statements have been prepared on a cost basis, except for financial assets and liabilities (derivatives) that are presented at fair value through profit or loss.

The Company has elected to present profit or loss items using the function of expense method.

In 2018 new Standards and amendments became effective but they had no material effect on the consolidated financial statements, see Note 2(u).

*Classification of expenses in profit or loss*

Cost of revenues- includes mainly compensation of personnel, media buying costs, affiliates network costs and websites promotion and content.

Research and development and Selling and marketing- includes primarily compensation of personnel.

General and administrative- includes primarily compensation and related costs of personnel, amortisation and depreciation expenses, costs related to the Group's facilities and fees for professional services.

(b) Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary without a change of control is accounted for as an equity transaction in accordance with IFRS 10.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(c) Business combinations and goodwill :

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are expensed as incurred.

Contingent consideration is recognised at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost, which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

(d) Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

   The functional and presentation currency of the Company and of its subsidiaries is the U.S. dollar ("USD").

2. Transactions, assets and liabilities in foreign currency:

   Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalised to qualifying assets or recorded in equity in hedges, are recognised in profit or loss. Non-monetary assets and liabilities measured at cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

(e) Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(f) Short-term and long-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months and less than twelve months from the date of acquisition. Long-term deposits are deposits with maturity of more than twelve months from the reporting date. The deposits are presented according to their terms of deposit.

(g) Allowance for doubtful accounts (accounting policy applied until December 31, 2017):

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company did not recognise an allowance in respect of groups of customers that are collectively assessed for impairment since it did not identify any groups of customers which bear similar credit risks. Impaired debts are derecognised when they are assessed as collectible.

(h) Revenue recognition:

As detailed in paragraph 2 (u) below regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The accounting policy for revenue recognition applied until 31 December 2017 is as follows:

Revenues are recognised in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the Group acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. When the Group acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration received.

The accounting policy for revenue recognition applied commencing from 1 January 2018 is as follows:

Revenue from contracts with customers is recognised when the control over the services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms.

In determining the amount of revenue from contracts with customers, the Group evaluates whether it is a principal or an agent in the arrangement. The Group is principal when the Group controls the promised services before transferring them to the customer. In these circumstances, the Group recognises revenue for the gross amount of the consideration. When the Group is an agent, it recognises revenue for the net amount of the consideration, after deducting the amount due to the principal.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(i) Taxes on income:

Current or deferred taxes are recognised in profit or loss, except to the extent that they relate to items which are recognised in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rate that is expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilised. Deductible temporary differences for which deferred tax assets had not been recognised are reviewed at each reporting date and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

(j) Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

*Operating leases - the Group as lessee:*

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(k) Property and equipment:

Property and equipment are measured at cost, including directly attributable costs, less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

| | mainly % |
|---|---|
| Office furniture and equipment | 10% |
| Computers and peripheral equipment | 33% |
| Leasehold improvement (over the lease term) | 12.5% |

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use.

(l) Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalised development costs, are recognised in profit or loss when incurred.

Intangible assets with a finite useful life are amortised over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each year end.

Intangible assets (domains and websites) with indefinite useful lives are not systematically amortised and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. Since the content of the domains and websites is being updated on a current basis management believes that these assets have indefinite useful lives. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortised systematically over its useful life.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(l) Intangible assets: (Cont.)

*Research and development expenditures:*

Research expenditures are recognised in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognised if the Group can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. The asset is amortised over its useful life. Testing of impairment is performed annually over the period of the development project.

*Software:*

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

Systems and software (purchased and in- house development cost) are amortised on a straight-line basis over the useful life of three years

Non-competition is amortised on a straight line basis over the agreement term (between 2 to 3 years).

(m) Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(m) Impairment of non-financial assets: (Cont.)

The following criteria are applied in assessing impairment of these specific assets:

1. Goodwill

The Company reviews goodwill for impairment once a year as of 31 December or more frequently if events or changes in circumstances indicate that there is impairment need for such review.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognised if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

2. Domains and websites - Intangible assets with an indefinite useful life that are not systematically amortised.
The impairment test is performed annually, on 31 December, or more frequently if events or changes in circumstances indicate that there is an impairment.

(n) Financial instruments:

As detailed in Note 2 (u) regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard") the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until 31 December 2017 is as follows:

1. Financial assets:

Financial assets are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

a) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading (derivatives).

b) Receivables:

Short-term receivables with fixed payments are measured based on their terms, normally at face value.

2. Financial liabilities:

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured subsequently at amortised cost are measured initially at fair value less direct transaction costs.

After initial recognition, loans and other liabilities are measured based on their terms at amortised cost less directly attributable transaction costs using the effective interest method.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(n) Financial instruments: (Cont.)

3. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire.

b) Financial liabilities:

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged or cancelled or expires.

The accounting policy for financial instruments applied commencing from 1 January 2018 is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

a) Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortised cost using the effective interest rate method, less any provision for impairment.

b) Financial assets held for trading:

Financial assets held for trading (derivatives) are measured at through profit or loss unless they are designated as effective hedging instruments.

2. Impairment of financial assets:

The Company reviews at the end of each reporting period the provision for loss of financial debt instruments which are measured at amortized cost. The Company has short-term trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

3. Derecognition of financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(n) Financial instruments: (Cont.)

4. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss such as derivatives;
- Contingent consideration recognized by the buyer in a business combination within the scope of IFRS 3.

b) Financial liabilities measured at fair value through profit or loss:

At initial recognition, the Company measures financial liabilities that are not measured at amortized cost at fair value. Transaction costs are recognised in profit or loss.

