



XL MEDIA PLC



**Annual Report and  
Financial Statements  
2018**



XL MEDIA PLC



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# Overview

XLMedia Plc (the “Company, and together with its subsidiaries, the “Group” or “XLMedia”) is a leading provider of digital performance marketing services.

The Group uses proprietary tools and methodologies to generate high value traffic from multiple online and mobile channels to its online customers.

The Group operates on a performance-based business model, using proprietary tools and methodologies to generate high-value engagement for its customers, where in return for users referred by the Group, customers remunerate the Group either for a share of the revenue generated by such users, a fee generated per user acquired, fixed fees or a hybrid of any of these three models.

The Group owns a large portfolio of informational and content rich websites globally which act as a conduit to channel users to its customers, the majority of which address two key verticals online gambling and personal finance.

We operate in markets heavily affected by frequent changes in regulation and specifically in marketing gambling products and generally in the digital marketing space. By continuously monitoring regulatory changes, we are able to evolve and enhance our asset portfolio across these markets in both its key verticals to deliver sustainable, high-quality earnings.

At XLMedia, we strive to attract as many users as possible to our websites, by creating excellent websites providing users the most relevant and up to date content within a great user interface and friendly websites. This ensures that our websites achieve prominent search engine optimization, and a large amount of users. To achieve this goal, significant time and effort is spent on updating the content across our portfolio of assets, as well as performing sophisticated research, optimization, testing and analysis on in-house platforms. The Group utilizes proprietary business intelligence tools to track the flow and quality of traffic to its customers' sites and analyses the quality and conversion into revenue using these tools to achieve an improved return on investment.

Creating new assets that adhere to the constantly changing algorithms of search engines takes time and great expertise to develop. In some cases, it can take many years for websites to reach their potential in terms of appearance at the top of search engine rankings. Since launching our first website in 2009, we have built a strong portfolio of assets, with over 2,300 websites currently owned and operated. This includes websites across a wide spectrum of sectors, with some already achieving optimal SEO results as others are still being developed. New websites are continually being launched by XLMedia to ensure we maintain our status as a leading provider of digital marketing services in the verticals we operate in.

Another key aspect of our leading position is our ability to analyze the success rates of directing users to various sources in order to establish the best ways to convert users. Our experience and know-how allow us to ensure that we direct users to the right online businesses in a mutually beneficial way; with the user finding the best deals and the online business acquiring a high value customer. We monitor this anonymous data continually to improve our conversion rates and customer retention.

Our publishing activities are supported by our experienced media teams who create and deploy self-funded online media campaigns across a range of platforms, utilizing formats such as paid display and social to drive traffic to our websites and customers.

With a portfolio of over 2,300 websites we own and operate, we intend to continue to grow our assets in personal finance and gambling across markets worldwide, driving sustainable, high quality revenues for the Group.

# Chairman's Statement



The financial year marked a transitional period for us. Although we were able to generate sound results we have entered 2018 with more ambitious targets of significant progress.

As announced on 26 February 2019, we proactively elected to reduce certain parts of our media activities which had lower profit margins. As previously announced, these actions will lead to an expected reduction in 2019 adjusted EBITDA. However, these changes are expected to deliver higher profit margins, more sustainable and ultimately better-quality earnings.

Going forward, our focus will be on regulated markets across the online gambling sector globally and personal finance sector, particularly in North America.

We remain committed to our investors and to deliver constant value to our shareholders. Our policy is to share our profits with our shareholders and we announced a dividend distribution of \$14.9 million in 2018 of which \$6.5 million was distributed after the publication of the interim results for H1 2018 and the remaining \$8.4 million or 4.0182 cents per share payable in Pound Sterling (3.0419 pence per share) has been distributed on 3 May 2019 to shareholders on the register at the close of business on 5 April 2019. The ex-dividend date was 4 April 2019. The net profit that has been used to calculate the 2018 final dividend was adjusted to exclude non-cash impairments.

On 18 December 2018 we instigated a share buyback programme with repurchased shares being held in treasury. The programme is being funded from the Company's existing cash balances and will not affect our existing dividend policy of paying out at least 50 per cent of net profit. During the period from 18 December 2018 to 2 May 2019 the Company has repurchased 10,197,235 million shares for an aggregate sum of £6,447,300 million.

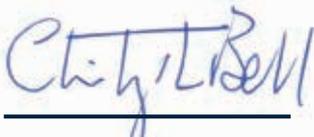
As Chairman of the Board I am responsible for, and committed to, maintaining good corporate governance, and as a Board we recognize the value and importance of high standards of corporate governance. Accordingly, and considering the Company's size, stage of development and resources, we adopted the ten (10) principles set out in the QCA Corporate Governance Code published by the Quoted Companies Alliance in April 2018 (the "QCA Code").

The QCA Code standards, which are designed to deliver growth, maintain a dynamic management framework and build trust, will guide us going forward and the Corporate Governance Report hereunder sets out a summary of our compliance so far and the way the QCA Code was implemented by us.

We believe that our implantation of the QCA code as detailed in the Corporate Governance Report serves our corporate culture as a dynamic small-medium size technological company, helps promote the business values we believe in and provides good comfort to our stakeholders that our internal controls are sound and aimed to deliver growth to shareholders.

As a Board we constantly check ourselves and seek improvement. In 2018 we conducted a thorough Board evaluation which yielded sound results with respect to the performance and composition of the Board.

We remain confident that focusing on expanding our publishing footprint in regulated markets will drive both higher margins and higher quality earnings for us. We were founded on developing publishing assets and we believe we can grow through leveraging expertise and capitalizing on the evolution of the online performance marketing market.



**Christopher Bell**  
Chairman of the Board

# Chief Executive Officer's Review



## Business Summary for 2018

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### Fundamentals

In the year ended 31 December 2018 we delivered revenues of \$117.9 million (2017: \$137.6 million) and adjusted EBITDA of \$43.9 million (2017: \$47.1 million), with the implementation of efficiency measures underpinning stronger EBITDA margins in H2 2018 versus H1 2018.

In the first half of 2018 our business faced a number of unexpected headwinds, namely the impact of gambling regulation uncertainty in specific territories and SEO performance issues impacted by spamming and other attacks. While the recovery of these assets has been taking longer than initially anticipated, H2 2018 showed a 3% increase in revenues and 2% increase in profits for our publishing division versus H1 2018.

Our adjusted net profit decreased 3.6% in 2018 to \$30.7 million (2017: \$31.9 million). Publishing revenues increased 4.6% to \$65.8 million (2017: \$62.9 million), with the increase driven by acquisitions. Revenue generated from our nascent personal finance sector increased to \$7.3 million or 6% of our revenues (2017: 2% \$3.3 million). We expect our Publishing assets to deliver organic growth in 2019.

Media revenues decreased 29% to \$47.1 million (2017: \$66.4 million). We assessed our media activities and, as announced on 26 February 2019, decided to reduce further media activities, thereby increasing the overall quality of earnings over time. The reduction of Media activities post period end resulted in a write off of the activities' intangible assets, totaling \$9.9 million.

## Acquisitions

We have undertaken several publishing asset acquisitions in the period totaling \$47.3 million which included:

- Leading Finnish gambling comparison assets for \$18 million
- A UK Bingo comparison site - WhichBingo.co.uk - for \$10.5 million
- A US personal finance website - investorjunkie.com - for \$5.8 million
- A network of US and Canadian personal finance assets
- Additional bolt-on gambling assets

The integration of the acquired assets into our systems is progressing as expected. Going forward, we will seek to invest across the business, focusing on the following areas:

- Pursue growth opportunities in North America to both build and develop a more comprehensive portfolio of online assets
- Develop our infrastructure to support the broader portfolio of assets and evolution of the market
- Ongoing expansion of our publishing portfolio in other regulated European gambling markets
- Seek to acquire earnings accretive publishing assets
- All new sites developed will help bolster our asset base, expanding and enhancing our existing geographical footprint.

## Fundraising

In January 2018 we issued Ordinary Shares in a placing to institutional investors at a price of 198 pence per Ordinary share and raised £31,680,000 pounds sterling.

