XLMEDIA PLC

Interim Financial Statements

30 June, 2019

XLMEDIA PLC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2019

XLMEDIA PLC.

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AS OF 30 JUNE 2019

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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

Tel: +972-3-6232525
Fax: +972-8-6283656
ey.com

Report on Review of Interim Condensed Consolidated Financial Statements

The Board of Directors
XLMedia PLC.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of XLMedia PLC. and its subsidiaries ("the Group") as of 30 June 2019 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

20 September, 2019
Beer Sheva, Israel

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2019	31 December 2018
	Unaudited	Audited
	USD in thousands	
Assets		
Current assets:		
Cash and cash equivalents	40,273	44,627
Short-term investments	2,805	2,996
Trade receivables	9,410	16,112
Other receivables	2,992	5,502
	55,480	69,237
Assets held for sale (Note 4)	6,187	-
Total current assets	61,667	69,237
Non-current assets:		
Long-term investments	668	633
Property and equipment	10,891	1,296
Goodwill	23,652	23,652
Domains and websites	92,226	92,053
Other intangible assets	10,574	9,146
Deferred taxes	-	99
Other assets	372	435
	138,383	127,314
	200,050	196,551

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2019	31 December 2018
	Unaudited	Audited
	USD in thousands	
Liabilities and equity		
Current liabilities:		
Current maturity of long-term bank loans	4,216	5,585
Current maturity of lease liability	1,729	-
Trade payables	2,660	6,416
Other liabilities and accounts payable	7,346	7,058
Income tax payable	10,090	9,049
	26,041	28,108
Liabilities attributed to assets held for sale: (Note 4)	3,431	-
Total current liabilities	29,472	28,108
Non-current liabilities:		
Lease liability	8,762	-
Long- term bank loans	-	1,380
Deferred taxes	193	-
Other liabilities	146	248
	9,101	1,628
Total liabilities	38,573	29,736
Equity:		
Share capital	*)	*)
Share premium	112,352	112,224
Capital reserve from share-based transactions	3,233	2,590
Capital reserve from transactions with non-controlling interests	(2,445)	(2,445)
Treasury shares	(10,121)	(468)
Retained earnings	58,167	54,623
Equity attributable to equity holders of the Company	161,186	166,524
Non-controlling interests	291	291
Total equity	161,477	166,815
	200,050	196,551

*) Lower than USD 1 thousand.

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

20 September, 2019			
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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2019	2018	2018
	Unaudited		Audited
	USD in thousands (except per share data)		
Revenues	42,459	47,183	93,502
Cost of revenues	13,621	15,495	30,133
Gross profit	28,838	31,688	63,369
Research and development expenses	696	733	1,043
Selling and marketing expenses	2,646	2,563	5,044
General and administrative expenses	11,172	10,353	20,597
	14,514	13,649	26,684
Operating profit	14,324	18,039	36,685
Finance expenses	(1,212)	(556)	(837)
Finance income	683	101	300
Finance expenses, net	(529)	(455)	(537)
Profit before taxes on income	13,795	17,584	36,148
Taxes on income	1,723	2,616	4,089
Income from continuing operations	12,072	14,968	32,059
Income (loss) from discontinued operations, net (Note 4)	79	(916)	(11,284)
Net income	12,151	14,052	20,775
Net income and other comprehensive income	12,151	14,052	20,775
Attributable to:			
Equity holders of the Company	11,770	13,553	19,818
Non-controlling interests	381	499	957
	12,151	14,052	20,775
Earnings per share attributable to equity holders of the Company:			
Basic and Diluted earnings per share from continuing operation (in USD)	0.06	0.06	0.14
Basic and Diluted loss per share from discontinuing operation (in USD)	(*)	(*)	(0.05)
Weighted average number of shares used in computing basic earnings per share (in thousands)	209,329	214,466	215,441
Weighted average number of shares used in computing diluted earnings per share (in thousands)	209,596	217,854	217,330

