

XLMEDIA PLC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2018

XLMEDIA PLC.

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AS OF 30 JUNE 2018

UNAUDITED

U.S. DOLLARS IN THOUSANDS

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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 2018 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.

23 September, 2018
Beer Sheva, Israel

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June	31 December
	2018	2017
	Unaudited	Audited
	USD in thousands	
Assets		
Current assets:		
Cash and cash equivalents	41,976	38,416
Short-term investments	9,335	4,861
Trade receivables	17,776	18,950
Other receivables	6,769	4,665
Financial derivatives	1,128	200
	<u>76,984</u>	<u>67,092</u>
Non-current assets:		
Long-term investments	649	681
Property and equipment	1,419	1,230
Goodwill	30,052	30,052
Domains and websites	84,682	45,762
Other intangible assets	11,119	8,585
Deferred taxes	621	862
Other assets	455	244
	<u>128,997</u>	<u>87,416</u>
	<u><u>205,981</u></u>	<u><u>154,508</u></u>

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


INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>30 June</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
	<u>Unaudited</u>	<u>Audited</u>
	<u>USD in thousands</u>	
Liabilities and equity		
Current liabilities:		
Trade payables	9,926	9,813
Other liabilities and accounts payable	8,705	10,972
Income tax payable	10,708	8,573
Financial derivatives	162	1,425
Current maturity of long-term bank loans	5,475	2,500
	<u>34,976</u>	<u>33,283</u>
Non-current liabilities:		
Long- term bank loans	4,243	2,500
Income tax payable	252	1,825
Deferred taxes	42	42
Other liabilities	225	201
	<u>4,762</u>	<u>4,568</u>
Equity:		
Share capital	*)	*)
Share premium	111,911	68,417
Capital reserve from share-based transactions	1,766	1,227
Capital reserve from transactions with non-controlling interests	(2,445)	(2,445)
Retained earnings	54,720	49,167
	<u>165,952</u>	<u>116,366</u>
Equity attributable to equity holders of the Company		
Non-controlling interests	291	291
	<u>166,243</u>	<u>116,657</u>
Total equity	<u>205,981</u>	<u>154,508</u>


*) Lower than USD 1 thousand.

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

23 September, 2018
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
	2018	2017	2017
	Unaudited		Audited
	USD in thousands (except per share data)		
Revenues	59,088	67,929	137,632
Cost of revenues	25,567	32,756	64,487
Gross profit	33,521	35,173	73,145
Research and development expenses	966	2,518	4,474
Selling and marketing expenses	3,724	2,742	6,263
General and administrative expenses	11,553	10,768	21,639
	16,243	16,028	32,376
Operating income	17,278	19,145	40,769
Finance expenses	(589)	(148)	(2,113)
Finance income	101	493	689
Finance income (expenses), net	(488)	345	(1,424)
Profit before taxes on income	16,790	19,490	39,345
Taxes on income	2,738	3,981	7,474
Net income and other comprehensive income	14,052	15,509	31,871
Attributable to:			
Equity holders of the Company	13,553	14,587	30,323
Non-controlling interests	499	922	1,548
	14,052	15,509	31,871
Earnings per share attributable to equity holders of the Company:			
Basic and Diluted earnings per share (in USD)	0.06	0.07	0.15
Weighted average number of shares used in computing basic earnings per share (in thousands)	214,466	198,357	198,739
Weighted average number of shares used in computing diluted earnings per share (in thousands)	217,854	201,004	202,331

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		Retained earnings	Non-controlling interests	Total equity
				Unaudited				
				Share premium	Capital reserve from transactions with non-controlling interests			
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