## Risk and Risk Mitigation

Risk is identified, categorized and classified by the relevant management function and listed on our risk registry. Each risk described in the registry contains potential impact and probability. The risk severity is determined by the product of impact with probability. The registry also includes a mitigation plan for each risk and the functions responsible for its mitigation. For more information about risk and risk mitigation please refer to our risk factors chapter on pages 26-27 of this annual report.

## Regulations – Regions & Products

### Gambling

The gambling sector has been going through a period of regulatory uncertainty in various territories, with some opening up through regulation and taxation and others introducing stricter regulations on advertising of products and enhanced enforcement. Specific changes which have affected us are:

#### North America

We believe a key future growth vertical will result from the opening of the US online sports betting market. In May 2018 the US Supreme Court struck down a 1992 federal law that prohibited most states from authorizing sports betting. Following such decision, various US States introduced, and others are in the process of introducing, legislation that would regulate the market. As a result, we are building our portfolio of sites in this vertical to fully leverage our expertise and capitalize on the opportunity when the market is more widely active. In terms of other forms of gambling in the US the position is less clear. In a negative development, a legal opinion from the US Department of Justice's Office of Legal Counsel issued in November 2018 and made public in January 2019 reversed a 2011 Department of Justice opinion which a number of US States relied on to allow the launch of online gambling and lottery operations. We continue to monitor the situation closely as it develops while preparing for activity where possible.

#### Europe

**United Kingdom:** In the UK the sports betting market continues to perform strongly while enhanced gambling advertising regulation and policies continue to shape the market. We anticipate that the increased regulation in this space will result in higher quality of sustainable earnings going forward. Effects of the increase of remote gambling duty from 15% to 21%, effective as of April 2019, will be monitored by us.

**Germany:** In Germany regulatory uncertainty caused by the stalemate surrounding the interstate gambling treaty impacted us. Following a vote on March 26 2019 to extend the third interstate gambling treaty, we will be monitoring the market and plan to invest in growing our asset portfolio in the sports betting sector. We believe the German sports market represents a medium-term growth opportunity.

**Sweden and other countries:** The Swedish market has recently seen the introduction of enabling regulation, which we believe presents a promising

blueprint from which to work. We currently have a number of significant assets serving the Swedish market and will continue to develop and adjust them to the new regulations. We also continue to seek opportunities to expand our presence in other European countries which have already undergone regulation, affording us greater visibility of market conditions and better quality of earnings. We continue to monitor regulations worldwide, responding to changing regulatory environments and new compliance needs in the gambling advertising sector.

## Personal Finance

We believe there is a significant market opportunity in the personal finance vertical in the US and Canada where the online marketing of personal finance remains relatively nascent. We continue to assess the market's rapid development and evolution, whilst also taking early advantage by establishing a strong footprint of assets. We are seeing good growth and traction from our existing assets, which address a broad variety of personal finance products, including loans, credit cards, bank accounts, mortgages and investments.

## 2019 Outlook

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In gambling we identified a number of growth opportunities that we'll pursue in 2019, particularly in North America, and therefore will invest to capitalize on the potential in this market. We have been working to establish our footprint in the market space. We intend to grow in North America and add sites through acquisitions, as well as through developing assets internally.

We intend to expand our gambling publishing portfolio through organic growth and by acquisitions of assets in regulated European gambling markets, which we believe will deliver higher quality of sustainable earnings going forward. Several markets in Europe have already introduced regulation and we believe these present a promising blueprint from which to work.

We will also drive the ongoing development of our internal infrastructure and technologies to support the expanding asset base and ensure we are able to optimize the development and maintenance of the portfolio.

Additionally, our media expertise will be leveraged to raise the profile and reach of our publishing assets and drive and attract traffic accordingly.

As we move through 2019, we will be seeking to invest in existing sites and ensure we have a strong base from which to build. We will also create an even broader base of assets in our key verticals of personal finance and gambling, within regulated markets.

The decision to proactively cease some of our media activity is in line with our decision to concentrate our efforts on the higher margin publishing business going forward. Whilst there will be a short-term impact, we are confident these steps will deliver higher profit margins with a much higher quality of earnings in the medium and long term.

A handwritten signature in blue ink, appearing to read "O. Weihs", with a long, sweeping flourish extending to the right.

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**Ory Weihs**  
Chief Executive Officer

# 2018 Highlights



## Operating highlights

- The Group increased its focus on the higher margin publishing division, with an emphasis on its core product verticals - gambling and personal finance
- Business continues to recover from the adverse impact of gambling regulation uncertainty in specific territories, website ranking issues impacted by spamming and other attacks on key publishing assets, which impacted performance in 2018
- Ongoing investment in technology to strengthen the Group's publishing platform, as well as compliance, data aggregation and analysis
- The Group's nascent personal finance business continues to grow and has increased its presence in the North American markets, with 6% of overall revenues now derived from this vertical (2017: 2%)

## Financial highlights

- Revenues decreased 14.4% to \$117.9 million (2017: \$137.6 million)
- Impacted by operational challenges in 2018, with a proactive shift to higher margin activities and sustainable revenue growth going forward
- Publishing revenues grew 4.6%, media revenues decreased 29%, other revenues decreased 41%
- Gross profit decreased 7.1% to \$67.9 million (2017: \$73.1 million)
- Improved gross profit in H2 2018 vs. H1 2018, with gross profit up 2.7% to \$34.4 million.

- Publishing division profit increased 3% to \$51.7 million (2017: \$50.3 million)
- Media segment adjusted<sup>1</sup> profit, decreased 23% to \$15.3 million (2017: \$20.0 million)
- Adjusted EBITDA<sup>2</sup> decreased 6.9% to \$43.9 million (2017: \$47.1 million)
- Improved adjusted EBITDA<sup>2</sup> in H2 2018 versus H1 2018 – up 9.8% to \$23 million, with a greater proportion of revenues generated from higher margin publishing activity
- Adjusted<sup>1</sup> profit before tax decreased 10.8% to \$35.1 million (2017: \$39.3 million)
- Loss of \$9.9 million relating to media activity reduction
- Declared final dividend of \$8.4 million equivalent to 4.0182 cents per share to be paid in Pound Sterling (3.0419 pence per share), a total of 7.0222 cents per share for the year (2017: 7.7331 cents per share)
- Strong balance sheet with \$41.1 million working capital and total equity of \$166.8 million, representing 85% of total assets (2017: \$33.8 million working capital, \$116.4 million equity)
- Cash and short-term investments at 31 December 2018 were \$47.6 million (31 December 2017: \$43.3 million)
- Adjusted<sup>1</sup> earnings per share decreased 9% to \$0.13 (2017: \$0.15)

## Financial highlights

	2018	2017	Change
	'000		
Revenues	117,866	137,632	-14%
Gross Profit	67,944	73,145	-7%
Operating expenses	(32,257)	(32,376)	
Operating income	35,687	40,769	-12%
Adjusted EBITDA <sup>2</sup>	43,857	47,120	-7%
Adjusted <sup>1</sup> Profit Before Tax	35,100	39,345	-11%
Loss from media activity reduction	(9,938)	-	
Profit Before Tax	25,162	39,345	-36%

1. Excluding loss from media activity planned reduction

2. Earnings Before interest, Taxes, Depreciation, Amortization and impairment loss from media reduction and adjusted to excluding share-based payments

In 2018, XLMedia revenues totaled \$117.9m (2017: \$137.6 million), reflecting a decrease of 14% compared to the previous year, driven by weaker media and affiliate activity.

Gross profit for 2018 totaled \$67.9 million and gross margin was 58% (2017: \$73.1 million, 53% gross margin), representing a 7% decrease, proportionally lower compared to revenues due to an increased in the margin.

Operating expenses for 2018 totaled \$32.3 million (2017: \$32.4 million), in line with 2017.

The Group has seen an increase in General & Administrative expenses and Business & Finance expenses, primarily attributable to salary and share based payments, which has been offset by a decrease in R&D expenses.