After initial recognition, changes in fair value are recognized in profit or loss.

5. Derecognition of financial liabilities:

A financial liability is derecognised only when it is extinguished, that is when the obligation is discharged or cancelled or expires.

(o) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorised into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(p) Provisions:

A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense is recognised in profit or loss net of the reimbursed amount.

(q) Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are financed by contributions to insurance companies or pension funds and classified as defined contribution plans.

The Israeli subsidiaries of the Group have defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the subsidiary pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.

(r) Share-based payment transactions:

The Group's employees and officers are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees and officers is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model - additional details are given in Note 14.
In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account.

The cost of equity-settled transactions is recognised in profit or loss together with a corresponding increase in equity during the period which the performance is to be satisfied ending on the date on which the relevant employees or officers become entitled to the award ("the vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

(s) Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the number of Ordinary Shares outstanding during the period. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company. If the number of Ordinary Shares outstanding increases as a result of a capitalisation, bonus issue, or share split, the calculation of earnings per share for all periods presented are adjusted retrospectively.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

(t) Changes in accounting policies - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The new Standard has been applied for the first time in these consolidated financial statements. The Company elected to adopt the provisions of the new Standard using the modified retrospective approach with the application of certain practical expedients and without restatement of comparative data.

The adoption of IFRS 15 as of 1 January 2018 did not have a material effect on the consolidated financial statements.

2. Initial adoption of IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets within the scope of IAS 39.

IFRS 9 has been applied for the first time in these consolidated financial statements retrospectively without restatement of comparative data. The adoption of IFRS 9 as of 1 January 2018 did not have a material effect on the consolidated financial statements.

## NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

(a) Judgments:

In the process of applying the significant accounting policies, the Group made the following judgments which have the most significant effect on the amounts recognised in the financial statements:

Business combinations:

The Group is required to allocate the acquisition cost of entities and activities through business combinations on the basis of the fair value of the acquired assets and assumed liabilities. The Group uses external and internal valuations to determine the fair value. The valuations include management estimates and assumptions as for future cash flow projections from the acquired business and selection of models to compute the fair value of the acquired components and their depreciation period. Management estimates influence the amounts of the acquired assets and assumed liabilities and depreciation and amortisation in profit or loss.

(b) Estimations and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Impairment of goodwill, domains and websites:
  The Group reviews goodwill, domains and websites for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating units to which the assets are allocated and also to choose a suitable discount rate for those cash flows. See also Note 9.

- Income taxes
  The Group is subject to income tax in various jurisdictions and judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises tax liabilities based on assumptions supported by, among others, transfer price studies. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. See also Note 15.

## NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

(a) IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The effects of the adoption of the new Standard are as follows:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases, see below) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The new Standard permits lessees to use one of the following approaches:

1. Full retrospective approach - according to this approach, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be carried to equity. Also, the Group will restate the comparative figures in its financial statements.
2. Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of first-time adoption of the new Standard will be calculated using the lessee's incremental borrowing rate of interest on the date of initial application. As for the measurement of the right-of-use asset, the Group may choose, on a lease-by-lease basis, to apply one of the two following alternatives:
    - Recognise an asset in an amount equal to the lease liability, with certain adjustments.
    - Recognise an asset as if the new Standard had always been applied.

Any difference arising on the date of first-time application of the new Standard as a result of applying the modified retrospective approach will be recorded in equity.

**NOTE 4: DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)**

(a) IFRS 16, "Leases": (Cont.)

The Group estimates that the effect of the initial adoption of the new Standard as of 1 January 2019 is expected to result in an increase in the Group's total assets and liabilities in the amount of approximately USD 10 million.

Moreover, the effect of the initial adoption of the new Standard in 2019 is expected to result in a decrease in the Group's lease expenses by approximately USD 1.6 million and an increase in the Group's depreciation and finance expenses in the amount of approximately USD 1.3 million and USD 0.6 million, respectively. The total effect of the initial adoption of the new Standard in 2019 is expected to lead to a decrease of approximately USD 0.3 million in pre-tax income.

In addition, as a result of the adoption of the new Standard, in 2019, the Group's cash flows from operating activities are expected to increase by approximately USD 1.6 million and its cash flows from financing activities are expected to decrease by approximately USD 1.6 million.

The Group estimates that the adoption of the new Standard will not have an effect on its compliance with financial covenants in its bank loan agreements.

(b) IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on 1 January 2019. Early adoption is permitted. Upon initial adoption, the Group will apply the Interpretation using one of two approaches:

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.

2. Full retrospective adoption including restatement of comparative data.

The Group does not expect the Interpretation to have any material impact on the consolidated financial statements.

(c) IFRS 3, "Business Combinations":

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" ("the Amendment"). The Amendment is intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of an asset.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted.

## NOTE 5: BUSINESS COMBINATIONS

(a) In February 2017, the Company, through its a wholly owned subsidiary, acquired the business and assets of Clicksmob Inc. for a total consideration of USD 5.1 million.

(b) In August 2017, the Company acquired the remaining minority shareholding (46%) in Marmar for a total consideration of approximately USD 2.3 million. As a result of the acquisition, USD 1.9 million was recorded in capital reserve from transactions with non-controlling interests.

