

26 March 2018

**Taptica International Ltd**  
(“Taptica” or the “Company”)



**Full Year 2017 Results**

Taptica (AIM: TAP), a global end-to-end mobile advertising platform for advertising agencies and brands, announces its full year results for the twelve months ended 31 December 2017.

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*Transformational period and positioning for organic and inorganic growth*

- Significant revenue growth driven by contribution of new international offices and successful acquisitions
- Continued expansion and strengthening of global presence
- Created a solid foundation from which to continue to grow the Company’s performance advertising business as well as become a strong global player in the brand advertising business

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**Financial Highlights**

*Highly cash generative with strong sales and diversification of revenue streams*

- Revenues increased by 68% to \$210.9 million (2016: \$125.9 million), including mobile in-app (non-video) year-on-year growth of 35%
- Gross profit increased by 75% to \$80.6 million (2016: \$46.0 million), with improvement in gross margin to 38.2% (2016: 36.5%)
- Adjusted EBITDA\* of \$34.2 million (2016: \$25.7 million), ahead of market expectations
- Net cash inflow from operating activities of \$30.8 million (2016: \$20.3 million)
- Final dividend for 2017 of \$0.054 per share (final dividend for 2016: \$0.0432)
- Cash and bank deposits as at 31 December 2017 were \$27.0 million (30 June 2017: \$32.6 million) after acquisition payments of \$53.0 million and dividend payments of \$2.6 million

\*Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and share-based payment expenses.

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**Operational Highlights**

*Strengthened unique offering on a global basis and increased brand recognition*

- Continued to gain traction with existing household-name clients and added new customers, such as Addison Lee
- Significantly enhanced offering and US presence with purchase of Tremor Video DSP with integration completing ahead of schedule
- Increased contribution from Asia-Pacific, particularly Japan and China, while US continued to be the largest single geography by revenue generation
- Increased international presence with establishment of offices in London and Japan. In total, Company has a physical presence in 10 countries

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**Post-period End**

- Recent fundraise to provide extra fire power for future acquisitions, which remain under active consideration
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Hagai Tal, Chief Executive Officer of Taptica, stated: “We are pleased to report another year of significant growth resulting primarily from the contribution of our newly-established offices in the Asia-Pacific region, where consumers continue to increase their use of apps and accessing the internet on their mobiles, and the acquisitions that we made during 2017. We carried out effective campaigns for existing Tier 1 customers and were successful in on boarding new ones. Our two acquisitions – Japan-based Adinnovation and US-based Tremor Video DSP – transformed the business by giving us a broader footprint in the Asia-Pacific region and the US – the two standout regions for growth in digital ad spending. With Tremor, we also diversified our revenue streams into brand advertising, which we see as a growth area for us.

“We entered 2018 in a stronger position than at the same point in the prior year and are receiving sustained demand. This is supported by strong industry trends as use of apps by consumers shows no sign of abating. As a result, we are confident of delivering solid year-on-year growth for 2018 in line with market expectations. Looking further ahead, with our new expanded infrastructure, global presence and strengthened management, we remain excited about our future prospects and other potential transformational opportunities.”

### **For further details:**

#### **Taptica**

Hagai Tal, Chief Executive Officer +972 3 545 3900

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### **About Taptica**

Taptica is a global end-to-end mobile advertising platform that helps the world’s top brands reach their most valuable users with the widest range of traffic sources available today, including social. Its proprietary technology leverages big data and, combined with state-of-the-art machine learning, enables quality media targeting at scale. Taptica creates a single arena in which brands can scale and engage more relevantly with mobile audiences, staying ahead of the competition. It works with more than 600 advertisers including Amazon, Disney, Facebook, Twitter, OpenTable, Expedia, Lyft and Zynga. Taptica is headquartered in Israel with offices in San Francisco, New York, Tokyo (Adinnovation), Beijing, Seoul and London. Taptica is traded on the London Stock Exchange (AIM: TAP).

## Operational Review

The year to 31 December 2017 was transformational for Taptica. It increased its sales & marketing efforts and expanded its international footprint to grow its business centring on its own demand-side platform. It continued to gain traction with existing household-name clients and added new customers such as one of the largest social networks in the US. It also made its largest acquisition to date with the purchase of Tremor Video's demand-side platform ("Tremor Video DSP") for video advertising optimisation thereby diversifying the Company's revenue streams and significantly enhancing its US presence. As a result, total revenue increased by 68% to \$210.9 million (2016: \$125.9 million), including mobile in-app (non-video) year-on-year growth of 35%.

In particular, the revenue growth was driven by the significant contribution to revenues from the Company's newly established international offices, particularly in the Asia-Pacific region. In China, which is Taptica's longest-established Asian office, sales increased significantly with 91 new clients gained, which accounted for almost half of the office's growth. This included expanding into new segments, such as e-commerce where the Company signed one of China's largest ecommerce companies that was among the highest revenue-generating clients for Taptica globally in 2017. There was also strong growth among existing clients in China, such as one of China's leading mobile internet companies that increased its spend by over 200% in 2017 compared with the prior year. To support this expansion, the Company increased its employee base in China from four to twelve.

Taptica established a presence in Japan with the acquisition of a majority shareholding in Adinnovation Inc. ("Adinnovation"), which specialises in mobile app and mobile advertising marketing promotion, implementation, management, tracking, and media site monetisation, for up to \$5.7 million. The transaction formed part of Taptica's strategy to increase its presence in the Asia-Pacific region and, in particular, accelerate the raising of the Company's brand awareness in Japan, which they believe will be the next key growth market for mobile advertising due to its developed mobile networks and strong proliferation of smartphones. The business has performed strongly since the acquisition, with the Company having conducted a targeted campaign focused on the mobile games industry. Taptica also introduced new management practices with an increased focus on efficiency, which is improving the operations and efficiency of the Adinnovation unit.

At the beginning of the year, Taptica also opened an office in the UK to leverage its relationship with two of Europe's largest advertising agencies with headquarters in the UK, to better serve its existing client base in the UK and Europe as well as to target new customers and further expand its addressable market. During the year, the Company significantly enhanced its local customer base with new clients accounting for 70% of UK sales and expanding into the ride-sharing, food delivery and e-commerce segments and gaining clients such as Addison Lee and Runtastic. The Company was also awarded the Europe-focused campaigns of a number of US-based Tier 1 businesses. In addition, Taptica worked to increase its engagement with the leading agencies in the UK.

In addition to gaining offices in Japan and the UK, Taptica expanded its global footprint by securing representatives in India, Indonesia, Russia and Germany. This represents significant progress towards executing its previously-stated strategy of establishing a presence in ten key hubs worldwide of Russia, China, Germany, San Francisco, New York, Korea, Japan, India, South America and the UK.

In the US, which is Taptica's largest single geography by revenue, growth was driven by the contribution from Tremor Video DSP as well as gaining 143 new advertiser customers. For Taptica's performance-marketing business, the majority of US revenue was generated from the gaming segment followed by retail and entertainment.

Taptica continued to enhance its offering through R&D into database and machine learning to further improve its ability to leverage data, as well as through the continual development of user data to enable ever-more accurate user targeting.

### *Acquisition of Tremor Video DSP*

Taptica acquired Tremor Video's demand-side platform – a patented auto-optimisation solution for buying effective, programmatic cross-screen video brand advertising – thereby significantly enhancing the Company's offering and US presence. Since the acquisition, Taptica has been working closely with the Tremor Video DSP team and was able to complete the integration ahead of schedule. The Company installed new management

alongside the existing team, set targets and budgets, and established cost control measures. Taptica also finalised the strategic plan and vision for Tremor Video DSP to be implemented over the next three years. During the period, the unit began to benefit from access to Taptica's global presence and database, which accelerated its growth. As a result, Tremor Video DSP performed better than anticipated, including achieving profitability during 2017 rather than in 2018 as initially expected.

