XLMEDIA

Financial Statement

2016 ANNUAL REPORT AND FINANCIAL STATEMENTS

Contents

2016 Highlights

XLMedia and its subsidiaries (the "**Group**") are a leading provider of digital performance marketing services.

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

The Group operates on a performance based business model, where in return to its users, customers remunerate the Group for a share of the revenue generated by such user, a fee generated per user acquired, fixed fees or a hybrid of any of these three models.

In 2016 the Group delivered another record breaking year in which it has made further progress in executing its strategic priorities and generated significant value for the shareholders.

The Board is committed to delivering further progress in 2017.

Financial highlights

- Revenues increased 16% to $103.6 million (2015: $89.2 million)
- Gross profit increased 30% to $53.3 million (2015: $41.1 million)
- Adjusted EBITDA[1] increased 22% to $34.6 million (2015: $28.4 million)
- Profit before tax increased 28% to $31.0 million (2015: $24.3 million)
- Net income increased 27% to $25.6 million (2015: $20.2 million)
- Earnings per share increased 20% to $0.12 (2015: $0.10)
- Final dividend of $7.5 million or 3.7864 cents per share, making a total of 7.6069 cent per share for the year.

Operating highlights

- Strong organic growth in the publishing business, mainly in English speaking markets and non-Scandinavian European markets
- Significant progress in the media segment underpinned by strong mobile penetration:
  - — Dau-Up received Facebook marketing partner status for technology
  - — New mobile offering enabling additional performance models (incl. revenue share) · Continued diversification of the business:
  - — The gambling sector represented 70% of Group revenues in 2016 (2015: 74%, 2014: 83%)
  - — The Group's largest customer accounted for 7% of total revenues in 2016 (2015: 9%, 2014: 15%)
  - — Revenues from Scandinavia were 32% of the Group's revenues with an additional 27% from other European countries and 21% from North America.

Post period end – further diversification through acquisitions

- Acquisition of mobile platform ClicksMob Inc ("**ClicksMob**"):
  - — Provides performance-based user acquisition to leading apps
  - — Strong mobile user acquisition technology
  - — An established customer base in Asia and in non-gambling verticals such as e-commerce, travel, entertainment and finance.
- Acquisition of Greedyrates.ca ("**Greedyrates**"):
  - — Greedyrates is one of Canada's leading credit card comparison websites
  - — Increases the Group's North American customer base
  - — Further demonstrates XLMedia's ability to diversify its revenue streams - this time into the financial services sector.

1 Earnings before interest, taxes, depreciation and amortisation and adjusted to exclude share based payments and expenses related to acquisition agreements

Chief Executive Officer's Review

2016 was another strong year for the Group, with record breaking revenues and profits, reflecting the Group's consistent execution of its stated growth strategy.

Our strategic plan is focused on the following key growth initiatives:

- broaden our reach to additional geographies and verticals;
- continue to develop our technology infrastructure to enable growth and increase our competitive edge; and
- make selective acquisitions that diversify and develop the Group's core operational base.

2016 was another successful year of progress in all aspects. We have achieved diversification both geographically and vertically through a blend of acquisitive and organic growth. Our efforts during the year brought to close two acquisitions in early 2017:

- Acquisition of Greedyrates, which was completed in January 2017. Greedyrates is the Group's first significant publishing asset in the financial services vertical and significantly enhances the customer base in North America.
- Acquisition of ClicksMob, which was completed in February 2017. ClicksMob enhanced the Group's presence in the fast growing market for mobile apps, and delivers an enlarged customer base, with over 30% of revenues from Asia.

Further diversification was achieved through organic growth, and a focus on non-gaming apps, e-commerce, and English speaking markets.

Technology is a key component to maintaining the Group's competitive edge and driving growth. During the past year we have continued to invest in our technology infrastructure and achieved a number of key milestones:

- Dau-Up, the Company's mobile and social media performance marketing platform, was awarded Facebook marketing partner status for technology with Facebook recognising the benefits of the Group's bespoke Rampix system in optimizing campaign management for user acquisition across the Facebook platform.
- The Group continued to improve Palcon, our proprietary platform for centralised management of websites. During the year we saw improved performance, particularly in mobile, of websites migrated to the Palcon platform. Traffic and click-through rates improved for these websites, which we expect to drive performance and revenues in the publishing business.
- We further enhanced our internal business intelligence systems to support the growing scales of data produced. Our systems ingest data from thousands of sources daily, which is then processed and analysed to provide business information for campaign and asset optimisation.
- Our technology teams consisted of 80 employees at the end of 2016, up from 57 at the beginning of the year. This includes both product and development teams and we continue to value the acquisition of talent as a key driver in supporting our organic growth initiatives.

The Group continues to work on broadening our offering in order to drive organic growth, leveraging our existing channels, customers and markets to grow revenues as well as targeting new channels, customers and markets.

The integration of Dau-Up and Marmar Media was completed during 2016 and included the streamlining of both companies into one location and the rationalization of their information systems. We have also optimised our joint sales capabilities in order to better cross-sell our services across existing and new customers. This optimisation has resulted in increased revenues, mainly from existing customers taking additional services from across our enlarged platform.

We have extended Dau-Up's activities into non-gaming apps and introduced performance based revenue share agreements for mobile apps alongside the Cost Per Installation (CPI) model.

The Group also delivered strong organic growth in the publishing segment, mainly in key strategic geographies, notably English speaking and other European countries (outside Scandinavia).

As we add more services, customers and verticals we expect the Group to continue to see benefits of scale with improved operational infrastructure as well as further diversification of the customer base. In 2016 the largest customer in the Group accounted for 7% of Group revenues and we believe that figure will continue to decline.

The Company has maintained its progressive dividend policy by declaring a final dividend of $7.5 million or 3.7864 cents per share payable on 7 April 2017 to shareholders on the register at 17 March 2017. The ex-dividend date is 16 March 2017. Together with the interim dividend of 3.8205 declared in the interim results, this amounts to a total dividend for the year of 7.6069 cent per share.

Chief Executive Officer's Review

Business Segments review

	Publishing	Media	Partner Network	Total
		($'000)		
2016				
Revenues	46,057	47,645	9,903	103,605
% of revenues	*44%*	*46%*	*10%*	*100%*
Direct profit	38,384	13,779	1,160	53,323
Profit margin	*83%*	*29%*	*12%*	*51%*
2015				
Revenues	30,297	45,777	13,145	89,219
% of revenues	*34%*	*51%*	*15%*	*100%*
Direct profit	23,855	15,411	1,810	41,076
Profit margin	*79%*	*34%*	*14%*	*46%*

- ***Publishing***

  Publishing revenues grew 52% to $46.1 million (2015: $30.3 million). The growth was primarily organic, with some additions from new assets acquired at the end of 2015.

  We invested significant amounts in technology infrastructure to support the centralised management of our assets and we have seen improvement in conversions and performance of our assets as a result, particularly in mobile.

  In January 2017, we announced the acquisition of Greedyrates, a leading Canadian credit card comparison website. This acquisition is our first significant publishing asset in the financial services vertical, and is in line with our stated strategy to expand both geographically and in sector expertise. The consideration of $9.3 million is presented as payment on account of website acquisition on the balance sheet as of 31 December 2016 since the payment for the acquisition was deposited in escrow at the end of December 2016.

- ***Media***

  Media revenues grew 4% to $47.6 million (2015: $45.8 million). The growth in the media segment is attributed to strong growth in the gambling verticals offset by a decrease in activities in the utilities verticals, as flagged at the interim results. As we continue to diversify our business and add more verticals we expect overall growth to be less volatile. The recent acquisitions of Greedyrates and ClicksMob have added more customers and verticals to our portfolio and we expect the media division to deliver stronger growth in 2017.

  In 2016 we continued to invest in developing our mobile proposition and enhancing our capabilities in that area. This included the integration of media acquisitions into the Group, creating a unified platform from which to offer broad media solutions to customers, and investing in systems and additional performance models.

  Mobile marketing continues to drive digital advertising growth with recent research showing digital advertising revenues in the U.S having increased 19% to $32.7 billion in H1 2016, versus the same period in 2015. In addition, 67% of time spent online is spent on mobile devices with 47% of US advertising revenues in H1 2016 generated through mobile.[2] As the industry shifts to mobile we continue to establish our position as a leader in mobile and the acquisition of ClicksMob, a specialist in mobile user acquisition, is a further step in achieving this.