## NOTE 6: SHORT-TERM AND LONG-TERM INVESTMENTS

| | Annual interest rate (1) | As of 31 December 2018 | As of 31 December 2017 |
|---|---|---|---|
| | | USD in thousands | |
| **(a) Short-term investments:** | | | |
| Short-term bank deposits (2): | | | |
| In USD | 0.8 | 1,307 | 2,512 |
| In NIS | 0.03 | 1,497 | 1,595 |
| In EURO | | 192 | 668 |
| In GBP | | - | 86 |
| | | 2,996 | 4,861 |
| **(b) Long-term financial assets**: | | | |
| Bank deposits- in NIS (2) | 0.6 | 633 | 681 |

(1) The above interest rates are the weighted average rates as of 31 December 2018.

(2) Includes deposits in the amount of USD 3,585 thousand with fixed liens recorded as security for credit card transactions in connection with advertising campaigns and other online purchasing over the internet as well as for financial derivative transactions and bank guarantee provided in connection with a lease agreement on property.

## NOTE 7: TRADE AND OTHER RECEIVABLES

a. Trade receivables:

| | As of 31 December 2018 | As of 31 December 2017 |
|---|---|---|
| | USD in thousands | |
| Open accounts | 17,800 | 20,734 |
| Less - allowance for doubtful accounts | 1,688 | 1,784 |
| Trade receivables, net | 16,112 | 18,950 |

As of 31 December 2018, the Group has no material amounts that are past due and not impaired.

See Note 12 (b) (2) on credit risk of trade receivables.

b. Other receivables:

| | As of 31 December 2018 | As of 31 December 2017 |
|---|---|---|
| | USD in thousands | |
| Prepaid expenses | 2,407 | 2,254 |
| Government authorities | 1,536 | 1,684 |
| Other receivables | 754 | 727 |
| | 4,697 | 4,665 |

## NOTE 8: PROPERTY AND EQUIPMENT

| | Computers, furniture, office equipment and others | Leasehold improvements | Total |
|---|---|---|---|
| | USD in thousands | | |
| **Cost:** | | | |
| Balance as of 1 January 2017 | 2,169 | 363 | 2,532 |
| Acquisitions during the year | 309 | 79 | 388 |
| Acquisitions of business and assets | 52 | - | 52 |
| Balance as of 31 December 2017 | 2,530 | 442 | 2,972 |
| Acquisitions during the year | 489 | 64 | 553 |
| Disposals during the period | (27) | - | (27) |
| Balance as of 31 December 2018 | 2,992 | 506 | 3,498 |
| **Accumulated depreciation:** | | | |
| Balance as of 1 January 2017 | 1,186 | 117 | 1,303 |
| Depreciation during the year | 398 | 41 | 439 |
| Balance as of 31 December 2017 | 1,584 | 158 | 1,742 |
| Depreciation during the year | 425 | 52 | 477 |
| Disposals during the period | (17) | - | (17) |
| Balance as of 31 December 2018 | 1,992 | 210 | 2,202 |
| Depreciated cost as of 31 December 2018 | 1,000 | 296 | 1,296 |
| Depreciated cost as of 31 December 2017 | 946 | 284 | 1,230 |

Depreciation expenses are included in General and administrative expenses.

## NOTE 9: INTANGIBLE ASSETS

a. Composition and movement:

| | Goodwill | Domains and websites | Non-competition | Systems, software and other | Total |
|---|---|---|---|---|---|
| | | | USD in thousands | | |
| **Cost:** | | | | | |
| Balance as of 1 January 2017 | 26,302 | 26,939 | 3,401 | 11,151 | 67,793 |
| Acquisitions of business and assets (1) | 3,750 | - | 124 | 1,174 | 5,048 |
| Acquisitions during the year | - | 20,428 | 715 | 872 | 22,015 |
| Costs capitalised during the year (in-house development cost) | - | - | - | 3,840 | 3,840 |
| Balance as of 31 December 2017 | 30,052 | 47,367 | 4,240 | 17,037 | 98,696 |
| Acquisitions during the year (2) | - | 46,591 | 715 | 1,195 | 48,501 |
| Costs capitalised during the year (in-house development cost) | - | - | - | 7,015 | 7,015 |
| Balance as of 31 December 2018 | 30,052 | 93,958 | 4,955 | 25,247 | 154,212 |
| **Accumulated amortisation and impairment:** | | | | | |
| Balance as of 1 January 2017 | - | 200 | 2,785 | 5,819 | 8,804 |
| Amortisation during the year | - | - | 656 | 3,406 | 4,062 |
| Impairment loss | - | 1,405 | 26 | - | 1,431 |
| Balance as of 31 December 2017 | - | 1,605 | 3,467 | 9,225 | 14,297 |
| Amortisation during the year | - | - | 733 | 4,993 | 5,726 |
| Impairment loss | - | 300 | - | - | 300 |
| Loss from media activity planned reduction (3) | 6,400 | - | 174 | 2,464 | 9,038 |
| Balance as of 31 December 2018 | 6,400 | 1,905 | 4,374 | 16,682 | 29,361 |
| Amortised cost as of 31 December 2018 | 23,652 | 92,053 | 581 | 8,565 | 124,851 |
| Amortised cost as of 31 December 2017 | 30,052 | 45,762 | 773 | 7,812 | 84,399 |

(1) See Note 5(a).

(2) Material acquisitions during the year:

- In January 2018 the Company acquired a number of leading Finnish gambling related informational websites for a total consideration of USD 17.7 million.
- In April 2018 the Company acquired one of the leading online informational portals and comparison sites for online bingo games in the UK for a total consideration of USD 10.6 million.
- In 2018 the Company acquired a number of US personal finance websites for a total consideration of USD 11 million.