Taptica commenced leveraging Tremor Video's established brand awareness in US markets, as well as their excellent client base, introducing its global business and beginning to cross-sell to multiply growth opportunities with Tier 1 customers. This represents Taptica's entry into the brand advertising market where the aim is to use adverts to build a connection between a brand (the advertiser) and the user over time compared with Taptica's performance-based marketing that focuses on achieving a particular action such as click-through or app download. By targeting both types of marketing Taptica will be covering the whole advertising ecosystem and is also working on the synergies that will enhance the business as a whole. It will also enable further global expansion when the Company introduces the Tremor Video DSP brand video solution to geographies outside of the US. In addition, the purchase and successful integration of Tremor Video DSP has established the infrastructure to facilitate the Company in acquiring further businesses.

### Financial Review

Revenues for the twelve months ended 31 December 2017 increased by 68% to \$210.9 million compared with \$125.9 million for FY 2016.

Gross profit increased by 75% to \$80.6 million (2016: \$46.0 million), primarily representing the growth in overall revenue but also an improvement in gross margin to 38.2% (2016: 36.5%). Cost of sales, which consists primarily of traffic acquisition costs that are directly attributable to revenue generated by the Company and based on the revenue share arrangements with audience and content partners, decreased slightly as a proportion of revenue compared with the prior year due to increased technology efficiency gains resulting from improved use of the big data collected.

Operating costs increased primarily due to the addition of costs from the acquisitions made during the year, with a six-month contribution from Adinnovation and five-month contribution from Tremor Video DSP. In particular, Tremor Video DSP made a significant contribution to the increase in R&D expenses to \$17.0 million (2016: \$6.1 million) as it is a business that sustains a high level of R&D, while the Company also invested in R&D to support the growing scale of its technology platform and expansion in its offering. In addition to the contribution from the acquisitions, the Company also increased its investment in sales & marketing to enhance brand recognition, expand the global customer base and invest in the expansion of global offices. Similarly, general & administrative expenses increased due to investment into growing the global operations and acquisition costs.

Operating profit for the year was \$17.6 million (2016: \$19.7 million), with the reduction being due to the amortisation of acquired intangibles being depreciated for the acquisition. Excluding amortisation of purchased intangibles and business combination related expenses, operating profit for 2017 was \$30.6 million (2016: \$22.9 million).

Adjusted EBITDA for full year 2017 was \$34.2 million compared with \$25.7 million for 2016, which is comprised as follows:

	2017 \$'m	2016 \$'m
Operating profit	17.6	19.7
Depreciation & Amortisation	13.5	5.1
Share-based payments	0.9	0.5
Acquisition-related costs	2.2	0.4
<b>Adjusted EBITDA</b>	<b>34.2</b>	<b>25.7</b>

The Company continued to be cash generative with net cash provided by operating activities of \$30.8 million (2016: \$20.3 million).

As at 31 December 2017, cash and bank deposits were \$27.0 million (30 June 2017: \$32.6 million) after making acquisition payments of \$53.0 million (net of cash acquired) and dividend payments of \$2.6 million, satisfied from the Company's own cash resources and a \$30.0 million loan facility from HSBC. As at 23 March 2018, the Company had cash and bank deposits of over \$45.0 million after having raised \$30.0 million in equity in January 2018 and repaying \$15.0 million of the HSBC loan facility and approximately \$6.0 million in tax expenses.

### **Dividend**

The Company maintains its policy of distributing 25% of net profits in dividend payments. As such, the Board has resolved to declare a final dividend of \$0.054 per share, with an ex dividend date of 19 April 2018, a record date of 20 April 2018 and a payment date of 19 June 2018. This compares with a final dividend for 2016 of \$0.0432 and total dividend for 2016, including the Special Dividend of 2016, of \$0.1011.

### **Outlook**

The Company's stated aim is to build a business that is truly global in scale with a presence in the ten key hubs worldwide over the next three years. In 2018, Taptica is on track to build on the successes achieved in 2017 as it continues to make significant progress with an enhanced offering to Tier 1 advertisers supported by strong industry trends as use of apps by consumers and accessing the internet on smartphones show no sign of abating.

The Company is continuing to strengthen its position with sustained investment in R&D and sales & marketing, particularly in new geographies, as well as having bolstered the management team to support further growth.

The sales momentum of 2017 has been sustained into 2018 with Taptica expanding its Tier 1 client base as well as increasing its performance advertising business with its existing household-name clients. The Company's newly established international offices, primarily in the Asia-Pacific region, are continuing to make a growing contribution to revenues.

The successful integration of Tremor Video's DSP has diversified its revenue streams into brand advertising, which continues to grow. It has also established the infrastructure to facilitate the Company in acquiring further businesses to expand Taptica's geographic footprint, or provide technology and database enrichment.

The Company raised \$30 million of equity in January 2018 in order to pay down debt and provide extra fire power for prospective acquisitions. The Company remains in constructive conversations with a number of acquisition targets and the Board hopes to update the market further in the coming months.

The Company notes the recent press coverage on Facebook and confirms that this does not affect its business model.

As a result, the Board is confident of delivering significant year-on-year growth in line with market expectations. Looking further ahead, the Board believes that it has established the foundations to achieve sustained expansion and remains excited about the future prospects.

## Consolidated Statements of Financial Position as at 31 December

	Note	2017 USD thousands	2016 USD thousands
<b>Assets</b>			
Cash and cash equivalents	9	26,985	21,471
Trade receivables, net	7	78,554	27,443
Other receivables	7	3,831	1,890
<b>Total current assets</b>		<b>109,370</b>	50,804
Fixed assets, net	5	2,141	433
Intangible assets, net	6	61,560	33,046
Deferred tax assets	4	2,329	301
<b>Total non-current assets</b>		<b>66,030</b>	33,780
<b>Total assets</b>		<b>175,400</b>	84,584
<b>Liabilities</b>			
Credit and current maturities of loans		5,930	-
Trade payables	8	46,232	22,501
Other payables	8	22,053	9,443
<b>Total current liabilities</b>		<b>74,215</b>	31,944
Employee benefits		976	176
Long-term loans	16B(2)	25,085	-
Deferred tax liabilities	4	1,587	1,740
Liability for put option on non-controlling interests	16B(1)	8,619	-
<b>Total non-current liabilities</b>		<b>36,267</b>	1,916
<b>Total liabilities</b>		<b>110,482</b>	33,860
<b>Equity</b>			
Share capital	11	180	175
Share premium		32,886	29,759
Capital reserves		1,276	1,238
Retained earnings		30,576	19,552
<b>Total equity</b>		<b>64,918</b>	50,724
<b>Total liabilities and equity</b>		<b>175,400</b>	84,584

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

## Consolidated Statements of Comprehensive Income for the Year Ended 31 December

	Note	2017 USD thousands	2016 USD thousands
Revenues		<b>210,925</b>	125,861
Cost of sales		<b>130,350</b>	79,880
<b>Gross profit</b>		<b>80,575</b>	45,981
Research and development expenses		<b>16,995</b>	6,127
Selling and marketing expenses		<b>31,460</b>	14,202
General and administrative expenses	10	<b>14,493</b>	5,919
		<b>62,948</b>	26,248
Profit from operations		<b>17,627</b>	19,733
Profit from operations before amortization of purchased intangibles and business combination related expenses*		<b>30,609</b>	22,910
Financing income		<b>257</b>	355
Financing expenses		<b>(564)</b>	(504)
<b>Financing expenses, net</b>		<b>(307)</b>	(149)
<b>Profit before taxes on income</b>		<b>17,320</b>	19,584
Taxes on income	4	<b>(3,561)</b>	(3,115)
<b>Profit for the year</b>		<b>13,759</b>	16,469
Profit for the year before amortization of purchased intangibles and business combination related expenses (net of tax)**		<b>25,015</b>	19,042
<b>Other comprehensive income items:</b>			
Foreign currency translation differences for foreign operation		<b>(1)</b>	-
<b>Total other comprehensive income for the year</b>		<b>(1)</b>	-
<b>Total comprehensive income for the year</b>		<b>13,758</b>	16,469
<b>Earnings per share</b>			
Basic earnings per share (in USD)	12	<b>0.2249</b>	0.2627
Basic earnings per share (in USD) before amortization of purchased Intangibles and business combination related expenses (net of tax)**		<b>0.4088</b>	0.3038
Diluted earnings per share (in USD)	12	<b>0.2161</b>	0.2592
Diluted earnings per share (in USD) before amortization of purchased Intangibles and business combination related expenses (net of tax)**	12	<b>0.3929</b>	0.2997

\* Amounting to USD 12,982 thousand (2016: USD 3,177 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses.