(*) less than 0.01 USD.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve from share-based transactions	Capital reserve from transactions with non-controlling interests	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited								
	USD in thousands								
Balance at 1 January 2019	*)	112,224	2,590	(2,445)	(468)	54,623	166,524	291	166,815
Net income and other comprehensive income	-	-	-	-	-	11,770	11,770	381	12,151
Cost of share-based payment	-	-	674	-	-	-	674	-	674
Acquisition of treasury shares		-	-	-	(9,653)	-	(9,653)	-	(9,653)
Dividend to equity holders of the Company (0.04 USD per share)	-	-	-	-	-	(8,226)	(8,226)	-	(8,226)
Exercise of options	-	128	(31)	-	-	-	97	-	97
Dividend to non-controlling interests	-	-	-	-	-	-	-	(381)	(381)
Balance at 30 June 2019	*)	112,352	3,233	(2,445)	(10,121)	58,167	161,186	291	161,477

	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
	Unaudited							
	USD in thousands							
Balance at 1 January 2018	*)	68,417	1,227	(2,445)	49,167	116,366	291	116,657
Net income and other comprehensive income	-	-	-	-	13,553	13,553	499	14,052
Share capital issuance (net of issue costs of USD 1.6 million)	-	42,618	-	-	-	42,618	-	42,618
Cost of share-based payment	-	-	774	-	-	774	-	774
Dividend to equity holders of the Company	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Exercise of options	-	876	(235)	-	-	641	-	641
Dividend to non-controlling interests	-	-	-	-	-	-	(499)	(499)
Balance at 30 June 2018	*)	111,911	1,766	(2,445)	54,720	165,952	291	166,243

*) Lower than USD 1 thousands.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

*) Lower than USD 1 thousands.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	2019	2018	2018
	Unaudited		Audited
	USD in thousands		
Cash flows from operating activities:			
Net income	12,151	14,052	20,775
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation, amortisation and impairment	3,618	2,788	6,503
Finance (income) expense, net	1,311	(1,584)	(1,577)
Gain from sale of property	-	-	(10)
Loss from write down to fair value less selling costs of the discontinued operation	-	-	9,938
Cost of share-based payment	674	774	1,667
Taxes on income	1,782	2,738	4,387
Exchange differences on balances of cash and cash equivalents	(492)	329	954
	6,893	5,045	21,862
Changes in asset and liability items:			
Decrease in trade receivables	3,858	1,174	2,838
Decrease (increase) in other receivables	620	(2,789)	(509)
Increase (decrease) in trade payables	(1,419)	113	(3,397)
Increase (decrease) in other accounts payable	1,080	(2,459)	(4,571)
Increase in other long-term liabilities	-	24	47
	4,139	(3,937)	(5,592)
Cash paid and received during the period for:			
Interest paid	(356)	(215)	(469)
Interest received	89	99	196
Taxes paid	(1,167)	(2,195)	(5,544)
Taxes received	2,058	556	557
	624	(1,755)	(5,260)
Net cash provided by operating activities	23,807	13,405	31,785

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

	Six months ended 30 June		Year ended 31 December
	2019	**2018**	**2018**
	Unaudited		**Audited**
	USD in thousands		
Cash flows from investing activities:			
Purchase of property and equipment	(111)	(421)	(553)
Proceeds from sale of assets and property	-	150	270
Acquisition of and additions to domains, websites, technologies and other intangible assets	(4,311)	(43,756)	(55,516)
Short- term and long-term investments, net	139	(4,964)	1,735
Net cash used in investing activities	(4,283)	(48,991)	(54,064)
Cash flows from financing activities:			
Share capital issuance, net of issuance costs	-	42,618	42,618
Dividend paid to equity holders of the Company	(8,226)	(8,000)	(14,362)
Repayment of lease liabilities	(703)	-	-
Acquisition of treasury shares	(9,653)	-	(468)
Dividend paid to non-controlling interests	(319)	(499)	(1,285)
Exercise of options	117	641	976
Repayment of long and short-term liability	(2,750)	(1,250)	(4,000)
Receipt of long-term loan from bank	-	5,965	5,965
Net cash provided from (used in) financing activities	(21,534)	39,475	29,444
Exchange differences on balances of cash and cash equivalents	526	(329)	(954)
Increase (decrease) in cash and cash equivalents	(1,484)	3,560	6,211
Cash and cash equivalents at the beginning of the period	44,627	38,416	38,416
Cash and cash equivalents at the end of the period	43,143	41,976	44,627

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

NOTE 1: GENERAL

XLMEDIA PLC and its subsidiaries (The Group) are online performance marketing companies.