(3) See Note b (2) below.

Amortisation expenses and impairment loss are included in General and administrative expenses.

## NOTE 9: INTANGIBLE ASSETS (Cont.)

b. Carrying amounts of intangible assets with an indefinite useful life:

Following are the carrying amounts of goodwill, domains and websites allocated to cash generating units ("CGU") that comprise the following segments:

| | 31 December, 2018 | | | 31 December, 2017 | | |
|---|---|---|---|---|---|---|
| | Goodwill | Domains and websites | Total | Goodwill | Domains and websites | Total |
| | USD in thousands | | | | | |
| Publishing segment (1) | 2,416 | 92,053 | 94,469 | 2,416 | 45,762 | 48,178 |
| Media segment (2) | 21,236 | - | 21,236 | 27,636 | - | 27,636 |
| | 23,652 | 92,053 | 115,705 | 30,052 | 45,762 | 75,814 |

(1) Publishing segment

The recoverable amounts of domains and websites and the recoverable amount of the publishing segment CGUs to which the goodwill was allocated were determined based on a value in use calculation using estimated cash flow projections. The pre-tax discount rate applied to the cash flow projections is 13.1% (2017 - 12.1%). The projected cash flows are estimated using a fixed growth rate of 5% for the years 2020-2022 and terminal growth rate of 3% (2017 - same).

The key assumptions used in calculating the value in use:

Revenues and operational profit - the revenues and the profit rate assumptions are based on management expectations as reflected in the Group's budget for the coming year approved by the Company's board and in management's forecasted cash flows for the following three years.

Discount rate - the discount rate reflects management's assumptions regarding the CGU's specific risk premium.

Growth rate - the growth rate applied for the period beyond the four year forecasted period is based on the long-term average growth rate as customary in similar industries.

As of 31 December 2018, the recoverable amount of Publishing segment exceeds its carrying amount.

(2) Media segment

After the reporting date, the Group has taken the decision to reduce certain parts of its Media activities (comprising one CGU, “Reduced CGU”) which have lower profit margins. The Group will continue to operate its Media activities (comprising another CGU) which are complimentary to its Publishing activities.
For purposes of impairment review, the Group allocated the total goodwill of the Media segment in the approximate amount of USD 27.6 million to each of the two CGUs described above and determined the recoverable amount of each CGU separately.

The recoverable amount of the Reduced CGU was calculated at fair value less expected cost of reduction, and based on that the Group recorded a one-off loss attributable to the media activity planned reduction of USD 9.9 million in the year ended 31 December 2018, as detailed below:

## NOTE 9: GOODWILL, DOMAINS AND WEBSITES AND OTHER INTANGIBLE ASSETS (Cont.)

b. Carrying amounts of intangible assets with an indefinite useful life: (Cont.)

| | USD in thousands |
|---|---|
| Impairment of goodwill | 6,400 |
| Impairment of other intangible assets | 2,638 |
| Other expenses | 900 |
| | 9,938 |

The recoverable amount of the continuing media activity CGU was determined based on a value in use calculation using estimated cash flow projections. The pre-tax discount rate applied to the cash flow projections is 13.4% (2017 - 14.1%). The projected cash flows are estimated using a fixed growth rate of 5% for the years 2020-2022 and terminal growth rate of 3% (2017 - 3%).

The key assumptions used in calculating the value in use:

Revenues and operational profit - the revenues and the profit rate assumptions are based on management expectations as reflected in the Group's budget for the coming year approved by the Company's board and in management's forecasted cash flows for the following three years.

Discount rate - the discount rate reflects management's assumptions regarding the CGU's specific risk premium.

Growth rate - the growth rate applied for the period beyond the four year forecasted period is based on the long-term average growth rate as customary in similar industries.

As of 31 December 2018 the recoverable amount of the continuing media activity CGU exceeds its carrying amount.

Sensitivity analyses of changes in assumptions:
With respect to the assumptions used in determining the value in use of the CGUs in each of the segments, management believes that there are no reasonably possible changes in the key assumptions detailed above which might cause the carrying amount of the CGUs to exceed their recoverable amount.

## NOTE 10: OTHER LIABILITIES AND ACCOUNTS PAYABLE

| | As of 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Employees and payroll accruals | 3,750 | 7,312 |
| Liability for intangible assets acquisition | - | 254 |
| Government authorities | 741 | 707 |
| Accrued expenses | 1,513 | 1,475 |
| Other liabilities | 963 | 1,224 |
| | 6,967 | 10,972 |

## NOTE 11: LOANS FROM BANK

a. Composition:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Long-term bank loans | 6,965 | 5,000 |
| Less - current maturities | 5,585 | 2,500 |
| | 1,380 | 2,500 |

b. Loan terms:

On 29 December 2017, a subsidiary of the Company received a loan from a bank in the amount of USD 5 million. The loan is repayable in 24 equal installments and carries an interest rate of USD Libor +4.45% (as of 31 December 2018- 7.07%).
The Company's subsidiary committed towards the bank, among others, to maintain financial covenants, which will be measured on a quarterly basis.

In June 2018, a subsidiary of the Company received a loan from a bank in the amount of USD 6 million. The loan is repayable in 24 equal installments and carries an interest rate of USD Libor +4.4% (as of 31 December 2018 - 7.02%).
The Company's subsidiary committed towards the bank, among others, to maintain financial covenants, which will be measured on a quarterly basis.

As of 31 December 2018, the Company's subsidiary is meeting the financial covenants.

c. Liens- see Note 17 (b).