\*\* Amounting to USD 11,256 thousand (2016: USD 2,573 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses.

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

## Consolidated Statements of Changes in Shareholders' Equity for the Year Ended 31 December

	Share capital	Share premium	Capital reserves**	Retained Earnings	Total
	USD thousands				
<b>Balance as at 1 January 2016</b>	190	35,566	2,450	7,073	45,279
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	16,469	16,469
Total comprehensive income for the year	-	-	-	16,469	16,469
<b>Transactions with owners, recognized directly in equity</b>					
Business combination	-	(344)	(1,656)	-	(2,000)
Own shares acquired	(15)	(5,505)	-	-	(5,520)
Share based payments	-	27	453	-	480
Exercise of share options	*	15	(9)	-	6
Dividends to owners	-	-	-	(3,990)	(3,990)
<b>Balance as at 31 December 2016</b>	<b>175</b>	<b>29,759</b>	<b>1,238</b>	<b>19,552</b>	<b>50,724</b>
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	13,759	13,759
Other comprehensive income	-	-	(1)	-	(1)
Total comprehensive income for the year	-	-	(1)	13,759	13,758
<b>Transactions with owners, recognized directly in equity</b>					
Revaluation of liability for put option on non- controlling interests	-	-	-	(123)	(123)
Share based payments	-	24	860	-	884
Exercise of share options	5	3,103	(821)	-	2,287
Dividends to owners	-	-	-	(2,612)	(2,612)
<b>Balance as at 31 December 2017</b>	<b>180</b>	<b>32,886</b>	<b>1,276</b>	<b>30,576</b>	<b>64,918</b>

\* Less than USD 1 thousand.

\*\* Includes reserves for share-based payments and other comprehensive income.

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

## Consolidated Statements of Cash Flows for the Year Ended 31 December

	2017	2016
	<u>USD thousands</u>	<u>USD thousands</u>
<b>Cash flows from operating activities</b>		
Profit for the year	13,759	16,469
Adjustments for:		
Depreciation and amortization	13,499	5,098
Net financing expense	349	118
Loss on sale of fixed assets	-	9
Share-based payment	884	480
Income tax expense	3,561	3,115
Change in trade and other receivables	2,745	(9,244)
Change in trade and other payables	647	4,004
Change in employee benefits	533	183
Income taxes received	83	748
Income taxes paid	(5,094)	(790)
Interest received	58	104
Interest paid	(267)	(9)
<b>Net cash provided by operating activities</b>	<u>30,757</u>	<u>20,285</u>
<b>Cash flows from investing activities</b>		
Increase in pledged deposits	(72)	(28)
Acquisition of property, plant and equipment	(233)	(124)
Acquisition and capitalization of intangible assets	(1,471)	(1,332)
Proceeds from sale of property, plant and equipment	-	4
Repayment of short-term loans	-	527
Acquisition of subsidiaries, net of cash acquired	(53,010)	(5,000)
Decrease in bank deposits, net	-	8,500
<b>Net cash provided by (used in) investing activities</b>	<u>(54,786)</u>	<u>2,547</u>
<b>Cash flows from financing activities</b>		
Loan received from shareholders	10,000	-
Repayment of loan from shareholders	(10,000)	-
Repayment of loans	(174)	-
Buy back of shares	-	(7,520)
Proceeds from exercise of share options	2,287	6
Loans received from bank	30,000	-
Dividends paid	(2,612)	(3,990)
<b>Net cash used in financing activities</b>	<u>29,501</u>	<u>(11,504)</u>
<b>Net increase in cash and cash equivalents</b>	5,472	11,328
Cash and cash equivalents as at the beginning of the year	21,471	10,173
Effect of exchange rate fluctuations on cash and cash equivalents	42	(30)
<b>Cash and cash equivalents as at the end of the year</b>	<u>26,985</u>	<u>21,471</u>

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

## Note 1 - General

### A. Reporting entity

Taptica International Ltd. (the “Company” or “Taptica International”) formerly named Marimedia Ltd. was incorporated in Israel under the laws of the state of Israel on 20 March 2007, listed on AIM Market of the London Stock Exchange. The address of the registered office is 121 Hahashmonaim Street Tel-Aviv, Israel.

Taptica International (AIM: TAP) is a global end-to-end mobile advertising platform that helps the world's top brands reach their most valuable users with the widest range of traffic sources available today, including social. Taptica International's proprietary technology leverages big data, and combined with state-of-the-art machine learning, enables quality media targeting at scale. Taptica International works with leading brands and companies in a variety of domains, all over the world. The Company is headquartered in Tel Aviv with offices in San Francisco, New York, Beijing, Seoul, London, Tokyo, Jakarta, Berlin, Saint Petersburg and New Delhi.

On 6 June 2017, the Israeli tax authority was approved the restructuring whereby Taptica Social Ltd. (hereinafter-“Taptica Social”, fully owned subsidiary, Israeli-based company) will be merged with and into Taptica Ltd. (hereinafter-“Taptica”, fully owned subsidiary, Israeli-based company) in such a manner that Taptica Social will transfer to Taptica all its assets and liabilities for no consideration and thereafter will be liquidated. The effective merge date was determined as 31 December 2016.

On 17 July 2017, Taptica Japan (fully owned subsidiary) purchased 57% of Adinnovation Inc. (hereinafter - “ADI”) share capital for a total consideration of up to USD 5.7 million. See also Note 16B(1).

On 7 August 2017, Taptica entered into an assets purchase agreement (APA) with US-based company Tremor Video Inc.'s (hereinafter - “Tremor”) to purchase their demand-side advertising platform for a total consideration of USD 50 million with a positive net working capital balance of USD 22.5 million. See also Note 16B(2).

### B. Definitions

#### In these financial statements –

- (1) The Company – Taptica International Ltd. (former name: Marimedia Ltd.)
- (2) The Group – Taptica International Ltd. and its subsidiaries.
- (3) Subsidiaries – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.
- (4) Related party – As defined by IAS 24, “Related Party Disclosures”.

## **Note 2 - Basis of Preparation**

### **A. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Company's Board of Directors on 25 March, 2018.

### **B. Functional and presentation currency**

These consolidated financial statements are presented in USD, which is the Company's functional currency, and have been rounded to the nearest thousands, except when otherwise indicated. The USD is the currency that represents the principal economic environment in which the Company operates.

### **C. Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis except for the following assets and liabilities:

- Deferred tax assets and liabilities
- Contingent consideration commitment
- Put option to non-controlling interests

For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

### **D. Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Group's financial statements requires management of the Group to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Group prepares estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant judgments (other than those involving estimates) made by the management while implementing Group accounting policies and which have the most significant effect on the amounts recognized in the financial statements is included in Note 6, on intangible assets, with respect to the accounting of software development, and Note 16, on subsidiaries, with respect to business combination.

## **Note 2 - Basis of Preparation (cont'd)**

### **E. Determination of fair value**

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- 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 (unobservable inputs).

Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 13, on share-based payments;
- Note 14, on financial instruments; and
- Note 16, on subsidiaries (regarding business combinations).