Adjusted EBITDA<sup>2</sup> for 2018 totaled \$43.9 million or 37% of revenues (2017: \$47.1 million, 34%), a decrease of 7% to the previous year.

Net finance expenses for 2018 totaled \$0.6 million (2017: \$1.4 million). Financial expenses recorded for loan interest of \$0.5 million and other bank fees for \$0.2 million net of finance income of foreign exchange rate, including hedging, of \$0.1 million.

Post year end, the Company decided to exit a number of media activities, resulting in a one-off, non-cash write-off of intangible assets related to these activities, totaling \$9.9 million. Adjusted<sup>1</sup> profit before tax in 2018 totaled \$35.1 million (2017: \$39.3 million), a decrease of 11%.

Net profit for 2018 totaled \$20.8 million (2017: \$31.9 million), a decrease of 35%.

As at 31 December 2018, the Company had \$47.6 million in cash and short-term investments compared to \$43.3 million at 31 December 2017. The change in cash reflects \$31.8 million provided by operating activity, \$54.1 million used for investing activity (mainly for websites acquisitions totaling \$47.3 million and technology investment of \$8.2 million), and \$29.4 million provided by financing activities, including \$42.6 million capital raised in January 2018. This was offset by dividend payments to shareholders of \$14.9 million and a net receipt of a \$2.0 million long term bank loan.

Current assets as at 31 December 2018 were \$69.2 million (31 December 2017: \$67.1 million), and non-current assets were \$127.3 million (31 December 2017: \$87.4 million). The increase in non-current assets is mainly attributable to investments in domains and websites.

Total equity as at 31 December 2018 reached \$166.8 million or 85% of total assets (2017: \$116.7 or 76% of total assets). At the end of 2018, the Group announced a buyback plan that had a marginal effect in 2018. Since 31 December 2018, the Company has continued to buyback its ordinary shares in accordance with the shareholder authority.

1. Excluding loss from media activity planned reduction

2. Earnings Before interest, Taxes, Depreciation, Amortization and impairment loss from media reduction and adjusted to excluding share-based payments

The header image features a dark blue background with silhouettes of several business professionals in a meeting. A large, stylized graphic of overlapping triangles in shades of blue and white is positioned on the right side of the image. The text 'Corporate Information' is written in a light blue, sans-serif font on the left side.

# Corporate Information

## Directors

### \_\_\_\_\_ Ory Weihs - Chief Executive Officer

Mr. Weihs is one of the founders of the Group and leads the Group's business development and key strategy, focusing on expanding the Group's reach. Mr. Weihs is an entrepreneur who has been deeply involved in the online gambling & digital advertising industries for over ten years. He has a B.Sc. in Industrial Engineering from the Technion – Israeli Institute of Technology.

### Christopher Bell - Independent Non-Executive Chairman \_\_\_\_\_

Mr. Bell has considerable listed board experience across a range of sectors. Since 2015, he has been Senior Independent Director (SID) for The Rank Group PLC. Chris is Non-Executive Chairman of three AIM-listed companies: Team 17 PLC, TechFinancials, Inc and OnTheMarket plc, all of which he took to market and on which he serves on key governance committees. Mr. Bell joined Ladbrokes Group plc in 1991, becoming Managing Director of its Racing Division in 1995. In 2000, he became Chief Executive of Ladbrokes Worldwide and joined the Board of the rebranded Hilton Group plc, becoming CEO of Ladbrokes plc, following the sale of the Hilton International Hotel division until 2010. He has also served as Non-Executive Director at Spirit Pub Company plc (from 2011 to 2015) and as SID at Quintain Estates and Development plc (from 2010 to 2015). Prior to joining Ladbrokes plc, Mr. Bell held senior marketing positions at Allied Lyons plc.

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### **Richard Rosenberg - Independent Non-Executive Director and Chairman of the Audit Committee**

Mr. Rosenberg is a qualified chartered accountant and a partner in SRLV, a London-based multi-disciplinary accountancy and consultancy firm which he co-founded in 1988. Mr. Rosenberg is the Non-Executive Chairman of Livermore Investments Group Limited, an AIM listed investment company and a trustee of Teenage Cancer Trust.

### **Amit Ben Yehuda - Independent Non-Executive Director and Chairman of the Remuneration Committee**

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Mr. Ben Yehuda has over 20 years' experience across a number of high growth industries focusing on implementing strategic growth initiatives and executing significant levels of M&A. Mr. Ben Yehuda has two bachelor's degrees in economics and political science and an MBA, all from Tel Aviv University. Currently, Mr. Ben Yehuda is Chief Executive Officer of Kardan Communications and Kardan Technologies.

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### **Jonas Martensson - Independent Non-Executive Director**

Mr. Martensson has substantial experience in both corporate and capital markets and great exposure across the Nordics. He is currently CEO of Mojang AB ("Mojang"), the Swedish video game developer and publisher acquired by Microsoft in 2014, who are best known for creating the popular game, Minecraft. Mr. Martensson previously founded betting operator Mobilbet.com and held senior roles at Betsson, latterly in Betsson Technologies AB, as Head of Mobile. Mr. Martensson holds a Master of Science in Business Administration, major in entrepreneurship from Stockholm University School of Economics and Management and a Master of Science in Business Administration, major in Business Development from Södertörn University College, Sweden.

## Yehuda Dahan – Chief Financial Officer

Mr. Dahan has over 15 years' experience in accounting and finance. He was previously CFO for Barinboim Investment Group and Head Controller of Milomor Group (Israel). He holds a B.A in Economics and Accounting from Tel-Aviv University and is a licensed CPA (Israel).

### Registrars:

Link Asset Services The Registry  
34 Beckenham Road Beckenham  
Kent BR3 4TU

### Nominated Adviser and Joint Corporate Broker:

Centos Securities plc  
6.7.8. Tokenhouse Yard London  
EC2R 7AS

### Joint Corporate Broker:

Joh. Berenberg, Gossler & Co.  
KG 60 Threadneedle Street  
London EC2R 8HP

### Public Relations adviser to the Company:

Vigo Communications 180 Piccadilly  
London W1J 9HF

### Auditors to the Company:

Kost Forer Gabbay & Kasierer  
(a member of Ernst & Young Global)  
3 Aminadav Street  
Tel Aviv 67067 Israel

### Registered Office:

12 Castle Street St. Helier Jersey  
JE2 3RT

### Company Secretary:

Mr. Matan Daniely  
6 Agias Marinas  
Yermasogeia Limassol Cyprus 4044



# Directors' Report

The Directors present their report for the year ended 31 December 2018.

## **Results and review of the business**

The Directors' Report should be read in conjunction with the full 2018 Annual Report and financial statements.

## **Share capital**

The authorized and issued share capital of the Company, together with details of the Shares allotted during the year are shown in note 13 of the financial statements. Pursuant to the decision passed by the shareholders at the last Annual General Meeting, and in accordance with the Company's Article of Association, the directors are authorised to allot up to an aggregate number of 73,450,800 shares, being 33% of the issued share capital of the Company. Also, the Board was authorized by the shareholders to allot and issue, wholly for cash, with disapplication of pre-emption right, up to 22,035,240 shares representing 10% of the issued share capital of the Company. These authorities will expire on the date of the Annual General Meeting and approval will be sought for new authorities at the Annual General Meeting.

## Share issue

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, raising gross proceeds of £31,680,000 pounds sterling.

## Buyback

On 18 December 2018 the Company instigated a share buyback programme with repurchased shares being held in treasury. The programme is being funded from the Company's existing cash balances. As at 31 December 2018 the Company has repurchased 492,302 shares for an aggregate sum of £0.4 million, therefore, the total voting rights in the Company as at 31 December 2018 is 220,844,704 (2017: 204,352,402). As at 2 May 2019 the Company has repurchased 10,197,235 shares for an aggregate sum of £6,447,300 million, therefore, the total voting rights in the Company as at 2 May 2019 is 210,464,06.