## NOTE 12: FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments as follows:

| | As of 31 December | |
|---|---|---|
| | 2018 | 2017 |
| **Financial assets** | USD in thousands | |
| Financial assets at fair value through profit or loss: | | |
| Financial derivatives | 805 | 200 |
| Financial assets measured at amortised cost: | | |
| Cash and cash equivalents | 44,627 | 38,416 |
| Short-term and long-term investments | 3,629 | 5,542 |
| Trade receivables | 16,112 | 18,950 |
| Other receivables | 754 | 727 |
| Total financial assets measured at amortised cost | 65,122 | 63,635 |
| Total financial assets | 65,927 | 63,835 |
| Total current | 65,294 | 63,154 |
| Total non-current | 633 | 681 |

**NOTE 12: FINANCIAL INSTRUMENTS (Cont.)**

a. Classification of financial assets and liabilities: (Cont.)

| | As of 31 December | |
|---|---|---|
| | **2018** | **2017** |
| **Financial liabilities** | **USD in thousands** | |
| Financial assets at fair value through profit or loss: | | |
| Financial derivatives | 91 | 1,425 |
| Financial liabilities measured at amortised cost: | | |
| Trade payables | 6,416 | 9,813 |
| Other liabilities and account payables | 5,637 | 10,265 |
| Bank loan | 6,965 | 5,000 |
| Total financial liabilities measured at amortised cost | 19,018 | 25,078 |
| Total financial liabilities | 19,109 | 26,503 |
| Total current | 17,729 | 24,003 |
| Total non-current | 1,380 | 2,500 |

b. Financial risks factors:

The Group's activities expose it to various financial risks.

1. Market risk - Foreign exchange risk:

A significant portion of the Group's revenues are received in EURO. The Group also has revenues that are received in GBP. A significant portion of the Israeli subsidiaries expenses are paid in New Israeli Shekels ("NIS"). Therefore, the Group is exposed to fluctuations in the foreign exchange rates in EURO, GBP and NIS against the USD.

The Company entered into forward contracts with the intention to reduce the foreign exchange risk of forecasted cash flows. These contracts are not designated as hedges for accounting purposes and are measured at fair value through profit or loss.

For the year ended 31 December 2018 the Group recorded foreign exchange rate differences expenses, net in the amount of USD 95 thousand (net of gain on forward transactions, see below) (2017- expenses of USD 606 thousand).

The open positions as of 31 December 2018, all for period until end of 2019:
Forward transactions for the sale of EURO in exchange for USD totaling EURO 17.1 million (USD 20.6 million).

Forward transactions for the sale of USD in exchange for NIS totaling USD 1.2 million (NIS 4.5 million).

The Group bought Put option and sold Call option for the sale of USD in exchange for NIS totaling USD 12.8 million (NIS 48 million).

Forward transactions for the sale of GBP in exchange for USD totaling GBP 0.8 million (USD 1.1 million).

As of 31 December 2018 the total fair value of the above forward transactions amounted to USD 91 thousand (liabilities) and USD 805 thousand (asset).

**NOTE 12: FINANCIAL INSTRUMENTS (Cont.)**

b. Financial risks factors: (Cont.)

2. Credit risk:

The Group usually extends 30-60 day term to its customers. The Group regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables.

The Group maintains cash and cash equivalents and short-term investments and long-term investments in various financial institutions. These financial institutions are located in the EU, Israel, Europe and US.

3. Liquidity risk:

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

**As of 31 December 2018:**

| | Less than one year | 1 to 2 years | Total |
|---|---|---|---|
| | USD in thousands | | |
| Trade payables | 6,416 | - | 6,416 |
| Other liabilities and account payables | 5,637 | - | 5,637 |
| Financial derivatives | 91 | - | 91 |
| Bank loan | 5,786 | 1,529 | 7,315 |
| | 17,930 | 1,529 | 19,459 |

**As of 31 December 2017:**

| | Less than one year | 1 to 2 years | Total |
|---|---|---|---|
| | USD in thousands | | |
| Trade payables | 9,813 | - | 9,813 |
| Other liabilities and account payables | 10,265 | - | 10,265 |
| Financial derivatives | 1,425 | - | 1,425 |
| Bank loan | 2,734 | 2,582 | 5,316 |
| | 24,237 | 2,582 | 26,819 |

c. Fair value:

The carrying amounts of the Group's financial assets and liabilities approximate their fair value.

The fair value of financial derivatives is categorised within level 2 of fair value hierarchy.

**NOTE 12: FINANCIAL INSTRUMENTS (Cont.)**

d. Sensitivity tests relating to changes in market factors:

| | As of 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| **Sensitivity test to changes in Euro to Dollar exchange rate:** | | |
| Gain (loss) from the change: | | |
| Increase of 10% in exchange rate | (765) | (3,003) |
| Decrease of 10% in exchange rate | 765 | 3,004 |
| **Sensitivity test to changes in NIS to Dollar exchange rate:** | | |
| Gain (loss) from the change: | | |
| Increase of 10% in exchange rate | (1,318) | (1,038) |
| Decrease of 10% in exchange rate | 1,421 | 1,601 |
| **Sensitivity test to changes in GBP to Dollar exchange rate:** | | |
| Gain (loss) from the change: | | |
| Increase of 10% in exchange rate | 583 | 180 |
| Decrease of 10% in exchange rate | (583) | (180) |

The sensitivity tests reflect effects of reasonably possible changes in exchange rates on hedging position of the Group for the above currencies as of the end of the year. As described in (b) 1 above, these contracts are intended to reduce the Group's exposure to fluctuations in exchange rates on future revenues and expenses. Therefore, although it is expected the above effects will be offset by contra effects upon the recording of the revenues and expenses, the timing of these effects may not coincide in the same reporting period.