## **Note 3 - Significant Accounting Policies**

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### **A. Basis of consolidation**

#### **(1) Business combinations**

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Company. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss, whereas contingent consideration classified as an equity instrument is not remeasured.

Costs associated with the acquisitions that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees are expensed in the period the services are received.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **A. Basis of consolidation (cont'd)**

##### **(2) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commenced, until the date that control is lost.

##### **(3) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### **(4) Issuance of put option to non-controlling interests**

A put option issued by the Company to non-controlling interests that is settled in cash is recognized as a liability at the present value of the exercise price under the anticipated acquisition method. In subsequent periods, the Group elected to account for the changes in the value of the liability in respect of put options in the Equity (see also note 16B(1)).

Accordingly, the Group's share of a subsidiary's profits includes the share of the non-controlling interests to which the Group issued a put option.

#### **B. Foreign currency**

##### **(1) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated in to the functional currency at the exchange rate on that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate as of the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

## Note 3 - Significant Accounting Policies (cont'd)

### B. Foreign currency (cont'd)

#### (2) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and are presented in equity in the capital reserve.

### C. Financial instruments

#### (1) Non-derivative financial assets

##### Initial recognition of financial assets

The Group initially recognizes loans and receivables on the date that they are created. All other financial assets acquired, are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments, trade and other receivables and cash and cash equivalents.

##### Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from an asset expire, or the Group transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

Ordinary course of business sales of financial assets are recognized on the trade date, meaning on the date the Group undertook to sell an asset.

##### Classification of financial assets into categories and the accounting for each category

The Group classifies its financial assets according to the following categories:

##### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss when it is held for trading purposes.

##### *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses. Receivables comprise cash and cash equivalents, trade and other receivables.

Cash and cash equivalents include cash balances available for immediate use and demand deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **C. Financial instruments (cont'd)**

##### **(2) Non-derivative financial liabilities**

Non-derivative financial liabilities include trade and other payables.

##### Initial recognition of financial liabilities

The Group initially recognizes all financial liabilities on the trade date on which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value minus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

##### Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

##### Offset of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

##### **(3) Share capital**

###### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity, net of any tax effects.

###### Treasury shares

When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs is recognized as a deduction from share premium.

### Note 3 - Significant Accounting Policies (cont'd)

#### D. Fixed Assets

Fixed assets are measured at cost less accumulated depreciation. Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its residual value (assumed to be nil), using the straight line method, over its expected useful life as follows:

	<u>Years</u>
Computers	3
Office furniture and equipment	6-17
Leasehold improvements	The shorter of the lease term and the useful life

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

#### E. Intangible assets

##### (1) Software development

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group are recognized as intangible assets when all the criteria in IAS 38 are met.

Development costs are capitalized only when it is probable that future economic benefit will result from the project and the following criteria are met:

- the technical feasibility of the product has been ascertained;
- adequate technical, financial and other resources are available to complete and sell or use the intangible asset;
- the Group can demonstrate how the intangible asset will generate future economic benefits and the ability to use or sell the intangible asset can be demonstrated;
- it is the intention of management to complete the intangible asset and use it or sell it; and
- the development costs can be measured reliably.

In subsequent periods, these costs are amortized over the useful economic life of the asset.

Where these criteria are not met development costs are charged to the statement of comprehensive income as incurred.

The estimated useful lives of developed software is three years.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **E. Intangible assets (cont'd)**

##### **(2) Acquired software**

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3-5 years) using the straight line method. Costs associated with maintaining software programs are recognized as an expense as incurred.

##### **(3) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information on measurement of goodwill at initial recognition, see Note 3A(1).

In subsequent periods goodwill is measured at cost less accumulated impairment losses. The Group has identified its entire operation as a single cash generating unit (CGU). As of 31 December 2017 and 2016, the CGU's recoverable amount was based on the fair value of the Company's quoted share price (level 1). According to management assessment, no impairment in respect to goodwill has been recorded.

##### **(4) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

##### **(5) Amortization**

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its accumulated residual value.

Internally generated intangible assets, such as software development costs, are not systematically amortized as long as they are not available for use, i.e. they are not yet on site or in working condition for their intended use. Goodwill is not systematically amortized as well, but is tested for impairment at least once a year.

The Group examines the amortization methods, useful life and accumulated residual values of its intangible assets at least once a year (usually at the end of each reporting period) in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in each asset, such as development costs, are tested for impairment at least once a year until such date as they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- |                                     |             |
|-------------------------------------|-------------|
| • Trademarks                        | 1.4-5 years |
| • Software (developed and acquired) | 3-5 years   |
| • Customer relationships            | 3-5 years   |
| • Technology                        | 4.4-5 years |
| • Distribution channel              | 3 years     |

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **E. Intangible assets (cont'd)**

##### **(5) Amortization (cont'd)**

In 2017 the Group examined the useful life of intangible assets created in a business combination and as a result changed the estimated economic life of some assets from 5 years to 3 years. The effect of the aforesaid change on amortization expenses for the year ended 31 December, 2017 is USD 437 thousands.

#### **F. Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Group considers evidence of trade receivables and other receivables at a general and specific asset level.

Losses are recognized in profit or loss and reflected in a provision for loss against the balance of the receivable.

#### **G. Impairment of non-financial assets**

Non-financial assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that were subject to impairment are reviewed for possible reversal of the impairment recognized in respect thereof at each statement of financial position date.

In 2017 the Company accelerated amortization of Intangible assets that were created in a business combination and capitalized development costs. The write-off amounted to USD 5,493 thousand for the year ended 31 December, 2017.

#### **H. Employee benefits**

##### **(1) Post-employment benefits**

The Group's main post-employment benefit plan is under section 14 to the Severance Pay Law ("Section 14"), which is accounted for as a defined contribution plan. In addition, for certain employees, the Group has an additional immaterial plan that is accounted for as a defined benefit plan. These plans are usually financed by deposits with insurance companies or with funds managed by a trustee.

##### **(a) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of comprehensive income in the periods during which related services are rendered by employees.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **H. Employee benefits (cont'd)**

##### **(1) Post-employment benefits (cont'd)**

###### **(a) Defined contribution plans (cont'd)**

According to Section 14 the payment of monthly deposits by a company into recognized severance and pension funds or insurance policies releases it from any additional severance obligation to the employees that have entered into agreements with the company pursuant to such Section 14. The Company has entered into agreements with a majority of its employees in order to implement Section 14. Therefore, the payment of monthly deposits by the Company into recognized severance and pension funds or insurance policies releases it from any additional severance obligation to those employees that have entered into such agreements and therefore the Company incurs no additional liability with respect to such employees.

###### **(b) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

##### **(2) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

##### **(3) Share-based payment transactions**

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense with a corresponding increase in equity, over the period that an employee becomes unconditionally entitled to an award. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service vesting conditions, is adjusted to reflect the number of awards that are expected to vest.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **I. Revenue recognition**

The Group earns its revenue from providing user acquisition services by using technological tools and developments. The Company's business is based on optimizing real time trading of digital advertising between buyers and sellers.

The revenue is comprised of different pricing schemes such as Cost per Mil Impression (CPM), performance based metrics that include Cost per Click (CPC) and Cost per Action (CPA) options.

Revenue from advertising services is recognized by multiplying an agreed amount per Mil Impression/click/ action with the volumes of these units delivered.

The Group acts as the principle in these arrangements and reports revenue earned and costs incurred on a gross basis.

#### **J. Classification of expenses**

##### **Cost of revenues**

Cost of revenues consists primarily of video advertising costs, traffic acquisition costs and research cost, that are directly attributable to revenue generated by the Company.

##### **Research and development**

Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of new and existing products and services and amortization of certain intangible assets (see also Note 6). Where required, development expenditures are capitalized in accordance with the Company's standard internal capitalized development policy in accordance with IAS 38 (also see Note 3E). All research costs are expensed when incurred.