  Direct profit from media for 2016 was $13.8 million or 29% of revenues compared to $15.4 million or 34% or revenues in 2015. As we further grow the media operations in mobile and new verticals we expect to see growth in lower margin products which will in turn lower the overall margin for the division as a percentage of revenues but increase the absolute profit for the division.

2 IAB/PwC Internet Ad Revenue Report, HY 2016 – industry survey conducted by PwC and sponsored by the Interactive Advertising Bureau (IAB), November 2016

Chief Executive Officer's Review

- ***Partner Network***
  Partner network revenues decreased to $9.9 million (2015: $13.1 million, 2014: $6.1 million) as result of a review of our partner base. As part of our ongoing business development and process enhancement activities, we commenced a full review of our partners in this network, with a view to implementing a more stringent sign up and operations criteria. Where necessary, the Group will also cease activity with certain partners to improve overall quality. The consequence of this review has been a reduction in revenues from this segment in 2016. Our partner network serves as a complimentary channel, giving us the opportunity to provide marketing services to clients which are not currently serviced through our existing publishing and media divisions.

Current Trading and Outlook
We have made a strong start to 2017 with sales across all products and verticals progressing well. The integration of the recently acquired ClicksMob and Greedyrates businesses is on track and once completed, these acquisitions are expected to add significant value to the Group.

XLMedia Group looks forward to another year of strong growth and is extremely confident of its medium term trading prospects.

O. Weihs

Ory Weihs

Chief Executive Officer

Financial Review

	2016	2015	Change
	USD in millions		
Revenues	**103.6**	89.2	+16%
Gross Profit	**53.3**	41.1	+30%
Operating income	**30.1**	23.0	+31%
Adjusted EBITDA	**34.6**	28.5	+22%
Financial income, net	**0.9**	1.7	-48%
Profit Before Tax	**31.0**	24.3	+27%
Earnings Per Share (in usd)	**0.12**	0.10	+20%

With record revenues and profits, 2016 was another great year for the Group.

Revenues for the year were $103.6 million, reflecting 16% growth compared to the last year. The increase in revenues was mainly due to strong organic growth in the publishing segment in the year. The media division continues to be the largest segment generating 46% of FY16 revenues. Strong organic growth drove publishing revenues and profits as the second largest segment with 44% of FY16 revenues.

Gross profit reached $53.3 million or 51% of revenues, representing 30% growth compared to last year (2015: $41.1 million, 46%). The material margin improvement in gross profit during the year stems from the higher growth in the higher-margin publishing segment.

As we continue to implement our strategy to further increase and develop our media business, we expect the Group's revenue mix to shift further towards media, reducing gross margins. Whilst this shift will lower total gross margins (in terms of percentage) across the Group we expect this impact to be more than offset by an increase in higher margin activity in the Group's publishing division.

Operating income increased to $30.1 million or 29% of revenues (2015: $23.0 million, 26%), again due to the higher profitability of the publishing segment, as a result of the organic growth during 2016.

Operating expenses included $2.2 million for research and development expenses (2015: $1.4 million) in addition to capitalized R&D of $3.1 million (2015: $2.0 million). We continue to expand our technology infrastructure, and as at 31 December 2016 our technology and product teams consisted of 80 people compared with 57 people at the beginning of the year. We continue to develop our in-house technology base in order to maintain our competitive edge and drive growth further.

Adjusted EBITDA[3] reached $34.6 million or 33% of revenues, reflecting an increase of 22% to the previous year (2015: $28.4 million, 32%).

Net financial income for the year was $0.9 million, attributable mainly to the Company's dynamic hedging activity to mitigate material exposure to foreign currencies. As a significant portion of the Group's revenues are denominated in Euros, the Company entered into a series of forward contracts for the sale of Euros and purchase of US Dollars. Additional forward contracts were entered into for the sale of British Pounds and for buying Israeli Shekels for lesser amounts. The Euro exchange rate decreased by 3.4% versus the US Dollar during this period. The Company gained financial income from its hedging activity which partially compensated for the decrease. The majority of financial income was recorded as fair value gains for forward contracts not yet matured and therefore was not received in cash. The Company has entered into additional forward contracts which will mature over the course of the next 12 months.

As a result of the high adjusted EBITDA as well as the financial gain from changes in exchange rates, profit before tax increased by 27% to $31.0 million (2015: $24.3 million).

As of 31 December 2016 we had $35.2 million cash and short term investments compared to $42.6 million on 31 December 2015. The change in cash reflects an increase of $27.0 million provided by operating activity, offset mainly by use of $21.7 million on investments in technology and acquisitions and $12.4 million of dividends paid during 2016.

Current assets at 31 December 2016 were $56.7 million (31 Dec 2015: $60.9 million) and non-current assets reached $70.4 million (31 December 2015: $57.9 million). The increase in non-current assets is attributed mainly to the investments in domains and websites, as well as additions to our in-house technology.

Total equity on 31 December 2016 reached $103.3 million, or 81% of total assets (2015: 75%). This, with cash and short term investments of $35.2 million, positions the Group well to continue executing its strategic plan.

3 Earnings before interest, taxes, depreciation and amortisation and adjusted to exclude share based payments and expenses related to acquisition agreements

Board of Directors

The Board is responsible for the overall management of the Group including the formulation and approval of the Group's long term objectives and strategy, the approval of budgets, the oversight of the Group's operations, the maintenance of sound internal control and risk management systems and the implementation of Group strategy, policies and plans. Whilst the Board may delegate specific responsibilities, there is a formal schedule of matters specifically reserved for decision by the Board; including, amongst other things, approval of significant capital expenditure, material business contracts and major corporate transactions. The Board formally meets on a regular basis to review performance.

During 2016, the Board met 17 times.

Ory Weihs – Chief Executive Officer
Mr. Weihs is one of the founders and leads the Group's business development and key strategy, focusing on expanding the groups reach and technological abilities. 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 from 2007.

Chris Bell – Independent Non-Executive Chairman
Mr. Bell joined Ladbroke Group in 1991, becoming CEO of Ladbroke Group in 1994, in 2000 he joined the board of Hilton Group PLC. Following the sale of the Hilton hotel division, in 2006, he became CEO of Ladbrokes PLC, leaving in 2010. Mr. Bell is Senior Independent Director and Chairman of the Remuneration Committee at Quintain Estates & Development PLC, Non-executive Director at Spirit PLC, a member of The Responsible Gambling Strategy Board which advises the Government and The Gambling Commission in the UK, Chairman of TechFinancials PLC which listed on UK AIM in March 2015, a technology and B2C (OptionFair) provider in the Financials market and a Trustee of the Northern Racing College. Prior to 1991 Mr. Bell held various senior positions at Allied-Lyons PLC, most latterly as a Director of Victoria Wine.

Richard Rosenberg – Independent Non-Executive Director
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 quoted investment company and a trustee of Teenage Cancer Trust.

Amit Ben Yehuda – Independent Non-Executive Director
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 M.B.A, all received from the University of Tel Aviv. Currently, Mr Ben Yehuda is Chief Executive Officer of Kardan Communications and Chief Executive Officer of Kardan Technologies.

On 7 March, 2016, Mr. Amit Ben Yehuda was appointed as a Non-Executive Director of the Company.

Yaron Eitan – Non-Executive Director
Mr. Eitan is a partner of Columbus Nova Technology Partners, a technology-focused venture capital fund and joined the Board in conjunction with an investment by IVPL (a shareholder of the Company which owns approximately 9.57 per cent. of the Enlarged Share Capital). Mr. Eitan is also the founder and managing partner of Selway Capital, an investment management firm whose portfolio includes equity holdings in private and public companies in the technology and healthcare industries. Prior to launching Selway, Mr. Eitan ran several companies including Reshef Technologies, Patlex, and Geotek Communications. He currently serves as Chairman of a number of companies including Credorax, Healthcare Corporation of America 340B Technologies, DVTel Inc, Magnolia Broadband, and Software Technology, Inc. He is also a director of LifePrint Group and Cyalume Technologies Holdings, Inc. Mr. Eitan served in the Israeli Defense Forces for six years, where he reached the rank of Major. He received his bachelor's degree in economics from Haifa University and an M.B.A. from the Wharton School of Business at the University of Pennsylvania.