	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	Non-controlling interests	Total equity
				Unaudited				
				Share premium	Capital reserve from transactions with non-controlling interests			
Unaudited								
USD in thousands								
Balance at 1 January 2017	*)	66,812	1,208	(506)	34,349	101,863	1,422	103,285
Net income and other comprehensive income	-	-	-	-	14,587	14,587	922	15,509
Cost of share-based payment	-	-	338	-	-	338	-	338
Dividend to equity holders of the Company	-	-	-	-	(7,504)	(7,504)	-	(7,504)
Exercise of options	-	840	(235)	-	-	605	-	605
Dividend to non-controlling interests	-	-	-	-	-	-	(881)	(881)
Balance at 30 June 2017	*)	67,652	1,311	(506)	41,432	109,889	1,463	111,352

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

*) Lower than USD 1 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		Year ended
	30 June		31 December
	2018	2017	2017
	Unaudited		Audited
	USD in thousands		
Cash flows from operating activities:			
Net income	14,052	15,509	31,871
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation, amortisation and impairment	2,788	3,353	5,932
Finance (income) expense, net	(1,584)	1,350	2,813
Cost of share-based payment	774	338	419
Taxes on income	2,738	3,981	7,474
Exchange differences on balances of cash and cash equivalents	329	(1,313)	(1,545)
	5,045	7,709	15,093
Changes in asset and liability items:			
Decrease (increase) in trade receivables	1,174	(1,762)	(1,875)
Decrease (increase) in other receivables	(2,789)	1,047	(982)
Increase in trade payables	113	3,072	539
Increase (decrease) in other accounts payable	(2,459)	(72)	286
Increase (decrease) in other long-term liabilities	24	(5)	(27)
	(3,937)	2,280	(2,059)
Cash paid and received during the period for:			
Interest paid	(215)	-	-
Interest received	99	15	17
Taxes paid	(2,195)	(2,214)	(4,154)
Taxes received	556	305	305
	(1,755)	(1,894)	(3,832)
Net cash provided by operating activities	13,405	23,604	41,073

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		Year ended
	30 June		31 December
	2018	2017	2017
	Unaudited		Audited
	USD in thousands		
Cash flows from investing activities:			
Purchase of property and equipment	(421)	(120)	(388)
Payment for acquired business	-	(4,597)	(5,100)
Acquisition of and additions to domains, websites, technologies and other intangible assets	(43,756)	(4,825)	(16,160)
Proceeds and collection of receivable from sale of assets	150	150	300
Short- term and long-term investments, net	(4,964)	41	(1,595)
Net cash used in investing activities	(48,991)	(9,351)	(22,943)
Cash flows from financing activities:			
Share capital issuance, net of issuance costs	42,618	-	-
Dividend paid to equity holders of the Company	(8,000)	(7,504)	(15,505)
Acquisition of non-controlling interests	-	-	(2,250)
Dividend paid to non-controlling interests	(499)	(881)	(1,804)
Proceeds from exercise of options	641	605	1,205
Repayment of long-term loan from bank	(1,250)	-	-
Receipt of long-term loan from bank	5,965	-	5,000
Net cash provided from (used in) financing activities	39,475	(7,780)	(13,354)
Exchange differences on balances of cash and cash equivalents	(329)	1,313	1,545
Increase in cash and cash equivalents	3,560	7,786	6,321
Cash and cash equivalents at the beginning of the period	38,416	32,095	32,095
Cash and cash equivalents at the end of the period	41,976	39,881	38,416
Significant non-cash transactions:			
Payable for acquisition of business	-	503	-

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL

XLMEDIA PLC and its subsidiaries (The Group) are an online performance marketing companies. The Group attracts paying users from multiple online and mobile channels and directs them to online businesses.

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.

For further information regarding online marketing and the Group's business segments, see Note 4.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017.

The significant accounting policies adopted 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:

- b. Initial adoption of new financial reporting and accounting standards The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") in May 2014. IFRS 15 replaces all current revenue recognition requirements under IAS 18.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

- c. Initial adoption of IFRS 9, "Financial Instruments":

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

The adoption of IFRS 9 as of 1 January 2018 did not have a material effect on the Company's financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- d. Disclosure of new standards in the period prior to their adoption

IFRS 16, "Leases":

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

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

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases, see below) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

- e. Disclosure of new standards in the period prior to their adoption (Cont.)

- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. At this stage, the Company does not intend to early adopt the new Standard.

After having evaluated the implications of the adoption of the new Standard, the Company believes that its adoption is not expected to have a material impact on the Company's financial statements.

NOTE 3: SUPPLEMENTARY INFORMATION

- (a) In January 2018, the Company issued 16,000,000 Ordinary shares in a placing to institutional investors at a price of 198 pence per Ordinary share. The total gross funds raised were approximately GBP 31.7 million (USD 44.2 million) and the related costs amounted to approximately GBP 1.1 million (USD 1.6 million).
- (b) During the period the Group acquired additional assets for the publishing segment for total cash consideration of approximately USD 40 million.
- (c) On March 13, 2018, the Company declared a dividend to its shareholders of USD 8 million (\$0.04 per share).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SUPPLEMENTARY INFORMATION (Cont.)

- (d) In January 2018, the Company granted 3,000,000 options to employees (including to the Company's CEO and other key management personnel), exercisable to 3,000,000 ordinary shares in an exercise price of GBP 2.0 per share (adjusted to dividend). The options vest over a period of 4 years from the grant date and are exercisable for a period of up to 8 years.

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

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

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

NOTE 4: OPERATING SEGMENTS

- (a) General:

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

- Publishing - The Group owns over 2,300 informational websites in 18 languages. These websites refer potential customers to online businesses. The sites' content, written by professional writers, is designed to attract online traffic which the Group then directs to its customers online businesses.
- Media - The Group's Media division acquires online advertising targeted at potential online traffic with the objective of directing it to the Group's users. 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.

Segment performance (segment profit) is evaluated based on revenues less direct operating costs.

Items that were not allocated are managed on a group basis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: OPERATING SEGMENTS (Cont.)

(b) Reporting on operating segments:

	<u>Publishing</u>	<u>Media</u>	<u>Others</u>	<u>Total</u>
	<u>USD in thousands</u>			
Six months ended 30 June 2018				
(unaudited):				
Revenues	32,360	23,446	3,282	59,088
Segment profit	25,586	7,083	852	33,521
Unallocated corporate expenses				(16,243)
Finance expenses, net				(488)
Profit before taxes on income				16,790

	<u>Publishing</u>	<u>Media</u>	<u>Others</u>	<u>Total</u>
	<u>USD in thousands</u>			
Six months ended 30 June 2017				
(unaudited):				
Revenues	29,809	33,895	4,225	67,929
Segment profit	24,863	9,964	346	35,173
Unallocated corporate expenses				(16,028)
Finance income, net				345
Profit before taxes on income				19,490

	<u>Publishing</u>	<u>Media</u>	<u>Others</u>	<u>Total</u>
	<u>USD in thousands</u>			
Year ended 31 December 2017:				
Revenues	62,894	66,428	8,310	137,632
Segment profit	50,309	19,982	1,423	71,714
Unallocated corporate expenses				(30,945)
Finance expenses, net				(1,424)
Profit before taxes on income				39,345

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: OPERATING SEGMENTS (Cont.)

(c) Geographic information:

Revenues classified by geographical areas based on internet user location:

	Six months ended 30 June		Year ended 31 December
	2018	2017	2017
	Unaudited		Audited
	USD in thousands		
Scandinavia	20,594	17,910	38,250
Other European countries	16,380	19,407	41,621
North America	11,337	18,887	29,665
Oceania	1,039	2,145	3,493
Asia	3,856	3,395	10,940
Other countries	2,600	922	3,766
Total revenues from identified locations	55,806	62,666	127,735
Revenues from unidentified locations	3,282	5,263	9,897
Total revenues	59,088	67,929	137,632

NOTE 5: SUBSEQUENT EVENTS

On September 23, 2018 the Company announced a dividend distribution to its shareholders of USD 6.5 million (USD Cent 3 per share).