##### **Selling and marketing**

Selling and marketing expenses consist primarily of compensation and related costs for personnel engaged in customer service, sales, and sales support functions, as well as advertising and promotional expenditures and amortization of certain intangible assets (see also Note 6).

##### **General and administrative**

General and administrative expenses consist primarily of compensation and related costs for personnel, and include costs related to the Company's facilities, finance, human resources, information technology, legal organizations and fees for professional services. Professional services are principally comprised of outside legal, and information technology consulting and outsourcing services that are not directly related to other operational expenses.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **K. Financing income and expenses**

Financing income mainly comprises foreign currency gains and interest income.

Financing expenses comprises of exchange rate differences, interest and bank fees, interest on loans and other expenses.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

#### **L. Income tax expense**

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive income except to the extent that they relate to a business combination.

##### *Current taxes*

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

##### *Deferred taxes*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- The initial recognition of goodwill; and
- Differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing taxable dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

##### *Offset of deferred tax assets and liabilities*

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **M. Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which mainly comprise of share options granted to employees and certain equity instruments resulting from business combination transactions.

#### **N. Dividends**

Dividend distribution to the Group's owners is recognized as a liability in the Group's consolidated statement of financial position on the date on which the dividends are approved by the Group's Board of Directors.

#### **O. Leases**

Finance lease is recognized when the Company assumes substantially all the risks and benefits of ownership and classified as finance leases.

Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating lease, and the leased assets are not recognized on the Company's statement of financial position. Payments made under operating leases, other than conditional lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under operating leases are recognized in profit or loss as incurred.

#### **P. New standards and interpretations not yet adopted**

##### **IFRS 9 (2014), Financial Instruments**

IFRS 9 (2014) is a final version of the standard, and includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets.

IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018 with early adoption being permitted. It will be applied retrospectively with some exemptions.

The Group has examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

### **Note 3 - Significant Accounting Policies (cont'd)**

#### **P. New standards and interpretations not yet adopted (cont'd)**

##### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The Group has examined the effects of applying IFRS 15, and in its opinion the effect on the financial statements will be immaterial.

##### **IFRS 16, Leases**

The standard replaces International Accounting Standard 17 – Leases (IAS 17) and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present.

The standard will become effective for annual periods as of 1 January 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15 – Revenue from contracts with customers. The standard includes a number of alternatives for the implementation of transitional provisions, so that companies can choose one of the following alternatives at the implementation date: full retrospective implementation or implementation from the effective date while adjusting the balance of retained earnings at that date.

The Group has not yet commenced examining the effects of IFRS 16 on the financial statements.

### **Note 4 - Income Tax**

#### **A. Tax under various laws**

The Company and its subsidiaries are assessed for income tax purposes on a separate basis. Each of the subsidiaries is subject to the tax rules prevailing in the country of incorporation.

#### **B. Details regarding the tax environment of the Israeli companies**

##### **(1) Corporate tax rate**

(a) Presented hereunder are the tax rates relevant to the group in the years 2016-2017:

2016 – 25%

2017 – 24%

On 4 January 2016 the Israeli Parliament passed the Law for Amendment of the Israeli Tax Ordinance (Amendment 216), by which, the corporate income tax rate would be reduced by 1.5% to 25% as of 2016 and thereafter.

## **Note 4 - Income Tax (cont'd)**

### **B. Details regarding the tax environment of the Israeli companies (cont'd)**

#### **(1) Corporate tax rate (cont'd)**

Furthermore, on 22 December 2016 the Israeli Parliament passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 (“The Economic Efficiency Law”), by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at 31 December 2017 were calculated according to the new tax rate specified in the Economic Efficiency Law, at the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

- (b) According to various amendments to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”), IFRS shall not apply when determining the taxable income for the 2007 through 2013 tax years even if IFRS was applied when preparing the financial statements.

#### **(2) Benefits under the Law for the Encouragement of Capital Investments**

##### Amendment to the Law for the Encouragement of Capital Investments – 1959

On 29 December 2010 the Israeli Parliament approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (the “Amendment”). The Amendment is effective from 1 January 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment.

A preferred enterprise track was introduced, which mainly provides a uniform and reduced tax rate for all the company’s income entitled to benefits, such as: in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which cancelled the planned tax reduction so that as from the 2014 tax year the tax rate on preferred income will be 9% for Development Area A and 16% for the rest of the country.

The Company and Taptica Social obtained a tax ruling (the “Ruling”) from the Israeli Tax Authorities (the “ITA”), effective for years 2012 – 2016 and 2013-2017, respectively, which determines that the Company and Taptica Social own an industrial enterprise as defined in the Law for the Encouragement of Capital Investments – 1959.

Based on the Ruling, income derived from the industrial enterprise, which is considered “Preferred Income”, should be eligible for tax benefits during the aforementioned period (Non A development area), subject to the limitations set forth in the Ruling. However, the Ruling has determined that income which is not considered part of the Company’s “Preferred Income” shall not be entitled to the “Preferred Income” tax benefits and will be subject to the standard Israeli corporate tax rate.

## Note 4 - Income Tax (cont'd)

### B. Details regarding the tax environment of the Israeli companies (cont'd)

#### (2) Benefits under the Law for the Encouragement of Capital Investments (cont'd)

In June 2016, Taptica appealed for a tax ruling, similar to those that have been obtained as stated above. The tax ruling was obtained on April 2017 and will be apply for the years 2016-2020

On 28 December 2016, Taptica Social together with Taptica appealed for a tax ruling for a restructuring, as described in Note 1A, whereby Taptica Social will be merged with and into Taptica in such a manner that Taptica Social will transfer to Taptica all its assets and liabilities for no consideration and thereafter will be liquidated. Accordingly, on 6 June 2017 the merger between the companies was approved by the Israeli Tax Authority and the effective merge date was determined as 31 December 2016. As a result of the merger, the ruling previously obtained by Taptica regarding the preferred income will require re-validation from the Israeli tax authority. In addition, as a part of the re-validation which is required, Taptica also intends to request an amendment to include the acquisition and absorption of Tremor's operation in the rulings mentioned above and request that the Law for the Encouragement of Capital Investments will apply to this purchased activity as well. The Company believes that its current tax position with that respect is probable of being obtained.

### C. Details regarding the tax environment of the non-Israeli companies

Non Israeli subsidiaries are taxed according to the tax laws in their countries of residence as reported in their statutory financial statement prepared under local accounting regulations.

### D. Composition of income tax expense

	Year ended 31 December	
	2017	2016
	USD thousands	USD thousands
<b>Current tax expense</b>		
Current year	6,372	4,172
Adjustments for prior years, net	-	-
	<u>6,372</u>	<u>4,172</u>
<b>Deferred tax expense (income)</b>		
Creation and reversal of temporary differences	(2,656)	(444)
Change in tax rate	(155)	(613)
	<u>(2,811)</u>	<u>(1,057)</u>
<b>Income tax expense</b>	<u>3,561</u>	<u>3,115</u>

## Note 4 - Income Tax (cont'd)

### E. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense:

	Year ended 31 December	
	2017	2016
	USD thousands	USD thousands
Profit before taxes on income	17,320	19,584
Primary tax rate of the Company	24%	25%
Tax calculated according to the Company's primary tax rate	4,157	4,896
Additional tax (tax saving) in respect of:		
Non-deductible expenses	246	242
Effect of reduced tax rate on preferred income according to the Law for the Encouragement of Capital Investments – 1959	(2,148)	(1,492)
Utilization of tax losses from prior years for which deferred taxes were not created	-	(6)
Effect on deferred taxes at a rate different from the primary tax rate	580	(506)
Foreign tax rate differential	788	161
Other differences	(62)	(180)
Income tax expenses	3,561	3,115