## Dividends

The Company has historically paid dividends and intends to continue doing so. The Board's policy is to pay out at least 50 per cent of retained earnings in any financial year by way of dividend. The Directors will continue to monitor the level of cash retained within the business as well as investment opportunities available to the Group and, from time to time, review the continued appropriateness of such policy. In respect of 2018, the Directors approved a total dividend of \$14.9 million representing 7.0222 cents per Ordinary Share.

## Directors' indemnity insurance

The Group has provided to all of its Directors limited indemnities in respect of costs of defending claims against them and third-party liabilities. The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were available during the period and remain in force at the date of this report.

## Share capital

### Major Shareholders

As of 31 December 2018 the following interests of shareholders in excess of 3%, had been notified to the Company:

	Number of shares held	Shares as % of issued share capital
Swedbank Robur Fonder AB	18,341,561	8%
Axxion S.A.	15,689,931	7%
Janus Henderson Investors	14,000,000	6%
SYZ & CO Asset Management LLP	9,222,150	4%
River and Mercantile Asset Management	8,299,413	4%
Santander Asset Management UK Limited	8,232,118	4%
Gobi Capital LLC	7,365,289	3%
Schroder Investment Management Ltd. (SIM)	6,808,970	3%

### Corporate Governance

On September 2018 the Company adopted the QCA Corporate Governance Code published by the Quoted Companies Alliance. For more information about Corporate Governance and the implantation of the QCA Code please refer to the Chairman's Statement on pages 7-8 of this Annual Report, and the Corporate Governance Report on pages 28-36 of this Annual Report.

### Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Risk Committee. For more information about the Audit Committee and for information about the internal and external auditors please refer to the Audit Committee Report on pages 37-40 of this annual report.

For more information about the Remuneration Committee, directors remuneration and bonus and share option schemes please refer to the Remuneration Committee Report on pages 41-44 of this Annual Report.

The Board has established a Risk Committee chaired by Christopher Bell. The other members of the Committee consist of Richard Rosenberg and Ory Weihs. The Risk Committee receives presentations from management on risk, compliance and regulatory issues and reviews the related internal control systems.

### **Our Financial Instruments**

The Group's financial instruments are discussed in note 12 to the financial statements.

### **Our Procedures**

The Group's Procedures including our Code of Business Conduct, our Anti-Bribery and Corruption Policy, our Disclosure Policy, our Social Media Policy, our Whistle-blowing Policy and our Modern Slavery Policy are determined and set out for all employees to review. The Company's management is responsible for the implementation of these procedures and complacency is monitored.

### **Our Share Dealing Code**

The Company has adopted a share dealing code for Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules) and in accordance with the Market Abuse Regulations. The Directors consider that the share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

### **Statement of Directors' responsibilities in respect of the financial statements**

The Directors are responsible for preparing the annual reports and the Group and Company financial statements in accordance with applicable law and regulations.

Jersey Companies Law requires the Directors to prepare accounts for each financial period. Under that law, and as required by the AIM Rules for Companies, the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). In preparing these financial statements, the Directors are required to:

- present fairly the Group and Company financial position, financial performance and cash flows;

- select suitable accounting policies in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgments that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS, as adopted by the EU, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- state whether the Group and Company financial statements have been prepared in accordance with IFRS, as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

### **Directors' statement as to disclosure of information to auditors**

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 17-19. Having made enquiries of fellow Directors and of the Company's auditors each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

### **Employees**

The Directors recognize the value of involving employees in the business and ensuring that matters of concern to them, including the Group's aims and objectives, are communicated in an open and regular manner. Management frequently briefs employees of the Group's performance and activities and discusses matters of concern or interest. Our employee initiatives include a confidential employee helpline. Our senior employees participate in the Global Share Incentive Plan. Recruitment gives equal opportunity to all employees regardless of age, sex, color, race, religion or ethnic origin. Training programs are held for all levels of staff. These are aimed at increasing skills and contribution.

## Annual General Meeting of Shareholders

The Company will be holding its 2019 AGM on 29 May 2019.

## Going concern

The Board is satisfied that the Group has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, the going concern basis is considered appropriate for the preparation of financial statements.

## Auditor

A resolution to reappoint Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (EY), as auditors of the Company will be put to the Annual General Meeting. The Directors will also be given the authority to fix the auditors' remuneration. For more information about the Auditors please refer to the Audit Committee Report on pages 37-40 of this Annual Report.

During the year the auditors undertook certain specific pieces of non-audit work (including work in relation to tax matters and the evaluation of potential acquisition targets). EY were selected to undertake these tasks due to their familiarity with the online industry and, as regards tax, their alignment with work carried out under the audit. In order to maintain EY's independence and objectivity, EY undertook its standard independence procedures in relation to those engagements.



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By Order of the Board

**Matan Daniely**  
Company Secretary  
12 Castle Street St Helier Jersey JE2 3RT



# Risk Factors

The Risk Committee and the Board evaluate the operational risks facing the Company on an ongoing basis to monitor for changes in risks and risk impact and to set guidelines for risk mitigation. The most significant risks identified by the Risk Committee and the Board are listed below.

## **Gambling laws and regulations as well as online marketing regulations are constantly evolving and increasing**

Although we do not conduct any online gambling operations, we are dependent on the online gambling industry, which comprises the majority of our customers. The laws and regulations surrounding the online gambling industry are complex, constantly changing and in some cases also subject to uncertainty and interpretation. Moreover, in many countries online gambling is prohibited and/or highly restricted.

As publishers of online gambling businesses we are also subject to advertisement and customer protection regulations – these are also a complex set of rules which differ between markets and geographies.

If regulations or enforcement policies in the main markets we work in change in a manner that affects us or our customers then our ability to produce the same stream of revenues in such markets may be adversely affected. Moreover, if enforcement or other regulatory actions are brought against us or any of our customers (whether current or future), our revenue streams from such customers may be adversely affected as well.

We manage this risk by closely monitoring regulatory changes throughout the territories we operate in to allow planning and preparation of our business for the upcoming changes. We

engage with external advisors in various territories to provide us with periodical regulatory reviews about changes in such territories and their possible effects on our business.

**Powerful market participants may intentionally or unintentionally stop or interrupt our operations**

Search engine providers as well as social networks are continuously changing their platforms. Because of their powerful market positions, any such changes may adversely affect us, including materially disrupting traffic to our websites and decreasing the amount of revenues generated by our publishing assets.

We manage this risk by implementing updated marketing strategies to include more focus on usability, relevancy, functionality and testing. Also, we use different networks, to spread the risk.

**The online gambling affiliation unfavorable terms and conditions**

We engage with some of our customers through online affiliate program platforms. Such platforms include terms and conditions for participation which may be unfavorable to us and which may expose us to liability and loss of revenues. We manage this risk by trying to engage our customers through direct agreements which limit our liability and secure our revenue stream.

The header image features a blue-toned background with a network of white lines and nodes, suggesting a digital or financial theme. On the right side, there are several overlapping, semi-transparent geometric shapes in shades of blue and white. In the background, there are faint, semi-transparent charts and data points, including a line graph and a bar chart. The text 'Corporate Governance Report' is prominently displayed in a large, dark blue, sans-serif font on the left side of the image.

# Corporate Governance Report

As an AIM listed company working within highly regulated markets, our Board recognizes the importance of applying sound and consistent governance principles appropriate to the nature, scale and business of the Company and the need to apply best practices wherever possible to help manage risk within the business. Our Board is committed to upholding high standards of corporate governance throughout the Group. Our Board acknowledges its role in setting the culture, values and ethics of the Group and in ensuring good corporate governance principles are maintained for the long-term benefit of the Group.

In line with the London Stock Exchange's recent change to the AIM Rules requiring all AIM quoted companies to adopt and comply with a recognized corporate governance code and detail how they comply with that code, the Board, in September 2018, formally adopted the QCA Corporate Governance Code (the "Code") and will report annually on our compliance with the Code and any exceptions.

The Code is constructed around ten key governance principles that the QCA has identified as focusing on the pursuit of medium to long-term value for shareholders. We have set out in the report below how we apply the ten principles of the Code, using the disclosures indicated by the Code.