The Group attracts users through online marketing techniques (such as publications and advertisements) which are then directed, by the Group, to its customers in return 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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, except as described below:

a. Leases:

As detailed in paragraph b (1) below regarding the initial adoption of IFRS 16, "Leases" ("the Standard"), the Group chose to apply the provisions of the Standard using the modified retrospective approach (without restatement of comparative data).

For the accounting policy for leases applied before 1 January 2019, see Note 2(j) to the annual consolidated financial statements as of 31 December 2018.

The accounting policy for leases applied effective from 1 January 2019, is as follows:

The Group accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. Recognition of assets and liabilities:

For leases in which the Group is the lessee, the Group recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value. For these excluded leases, the Group has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Group has elected to apply the practical expedient in the Standard and does not separate the lease components from the non-lease components (such as management and maintenance services, etc.) included in a single contract.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a. Leases: (Cont.)

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate. After the commencement date, the Group measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred. The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life or the lease term. The Group tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

2. Variable lease payments that depend on an index:

On the commencement date, the Group uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Group is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Lease extension and termination options:

A non-cancellable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Group remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

4. Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Group remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Group recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Group subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the Standard"), which supersedes IAS 17, "Leases" ("the old Standard"), IFRIC 4, "Determining Whether an Arrangement Contains a Lease", and SIC-15, "Operating Leases - Incentives".

The Standard has been applied for the first time in these financial statements. As permitted by the Standard, the Group elected to adopt the provisions of the Standard using the modified retrospective method whereby the carrying amount of the right-of-use assets is identical to the carrying amount of the lease liability.

According to this approach, comparative data has not been restated. The carrying amount of the lease liability as of the date of initial adoption of the Standard is calculated using the Group's incremental borrowing rate on the date of initial adoption of the Standard.

a) Following are data relating to the initial adoption of the Standard as of 1 January, 2019, in respect of existing leases as of that date:

	According to the previous accounting policy	**The change**	**As presented according to IFRS 16**
		USD in thousands	
Non-current assets:			
Property and equipment:			
Right-of-use assets	-	10,470	10,470
Current liabilities:			
Lease liabilities	-	1,643	1,643
Non-current liabilities:			
Lease liabilities	-	8,827	8,827

Reconciliation of total commitment for future minimum lease payments to lease liability as of 1 January 2019:

	USD in thousands
Total future minimum lease payments for non-cancellable leases as per IAS 17 according to the financial statements as of 31 December 31 2018	13,008
Effect of discount of future lease payments at the Group's incremental borrowing rate on initial date of adoption	(2,538)
Total lease liabilities as per IFRS 16 as of 1 January 2019	10,470

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 16, "Leases": (Cont.)

    b) The Group determined the appropriate interest rate for discounting its leases based on credit risk, the weighted average term of the leases and other economic variables. A weighted average incremental borrowing rate of 6% was used to discount future lease payments in the calculation of the lease liability on the date of initial adoption of the Standard.

    c) Practical expedients applied in the initial adoption of the Standard- The Company elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

2. IFRIC 23, "Uncertainty over Income Tax Treatments":

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

    The Interpretation has been initially applied in these financial statements.

    The initial adoption of the Interpretation did not have a material effect on the Group's financial statements.