**Sensitivity tests and principal assumptions:**

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Group has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the effects (before tax) on profit or loss and equity in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The Group does not have significant exposure to interest rate risk.

e. Changes in liabilities arising from financial activities:

In 2018 the changes in liabilities arising from financial activities comprise the receipt of a bank loan in the amount of USD 6 million and repayment of loan in the amount of USD 4 million (2017- receipt of bank loan of USD 5 million).

## NOTE 13: EQUITY

a. Composition of share capital:

| | As of 31 December 2018 | |
|---|---|---|
| | Authorised | Issued and outstanding |
| | Number of shares | |
| Ordinary Shares of USD 0.000001 par value | 100,000,000,000 | 216,598,665 |

| | As of 31 December 2017 | |
|---|---|---|
| | Authorised | Issued and outstanding |
| | Number of shares | |
| Ordinary Shares of USD 0.000001 par value | 100,000,000,000 | 199,529,655 |

In addition to the above issued shares, as of 31 December 2018, 3,753,737 Ordinary Shares are held in trust to satisfy the Company's share based payment plan.

b. Movement in share capital:

1. In January 2018 the Company issued 16,000,000 Ordinary Shares in a placing to institutional investors at a price of 198 pence per Ordinary share. The total gross funds raised were approximately GBP 31.7 million (USD 44.2 million) and the related costs amounted to approximately GBP 1.1 million (USD 1.6 million)
2. In 2018 the Company issued 1,069,010 Ordinary shares upon the exercise of options.
3. In 2017 the Company issued 1,832,232 Ordinary shares upon the exercise of options.

c. The board of the Company has approved a buyback programme (the "Programme") to buy back up to USD 10 million of the Company's Ordinary shares (the "Shares").
The Programme runs from 18 December 2018 to the conclusion of the 2019 annual general meeting of the Company.
The Programme is funded from the Company's existing cash balances and does not affect the Company's stated dividend policy of paying out at least 50 per cent of retained earnings.
During 2018 the Company acquired 492,302 Shares in total amount of USD 468 thousand.
Subsequent to the reporting period the Company acquired 7,077,134 Shares in total amount of USD 6,035 thousand.

d. Dividends paid to equity holders of the Company:

| Date | Total amount | Per share |
|---|---|---|
| | USD in millions | USD |
| 7 April 2017 | 7.5 | 0.038 |
| 13 October 2017 | 8.0 | 0.040 |
| 13 March 2018 | 8.0 | 0.037 |
| 23 September 2018 | 6.5 | 0.030 |

**NOTE 13: EQUITY (Cont.)**

e. Net earnings per share:

Details of the number of shares and income used in the computation of earnings per share:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Weighted number of shares | Net income attributable to equity holders of the Company | Weighted number of shares | Net income attributable to equity holders of the Company |
| | In thousands | USD in thousands | In thousands | USD in thousands |
| Number of shares and income for the computation of basic net earnings | 215,441 | 19,818 | 198,739 | 30,323 |
| Effect of potential dilutive Ordinary shares *) | 1,889 | - | 3,592 | - |
| For the computation of diluted net earnings | 217,330 | 19,818 | 202,331 | 30,323 |

*) Options, see Note 14.

**NOTE 14: SHARE-BASED PAYMENT**

The expense recognised in the financial statements for services received is shown in the following table:

| | Year ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Total expense arising from share-based payment transactions | 1,667 | 419 |

a. In August 2013 the Company adopted a Share Option Plan. In December 2017 the Company adopted an additional plan. According to the plans, the Company’s Board of Directors is entitled to grant certain employees, officers and other service providers (together herein "employees") of the Group remuneration in the form of equity-settled share-based payment transactions.

Pursuant to the plans, the Company's employees may be granted options to purchase the Company's Ordinary shares. These options may be exercised, subject to the continuance of engagement of such employees with the Company, within a period of eight years from the grant date, at an exercise price to be determined by the Company's Board of Directors at the grant date.

All grants to Israeli employees were made in accordance with Section 102 of the Income Tax Ordinance, capital-gains track (with a trustee).

**NOTE 14: SHARE-BASED PAYMENT (Cont.)**

2017 grants

In 2017, the Company granted to employees (including non- executive directors) of the Company 1,030,000 options to purchase 1,030,000 Ordinary shares. The options will vest over three years from the grant date and are exercisable up to a period of eight years from the date of grant.

The following table specifies the inputs used for the fair value measurement of the grant:

| | |
|---|---|
| Option pricing model | Black-Scholes-Merton formula |
| Exercise price GBP (USD) | 1.06 (1.3)-1.34 (1.8) |
| Dividend amount (USD) | 0.24-0.33 |
| Expected volatility of the share price (%) | 47.7%-47.9% |
| Risk- free interest rate (GBP curve) | 0.59%-0.75% |
| Expected life of share options (years) | 5.2 |
| Share price GBP (USD) | 1.06 (1.3)-1.38 (1.86) |

The total fair value of the options granted was calculated at USD 565 thousand at the grant date (USD 0.55 per option)

In calculating the cost of share-based payments to be recorded as an expense, the Company includes an estimate of forfeiture rates, which are adjusted to actual over the period of vesting.