## Note 4 - Income Tax (cont'd)

### F. Deferred tax assets and liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	Intangible Assets	Carry-forward tax deductions and losses	Initial public offering costs	Other	Total
	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>
<b>Balance of deferred tax asset (liability) as at 1 January 2016</b>	(3,062)	208	158	200	(2,496)
Changes recognized in profit or loss	599	(162)	(146)	153	444
Effect of change in tax rate	700	(46)	(12)	(29)	613
<b>Balance of deferred tax asset (liability) as at 31 December 2016</b>	<u>(1,763)</u>	<u>-</u>	<u>-</u>	<u>324</u>	<u>(1,439)</u>
	Intangible Assets	Carry-forward tax deductions and losses	Initial public offering costs	Other	Total
	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>	<u>USD thousands</u>
<b>Balance of deferred tax asset (liability) as at 1 January 2017</b>	(1,763)	-	-	324	(1,439)
Changes recognized in profit or loss	2,202	(155)	-	609	2,656
Business combination	(1,186)	155	-	401	(630)
Effect of change in tax rate	168	-	-	(13)	155
<b>Balance of deferred tax asset (liability) as at 31 December 2017</b>	<u>(579)</u>	<u>-</u>	<u>-</u>	<u>1,321</u>	<u>742</u>

## Note 5 - Fixed Assets, net

	Computers	Office furniture and equipment	Leasehold improvements	Total
	USD thousands			
<b>Cost</b>				
Balance as at 1 January 2016	453	158	610	1,221
Additions	76	15	33	124
Disposals	(2)	(15)	-	(17)
Balance as at 31 December 2016	<u>527</u>	<u>158</u>	<u>643</u>	<u>1,328</u>
Additions	<b>108</b>	<b>25</b>	<b>100</b>	<b>233</b>
Business combinations (see Note 16)	<b>1,896</b>	<b>186</b>	<b>58</b>	<b>2,140</b>
Disposals	-	-	(2)	(2)
<b>Balance as at 31 December 2017</b>	<b><u>2,531</u></b>	<b><u>369</u></b>	<b><u>799</u></b>	<b><u>3,699</u></b>
<b>Depreciation</b>				
Balance as at 1 January 2016	322	24	361	707
Additions	99	34	59	192
Disposals	(1)	(3)	-	(4)
Balance as at 31 December 2016	<u>420</u>	<u>55</u>	<u>420</u>	<u>895</u>
Additions	<b>512</b>	<b>74</b>	<b>79</b>	<b>665</b>
Disposals	-	-	(2)	(2)
<b>Balance as at 31 December 2017</b>	<b><u>932</u></b>	<b><u>129</u></b>	<b><u>497</u></b>	<b><u>1,558</u></b>
<b>Carrying amounts</b>				
As at 1 January 2016	<u>131</u>	<u>134</u>	<u>249</u>	<u>514</u>
As at 31 December 2016	<u>107</u>	<u>103</u>	<u>223</u>	<u>433</u>
As at 31 December 2017	<b><u>1,599</u></b>	<b><u>240</u></b>	<b><u>302</u></b>	<b><u>2,141</u></b>

## Note 6 - Intangible Assets, net

	<u>Software</u>	<u>Trademarks</u>	<u>Customer relationships</u>	<u>Technology</u>	<u>Distribution channel</u>	<u>Residual Goodwill</u>	<u>Total</u>
	USD thousands						
<b>Cost</b>							
Balance as at 1 January 2016	3,934	5,007	900	10,473	1,044	19,600	40,958
Additions	1,332	-	-	-	-	-	1,332
Balance as at 31 December 2016	5,266	5,007	900	10,473	1,044	19,600	42,290
Additions Business combinations (see Note 16)	<b>1,471</b>	-	-	-	-	-	<b>1,471</b>
	<b>136</b>	<b>3,164</b>	<b>6,256</b>	<b>16,903</b>	-	<b>13,418</b>	<b>39,877</b>
Balance as at 31 December 2017	<b>6,873</b>	<b>8,171</b>	<b>7,156</b>	<b>27,376</b>	<b>1,044</b>	<b>33,018</b>	<b>83,638</b>
<b>Amortization</b>							
Balance as at 1 January 2016	1,274	964	171	1,859	70	-	4,338
Additions	1,729	1,001	186	1,782	208	-	4,906
Balance as at 31 December 2016	3,003	1,965	357	3,641	278	-	9,244
Additions	<b>2,057</b>	<b>2,786</b>	<b>864</b>	<b>6,593</b>	<b>534</b>	-	<b>12,834</b>
Balance as at 31 December 2017	<b>5,060</b>	<b>4,751</b>	<b>1,221</b>	<b>10,234</b>	<b>812</b>	-	<b>22,078</b>
<b>Carrying amounts</b>							
As at 1 January 2016	2,660	4,043	729	8,614	974	19,600	36,620
As at 31 December 2016	2,263	3,042	543	6,832	766	19,600	33,046
As at 31 December 2017	<b>1,813</b>	<b>3,420</b>	<b>5,935</b>	<b>17,142</b>	<b>232</b>	<b>33,018</b>	<b>61,560</b>

### Amortization

The amortization of technology and software is allocated to research and development expenses and amortization of trademarks, distribution channel and customer relationships is allocated to selling and marketing expenses.

With respect to examination performed over the useful life of intangible assets by the Group as of 31 December 2017, see Note 3E(5) and impairment of Intangible assets, see Note 3G.

## Note 6 - Intangible Assets, net (cont'd)

### B. Capitalized development costs

Development costs capitalized in the period amounted to USD 1,136 thousand (2016: USD 1,172 thousand) and were classified under software.

## Note 7 - Trade and Other Receivables

	31 December	
	2017	2016
	USD thousands	USD thousands
Trade receivables, net (1)	78,554	27,443
<u>Other receivables:</u>		
Prepaid expenses	1,044	391
Institutions	2,397	1,314
Related parties (see Note 15)	4	4
Pledged deposits	386	181
	<u>3,831</u>	<u>1,890</u>
	<u>82,385</u>	<u>29,333</u>

(1) Including trade receivables due from related parties in the amount of USD 198 thousand and USD 12 thousand, as at 31 December 2017 and 2016, respectively. (See also Note 15).

## Note 8 - Trade and Other Payables

	31 December	
	2017	2016
	USD thousands	USD thousands
Trade payables (1)	46,232	22,501
<u>Other payables:</u>		
Advances from customers	1,404	1,297
Wages and salaries	9,251	3,217
Provision for vacation	842	517
Institutions	8,143	4,071
Related parties (see Note 15)	164	17
Contingent consideration commitment (see Note 16B (1))	1,300	200
Others	949	124
	<u>22,053</u>	<u>9,443</u>
	<u>68,285</u>	<u>31,944</u>

(1) Including trade payables due to related parties in the amount of USD 74 thousand and USD 13 thousand, as at 31 December 2017 and 2016, respectively. (See also Note 15).

## Note 9 - Cash and Cash Equivalents

	31 December	
	2017	2016
	USD thousands	USD thousands
Cash	22,978	20,571
Bank deposits	4,007	900
Cash and cash equivalents	26,985	21,471

The Group's exposure to credit, and currency risks are disclosed in Note 14 on financial instruments.

## Note 10 - General and Administrative Expenses

	Year ended 31 December	
	2017	2016
	USD thousands	USD thousands
Payroll and related expenses	5,386	2,627
Rent and office maintenance	1,943	675
Professional expenses	1,302	1,044
Doubtful debts	1,745	589
Acquisition costs	2,202	-
Other expenses	1,915	984
	14,493	5,919

## Note 11 - Equity

### A. Share capital (in thousands of shares of NIS 0.01 par value)

	Ordinary shares	
	2017	2016
Issued and paid-in share capital as at 31 December	62,484	60,447
Authorized share capital	300,000	300,000

#### (1) Rights attached to share

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares rank equally with regard to the Company's residual assets.