NOTE 3: SUPPLEMENTARY INFORMATION

The board of the Company has approved a buyback programme (the "Programme") to buy back up to USD 10 million of the Company's Ordinary shares (the "Shares").
The Programme ran from 18 December 2018 to the conclusion of the 2019 annual general meeting of the Company. At the 2019 annual general meeting another buyback programme was approved to buy back up to additional USD 10 million of the Company's Shares.
The Programme was funded from the Company's existing cash balances and did not affect the Company's stated dividend policy of paying out at least 50 per cent of retained earnings.
During 2018 the Company acquired 492,302 Shares at a cost of USD 468 thousand.
In the reporting period the Company acquired 12,211,138 Shares in total amount of USD 9,653 thousand. Subsequent to the reporting period the Company acquired 845,303 Shares in total amount of USD 716 thousands.
On 16 July, 2019 the Company ceased the buyback programme and published a tender offer, which was accepted on 16 August 2019 and following the Company purchased 19,675,000 Shares at 80 pence per share and at a cost of USD 20,034 thousand including transaction expenses.

NOTE 4: DISCONTINUED OPERATIONS

a. In February, 2019, the Company's board of directors decided to reduce certain parts of its Media activities (comprising one CGU) which have lower profit margins. Subsequent to the reporting period, in August 2019, the Company completed the sale of Webpals Mobile Ltd ("Mobile") which is a substantial component of the CGU. Under the terms of the agreement Mobile repaid USD 1.9 million of inter-company balances to the Group on completion. The repayment amount is subject to further adjustments. The gain deriving from the sale will be in the range of USD 1-1.6 million.

   Prior to the classification of the CGU as a disposal group, the recoverable amount of the sold assets was calculated as fair value less expected selling costs, and based on that the Group recorded in 2018, a write down loss in the amount of USD 9,938 thousand.

b. Below are the main groups of assets and liabilities classified as held for sale:

	June 30, 2019
	Unaudited
	USD in thousands
Assets:	
Cash and cash equivalents	2,870
Short-term investments	144
Accounts receivable	2,844
Other accounts receivable	252
Property, plant and equipment	77
Assets held for sale	6,187
Liabilities:	
Accounts payable	2,337
Other liabilities and account payables	1,094
Liabilities attributed to assets held for sale	3,431
Net assets held for sale	2,756

NOTE 4: DISCONTINUED OPERATIONS (Cont.)

c. Below is data of the operating results attributed to the discontinued operation:

	Six months ended 30 June		Year ended 31 December
	2019	2018	2018
	Unaudited		Audited
	USD in thousands		
Revenues from sales	8,082	11,905	24,364
Cost of sales	6,409	10,072	19,789
Gross profit	1,673	1,833	4,575
Selling, general and administrative expenses and research and development expenses	1,459	2,594	5,573
Loss from write down to fair value less selling costs of the discontinued operation	-	-	9,938
Operating income (loss)	214	(761)	(10,936)
Financial expenses, net	(76)	(33)	(50)
Income (Loss) before income taxes from discontinued operation	138	(794)	(10,986)
Taxes on income	59	122	298
Income (loss) from discontinued operation, net	79	(916)	(11,284)

d. Below is data of the net cash flows provided by (used in) the discontinued operation:

	Six months ended 30 June		Year ended 31 December
	2019	2018	2018
	Unaudited		Audited
	USD in thousands		
Operating activities	(166)	407	(9)
Investing activities	-	(1,001)	(1,407)

NOTE 5: OPERATING SEGMENTS

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.

As of 30 June, 2019 the main part of the Group's Media activities were classified as discontinued activity and other Media activities were integrated to the Publishing segment activities. The Group now has one operating segment – Publishing, which consists the operation of over 2,300 owned informational websites in 18 languages. These websites refer potential customers to online businesses. The sites' content, written by professional writers, is designed to attract online traffic which the Group then directs to its customers online businesses.

NOTE 6: OTHER INFORMATION

Revenues classified by geographical areas based on internet user location:

	Six months ended 30 June		Year ended 31 December
	2019	2018	2018
	Unaudited		Audited
	USD in thousands		
Scandinavia	18,594	20,654	42,362
Other European countries	11,604	13,983	26,804
North America	9,302	7,772	14,510
Asia	146	-	56
Oceania	814	791	1,668
Other countries	298	1,208	2,191
Total revenues from identified locations	40,758	44,408	87,591
Revenues from unidentified locations	1,701	2,775	5,911
Total revenues	42,459	47,183	93,502

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