On 13 March, Mr. Yaron Eitan decided not to stand for re-election at the Company's forthcoming Annual General Meeting and ceased to act as a board member.

Upon Mr. Eitan's termination, the Board of the Company comprises one executive Director and three non-executive Directors.

Directors' Report

The Directors present their report and Group financial statements for the year ended 31 December 2016.

Results and review of the business
The Directors' Report should be read in conjunction with the full 2016 annual report and financial statements.

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 2016, the Directors approved a total dividend of $15,000,000 representing 7.6069 cent net per Ordinary Share.

Directors

The Directors' interests in the Ordinary Share capital of the Company were:

	Number of Ordinary Shares	
	2016	**2015**
Chris Bell	**357,000**	357,000
Richard Rosenberg	**51,000**	51,000
Ory Weihs*	**10,807,756**	9,909,841

On 31 December 2016, the company had 200,352,402 shares issued (2015: 200,352,402 shares issued).

* At the end of 2016 Ory Weihs holds 5.39%% of the Company's existing issued share capital, of which 2,360,417 ordinary shares are held directly and 8,447,339 ordinary shares are held through an indirect economic interest in (but with no control of the voting rights attaching to) such ordinary shares which are held by Webpals Enterprises Limited.

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
The authorised and issued share capital of the Company, together with details of the Shares allotted during the year are shown in note 12 of the financial statements. Pursuant to the Company's Article of Association the directors are authorised to allot up to an aggregate number of 63,784,134 shares, being 33% of the issued share capital of the Company. Also, the Board was authorised by the shareholders to allot and issue, wholly for cash, with disapplication of pre-emption right up to 20,035,240 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.

Major shareholders
At 31 December 2016, the following interests of shareholders in excess of 3%, have been notified to the Company.

	Number of shares held	Shares as % of issued sharecapital
Webpals Enterprises Limited Partnership	85,040,327	42.45
Israeli VC Partners LP	19,166,487	9.57
Slater Investments Ltd River and Mercantile Asset Management LLP	8,327,148	4.16
River and Mercantile Asset Management LLP Investec Limited	7,305,145	3.65
Investec Limited	7,220,244	3.6

Corporate Governance
Although there are no specific corporate governance guidelines which apply generally to companies incorporated in Jersey, the Directors are subject to various general fiduciary duties and duties of skill and diligence under Jersey company laws and statute. In addition, the Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the UK Corporate Governance Code does not apply to AIM companies, the Directors observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in light of the

Group's size, stage of development and resources. So far as practicable, the Board also follows the recommendations set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies, published in May 2013 by the Quoted Companies Alliance.

The Board has established a Remuneration Committee, an Audit Committee and a Risk Committee.

Remuneration Committee

The remuneration committee is responsible for determining and agreeing with the Board the framework for the remuneration of the chairman, the executive director 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 of non-executive directors is a matter for the chairman and the executive director to determine. No Director will be involved in any decision as to his or her own remuneration.

The remuneration committee comprises Chris Bell, Richard Rosenberg and Amit Ben Yehuda who chairs the committee. The remuneration committee meets at least twice a year and otherwise as required.

Share option schemes

The Company operates the Global Share Incentive Plan (the "**GSIP**") in which employees participate. The Board, determines the grant of options for employees.

Tamir Fishman is the appointed trustee (the "**Trustee**") for the purposes of the Company's GSIP.

In connection with the share options granted to date, on 21 January 2015, the Trustee, for the purposes of the GSIP, has subscribed for 10,000,000 ordinary shares of US$0.000001 each in the Company at par. The shares will be used to satisfy future obligations of the Company under the GSIP. Under the terms of the agreement entered by the Company with the Trustee, the Trustee has agreed to waive its voting rights and all entitlements to dividends issued 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, 2016 the balance of the trustee's option is 2,599,729.

On 27 July 2016 the Company granted, pursuant to the GSIP, share options over 180,000 ordinary shares of US$0.000001 each in the capital of the Company to Mr. Amit Ben Yehuda.

Non-executive's interests in share options as follows:

	Options granted	Exercise price	Expiry date	Vested at the end of 2016	Cancelled
Amit Ben Yehuda	180,000	69.7p	27/07/2024	15,000	–
Chris Bell	270,000	57.75p	21/01/2023	157,500	–
Richard Rosenberg	180,000	57.75p	21/01/2023	105,000	–

Mr. Weihs' interests in share options as follows:

	Option granted	Exercise price	Expiry date	Vested at the end of 2016	Exercised
Ory Weihs	1,540,000	15.4c	25/2/2022	1,443,750	1,443,750
Ory Weihs	1,000,000	49p	25/2/2022	916,667	916,667

For further information, see note 13 to the consolidated financial statements

Directors' Report

Directors' remuneration

The Directors' remuneration for the year ended 31 December 2016 is set out in the table below.

	Management fees	Bonus	Cost of share based payments	Total 2016
		USD in thousands		
Chris Bell	94	–	8	102
Richard Rosenberg	54	–	5	59
Amit Ben Yehuda	44	–	19	63
Yaron Eitan	27	–	–	27
Ory Weihs	240	*200	61	501

* According to services agreement.

Audit Committee

The audit committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee comprises of Chris Bell, Richard Rosenberg and Amit Ben Yehuda, and is chaired by Mr. Rosenberg. 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 external auditors.

Internal controls

The Directors are responsible for the Group's internal controls, and have established a framework intended to provide reasonable assurance against material financial misstatement or loss. The Company engaged an external auditor from BDO who conducted an audit and presented its finding to the audit committee according to the multiple year audit plan.

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.

Procedures

The Group's procedures are documented and set out for all employees' review. The Company's management is responsible for the implementation of these procedures and compliance is monitored.

Financial instruments

The Group's financial instruments are discussed in note 11 to the financial statements.

Risk committee

The Board has established a risk committee chaired by Chris Bell. The other members 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. From time to time, representatives of the Company's lawyers are invited to attend risk committee meetings and/or present at them.

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 this 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.

Directors' Report

Jersey company 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 6. 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 recognise the value of involving employees in the business and ensure 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. The Group's 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
The Group will be holding its AGM on 24 May 2017.

Events after the reporting period
For significant events after the reporting period please refer to note 21 to the financial statements.

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.

Directors' Report

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.

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.

Auditor's remuneration	2016	2015
Audit services	**172**	165
Acquisition and assurance services	**140**	90
Taxation compliance	**113**	77

By Order of the Board

Yehuda Dahan
Company Secretary

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Independent Auditors Report

Building a better
working world

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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 2016, 2015 and 2014 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 2016, 2015 and 2014 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRSs) 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 2016. 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.

Independent Auditors Report

	Description of Key Audit Matter and why a matter of most significance in the audit	Description of Auditor's Response
Revenue recognition	Revenues are significant to the consolidated financial statements based on their quantitative materiality. As such, there is inherent risk that revenues may be improperly recognised, inflated or misappropriated. Recognition of revenues in the accounts of the Group is a highly automated process. The Group is heavily reliant on the reliability and continuity of its in-house IT platform to support automated data processing in its recognition and recording of revenues.	In 2016 in order to gain the required level of assurance, we performed substantive audit procedures relating to the recognition and recording of revenues, including tests of reconciliations from underlying data to the financial accounts. IT audit specialists were deployed to assist in understanding the design and operation of the relevant IT systems and in performing various data analyses in order to test completeness, accuracy and timing of the recognition of revenues.
Goodwill Domains and Websites impairment test	As of 31 December 2016, the total carrying amount of goodwill, domains and websites with indefinite useful life is approximately USD 53 million. In accordance with IFRSs as adopted by the European Union, the Group is required to annually test these assets for impairment. This annual impairment test 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, using our specialists to assist us in 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 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 assessments 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 challenge 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 14 to the consolidated financial statements.

Other information included in the Group's 2016 Annual Report
Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 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 IFRSs as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditors Report

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 auditor's 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.

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 2016 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.