## Note 11 - Equity (cont'd)

### A. Share capital (in thousands of shares of NIS 0.01 par value) (cont'd)

#### (2) Director share allotment

According to Director's employment commitment letter, the Company is committed to issue shares worth of GBP 6,250 each quarter in consideration of the director's services. On May 2016, the commitment to issue shares was terminated and the consideration was replaced to cash payments. In the year ended 31 December 2016, the Company issued 25,442 ordinary shares of a par value of NIS 0.01 based on the share price on the date of the issuance. On February 2017, the commitment to issue shares worth of GBP 6,250 each quarter in consideration for one director's services was renewed.

The total expenses recognized in the statement of Comprehensive Income in the year ended 31 December 2017 and 2016 with respect to the director share allotment amounted to USD 35 and USD 27 thousand, respectively.

#### (3) Own share acquisition

On 26 March 2016 the Company acquired 6 million Ordinary Shares of NIS 0.01 ("Ordinary Shares") at a price of GBP 0.65 per share for a total consideration of GBP 3,900 thousand (USD 5,520 thousand) from Cababie Holdings Limited and Dooi Holdings Limited (together the "Vendors"). The shares purchased represent approximately 8.76% of the total voting rights of the Company as of the acquisition date.

On 20 June 2016, the Board of the Company resolved to exercise its option to finalize the acquisition of Taptica Social in cash consideration, which includes purchasing 2,088,337 ordinary shares of the Company that had been issued to the shareholders of Taptica Social and held in escrow ("Escrow Shares"). The acquisition of the Escrow Shares took place on 30 June 2016 and the purchased shares were reclassified as treasury shares.

#### (4) Issuing new shares

On 22 January 2018, subsequent to the balance sheet date, the Company announced that it has completed the issuing of 4,850,000 new ordinary shares at a price of 450 pence per ordinary share for a total consideration of US\$30 million (US\$29.2 net of issuance costs). The issued shares represent approximately 7.7% of the Company's current issued ordinary share capital.

### B. Dividends

Details on dividends (in USD thousand):

	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December, 2016</b>
	<u>USD thousands</u>	<u>USD thousands</u>
Declared and paid	<u><b>2,612</b></u>	<u>3,990</u>

A dividend in the amount of USD 490 thousand (USD 0.00784 per ordinary share) that was declared in March 2016, was paid in June 2016.

A dividend in the amount of USD 3,500 thousand (USD 0.0579 per ordinary share) that was declared in August 2016, was paid in November 2016.

A dividend in the amount of USD 2,612 thousand (USD 0.0432 per ordinary shares) was declared in March 2017, was paid in June and July 2017.

## Note 12 - Earnings per Share

### Basic earnings per share

The calculation of basic earnings per share as at 31 December 2017 and 2016 was based on the profit for the year divided by a weighted average number of ordinary shares outstanding, calculated as follows:

#### Profit for the year

	Year ended 31 December	
	2017	2016
	USD thousands	
Profit for the year	<b>13,759</b>	16,469

#### Weighted average number of ordinary shares:

	Year ended 31 December	
	2017	2016
	Shares of NIS 1 0.01 par value	Shares of NIS 1 0.01 par value
Weighted average number of ordinary shares used to calculate basic earnings per share as at 31 December	<b>61,187,918</b>	62,682,253
<b>Basic earnings per share</b>	<b>0.2249</b>	0.2627
<b>Basic earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses</b>	<b>0.4088</b>	<b>0.3038</b>

### Diluted earnings per share

The calculation of diluted earnings per share as at 31 December 2017 and 2016 was based on profit for the year divided by a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

#### Weighted average number of ordinary shares (diluted):

	Year ended 31 December	
	2017	2016
	Shares of NIS 0.01 par value	Shares of NIS 0.01 par value
Weighted average number of ordinary shares used to calculate basic earnings per share	<b>61,187,918</b>	62,682,253
Effect of share options on issue	<b>2,472,347</b>	856,519
Weighted average number of ordinary shares used to calculate diluted earnings per share	<b>63,660,265</b>	63,538,772
<b>Diluted earnings per share</b>	<b>0.2161</b>	0.2592
<b>Diluted earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses</b>	<b>0.3929</b>	0.2997

## Note 13 - Share-Based Payment Arrangements

### (1) Expense recognized in the statement of comprehensive income is as follows:

	Year ended 31 December	
	2017	2016
	USD thousands	
Selling and marketing	427	303
Research and development	285	95
General and administrative	172	55
	<u>884</u>	<u>453</u>

### (2) Share-based compensation plan

The terms and conditions related to the grants of the share option programs are as follows:

- All the share options that were granted are non-marketable.
  - All options are to be settled by physical delivery of shares.
  - Vesting conditions are based on a service period of between 2-4 years.
- On December 4, 2017, the Company's shareholders adopted the Company's 2017 Equity Incentive Plan (the "2017 Plan") to provide for the grant of equity incentive awards to the executive officers and employees of Tremor Video DSP following the acquisition in August 2017, and other U.S.-based employees of the Taptica Group.

In accordance with the terms of the 2017 Plan, the 2017 Plan will be administered by the Board, or a committee of the Board that is delegated authority to act as the administrator. The administrator will have broad discretion, subject to certain limitations, to determine the persons entitled to receive awards, the terms and conditions on which awards are granted and the number of Ordinary Shares subject to each award granted.

Under the 2017 Plan, the Company may grant incentive stock options (ISOs that comply with U.S. tax requirements), nonstatutory stock options, restricted shares, restricted share units (RSUs), performance bonus awards, performance units and performance shared. The maximum number of Ordinary Shares of the Company that may be granted under the 2017 Plan is 7,700,000. As of December 31, 2017, no awards were granted or outstanding under the 2017 Plan.

### (3) Option grants during 2017 and 2016

Grant date*	Number of options (thousands)	Exercise Price
Options granted on 15 March 2016	160	GBP 0.8
Options granted on 31 May 2016	1,248	GBP 0.8
Options granted on 30 August 2016	350	GBP 1.2
Options granted on 15 March 2017	1,632	GBP 2.5
Options granted on 15 June 2017	1,147	GBP 2.9
Options granted on 5 November 2017	938	GBP 4.3
Options granted on 4 December 2017	361	GBP 0.0

\* With respect to option grants subsequent to the balance sheet date, see Note 18(3).

## Note 13 - Share-Based Payment Arrangements (cont'd)

(4) The number of share options is as follows:

	Weighted average exercise price		Number of options	
	2017	2016	2017	2016
	(USD)		(Thousands)	
Outstanding at 1 January	1.55	1.6	5,526	5,144
Forfeited during the year	2.45	1.36	(1,112)	(1,360)
Exercised during the year	1.11	0.33	(2,068)	(16)
Granted during the year	3.56	1.23	4,078	1,758
Outstanding at 31 December			6,424	5,526
Exercisable at 31 December			357	-

(5) Information on measurement of fair value of share-based payment plans

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate (based on government debentures).

The parameters used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

*The parameters used to calculate fair value:*

	2017	2016
Grant date fair value in USD	0.77-5.39	0.23-0.38
Share price (on grant date) (in GBP)	2.39-4.31	0.80-1.28
Exercise price (in GBP)	0-4.31	0.79-1.19
Expected volatility (weighted average)	42%	40%
Expected life (weighted average)	3.5-3.8	5
Expected dividends	0.77%-3.04%	4%-6%
Risk-free interest rate	1.6%-1.99%	1.18%-1.5%

## Note 14 - Financial Instruments

### A. Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents quantitative and qualitative information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

### B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables and investment securities.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was as follows:

	31 December	
	2017	2016
	USD thousands	USD thousands
Cash and cash equivalents (1)	26,985	21,471
Trade receivables, net (2)	78,554	27,443
Other receivables	390	185
	<b>105,929</b>	<b>49,099</b>

- (1) At 31 December 2017, USD 163 thousand are held in NIS, USD 350 thousand are held in GBP and USD 143 thousand are held in EUR, USD 237 thousand are held in CAD, USD 5,157 thousand are held in JPY, USD 9 thousand are held in SGD with the remainder held in USD. At 31 December 2016, USD 475 thousand are held in NIS, USD 160 thousand are held GBP, and USD 149 thousand are held in EUR, with the remainder held in USD.
- (2) At 31 December 2017, the Group included provision to doubtful debts in the amount of USD 2,369 thousand (31 December 2016: USD 655 thousand) in respect of collective impairment provision and specific debtors that their collectability is in doubt.