2018 grants

In January 2018, the Company granted 3,000,000 options to employees (including to the Company's CEO and other key management personnel), exercisable to 3,000,000 Ordinary shares at an exercise price adjusted for dividends. The options vest over a period of 4 years from the grant date and are exercisable for a period of up to 8 years.

The following table specifies the inputs used for the fair value measurement of the grant:

| | |
|---|---|
| Option pricing model | Black-Scholes-Merton formula |
| Exercise price GBP (USD) | 2.0 (2.85) |
| Dividend yield (%) | 0 |
| Expected volatility of the share price (%) | 47.3% |
| Risk- free interest rate (GBP curve) | 1.13% |
| Expected life of share options (years) | 5.2 |
| Share price GBP (USD) | 1.9 (2.71) |

The total fair value of the options granted was calculated at USD 3,413 thousand at the grant date (USD 1.14 per option).

In September 2018, the Company granted 415,000 options to employees, exercisable to 415,000 Ordinary shares at an exercise price adjusted for dividends. The options vest over a period of 4 years from the grant date and are exercisable for a period of up to 8 years.

The following table specifies the inputs used for the fair value measurement of the grant:

| | |
|---|---|
| Option pricing model | Black-Scholes-Merton formula |
| Exercise price GBP (USD) | 1.1 (1.44) |
| Dividend yield (%) | 0 |
| Expected volatility of the share price (%) | 52.0% |
| Risk- free interest rate (GBP curve) | 1.23% |
| Expected life of share options (years) | 5.2 |
| Share price GBP (USD) | 1.0 (1.3) |

The total fair value of the options granted was calculated at USD 270 thousand at the grant date (USD 0.63 per option).

## NOTE 14: SHARE-BASED PAYMENT (Cont.)

b. Movement during the year:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | in thousands | USD | in thousands | USD |
| Share options outstanding at beginning of year | 6,788 | 1.01 | 9,590 | 0.79 |
| Share options granted during the year | 3,415 | 2.68 | 1,030 | 1.71 |
| Share options forfeited during the year | (1,024) | 1.24 | (2,000) | 0.96 |
| Share options exercised during the year | (1,069) | 0.83 | (1,832) | 0.66 |
| Share options outstanding at end of year | 8,110 | 1.56 | 6,788 | 1.01 |
| Share options exercisable at end of year | 3,194 | 0.84 | 2,561 | 0.81 |

c. The weighted average remaining contractual life for the options outstanding as of 31 December 2018 was 6 years (2017- 6 years).

d. The range of exercise prices for options outstanding as of 31 December 2018 was USD 0.66- USD 2.85 (2017- USD 0.66- USD 1.8).

## NOTE 15: TAXES ON INCOME

a. Starting 2018 the Company is subject to Cyprus tax at the standard corporate income tax rate of 12.5% (in 2017 - Jersey tax rate of 0%).

b. Tax law applicable to the Company's Israeli subsidiaries is the Israeli tax law- Income Tax Ordinance (new version) 1961.

- The general Israeli corporate tax rate applicable in 2018 is 23% (2017- 24%).
- Amendments to the Law for the Encouragement of Capital Investments, 1959:
  According to Amendment 71 to the Law, the tax rate for certain preferred enterprises is reduced to a flat tax rate of 16%.
  The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to withholding tax at a rate of 20%.
- Amendment 73 to the Law also prescribes special tax tracks for technological enterprises, which became effective in 2017, as follows:

  Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property.

  Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to a withholding tax at a rate of 4%.

The above amendments apply for two of the Group’s subsidiaries.

## NOTE 15: TAXES ON INCOME (Cont.)

c. The applicable U.S. federal statutory income tax rate for the Company's subsidiary for 2018 is 21% (2017- 35%). In addition state and city taxes are applicable.

e. Final tax assessments:

- In 2017 two subsidiaries in Israel reached a final tax assessment agreement with the Income Tax Authorities in Israel for the years 2012 – 2015, according to which the subsidiaries will pay additional taxes in the amount of USD 4.3 million plus interest in the amount of USD 0.7 million in 18 equal installments which bear 4% interest and linkage to the Israel Consumer Price Index. In 2017 the Company recorded an additional tax expense of USD 1.9 million in respect of this assessment, see (f) below.
- Two subsidiaries in Israel have received final tax assessment through 2013.

f. Taxes on income included in profit or loss:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | **USD in thousands** | |
| Current taxes | 4,179 | 6,414 |
| Deferred taxes | 721 | (861) |
| Taxes in respect of previous years | (513) | 1,921 |
| Total | 4,387 | 7,474 |

g. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses were taxed at the statutory tax rate in Cyprus (2017- in Jersey) and the taxes on income recorded in profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | **USD in thousands** | |
| Profit before taxes on income | 25,162 | 39,345 |
| Statutory tax rate | 12.5% | - |
| Tax computed at the statutory tax rate | 3,145 | - |
| Adjustment due to the difference between the Company's statutory tax rate and tax rates applicable to the subsidiaries | 172 | 5,553 |
| Non-deductible expenses for tax purposes | 1,444 | - |
| Tax benefit of net additional deduction | (271) | - |
| Taxes in respect of previous years | (513) | 1,921 |
| Unrecognized temporary differences and others | 410 | - |
| Total taxes | 4,387 | 7,474 |

## NOTE 15: TAXES ON INCOME (Cont.)

h. Deferred taxes:

Composition:

| | Statements of financial position | | Statements of profit or loss | |
|---|---|---|---|---|
| | December 31, | | Year ended December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | USD in thousands | | | |
| Deferred tax liabilities: | | | | |
| Intangible assets | 15 | 42 | (27) | (84) |
| Deferred tax assets: | | | | |
| Intangible assets | - | 667 | 667 | (660) |
| Allowance for doubtful account | 15 | 104 | 89 | (52) |
| Employee benefits | 99 | 91 | (8) | (65) |
| | 99 | 862 | | |
| Deferred tax expenses (benefit) | | | 721 | (861) |
| Deferred tax assets, net | 99 | 820 | | |

The deferred taxes are computed at the tax rates of 12% based on the tax rates that are expected to apply upon realization (2017- 23%, 16% and 12%).