The Board believes that the Group complies with the principles of the Code as far as possible and has explained below where it does not comply. The Board will continue to monitor how the Code is interpreted in practice to ensure we can continue to comply with the principles of the Code as far as possible.

## principle 1

### Establish a strategy and business model which promote long-term value for shareholders

Our strategy and business operations are set out in pages 5-13 of the annual report. That section covers our business model, our strategy and how we aim to drive long-term value for shareholders.

The risk sections of the Annual Report are on pages 26-27 and deal with the major challenges the business faces and how these challenges are addressed and mitigated. For more information about our strategy please see our Website:

<https://www.xlmedia.com/what-we-do/>; <https://www.xlmedia.com/about-us/strategy/>

## principle 2

### Seek to understand and meet shareholders' needs and expectations

We are committed to listening and communicating openly with our shareholders to ensure that our strategy, business model and performance are understood.

One or more senior representatives of the Company and the Board are present in the Annual General Meetings of the Company to answer questions of the shareholders who attend the meetings.

Additionally, our Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer meet and talk regularly with shareholders and potential investors directly and through analysts and brokers in order to receive feedback on market expectations or other matters.

We nominated our CEO, Mr. Ory Weihs, as the responsible officer for shareholder engagement and set up a mailbox to address shareholders feedback ([ir@xlmedia.com](mailto:ir@xlmedia.com)).

We also operate a free newsletter tool on our website, which allows subscribers to receive breaking news about the Company and the Group via e-mail. Registration to the newsletter can be made here: <https://www.xlmedia.com/investor-relations/rns-news-alerts/#alerts>.

Additional information about the ways in which the Group is communicating with its shareholders is available on our website: <https://www.xlmedia.com/investor-relations/significant-shareholders/> and on <https://www.xlmedia.com/about-us/corporate-governance/>

### principle 3

#### **Take into account wider stakeholder and social responsibilities and their implications for long-term success**

We are mindful of our corporate social responsibilities and the need to build and maintain strong relationships across a range of stakeholder groups. Our key stakeholders are our shareholders, customers and their end customers, suppliers, employees and regulators.

We nominated our CEO, Mr. Ory Weihs, as the responsible officer for stakeholder engagement and set up a mailbox to address stakeholders' feedback (ir@Xlmedia.com). The specific needs of each stakeholder group are considered when the Company reviews and responds to that feedback.

We are committed to ensuring a high level of customer service. We frequently correspond with, and seek feedback from, key customers to improve our services. All customer feedback and requests are handled carefully and promptly. Our executives also regularly meet with key customers at professional conventions and other events to improve customer relations and to better understand customers' needs.

We are catering our end customers needs and always endeavor to provide them with highest quality services and products to tailor fit their needs and expectations.

We view highly trained and satisfied employees as another essential part of business growth. As such, we strive to train and develop our employees to ensure professionalism, excellence and personal development and progression. We recruit employees who fit our open and dynamic working environment and our employees are encouraged to provide feedback on ongoing matters through informal discussions with managers and executives at all levels and during their annual meetings with their managers. Managers are simultaneously encouraged to act on the feedback received. We have established an anonymous mailbox and telephone line handled by Mr. Richard Rosenberg, chair of the audit committee of the Board, to allow employees to provide feedback to the Board in a discreet manner.

We believe that excellent suppliers are key to providing long term excellency in services and are therefore essential for supporting our long-term success. Many of our suppliers rank at the top of their services category. Suppliers are asked by the relevant functions in our Group to provide feedback about their services and expertise. Any feedback is discussed by us and further action, if required, is considered.

**principle 4****Embed effective risk management, considering both opportunities and threats, throughout the organization**

The Board has embedded an effective risk management framework to identify, evaluate, manage and mitigate risks, in order to ensure the Company is well positioned to execute its strategy and achieve its business objectives. The Company's risk register is compiled by the Group CFO and executive director, Mr. Yehuda Dahan, with input from our executives and other employees.

The Risk Committee is responsible for reviewing the risks facing the Company, all compliance issues and regulatory developments based on the risk register and other periodical management presentations designed to highlight any new or developing risks.

In addition, we have an internal audit function performed by Ziv Haft (BDO Israel) which conducts audits periodically pursuant to an internal audit plan. We conducted a risk survey with our internal auditors to detect risks facing our business and to set the internal audit long-term working actions based on the risk identified.

The specific internal audit plan is established each year based on the issues identified by the Audit Committee and the Board as most relevant to such year.

Each report published by the internal auditors is discussed by the Audit Committee and action items identified in such reports are handled by the Company.

Further details on the risk management process, the key risks and challenges facing the business and how they are mitigated are set out in pages 26-27 of this annual report.

**principle 5****Maintain the board as a well-functioning, balanced team led by the chair**

The Board is charged with the responsibility of directing and governing the Company's affairs, including: the formulation and approval of the Company's long-term objectives, mission and strategy; the approval of budgets; the oversight of the Company's operations and delegation of authority to management; the establishment and monitoring of sound internal controls and risk management systems; and the evaluation of the implementation of the Company's policies and business plan. The Board operates formally through meetings of both the full Board and of its sub-committees, and informally through regular contact between Directors. The Board convenes at least once every quarter to review and monitor the implementation of the Company's strategy, budgets and progress and more

frequently if necessary.

Whilst the Board may delegate responsibilities, there are formal matters specifically reserved for decision by the Board. Such reserved matters include, amongst other things, the approval of significant capital expenditures, material business contracts and major corporate transactions. A formal schedule of Matters Reserved for the Board was adopted by the Company on 11 February 2014.

The Board comprises six Directors, two of whom are Executive Directors and four of whom are Non-executive Directors, including the Chairman. The Board views Christopher Bell, Richard Rosenberg, Amit Ben Yehuda and Jonas Martensson as independent directors. Members of the Board must be re-elected by the shareholders of the Company at the Company's annual general meeting at least once every three years.

The Board has members with an appropriate balance of skills and experience to effectively operate and control the business and, where deemed necessary, the Board also consults with external advisors or with executive officers of the Company. The Board is an independent unit acting for the benefit of the Company and its composition ensures that no individual (or a small group of individuals) can dominate its decision making.

The Board has established an Audit Committee, a Remuneration Committee and a Risk Committee, each with formally delegated duties and responsibilities. More information about the composition and the duties and responsibilities of each Board Committee is available in the Company's website on: <https://www.xlmedia.com/about-us/corporate-governance/>.

At this stage of the Company's development the Board does not consider it necessary to establish a Nominations Committee and the Board will take decisions regarding the appointment of new members and senior employees following a thorough assessment of a potential candidate's skill and suitability for the role.

Non-executive directors are expected to devote as much time as is necessary for the proper performance of their duties. Executive directors are full-time employees or services providers and expected to devote as much time as is necessary for the proper performance of their duties.

During 2018 the Board held eight (8) meetings, all of which were attended by all Directors other than that Mr. Ben Yehuda and Mr. Rosenberg did not attend one meeting out of the eight (8) and Mr. Martensson did not attend two meetings out of the eight (8). The Board also passed sixteen (16) unanimous written resolutions.

## principle 6

### Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities

The Board considers its current composition to be appropriate and suitable with the adequate and up-to-date experience, skills and capabilities to make informed decisions.

Each member of the Board brings a different set of skills, expertise and experience, making the Board a diverse unit equipped with the necessary set of skills required to create maximum value for the Company.

The Board is fully committed to ensuring its members have the right skills. Members of the Board must be re-elected by the shareholders of the Company if they have not been re-elected at the previous two annual general meetings in accordance with the Company's Articles of Association, thereby providing shareholders the ability to decide on the election of the Company's Board.

The Directors biographical details and relevant experience can be found on pages 17-19 of this Annual Report and on the following URL: <https://www.xlmedia.com/about-us/board-management/#board>.

Throughout the year, members of the Board receive updates on corporate governance matters from either the General Counsel, the Company Secretary and/or the Company's Nominated Advisor.

During the year the Directors receive an overview of our business from the CEO and CFO and a comprehensive regulatory overview from the General Counsel. More information about the Group's management and the relevant internal functions can be found here: <https://www.xlmedia.com/about-us/board-management/#management>.