A. PEREZ
Albert Perez

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

Beer Sheva, Israel
6 March 2017

Consolidated Statements of Financial Position

		As of 31 December		
		2016	**2015**	**2014**
	Note	**USD in thousands**		
Assets				
Current assets:				
Cash and cash equivalents		**32,095**	35,741	27,351
Short-term investments	6(a)	**3,091**	6,866	16,714
Trade receivables	7 (a)	**17,075**	16,088	11,548
Other receivables	7 (b)	**3,463**	2,042	1,895
Financial derivatives	11 (b)	**1,002**	165	264
		56,726	60,902	57,772
Non-current assets:				
Long-term financial assets	6(b)	**609**	1,102	333
Other receivables		**171**	332	456
Property and equipment	8	**1,229**	1,190	864
Goodwill	9	**26,302**	26,302	19,586
Deposit for acquisition of websites	21 (a)	**9,300**	–	–
Domains and websites	9	**26,739**	23,897	16,728
Other intangible assets	9	**5,948**	4,837	4,014
Deferred taxes	14	**85**	256	–
		70,383	57,916	41,981
		127,109	118,818	99,753

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

Consolidated Statements of Financial Position

		As of 31 December		
		2016	2015	2014
	Note	USD in thousands		
Liabilities and equity				
Current liabilities:				
Trade payables		**9,274**	11,146	9,073
Contingent consideration payable	5 (b),(c)	**–**	5,373	3,396
Other liabilities and accounts payable	10	**14,196**	12,151	7,764
		23,470	28,670	20,233
Non-current liabilities:				
Contingent consideration payable	5(b)	**–**	–	3,233
Deferred taxes	14	**126**	317	332
Other liabilities		**228**	155	42
		354	472	3,607
Equity	12			
Share capital		*	*	*
Share premium		**66,812**	64,447	62,271
Capital reserve from share-based transactions		**1,208**	1,390	1,784
Capital reserve from transaction with non-controlling interests		**(506)**	(506)	(506)
Retained earnings		**34,349**	22,774	12,072
Equity attributable to equity holders of the Company		**101,863**	88,105	75,621
Non-controlling interests		**1,422**	1,571	292
Total equity		**103,285**	89,676	75,913
		127,109	118,818	99,753

* Lower than USD 1 thousand.

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

6 March 2017			
Date of approval of the financial statements	Chris Bell Chairman of the Board of Directors	Ory Weihs Chief Executive Officer	Yehuda Dahan Chief Financial Officer

Consolidated Statements of Profit and Loss and Other Comprehensive Income

		Year ended 31 December		
		2016	**2015**	**2014**
	Note	**USD in thousands (except per share data)**		
Revenues	15	**103,605**	89,219	50,720
Cost of revenues		**50,282**	48,143	23,142
Gross profit		**53,323**	41,076	27,578
Research and development expenses		**2,228**	1,438	1,008
Selling and marketing expenses		**4,142**	3,038	2,239
General and administrative expenses		**16,856**	13,640	9,732
		23,226	18,116	12,979
Operating income before expenses in connection with IPO		**30,097**	22,960	14,599
Expenses in connection with IPO		**–**	–	361
Operating income after expenses in connection with IPO		**30,097**	22,960	14,238
Finance expenses		**(403)**	(523)	(1,001)
Finance income	11(b)(1)	**1,306**	2,259	231
Income before other expenses		**31,000**	24,696	13,468
Other expenses, net		**–**	(403)	(229)
Profit before taxes on income		**31,000**	24,293	13,239
Taxes on income	14	**5,416**	4,093	1,329
Net income and other comprehensive income		**25,584**	20,200	11,910
Attributable to:				
Equity holders of the Company		**23,937**	18,719	9,821
Non-controlling interests		**1,647**	1,481	2,089
Earnings per share attributable to equity holders of the Company:	12(d)			
Basic earnings per share (in USD)		**0.12**	0.10	0.06
Diluted earnings per share (in USD)		**0.12**	0.10	0.05

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	Retained earnings	Total	Non-controlling interests	Total Equity
				USD in thousands				
Balance as of 1 January 2016	*	64,447	1,390	(506)	22,774	88,105	1,571	89,676
Net income and other comprehensive income	–	–	–	–	23,937	23,937	1,647	25,584
Cost of share-based payment	–	–	637	–	–	637	9	646
Dividend to equity holders of the Company	–	–		–	(12,362)	(12,362)	–	(12,362)
Exercise of options	*	2,365	(819)	–	–	1,546	–	1,546
Dividend to non-controlling interests	–	–	–	–	–	–	(1,805)	(1,805)
Balance as of 31 December 2016	*****	**66,812**	**1,208**	**(506)**	**34,349**	**101,863**	**1,422**	**103,285**

	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 2015	*	62,271	1,784	(506)	12,072	75,621	292	75,913
Net income and other comprehensive income	–	–	–	–	18,719	18,719	1,481	20,200
Cost of share–based payment	–	–	839	–	–	839	–	839
Non–controlling interests arising from initially consolidated company	–	–	–	–	–	–	492	492
Dividend to equity holders of the Company	–	–	–	–	(8,017)	(8,017)	–	(8,017)
Exercise of options	*	2,176	(1,233)	–	–	943	–	943
Dividend to non–controlling interests	–	–	–	–	–	–	(694)	(694)
Balance as of 31 December 2015	*****	**64,447**	**1,390**	**(506)**	**22,774**	**88,105**	**1,571**	**89,676**

	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 2014	*	14,311	479	106	10,494	25,390	1,130	26,520
Net income and other comprehensive income	–	–	–	–	9,821	9,821	2,089	11,910
Issue of share capital (net of issue costs of USD 6.2 million)	*	47,936	–	–	–	47,936	–	47,936
Cost of share–based payment	–	–	1,317	–	–	1,317	–	1,317
Increase of non–controlling interests	–	–	–	–	–	–	57	57
Acquisition of non–controlling interests (Note 5(a))	–	–	–	(612)	–	(612)	(878)	(1,490)
Dividend to equity holders of the Company	–	–	–	–	(8,243)	(8,243)	–	(8,243)
Exercise of options	*	24	(12)	–	–	12	–	12
Dividend to non–controlling interests	–	–	–	–	–	–	(2,106)	(2,106)
Balance as of 31 December 2014	*****	**62,271**	**1,784**	**(506)**	**12,072**	**75,621**	**292**	**75,913**

*) 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		
	2016	**2015**	**2014**
	USD in thousands		
Cash flows from operating activities:			
Net income	**25,584**	20,200	11,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortisation	**3,878**	3,775	1,296
Finance expense (income), net	**(69)**	231	25
Finance expense (income) from financial derivatives	**(837)**	99	(264)
Loss from sale of assets	**–**	–	9
Cost of share-based payment	**646**	839	1,042
Taxes on income	**5,416**	4,093	1,329
Exchange differences on balances of cash and cash equivalents	**589**	310	482
	9,623	9,347	3,919
Changes in asset and liability items:			
Decrease (increase) in trade receivables	**(987)**	(3,580)	994
Increase in other receivables	**(930)**	(432)	(608)
Decrease in related parties	**–**	–	142
Increase (decrease) in trade payables	**(1,872)**	1,155	(256)
Increase in other accounts payable	**1,032**	3,892	782
Increase in other long-term liabilities	**73**	99	18
	(2,684)	1,134	1,072
Cash received (paid) during the period for:			
Interest paid	**–**	(2)	–
Interest received	**139**	72	46
Taxes paid	**(5,710)**	(2,352)	(421)
Taxes received	**–**	–	417
	(5,571)	(2,282)	42
Net cash provided by operating activities	**26,952**	28,399	16,943

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

Consolidated Statements of Cash Flows

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Cash flows from investing activities:			
Purchase of property and equipment	**(479)**	(644)	(350)
Acquisition of initially consolidated companies	**–**	(4,459)	(9,950)
Payment of contingent consideration in respect of acquired company	**(5,500)**	(3,500)	–
Acquisition of domains, websites and other intangible assets	**(6,742)**	(12,326)	(11,528)
Deposit on account of acquisition of Domains and websites	**(9,300)**	–	–
Proceeds from sale of assets	**300**	300	328
Short- term and long-term investments, net	**4,333**	9,625	(16,315)
Net cash used in investing activities	**(17,388)**	(11,004)	(37,815)
Cash flows from financing activities:			
Issue of share capital (net of issue costs)	**–**	–	48,917
Dividend paid to equity holders of the Company	**(12,362)**	(8,017)	(8,243)
Acquisition of non-controlling interests	**–**	–	(1,490)
Dividend paid to non-controlling interests	**(1,805)**	(694)	(2,287)
Repayment of liabilities to related parties	**–**	–	(3,512)
Exercise of options	**1,546**	943	12
Financing by non-controlling interests	**–**	–	57
Payments of liabilities to former shareholders of acquired subsidiary	**–**	(927)	–
Repayment of long-term and short-term liabilities	**–**	–	(204)
Net cash provided by (used in) financing activities	**(12,621)**	(8,695)	33,250
Exchange differences on balances of cash and cash equivalents	**(589)**	(310)	(482)
Increase (decrease) in cash and cash equivalents	**(3,646)**	8,390	11,896
Cash and cash equivalents at the beginning of the year	**35,741**	27,351	15,455
Cash and cash equivalents at the end of the year	**32,095**	35,741	27,351
Significant non-cash transactions:			
Payables for acquisitions of domains and websites	**649**	–	1,712

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

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

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.