## NOTE 16: OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organised into operating segments based on the products and services of the business units and has operating segments as follows:

Publishing - The Group owns over 2,300 informational websites in 18 languages. These websites refer potential customers to online businesses. The sites' content, written by professional writers, is designed to attract online traffic which the Group then directs to its customers online businesses.

Media - The Group's Media division acquires online and mobile advertising targeted at potential online traffic with the objective of directing it to the Group's customers. The Group buys advertising space on search engines, websites, mobile and social networks and places adverts referring potential users to the Group's customers' websites or to its own websites.

The Other category includes revenues from managing networks of marketing partners.

Segment performance (segment profit) is evaluated based on revenues less direct operating costs. Items that were not allocated are managed on a group basis.

## NOTE 16: OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

| | Publishing | Media | Other | Total |
|---|---|---|---|---|
| | USD in thousands | | | |
| **Year ended 31 December 2018:** | | | | |
| Revenues | 65,788 | 47,141 | 4,937 | 117,866 |
| Segment profit before loss from media activity planned reduction | 51,747 | 15,329 | 568 | 67,644 |
| Loss from media activity planned reduction– see Note 9 (b) | - | 9,938 | - | 9,938 |
| Segment profit | 51,747 | 5,391 | 568 | 57,706 |
| Unallocated corporate expenses | | | | (31,957) |
| Finance income, net | | | | (587) |
| Profit before taxes on income | | | | 25,162 |
| **Year ended 31 December 2017:** | | | | |
| Revenues | 62,894 | 66,428 | 8,310 | 137,632 |
| Segment profit | 50,309 | 19,982 | 1,423 | 71,714 |
| Unallocated corporate expenses | | | | (30,945) |
| Finance income, net | | | | (1,424) |
| Profit before taxes on income | | | | 39,345 |

c. Geographic information:

Revenues classified by geographical areas based on user location:

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Scandinavia | 42,374 | 38,250 |
| Other European countries | 32,531 | 41,621 |
| North America | 20,588 | 29,665 |
| Asia | 6,198 | 10,940 |
| Oceania | 1,799 | 3,493 |
| Other countries | 5,047 | 3,766 |
| Total revenues from identified locations | 108,537 | 127,735 |
| Revenues from unidentified locations | 9,329 | 9,897 |
| Total revenues | 117,866 | 137,632 |

## NOTE 17: COMMITMENTS AND LIENS

a. Leases

Group companies (as lessee) have entered into commercial real estate lease agreements. The leases are non-cancellable for periods of between 2-3 years (with option periods) with annual lease fees of approximately USD 1.6 million.

The Group recorded fixed liens on long-term bank deposit in connection with these agreements (see Note 6).

b. As collateral for subsidiary's bank loans, fixed charges have been placed on the subsidiary's share capital and goodwill and floating charges on the subsidiary’s assets.

## NOTE 18: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

| | As of 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| **Current liabilities:** | | |
| Management fees and other short-term payables | 106 | 1,080 |
| Non-current liability | 185 | 125 |

b. Benefits to key management personnel: *)

| | As of 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Short-term benefits and other | 1,962 | 2,221 |
| Cost of share-based payments | 1,050 | 40 |
| | 3,012 | 2,261 |

*) Includes directors.

c. Service Agreement with related party

The Group signed a service agreement with a consultant who then also was a shareholder. The agreement was terminated in August 2017. The management fees and termination agreement costs for the year ended 31 December 2017 were USD 552 thousand.

## NOTE 19: POST -EMPLOYMENT BENEFITS

The post-employment employee benefits are financed by contributions classified as defined contribution plans.

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Expenses in respect of defined contribution plans | 1,824 | 1,510 |

## NOTE 20: SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF PROFIT OR LOSS

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | USD in thousands | |
| Employee benefit expenses are included in: *) | | |
| Cost of revenues | 11,846 | 12,182 |
| Research and development before capitalization | 7,334 | 7,688 |
| Selling and marketing | 6,766 | 5,882 |
| General and administrative | 6,788 | 7,131 |
| | 32,734 | 32,883 |

*) Includes cost of share- based payment.

## NOTE 21: LIST OF MAIN SUBSIDIARIES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Shares conferring voting rights | Shares conferring rights to profits | Shares conferring voting rights | Shares conferring rights to profits |
| | % | | % | |
| XLMedia Finance Limited | 100 | 100 | 100 | 100 |
| XLMedia Publishing Limited | 100 | 100 | 100 | 100 |
| Webpals Holdings Ltd | 100 | 100 | 100 | 100 |
| Webpals Systems S.C Ltd | 100 | 100 | 100 | 100 |
| Webpals Mobile Ltd (formerly Dau-Up Clicksmob Ltd.) | 100 | 100 | 100 | 100 |
| Marmar Media Ltd | 100 | 100 | 100 | 100 |
| Webpals, Inc. | 100 | 100 | 100 | 100 |

- - - - - - - - - - - - - - - - -