The Board also consults with external advisors and with executives of the Company on various matters as deemed necessary and appropriate by the Board.

## principle 7

### Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

In order to ensure that the Board as a whole and its members collectively function in an efficient and productive manner, a formal, external Board evaluation was carried out during the year by Board Eventuation Ltd., a company with vast experience in evaluating boards of

UK public companies. Evaluation questionnaires have been circulated to and completed by all Board members and a thorough analysis of members' responses has been conducted by Board Evaluation.

The evaluation took into consideration various criteria such as the effectiveness of the composition of the Board, the Board's approach to its work, its culture and dynamics, its structure and processes, its accessibility to information, its ongoing training, its success in achieving its goals and the need for succession planning.

The Board evaluation characterized discussions at the Board level were as an open boardroom culture, with good level of debate and without conflict of interests and found that the Board and its committees work well. The evaluation found the Board members to be highly qualified, experienced and with the right set of skills to lead the Group, noting that while legal and HR skills were not represented within skills of current members of the Board, the Company does seek advice as needed in relation to such and other areas. Some issues were identified as requiring improvement: such as improving communication and Board information. The learnings from this process will continue to be addressed in the coming months.

The method of assessing Board effectiveness and performance will be reviewed on a continuing basis.

## principle 8

### Promote a corporate culture that is based on ethical values and behaviors

We are committed to acting ethically and with integrity. We expect all employees, officers, directors and other persons associated with us to conduct their day-to-day business activities in a fair, honest and ethical manner.

For that purpose, we have adopted a Code of Business Conduct and Ethics ("Code") which applies to all our workforce personnel. Pursuant to the Code, employees, directors and other relevant stakeholders are required to comply with all laws, rules and regulations applicable to us. These include, without limitation, laws covering anti-bribery, copyrights, trademarks and trade secrets, data privacy, insider trading, illegal political contributions, antitrust prohibitions, rules regarding the offering or receiving of gratuities, environmental hazards, employment discrimination or harassment, occupational health and safety, false or misleading financial information or misuse of corporate assets. The Code also includes provisions for disclosing, identifying and resolving conflicts of interest of the employees and Board members.

The Code includes provisions requiring all employees to report any known or suspected violation and ensures that all reports of violations of the Code will be handled sensitively and with discretion. We also recognize the benefits of a diverse workforce and are committed to providing a working environment that is free from discrimination.

We have also adopted a share dealing code, regulating trading and confidentiality of inside information by persons discharging managerial responsibility and persons closely associated with them (“PDMRs”).

We take all reasonable steps to ensure compliance by PDMRs and any relevant employees with the terms of the Dealing Code.

## principle 9

### **Maintain governance structures and processes that are fit for purpose and support good decision-making by the board**

The Board Committees are comprised of majority of independent Board members to ensure that resolutions adopted are conflicts-free. Further details of the composition and meetings of these committees can be found on pages 22 and 37-44 of the Annual Report. Each of the Board Committees has the ability to use external advisors as it sees fit in furtherance of its duties.

The Company’s CEO is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group’s strategy for Board approval and then executing the approved strategy. The Chairman’s main responsibility is the leadership and management of the Board’s business and its governance and acting as its facilitator. He meets regularly and separately with the Chief Executive and the Directors to discuss matters for the Board.

We will continue to review our governance structures with the QCA Code in mind and are committed to the evolution of our corporate governance in line with best practices, to the extent the directors judge it appropriate considering the Company’s size, stage of development and resources.

## principle 10

### **Communicate how the group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

We are committed to an open communication and dialogue with our stakeholders. Our main stakeholders' groups are our shareholders, our customers, our suppliers and our employees.

We communicate with stakeholders inter alia through the Annual Report, the annual general meeting of shareholders, the full-year, half-year and other regulatory market announcements, investor roadshows and through the Group's website.

Our website is regularly updated, and users can register to be alerted via email when announcements are posted on the website. Annual reports and notices of annual general meetings from admission can be found on our website.

As of 2019 we will publish in the Company's website in a clear and transparent manner the outcomes of the general meetings of shareholders, including a breakdown of votes casted. Our Audit Committee Report is included on pages 37-40 of this Annual Report. Our Remuneration Committee Report is included on pages 41-44 of this Annual Report.

# Audit Committee Report



## **General and Composition of the Audit Committee**

The Audit Committee is a sub-committee of the Board. The Audit Committee chairman reports formally to the Board on all matters within the Committee's duties and responsibilities and on how the Audit Committee discharges its responsibilities. The Audit Committee members are Christopher Bell, Richard Rosenberg and Amit Ben Yehuda. The Committee is chaired by Mr. Rosenberg.

All members of the Audit Committee are independent directors. For further information about the qualifications of the Audit Committee members please refer to pages 17-18 of this Annual Report and the Company's website on <https://www.xlmedia.com/about-us/board-management/>.

The Audit Committee meets at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required. The Audit Committee also meets regularly with the Company's internal and external auditors.

## **Purpose and Responsibilities of Audit Committee**

The purpose of the Audit Committee is to assist the Board to carry out the following functions more efficiently and fully:

- Oversight of the integrity of the Group's formal reports, statements and announcements relating to the Group's financial performance; and
- Reviewing compliance with internal guidelines, policies and procedures and other prescribed internal standards of behavior.

- To achieve such purposes, the Audit Committee has been assigned with the following responsibilities:
- Reviewing the half-year and full-year financial statements with management and with the external auditors as necessary prior to their approval by the Board;
- Reviewing financial results announcements of the Group and any other formal announcements relating to the Group's financial performance and recommending them to the Board for approval;
- Reviewing recommendations from the CFO and the external auditors on the key financial and accounting principles to be adopted by the Group in the preparation of the financial statements;
- Reviewing the Group's systems for internal financial control;
- Approving the appointment and termination of appointment of the Group's internal auditors, reviewing and approving the Group's internal audit plan and ensuring the internal auditors have the necessary resources and access to information to enable them to fulfill their mandate;
- Considering and making recommendations to the Board, to put to shareholders for approval at the AGM, the appointment, re-appointment and removal of the Company's external auditors and oversee the relationship with the external auditors;
- Reviewing and approving the external audit plan and regularly monitoring the progress of implementation of the plan;
- Determining and monitoring the effectiveness and independence of the internal and external auditors; and
- Monitoring the level of resources related to the management of audit functions across the Group.

### **Main Activities in 2018**

- On 12 March 2018 the Audit Committee reviewed the financial statements for FY2017 and discussed the internal auditors report.
- On 14 June 2018 the Audit Committee reviewed the financials of the Company for Q1 2018, reappointed Ernst & Young as the external auditors and discussed the internal auditors reports.
- On 14 September 2018 the Audit Committee reviewed the financial results of the Company for H1 2018 and reviewed the Company's Treasury Policy.
- On 18 February 2019, the Audit Committee reviewed the internal auditors and the

external auditors plans for 2019 and reviewed the financial results of the Company for FY 2018.

### Internal Auditors

The internal auditors of the Company are Ziv Haft (BDO Israel). The internal auditors provide their audit based on a five (5) year plan adopted in 2014. Each year specific topics are identified by the Audit Committee for audit during such year. Each report of the internal auditors is discussed by the Audit Committee and if necessary by the Board and its results are learned and implemented as required.

### External Auditors

The external auditors of the Company are Kost Forer Gabbay & Kasierer (Ernst & Young Israel) ("EY"). The appointment of EY as auditors by the Audit Committee was based on their performance during past years and their offer for auditing the reports for 2018. The Audit Committee review of the external auditors confirmed the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of their audit process.

Both the Board and the external auditors have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. The services provided by the external auditors include the Audit-related services and tax consulting. In recognition of public concern over the effect of consulting services on auditors' independence, the external auditors are not invited to general consulting work which can affect their independence as external auditors.