For further information regarding online marketing and the Group's business segments see Note 15.

The Company commenced its operations in 2012. The Company's registered office is located in 12 Castle Street, St Helier, Jersey.

On 21 March 2014 the Company completed an Initial Public Offering ("**IPO**") on the London Stock Exchange's Alternative Investment Market (AIM), see Note 12 (b) (1).

(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 main subsidiaries companies see Note 20.
Related parties	–	as defined in IAS 24
Dollar/USD	–	U.S. dollar

(c) Assessment of going concern:
The Board of Directors has adopted the going concern basis of accounting in preparing the consolidated financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES
The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

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

The financial statements have been prepared on a cost basis, except for financial assets and liabilities (including 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 2016 new Standards and amendments became effective but they had no effect on the consolidated financial statements.

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.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(b) Consolidated financial statements: continued
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.

The acquisition of an additional ownership interest in 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.

Non-controlling interests of an entity represent the non-controlling shareholders' share of the net income and comprehensive income of the entity and their share of the net assets at fair value upon the acquisition of the entity. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Business combinations in which the Company acquires an entity that is under the common control of the Parent Company is accounted for in a manner similar to a pooling of interests. The effect of this accounting is to reflect the financial position, results of operations and cash flows of the acquiree as if it had been a subsidiary of the Company for the entire period in which the acquiree had been under the control of the Parent Company. Accordingly, the assets acquired and liabilities assumed are recorded based on their carrying amounts as reflected in the financial statements of the acquiree prior to the business combination. The excess of the consideration paid by the Company over the carrying amount of the net assets acquired is recorded as a reduction of equity in the statement of changes in equity.

(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.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(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:
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 uncollectible.

(h) Revenue recognition:
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.

(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.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(k) Property and equipment: continued
Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

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

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

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

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

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

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

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

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.

The useful life of intangible assets is as follows:

Systems and software (purchased and in- house development cost) are amortised on a straight-line basis over the useful life	33%

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(m) Impairment of non-financial assets: continued
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:

1. *Financial assets:*
   Financial assets within the scope of IAS 39 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) and financial assets designated upon initial recognition as at fair value through profit or loss.

   b) Loans and receivables:
      Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortised cost plus directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings 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 or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

   b) Financial liabilities:
      A financial liability is derecognised when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the Group discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(n) Financial instruments: continued

4. *Impairment of financial assets:*

   The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

   Financial assets carried at amortised cost:
   Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate.

(o) Derivative financial instruments:

The Group enters into contracts for derivative financial instruments such as forward currency contracts to hedge risks associated with foreign exchange fluctuations. Such derivative financial instruments that do not qualify for hedge accounting are initially recognised at fair value at the inception of the contract and are subsequently remeasured at fair value. Changes in the fair value of these instruments are recorded immediately in profit or loss.

(p) 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).

(q) 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.

(r) 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.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

(s) 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 13.

In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account.

As for other service providers, the cost of the transaction is measured at the fair value of the goods or services received as consideration for equity instruments granted.

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.

(t) 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.

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 unit 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 14.

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

NOTE 4: DISCLOSURE OF NEW STANDARDS

Standards and interpretations that have been issued and are relevant to the Company's financial statements and activities, but are not yet effective, are described below.

(a) IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 was issued by the IASB in May 2014.

IFRS 15 replaces IAS 18, "Revenue" and several other revenue recognition standards. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018 with early application permitted. Entities can choose to apply IFRS retrospectively or to use a modified transition approach.

The Group is evaluating the possible impact of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.

(b) 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 in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if certain conditions are met. IFRS 9 also includes a new model for measurement of impairment of financial assets.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected. IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on 1 January, 2018. Early adoption is permitted.

The Group is evaluating the possible impact of IFRS 9 but is presently unable to assess its effect, if any, on the financial statements.

(c) 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 (the underlying asset) for a period of time in exchange for consideration.

According to the new Standard:

Lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately.

The new Standard is effective for annual periods beginning on or after 1 January, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is simultaneously applied.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Group believes that the new Standard is not expected to have a material impact on the financial statements.

(d) Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", (the "**Amendments**") which require providing additional disclosures of financial liabilities. The Amendments require presenting the movement between the opening balance and the closing balance of financial liabilities, including changes arising from cash flows from financing activities, changes arising from obtaining or losing control in investees, the effect of changes in foreign exchange rates and changes in fair value.

The Amendments are effective for annual periods beginning on or after 1 January, 2017. No disclosure is required for comparative figures in previous periods before the effective date of the Amendments. Earlier application is permitted.

The Group will include the disclosures in the financial statements when applicable.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 5: BUSINESS COMBINATIONS

(a) Publishing Joint Venture ("JV")
The Company holds the majority stake in a Joint Venture that is active in operating publishing websites in Scandinavia.

The Group elected to measure the non-controlling interests in the JV at their proportionate share of the fair value of the JV's net identifiable assets.

On 14 September 2014, the Company signed an agreement to acquire an additional 21% interest in the JV for a cash consideration of USD 1.49 million. Subsequent to the acquisition the Company holds 93% interest in the JV.

As a result of the acquisition in 2014, the difference between the consideration and the decrease in the non-controlling interests was recorded in capital reserve from transactions with non-controlling interests in the amount of USD 612 thousands.

(b) Acquisition of initially consolidated company – Dau-Up Clicksmob Ltd (formerly ExciteAd Digital Marketing Ltd.) ("Dau-Up"):
On 31 August 2014, the Company acquired 100% of the shares of Dau-Up, a leading social gaming marketing company, for a consideration of up to USD 19 million in cash. The Company paid USD 12 million in cash and two additional contingent payments of an aggregate USD 7 million ("**Contingent Consideration**") were made based on Dau- Up's target adjusted EBITDA during the first and second years starting 1 July 2014.

Total acquisition cost:

	USD in thousands
Cash paid	12,000
Payables for acquisition	66
Contingent consideration liability	6,521
Total acquisition cost	18,587

Acquisition cost allocation:

Fair value of identifiable net assets	1,417
Goodwill arising on acquisition	17,170
	18,587

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

(c) Acquisition of initially consolidated company- Marmar Media Ltd ("Marmar"):
On 1 July 2015 the Company acquired a controlling interest (54%) in Marmar, a performance media company for web and mobile.

The total consideration for the acquisition was up to $7.36 million in cash, comprised of an initial payment of $5.36 million and additional contingent consideration of $2 million which was paid in 2016 based on Marmar's EBITDA performance during the year ending March 2016. .

Total acquisition cost:

	USD in thousands
Cash paid	5,360
Contingent consideration liability	1,934
Total acquisition cost	7,294

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 5: BUSINESS COMBINATIONS continued

(c) Acquisition of initially consolidated company- Marmar Media Ltd ("Marmar"): continued

Acquisition cost allocation:

Fair value of identifiable net assets	1,070
Goodwill arising on acquisition	6,716
Non-controlling interests (*)	(492)
Total acquisition cost	7,294

(*) The non-controlling interests are measured at their proportionate share of the fair value of the subsidiary's net identifiable assets.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

(d) Subsequent to the reporting period, Dau-Up has signed an agreement to acquire the business and assets of ClicksMob Inc., for more details see Note 21.

NOTE 6: SHORT-TERM AND LONG-TERM INVESTMENTS

	Annual interest rate *)	As of 31 December		
		2016	2015	2014
		USD in thousands		
Short-term investments:				
Short-term bank deposits (a):				
In USD	0.7%	**1,576**	6,000	8,508
In NIS	0.2%	**1,500**	853	203
In EURO		**15**	13	–
		3,091	6,866	8,711
Financial assets designated at fair value through profit and loss:				
US Government bonds		**–**	–	8,003
		3,091	6,866	16,714
Long-term financial assets				
Bank deposit- in NIS (b)		**609**	1,102	333

*) The above interest rates are the weighted average rates as of 31 December 2016.

(a) Includes- deposits with fixed liens recorded as security for credit card transactions in connection with advertising campaigns and other online purchasing over the internet.

(b) The Group recorded fixed liens on long-term bank deposits, against bank guarantee provided in connection with its lease agreement on property and credit card transactions, (see Note 16 (a)).

NOTE 7: TRADE AND OTHER RECEIVABLES

a. Trade receivables:

	As of 31 December		
	2016	2015	2014
	USD in thousands		
Open accounts	**17,610**	16,761	11,888
Less – allowance for doubtful accounts	**535**	673	340
Trade receivables, net	**17,075**	16,088	11,548

As of 31 December 2016 the Group has no material amounts that are past due and not impaired.

See Note 11(b) (2) on credit risk of trade receivables.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 7: TRADE AND OTHER RECEIVABLES continued

b. Other receivables:

	As of 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Prepaid expenses	**1,841**	1,256	907
Government authorities	**762**	227	75
Current maturity of long-term receivables	**410**	228	534
Other receivables	**450**	331	379
	3,463	2,042	1,895

NOTE 8: PROPERTY AND EQUIPMENT

	Computers, furniture, office equipment and others	Leasehold improvements	Total
	USD in thousands		
Cost:			
Balance as of 1 January 2014	876	122	998
Acquisitions during the year	337	13	350
Acquisition of initially consolidated company *)	50	19	69
Disposals during the year	(59)	–	(59)
Balance as of 31 December 2014	**1,204**	**154**	**1,358**
Acquisitions during the year	516	128	644
Acquisition of initially consolidated company *)	51	–	51
Balance as of 31 December 2015	**1,771**	**282**	**2,053**
Acquisitions during the year	398	81	479
Balance as of 31 December 2016	**2,169**	**363**	**2,532**
Accumulated depreciation:			
Balance as of 1 January 2014	206	54	260
Disposals during the year	(22)	–	(22)
Depreciation during the year	247	9	256
Balance as of 31 December 2014	**431**	**63**	**494**
Depreciation during the year	350	19	369
Balance as of 31 December 2015	**781**	**82**	**863**
Depreciation during the year	405	35	440
Balance as of 31 December 2016	**1,186**	**117**	**1,303**
Depreciated cost as of 31 December 2016	**983**	**246**	**1,229**
Depreciated cost as of 31 December 2015	990	200	1,190
Depreciated cost as of 31 December 2014	773	91	864

*) See Note 5(b) and (c).

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 9: GOODWILL, DOMAINS AND WEBSITES AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

	Goodwill	Domains and websites	Non-competition	Systems, software and other	Total
			USD in thousands		
Cost:					
Balance as of 1 January 2014	2,416	5,495	1,401	877	10,189
Acquisition of initially consolidated company *)	17,170	–	721	968	18,859
Acquisitions during the year	–	11,233	358	734	12,325
Costs capitalised during the year (in-house development cost)	–	–	–	915	915
Balance as of 31 December 2014	19,586	16,728	2,480	3,494	42,288
Acquisition of initially consolidated company *)	6,716	–	474	–	7,190
Acquisitions during the year	–	7,169	251	1,461	8,881
Costs capitalised during the year (in-house development cost)	–	–	–	2,043	2,043
Balance as of 31 December 2015	26,302	23,897	3,205	6,998	60,402
Acquisitions during the year	–	3,042	196	1,105	4,343
Costs capitalised during the year (in-house development cost)	–	–	–	3,048	3,048
Balance as of 31 December 2016	**26,302**	**26,939**	**3,401**	**11,151**	**67,793**
Accumulated amortisation and impairment:					
Balance as of 1 January 2014	–	–	790	130	920
Amortisation during the year	–	–	528	512	1,040
Balance as of 31 December 2014	–	–	1,318	642	1,960
Amortisation during the year	–	–	552	2,854	3,406
Balance as of 31 December 2015	–	–	1,870	3,496	5,366
Amortisation during the year	–	–	645	2,323	2,968
Impairment loss	–	200	270	–	470
Balance as of 31 December 2016	**–**	**200**	**2,785**	**5,819**	**8,804**
Amortised cost as of 31 December 2016	**26,302**	**26,739**	**616**	**5,332**	**58,989**
Amortised cost as of 31 December 2015	26,302	23,897	1,335	3,502	55,036
Amortised cost as of 31 December 2014	19,586	16,728	1,162	2,852	40,328

*) See Note 5(b) and 5(c).

b. Impairment of goodwill and 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:

	Goodwill	Domains and websites	Total
		USD in thousands	
Publishing segment (1)	2,416	26,739	29,155
Media segment (2)	23,886	–	23,886
	26,302	26,739	53,041

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 9: GOODWILL, DOMAINS AND WEBSITES AND OTHER INTANGIBLE ASSETS continued

b. Impairment of goodwill and intangible assets with an indefinite useful life: continued

(1) Publishing segment

The recoverable amounts of domains and websites were determined based on a value in use calculation using estimated cash flow projections. The recoverable amount of the publishing segment CGUs to which the goodwill was allocated, 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 12.1% (2015 – 12.9%). The projected cash flows are estimated using a fixed growth rate of 3% (2015 – 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.

(2) Media segment

The media segment goodwill was generated from Dau-Up and Marmar acquisitions. The recoverable amount of the media segment CGU's 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 14.1%(2015 – 13.5%). The projected cash flows are estimated using a fixed growth rate of 3% (2015 – 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 2016 the recoverable amount of each of the segments exceeds their 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		
	2016	**2015**	**2014**
	USD in thousands		
Employees and payroll accruals	**5,091**	4,647	2,265
Income tax payable	**4,475**	4,129	1,511
Liability for intangible assets acquisition	**649**	–	1,712
Government authorities	**857**	992	679
Liability for Dau-Up acquisition	**–**	–	797
Accrued expenses	**1,791**	1,973	677
Other liabilities	**1,333**	410	123

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 11: 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 pursuant to IAS 39:

	As of 31 December		
	2016	2015	2014
	USD in thousands		
Financial assets			
Financial assets at fair value through profit or loss:			
Investments in US Government bonds	**–**	–	8,003
Financial derivatives	**1,002**	165	264
Total financial assets at fair value through profit or loss	**1,002**	165	8,267
Financial assets measured at amortised cost:			
Cash and cash equivalents	**32,095**	35,741	27,351
Short-term investments and long-term investment	**3,700**	7,968	9,044
Trade receivables	**17,075**	16,088	11,548
Other receivables	**860**	559	988
Non-current account receivable	**171**	332	456
Total financial assets measured at amortised cost	**53,901**	60,688	49,387
Total financial assets	**54,903**	60,853	57,654
Total current	**54,123**	59,419	56,865
Total non-current	**780**	1,434	789

	As of 31 December		
	2016	2015	2014
	USD in thousands		
Financial liabilities			
Financial liabilities measured at amortised cost:			
Trade payables	**9,274**	11,146	9,073
Other liabilities and account payables	**8,747**	7,030	6,186
Contingent consideration payable	**–**	5,373	6,629
	18,021	23,545	21,88
Total current	**18,021**	23,549	18,655
Total non-current	**–**	–	3,233

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 11: FINANCIAL INSTRUMENTS continued

(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. A majority 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 and NIS against the USD

   For the year ended 31 December 2016 the Group recorded foreign exchange rate differences income , net in the amount of USD 1,102 thousands (includes gain on forward transactions, see below) (2015 – USD 2,187 thousands, 2014 – USD 675 thousands).

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

   The open positions as of 31 December 2016:

   Forward transactions for the sale of EURO in exchange for USD totaling EURO 16.4 million (USD 18.4 million), are for periods ending from January 2017 until November 2017.