The total remuneration of the external auditors for 2018 and for 2017 was as listed in the table below;

<b>Auditor's remuneration</b>	<b>2018</b>	<b>2017</b>
Audit services	186	186
Acquisition and assurance services	35	10
Taxation compliance	168	129

The Audit Committee and the auditors found that the external audit plan for 2018, the work of the external auditors for 2018 and the remuneration of the external auditors for 2018 did not undermine the independence of the external auditors.

## Whistleblowing

The Group has a Whistle-Blowing Policy permitting each employee of the Group to raise concerns in confidence about possible impropriety in various aspects and matters. Issues raised will be handled appropriately by the management of the Group.

## Financial Reporting

The Group's trading performance is monitored on an ongoing basis. An annual budget is prepared, and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored daily and internal management and financial accounts are prepared monthly. The results are compared to budget and prior year performance.

The Audit Committee has taken and will continue to take further steps to ensure the Group's control environment is working effectively and efficiently.



**Richard Rosenberg**  
Chairman of the Committee

# Remuneration Committee Report



## General

The Remuneration Committee is responsible for determining and recommending to the Board the framework for the remuneration of the Board chairman, executive directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards.

The Remuneration Committee consists of three members, all of whom are independent non-executive directors. Currently the Remuneration Committee comprises Christopher Bell, Richard Rosenberg and Amit Ben Yehuda, who chairs the Committee. The Remuneration Committee meets at least twice a year and otherwise as required.

## Key Elements in Remuneration

As an AIM-listed company, the Company is not required to comply with the remuneration reporting requirements applicable to fully listed companies in the UK. However, set out below are certain disclosures relating to directors' remuneration:

- The remuneration of executive directors and certain other senior executives is set by comparison to market rates at levels aimed to attract, retain and motivate the best staff, recognizing that they are key to the ongoing success of the business.
- The remuneration of non-executive directors is a matter for the Chairman and the executive director to determine.
- No Director is involved in any decision as to his or her own remuneration.

- The remuneration and grant of bonuses to senior management are linked to their performance and to their achievement of predefined targets.
- The remuneration of senior management includes equity-based payments vested over time to retain their employment.

## Responsibilities of the Remuneration Committee

The responsibilities of the Remuneration Committee include the below and other responsibilities as set forth in the Charter of the Committee:

- Setting the remuneration policy for all executive directors, including pension rights, and compensation payments;
- Recommending and monitoring the level and structure of remuneration for senior management personnel;
- Approving the design of, and determining targets for, any performance-related pay schemes operated by the Group and approving the total amount of payments made under such schemes;
- Reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determining each year whether award will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other designated senior executives and the performance targets to be used; and working and liaising, as necessary, with all other Board committees.

## Share Options Schemes

The Company operates a Global Share Incentive Plan (the “GSIP”) approved by the Board which deals with the grant of options to Group employees. Tamir Fishman Asset Management Ltd. is the appointed trustee under the GSIP (the “Trustee”).

In connection with the share options granted to date, on 21 January 2015 and on 14 July 2017, the Trustee has subscribed for 14,000,000 ordinary shares of US\$0.000001 each in the Company at par. The shares held by the Trustee will be used to satisfy future obligations of the Company under the GSIP. Under the terms of the agreement entered into by the Company and the Trustee, the Trustee has agreed to waive its voting rights and all entitlements to dividends paid by the Company, in each case, in respect of such shares prior to the transfer of those shares to satisfy the exercise of options pursuant to the terms of the GSIP. On 31 December 2018 the balance of the Trustee’s shares was 3,753,737.

## Non-Executive Directors' Interests in Share Options and Shares

As of 31 December 2018, the Directors' interests in the Ordinary Share capital of the Company were:

Number of Ordinary Shares		
	2018	2017
Christopher Bell	357,000	357,000
Richard Rosenberg	51,000	51,000
Ory Weihs	4,556,735	4,000,240
Yehuda Dahan	106,250	-

As of 31 December 2018, non-executive directors' interests in the Company's share options were as follows:

	Options granted	Exercise price	Expiry date	Vested at the end of 2018	Canceled
Amit Ben Yehuda	180,000	69.7p	27/07/2024	75,000	-
Christopher Bell	270,000	57.75p	21/01/2023	247,500	-
Richard Rosenberg	180,000	57.75p	21/01/2023	165,000	-

As of 31 December 2018, executive directors' interests in share options were as follows:

	Options granted	Exercise price	Expiry date	Vested at the end of 2018	Exercised
Ory Weihs	900,000	196.8p	31/1/2026	225,000	-
Yehuda Dahan	300,000	196.8p	31/1/2026	75,000	-

For further information, see note 14 to the consolidated financial statements.

## Directors' Remuneration in 2018

The Directors' remuneration for the year ended 31 December 2018 is set out in the table below.

	Management fees/ salary and related	Costs of share bonus-based payments	Total 2018
<b>USD in thousands</b>			
Christopher Bell	154	-	154
Richard Rosenberg	64	-	64
Amit Ben Yehuda	64	10	74
Jonas Martensson	63	-	63
Ory Weihs	360	416	776
Yehuda Dahan	386	139	525

## History Pay and Share Performance

For history pay and share performance please see our previous annual reports and on our website: <https://www.xlmedia.com/investor-relations/share-price-information/>.

The Committee remains committed to a fair and responsible approach to executive pay whilst ensuring it remains in line with best practice and appropriately incentivizes executive directors over the longer term to deliver the Group's strategy.




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**Amit Ben Yehuda**  
Chairman of the Committee

# 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.

	<b>Description of Key Audit Matter and why a matter of most significance in the audit</b>	<b>Description of Auditor's Response</b>
Revenue recognition	<p>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</p> <p>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.</p>	<p>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.</p>

	<b>Description of Key Audit Matter and why a matter of most significance in the audit</b>	<b>Description of Auditor's Response</b>
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 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.

25 March 2019  
Beer Sheva, Israel

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

## Consolidated statements of financial position

	Note	As of 31 December	
		2018	2017
		USD in thousands	
<b>Assets</b>			
<b>Current assets:</b>			
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 (a)	805	200
		<u>69,237</u>	<u>67,092</u>
<b>Non-current assets:</b>			
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
		<u>127,314</u>	<u>87,416</u>
		<b><u>196,551</u></b>	<b><u>154,508</u></b>

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

## Consolidated statements of financial position

	Note	As of 31 December	
		2018	2017
USD in thousands			
<b>Liabilities and equity</b>			
<b>Current liabilities:</b>			
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 (a)	91	1,425
Current maturities of long-term bank loans	11	5,585	2,500
		<u>28,108</u>	<u>33,283</u>
<b>Non-current liabilities:</b>			
Long-term bank loans	11	1,380	2,500
Income tax payable	15	–	1,825
Deferred taxes	15	–	42
Other liabilities		248	201
		<u>1,628</u>	<u>4,568</u>
<b>Equity</b>			
Share capital	13	*)	*)
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		<u>166,524</u>	<u>116,366</u>
Non-controlling interests		291	291
Total equity		<u>166,815</u>	<u>116,657</u>
		<b><u>196,551</u></b>	<b><u>154,508</u></b>

\*) 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



Christopher Bell  
Chairman of the  
Board of Directors



Ory Weihs  
Chief Executive  
Officer



Yehuda Dahan  
Chief Financial  
Officer

## Consolidated statements of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2018	2017
		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)
<b>Balance as of 31 December 2018</b>	<b>*)</b>	<b>112,224</b>	<b>2,590</b>	<b>(2,445)</b>	<b>(468)</b>	<b>54,623</b>	<b>166,524</b>	<b>291</b>	<b>166,815</b>

	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)
<b>Balance as of 31 December 2017</b>	<b>*)</b>	<b>68,417</b>	<b>1,227</b>	<b>(2,445)</b>	<b>49,167</b>	<b>116,366</b>	<b>291</b>	<b>116,657</b>

\*) 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	
<b>Cash flows from operating activities:</b>		
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)
	<u>21,862</u>	<u>15,093</u>
<b>Changes in asset and liability items:</b>		
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)
	<u>(5,592)</u>	<u>(2,059)</u>
<b>Cash received (paid) during the year for:</b>		
Interest paid	(469)	–
Interest received	196	17
Taxes paid	(5,544)	(4,154)
Taxes received	557	305
	<u>(5,260)</u>	<u>(3,832)</u>
Net cash provided by operating activities	<u>31,785</u>	<u>41,073</u>

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	
<b>Cash flows from investing activities:</b>		
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	<u>(54,064)</u>	<u>(22,943)</u>
<b>Cash flows from financing activities:</b>		
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	<u>29,444</u>	<u>(13,354)</u>
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	<b><u>44,627</u></b>	<b><u>38,416</u></b>

The accompanying notes are an integral part of 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
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Dollar/USD	-	U.S. dollar
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### (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 (t).