   Forward transactions for the sale of USD in exchange for NIS totaling USD 12.4 million (NIS 45.4 million), are for periods ending from January 2017 until November 2017.

   The Group bought Put option and sold Call option for the sale of USD in exchange for NIS in totaling USD 11.8 million (NIS 43.6 million), are for periods ending from January 2017 until September 2017.

   Forward transactions for the sale of GBP in exchange for USD totaling GBP 1.2 million (USD 1.6 million), are for periods ending from January 2017 until April 2017.

   As of 31 December 2016 the total fair value (asset) of the above forward transactions amounted to USD 1,002 thousands.

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 and Israel.

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 2016:

	Less than one year	1 to 2 years	Total
	USD in thousands		
Trade payables	9,274	–	9,274
Other payables	14,196	–	141,196
	23,470	–	23,470

As of 31 December 2015:

	Less than one year	1 to 2 years	Total
	USD in thousands		
Trade payables	11,146	–	11,146
Other payables	12,151	–	12,151
Contingent consideration payable	5,500	–	5,500
	28,797	–	28,797

NOTE 11: FINANCIAL INSTRUMENTS continued

(b) Financial risks factors: continued

As of 31 December 2014:

	Less than one year	1 to 2 years	Total
	USD in thousands		
Trade payables	9,073	–	9,073
Other payables	6,186	–	6,186
Contingent consideration payable	3,500	3,500	7,000
	18,759	3,500	22,259

(c) Fair value:
The carrying amounts of the Group's financial assets and liabilities other than financial derivatives 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:

	As of 31 December		
	2016	2015	2014
	USD in thousands		
Sensitivity test to changes in Euro to Dollar exchange rate:			
Gain (loss) from the change:			
Increase of 10% in exchange rate	**(738)**	(1,708)	(1,977)
Decrease of 10% in exchange rate	**738**	1,708	1,977
Sensitivity test to changes in NIS to Dollar exchange rate:			
Gain (loss) from the change:			
Increase of 10% in exchange rate	**(2,669)**	(1,485)	(980)
Decrease of 10% in exchange rate	**3,040**	1,794	1,211

The sensitivity tests reflect effects of reasonably possible changes in exchange rates on hedging position of the company 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 is not exposed significantly to interest rate risk.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 12: EQUITY

(a) Composition of share capital:

	As of 31 December 2016	
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	**100,000,000,000**	**197,697,423**

	As of 31 December 2015	
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	100,000,000,000	193,447,154

	As of 31 December 2014	
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	100,000,000,000	189,643,652

In addition to the above issued shares, as of 31 December 2016, 2,654,979 Ordinary Shares are held in trust to satisfy the Company's share based payment plan.

(b) Movement in share capital:

1. On 21 March 2014 the Company completed an IPO on the London Stock Exchange's AIM. The Company issued 67,026,152 Ordinary shares at a price of 49 pence per Ordinary share. The total gross funds raised in the IPO were GBP 32.8 million (USD 54.2 million) and IPO related costs amounted to approximately USD 6.6 million. The issued share capital of the Company immediately following the IPO was 189,563,652 Ordinary shares.
2. In June 2014 the Company issued 80,000 Ordinary shares upon the exercise of options.
3. In 2015 the Company issued 3,803,502 Ordinary shares upon the exercise of options.
4. In 2016 the Company issued 4,250,269 Ordinary shares upon the exercise of options.

(c) Dividends paid to equity holders of the Company:

Date	Total amount	Per share
	USD in million	USD
12 June 2014	5.25	0.030
31 October 2014	3.0	0.016
8 May 2015	3.0	0.016
30 October 2015	5.0	0.026
26 February 2016	5.0	0.025
4 November 2016	7.5	0.038

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 12: EQUITY continued

(d) Net earnings per share:
Details of the number of shares and income used in the computation of earnings per share:

	Year ended 31 December					
	2016		2015		2014	
	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	Weighted number of shares	Net income attributable to equity holders of the Company
	In thousands	USD in thousands	In thousands	USD in thousands	In thousands	USD in thousands
Number of shares and income for the computation of basic net earnings	**195,127**	**23,937**	191,977	18,719	174,398	9,821
Effect of potential dilutive Ordinary shares *)	**3,711**	**–**	3,945	–	4,405	–
For the computation of diluted net earnings	**198,838**	**23,937**	195,922	18,719	178,803	9,821

*) Options, see Note 13.

NOTE 13: SHARE-BASED PAYMENT
The expense recognised in the financial statements for services received is shown in the following table:

	Year ended December 31,		
	2016	2015	2014
	USD in thousands		
Total expense arising from share-based payment transactions	**646**	839	1,042

(a) In August 2013 the Company adopted a Share Option Plan. According to the plan, 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 plan, 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 through 2016 were made in accordance with Section 102 of the Income Tax Ordinance, capital-gains track (with a trustee).

2014 grants
In 2014, the Company granted options to Employees (including the CEO and other officers). The options vest in varying amounts over a period of up to four years from the grant date.

The following table lists the inputs used for the fair value measurement of the grants in 2014:

Option pricing model	Black-Scholes-Merton formula
Exercise price (USD)	0.154-0726
Dividend yield (USD)	0.18-0.2
Expected volatility of the share prices	38.2%-44.7%
Risk- free interest rate (USD)	1.32%-2.07%
Expected life of share options (years)	4-5.3
Share price GBP (USD)	0.49 (0.808)-0.525(0.86)

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 13: SHARE-BASED PAYMENT continued

The total fair value of all options granted in 2014 was calculated at USD 2.5 million at the grant date (average of USD 0.26 per option).

2015 grants
In 2015, the Company granted options to Employees (including directors). The options vest in varying amounts over a period of up to four years from the grant date.

The following table lists the inputs used for the fair value measurement of the grants in 2015:

Option pricing model	Black-Scholes-Merton formula
Exercise price (USD)	0.856-1.041
Dividend yield (USD)	0.13-0.18
Expected volatility of the share prices	44.4%-44.7%
Risk- free interest rate (USD)	1.14%-1.3%
Expected life of share options (years)	4.75, 5.2
Share price GBP (USD)	0.577 (0.87)-0.72(1.112)

The total fair value of these grants was calculated at USD 1.1 million at the grant date (an average of USD 0.25 per option).

2016 grants
In 2016, the Company granted options to Employees (including directors). The options vest in varying amounts over a period of up to four years from the grant date.

The following table lists the inputs used for the fair value measurement of the grants in 2016:

Option pricing model	Black-Scholes-Merton formula
Exercise price (USD)	0.85-1.07
Dividend yield (USD)	0.23-0.34
Expected volatility of the share prices	48.2%-51.1%
Risk- free interest rate (USD)	0.17%-0.85%
Expected life of share options (years)	5.2-4.8
Share price GBP (USD)	0.708 (1.01)-0.9 (1.17)

The total fair value of these grants was calculated at USD 1.1 million at the grant date (an average of USD 0.28 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.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 13: SHARE-BASED PAYMENT continued

(b) Movement during the year:

	2016		2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	in thousands	USD	in thousands	USD	in thousands	USD
Share options outstanding at beginning of year	**11,671**	**0.68**	12,312	0.47	3,250	0.15
Share options granted during the year	**3,789**	**0.98**	4,307	0.98	9,458	0.58
Share options forfeited during the year	**(1,620)**	**0.8**	(1,144)	0.75	(316)	0.76
Share options exercised during the year	**(4,250)**	**0.36**	(3,804)	0.25	(80)	0.15
Share options outstanding at end of year	**9,590**	**0.79**	11,671	0.68	12,312	0.47
Share options exercisable at end of year	**2,061**	**0.63**	3,317	0.34	4,091	0.15

(c) The weighted average remaining contractual life for the options outstanding as of 31 December 2016 was 6.5 years (2015- 6.7 years, 2014 – 7.1 years).

(d) The range of exercise prices for options outstanding as of 31 December 2016 was USD 0.15 – USD 1.07 (2015 – USD 0.15 – USD 1.04, 2014 – USD 0.15 – USD 0.76).

NOTE 14: TAXES ON INCOME

(a) Profits arising in the Company for 2016 tax assessment will be subject to Jersey tax at the standard corporate income tax rate of 0% (2015 and 2014 – 0%).