*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.

(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.

(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 (t) 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.

(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.

(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:

	<u>mainly %</u>
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.

*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.

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 (t) 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.

### 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 'fair value' 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.

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).

(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.

(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.

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 net 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 Dau-Up ClicksMob Ltd (“Dau-Up ClicksMob”) 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 <sup>(1)</sup>	As of 31 December	
		2018	2017
USD in thousands			
<b>(a) Short-term investments:</b>			
Short-term bank deposits <sup>(2)</sup> :			
In USD	0.8	1,307	2,512
In NIS	0.03	1,497	1,595
In EURO		192	668
In GBP		–	86
		<b>2,996</b>	<b>4,861</b>
<b>(b) Long-term financial assets:</b>			
Bank deposits- in NIS <sup>(2)</sup>	0.6	<b>633</b>	<b>681</b>

(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 a bank guarantee provided in connection with a lease agreement on property.

**Note 7: Trade and other receivables**

(a) Trade receivables:

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

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:

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

**Note 8: Property and equipment**

	Computers, furniture, office equipment and others	Leasehold improvements	Total
	USD in thousands		
<b>Cost:</b>			
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	<u>2,530</u>	<u>442</u>	<u>2,972</u>
Acquisitions during the year	489	64	553
Disposals during the year	(27)	–	(27)
Balance as of 31 December 2018	<u><b>2,992</b></u>	<u><b>506</b></u>	<u><b>3,498</b></u>
<b>Accumulated depreciation:</b>			
Balance as of 1 January 2017	1,186	117	1,303
Depreciation during the year	398	41	439
Balance as of 31 December 2017	<u>1,584</u>	<u>158</u>	<u>1,742</u>
Depreciation during the year	425	52	477
Disposals during the year	(17)	–	(17)
<b>Balance as of 31 December 2018</b>	<u><b>1,992</b></u>	<u><b>210</b></u>	<u><b>2,202</b></u>
<b>Depreciated cost as of 31 December 2018</b>	<u><b>1,000</b></u>	<u><b>296</b></u>	<u><b>1,296</b></u>
<b>Depreciated cost as of 31 December 2017</b>	<u><b>946</b></u>	<u><b>284</b></u>	<u><b>1,230</b></u>

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				
<b>Cost:</b>					
Balance as of 1 January 2017	26,302	26,939	3,401	11,151	67,793
Acquisitions of business and assets <sup>(1)</sup>	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 <sup>(2)</sup>	–	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	<b>30,052</b>	<b>93,958</b>	<b>4,955</b>	<b>25,247</b>	<b>154,212</b>
<b>Accumulated amortisation and impairment:</b>					
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 <sup>(3)</sup>	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	<b>23,652</b>	<b>92,053</b>	<b>581</b>	<b>8,565</b>	<b>124,851</b>
Amortised cost as of 31 December 2017	<b>30,052</b>	<b>45,762</b>	<b>773</b>	<b>7,812</b>	<b>84,399</b>

(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.

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 <sup>(1)</sup>	2,416	92,053	94,469	2,416	45,762	48,178
Media segment <sup>(2)</sup>	21,236	-	21,236	27,636	-	27,636
	<b>23,652</b>	<b>92,053</b>	<b>115,705</b>	<b>30,052</b>	<b>45,762</b>	<b>75,814</b>

(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:

	<b>USD in thousands</b>
Impairment of goodwill	6,400
Impairment of other intangible assets	2,638
Other expenses	900
	<b>9,938</b>

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
	<b>6,967</b>	<b>10,972</b>

## 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
	<b>1,380</b>	<b>2,500</b>

### 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 17b.

**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
	USD in thousands	
<b>Financial assets</b>		
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
<b>Total financial assets</b>	<b>65,927</b>	<b>63,835</b>
<b>Total current</b>	<b>65,294</b>	<b>63,154</b>
<b>Total non-current</b>	<b>633</b>	<b>681</b>

	As of 31 December	
	2018	2017
	USD in thousands	
<b>Financial liabilities</b>		
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
<b>Total financial liabilities</b>	<b>19,109</b>	<b>26,503</b>
<b>Total current</b>	<b>17,729</b>	<b>24,003</b>
<b>Total non-current</b>	<b>1,380</b>	<b>2,500</b>

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).

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
	<u>USD in thousands</u>		
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
	<b>17,930</b>	<b>1,529</b>	<b>19,459</b>

As of 31 December 2017:

	Less than one year	1 to 2 years	Total
	<u>USD in thousands</u>		
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
	<b>24,237</b>	<b>2,582</b>	<b>26,819</b>

## 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.

d. Sensitivity tests relating to changes in market factors:

	<b>As of 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>USD in thousands</b>	
<b>Sensitivity test to changes in Euro to Dollar exchange rate:</b>		
Gain (loss) from the change:		
Increase of 10% in exchange rate	(765)	(3,003)
Decrease of 10% in exchange rate	765	3,004
<b>Sensitivity test to changes in NIS to Dollar exchange rate:</b>		
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
<b>Sensitivity test to changes in GBP to Dollar exchange rate:</b>		
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:

	<b>As of 31 December 2018</b>	
	<b>Authorised</b>	<b>Issued and outstanding</b>
	<b>Number of shares</b>	
Ordinary Shares of USD 0.000001 par value	<b><u>100,000,000,000</u></b>	<b><u>216,598,665</u></b>
	<b>As of 31 December 2017</b>	
	<b>Authorised</b>	<b>Issued and outstanding</b>
	<b>Number of shares</b>	
Ordinary Shares of USD 0.000001 par value	<b><u>100,000,000,000</u></b>	<b><u>199,529,655</u></b>

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:

<b>Date</b>	<b>Total amount</b>	<b>Per share</b>
	<b>USD</b>	<b>USD</b>
	<b>in millions</b>	
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

## 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	<b>217,330</b>	<b>19,818</b>	<b>202,331</b>	<b>30,323</b>

\*) 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).

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).

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	<b>8,110</b>	<b>1.56</b>	<b>6,788</b>	<b>1.01</b>
Share options exercisable at end of year	<b>3,194</b>	<b>0.84</b>	<b>2,561</b>	<b>0.81</b>

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.

- 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:

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

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:

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>USD in thousands</b>	
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	–
<b>Total taxes</b>	<b>4,387</b>	<b>7,474</b>

h. Deferred taxes:

Composition:

	<b>Statements of financial position</b>		<b>Statements of profit or loss</b>	
	<b>December 31,</b>		<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>USD in thousands</b>				
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		
<b>Deferred tax expenses (benefit)</b>			<b>721</b>	<b>(861)</b>
<b>Deferred tax assets, net</b>	<b>99</b>	<b>820</b>		

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.

b. Reporting on operating segments:

	<u>Publishing</u>	<u>Media</u>	<u>Other</u>	<u>Total</u>
	<u>USD in thousands</u>			
<b>Year ended</b>				
<b>31 December 2018:</b>				
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				<b>25,162</b>
<b>Year ended</b>				
<b>31 December 2017:</b>				
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)
<b>Profit before taxes on income</b>				<b>39,345</b>

## 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
<b>Total revenues</b>	<b>117,866</b>	<b>137,632</b>

**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 a subsidiary's bank loans, fixed charges have been placed on the subsidiary's share capital and a 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	
<b>Current liabilities:</b>		
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 was then also a Company 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
	<u>32,734</u>	<u>32,883</u>

\*) 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