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

– The Israeli corporate tax rate applicable in 2016 is 25% (2015 and 2014 – 26.5%). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the 2017 and 2018 Budget Years), 2016 which reduces the corporate tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018. The effect of the change in tax rates on deferred tax balances at 31 December 2016 is immaterial.

– Amendment to the Law for the Encouragement of Capital Investments, 1959:

According to the Amendment, a flat tax rate applies to two of the group subsidiaries entire preferred income under their status as a preferred enterprise. The tax rate under the Amendment in 2016, 2015 and 2014 is 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 tax at a rate of 20%.

The Amendment also prescribes special tax regimes for technological enterprises, subject to the rules that will be issued by the Minister of Finance by 31 March 31 2017.

The new tax regimes under the Amendment are as follows:

Technological preferred enterprise as defined in the Law when 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, originating from income from the technological enterprises will be subject to tax at a rate of 4%.

Since as of 31 December 2016, definitive criteria to determine the tax benefits had not yet been established, it cannot be concluded that the legislation in respect of technological enterprises had been enacted or substantially enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of 31 December 2016.

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 14: TAXES ON INCOME continued

(c) The tax rate applicable to the Cyprus branch of the Company is 12.5%.

(d) Final tax assessments:
Two subsidiaries in Israel have received final tax assessment through 2013.

The Company and its other subsidiaries have not received final tax assessments since their incorporation.

(e) Taxes on income included in profit or loss:

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Current taxes	**5,436**	4,490	1,404
Deferred taxes	**(20)**	(397)	(75)
Total	**5,416**	4,093	1,329

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

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Profit before taxes on income	**31,000**	24,293	13,239
Tax at the statutory rate applicable to the Company	**–**	–	–
Tax at the domestic rates applicable to profits of the subsidiaries in Israel and Cyprus branch	**5,416**	4,093	1,329
Total taxes	**5,416**	4,093	1,329

(g) Deferred taxes:
Composition:

	Statements of financial position			Statements of profit or loss		
	December 31,			Year ended December 31,		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
	USD in thousands					
Deferred tax liabilities:						
Intangible assets	**126**	317	419	**(191)**	(228)	(28)
Deferred tax assets:						
Research and development costs	**7**	90	73	**83**	(17)	(45)
Allowance for doubtful account	**52**	10	–	**(42)**	(10)	–
Employee benefits	**26**	156	14	**130**	(142)	(2)
	85	256	87			
Deferred tax benefit				**(20)**	(397)	(75)
Deferred tax liabilities, net	**(41)**	(61)	(332)			

The deferred tax balances included as of December 31, 2016 are calculated according to the updated tax rate, see b above.

The deferred taxes are computed at the tax rates of 24% and 16%, based on the tax rates that are expected to apply upon realization (2015 and 2014 – 26.5% and 16%).

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 15: 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 2,000 informational websites in 17 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.
Partners Network	–	The Group manages marketing partners, whose role is to direct online traffic to the Group's customers for which the Group receives revenues. The Group is responsible for paying its partners. The Group's partner programme enables affiliates to have a single point of contact to direct traffic to, and receive monies from, rather than engaging in multilateral negotiation, administration and collection of revenues.

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:

	Publishing	Media	Partners Network	Total
		USD in thousands		
Year ended 31 December 2016:				
Revenues	**46,057**	**47,645**	**9,903**	**103,605**
Segment profit	**38,384**	**13,779**	**1,160**	**53,323**
Unallocated corporate expenses				**(23,226)**
Finance income, net				**903**
Profit before taxes on income				**31,000**
Year ended 31 December 2015:				
Revenues	30,297	45,777	13,145	89,219
Segment profit	23,855	15,411	1,810	41,076
Unallocated corporate expenses				(18,116)
Other expense, net				(403)
Finance income, net				1,736
Profit before taxes on income				24,293
Year ended 31 December 2014:				
Revenues	23,965	20,632	6,123	50,720
Segment profit	18,345	8,548	685	27,578
Unallocated corporate expenses				(13,340)
Other income, net				(229)
Finance expense, net				(770)
Profit before taxes on income				13,239

Notes to Consolidated Financial Statements
For the year ended 31 December 2016

NOTE 15: OPERATING SEGMENTS continued

(c) Geographic information:
Revenues classified by geographical areas based on internet user location:

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Scandinavia	**33,054**	29,414	28,164
Other European countries	**28,295**	16,732	7,457
North America	**21,724**	19,588	4,918
Oceania	**4,951**	2,788	942
Other countries	**2,215**	2,610	3,116
Total revenues from identified locations	**90,239**	71,132	44,597
Revenues from unidentified locations	**13,366**	18,087	6,123
Total revenues	**103,605**	89,219	50,720

NOTE 16: COMMITMENTS

(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 annual lease fees of approximately USD 910 thousands.

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

(b) For agreements with related parties see Note 17.

NOTE 17: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(a) Balances:

	As of 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Current liabilities:			
Management fees and other short-term payables	**1,011**	684	370
Non-current liability	**112**	56	–

(b) Benefits to key management personnel: *)

	As of 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Short-term benefits and other	**1,790**	1,495	1,410
Cost of share-based payments	**47**	107	70
	1,837	1,602	1,480

*) Includes directors.

NOTE 17: BALANCES AND TRANSACTIONS WITH RELATED PARTIES continued

(c) Transactions with related parties:

	Year ended 31 December		
	USD in thousands		
Management fees to shareholders [(1)]	**619**	618	838
Cost of share based payments [(2)]	**68**	277	1,124
	687	895	1,962
Finance costs in respect of liabilities to shareholders, net	**–**	–	45

(1) Including fees paid in 2016 to key management personnel USD 440 thousands (2015 – USD 440 thousands, 2014 – USD 444 thousands).

(2) 2014 – Include of USD 274 thousands charged to share premium as part of the IPO issue costs.

(d) Service Agreements

The Group signed a consulting service agreement with one of the shareholders of the Parent Company. The management fees for the year ended 31 December 2016 were USD 180 thousands (2015 – USD 178 thousands, 2014 – USD 394 thousands).

NOTE 18: EMPLOYEE BENEFIT ASSETS AND LIABILITIES

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

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Expenses in respect of defined contribution plans	**1,083**	710	540

NOTE 19: SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Employee benefit expenses are included in (*):			
Cost of revenues	**8,889**	7,829	6,264
Research and development	**2,226**	1,291	1,014
Selling and marketing	**3,703**	2,863	2,226
General and administrative	**6,288**	4,925	4,274
	21,106	16,908	13,778

*) Includes cost of share based payment.

	Year ended 31 December		
	2016	**2015**	**2014**
	USD in thousands		
Depreciation (see Note 8) and amortisation and impairment expenses (see Note 9) are included in:			
Cost of revenues	**382**	425	–
General and administrative	**3,496**	3,350	1,296
	3,878	3,775	1,296

Notes to Consolidated Financial Statements
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NOTE 20: LIST OF MAIN SUBSIDIARIES

	2016	
	Shares conferring voting rights	Shares conferring rights to profits
	%	
	100	100
Webpals Holdings Ltd	100	100
Webpals Systems S.C Ltd	100	100
Dau-Up Clicksmob Ltd (formerly ExciteAd Digital Marketing Ltd.)	100	100
Marmar Media Ltd	54	54

NOTE 21: SUBSEQUENT EVENTS

(a) In January 2017, the Company completed the acquisition of credit card comparison websites in Canada, for a total consideration of USD 9.3 million, which deposited in escrow.

(b) In February 2017, the Company, through Dau-Up, acquired the business and assets of ClicksMob Inc for a total consideration of $5.1 million, payable in cash. The acquired business and assets are expected to be highly synergetic with the Group Media segment. As of the date of the financial statements were approved, the Company had not yet performed a detailed assessment of identification and fair value of the assets acquired and liabilities assumed.

(c) On 2 March 2017 the Company declared a dividend to its shareholders of USD 7.5 million (3.7864 Cent per share).

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47 Esplanade
St. Helier
Jersey
JE1 0RD

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

Public Relations adviser to the Company:

Vigo Communications
180 Piccadilly
London
W1J 9HF

Company Secretary:

Mr. Yehuda Dahan
6 Agias Marinas Yermasogeia
Limassol
Cyprus 4044

Principal Bankers:

Barclays Bank PLC
1 Churchill Place
London
E14 5HP


98%
54%
79%
65%