## **Note 14 - Financial Instruments (cont'd)**

### **C. Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As of December 31, 2017 and 2016, the Group's contractual obligation of financial liability is in respect of Finance lease, trade and other payables in the amount of USD 49,121 thousand and USD 22,842 thousand, respectively. The contractual maturity of this financial liability is less than one year and in its carrying amount.

In addition, as of December 31, 2017, the Company has a loan from bank which an amount of USD 5,454 thousand will be repaid in less than one year and an amount of USD 24,546 thousand will be repaid in later than one year.

The Company is also committed to comply with certain financial covenants as determined in the financing agreement.

In addition, in the framework of the acquisition of Adinnovation INC, as detailed hereunder in Note 16B(1), a mutual option was granted to the Company to acquire the remaining 43% of the shares. As of 31 December, 2017, the amount of the liability inherent in the exercise of the option is USD 8,619 thousand and can be exercise from the third year and for a period of six months.

### **D. Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### **Linkage and foreign currency risks**

##### *Currency risk*

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group, the US dollar (USD). The principal currencies in which these transactions are denominated are NIS, Euro, GBP, CAD, SGD and JPY.

At any point in time, the Group aims to match the amounts of its assets and liabilities in the same currency in order to hedge the exposure to changes in currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

## Note 14 - Financial Instruments (cont'd)

### E. Fair value

The Company's financial instruments consist mainly of cash and cash equivalents, bank deposits, trade and other receivables, trade and other payables and contingent consideration. The carrying amounts of these financial instruments, except for the contingent consideration, approximate their fair value because of the short maturity of these investments. The contingent consideration is classified as level 3 under IFRS 13. Such amounts have been recorded initially and subsequently at their fair value (see Note 16).

The table hereunder presents reconciliation from the beginning balance to the ending balance of contingent consideration carried at fair value level 3 of the fair value hierarchy.

	<b><u>Financial instruments level 3</u></b>
Balance as at December 31, 2015	4,772
Expenses recognized in profit and loss	428
Settlement of partial contingent consideration	<u>(5,000)</u>
Balance as at December 31, 2016	200
Recognition of contingent consideration (see also Note 16B(1))	<b>1,283</b>
Settlement of contingent consideration	<b>(200)</b>
Expenses recognized in profit and loss	<b>17</b>
Balance as at December 31, 2017	<b><u>1,300</u></b>

## Note 15 - Related Parties

### A. Compensation and benefits to key management personnel

Executive officers also participate in the Company's share option programs. For further information see Note 13 regarding share-based payments.

Compensation and benefits to key management personnel (including directors) that are employed by the Company and its subsidiaries:

	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>USD thousands</b>	<b>USD thousands</b>
Share-based payments	<b>153</b>	30
Other compensation and benefits	<b>3,866</b>	2,562
	<b>4,019</b>	2,592

### B. Transactions with related parties

Details of transactions with related and interested parties are presented below (all transactions are at market terms, unless otherwise indicated):

<b><u>Related party</u></b>	<b><u>Nature of transaction</u></b>	<b>Year ended 31 December</b>	
		<b>2017</b>	<b>2016</b>
		<b>Value of transactions</b>	
		<b>USD thousands</b>	
webisaba	Sale of media from the Company	-	17
	Purchase of media from the Company	(15)	(147)
Ehud Levy, Shareholder	Interest on loan (see Note 16B(2))	(34)	-

C. See also Notes 7 and 8 with respect to related parties transactions and Note 16B(2) with respect to a bridge loan from related party.

## Note 16 - Subsidiaries

### A. Details in respect of subsidiaries

Presented hereunder is a list of the Group's subsidiary:

<u>Name of company</u>	<u>Principal location of the Company's activity</u>	<u>The Group's ownership interest in the subsidiary for the year ended December 31</u>	
		<u>2017</u>	<u>2016</u>
Taptica LTD	Israel	<b>100%</b>	100%
Taptica INC	USA	<b>100%</b>	100%
Taptica Social LTD <sup>(1)</sup>	Israel	-	100%
SocialClicks INC <sup>(2)</sup>	USA	-	100%
Tremor Video DSP	USA	<b>100%</b>	-
Tremor Video PTE Ltd.	Singapore	<b>100%</b>	-
Adinnovation INC	Japan	<b>57%</b>	-
Taptica Japan	Japan	<b>100%</b>	-
Taptica UK	United Kingdom	<b>100%</b>	-
Taptica Korea	Korea	<b>100%</b>	-

(1) On 1 January 2017, Taptica Social Ltd merged with and into Taptica Ltd. See also Note 1(A).

(2) On 11 December 2016, the Company completed SocialClicks Inc liquidation.

### B. Acquisition of subsidiaries and business combinations

#### (1) Acquisition of Adinnovation INC

On 17 July 2017 (hereinafter – “the acquisition date”) the Company completed the acquisition of a majority shareholdings in Adinnovation Inc. (“ADI”) a leader in Japan’s mobile advertising industry through a wholly owned subsidiary.

In accordance with the terms of the acquisition agreement, the Company acquired 57% of the issued share capital of ADI for a total consideration of USD 5.7 million of which USD 4.4 million was paid immediately upon the acquisition date and the remainder USD 1.3 million will be paid after 12 months following the acquisition date subject to ADI meeting certain performance obligations.

In addition, the Company has a call option to purchase the remaining 43% of the issued share capital of ADI for a price of 8x net profit and for a period of six months commencing three years after closing. Thereafter, ADI has a put option for a period of six three months to sell at a price of 7x net profit. As a result of the aforesaid, the Company recognized the acquisition of full control (100%) over ADI and recorded liability inherent in exercise of the option according to its discounted value. The amount of the liability as at the acquisition date is estimated at USD 8,496 thousand and was estimated based on ADI's current business results and forecasts of ADI for the third year capitalized with annual discount rate of 2.9%. The Company elected to recognized changes in the value of the liability on every reporting date in the equity. As from the acquisition date until 31 December, 2017 the Company recorded a revaluation to increase the liability in the amount of USD 123 thousand.

The purchase price was allocated to the acquired tangible assets, intangible assets and liabilities on the basis of their fair value at the acquisition date. The fair value of the assets and liabilities is subject to a final allocation of the purchase price to the fair value of the assets and liabilities, which has not yet been completed at the date of approval of these financial statements. Presented hereunder are the assets and liabilities that were allocated to ADI at the acquisition date on a provisional basis:

## Note 16 - Subsidiaries (cont'd)

### B. Acquisition of subsidiaries (cont'd)

#### (1) Acquisition of Adinnovation INC (cont'd)

	<u>USD thousands</u>
<u>Current assets:</u>	
Cash and cash equivalents	3,127
Trade receivables	4,400
Other receivables	64
<u>Non-current assets:</u>	
Property, plant and equipment	17
Intangible assets(1)	12,242
<u>Current liabilities:</u>	
Other payables	(912)
Trade payables	(3,517)
<u>Non-current liabilities:</u>	
Other liabilities	(290)
Liability for put-option on non-controlling interests	(8,496)
Deferred tax liabilities, net	(944)
Contingent consideration	(1,283)
	<u>4,408</u>

(1) Comprised as follow:

	<u>Fair value as at 17 July, 2017</u>
Brand and domain name	1,224
Customer relations	2,182
Goodwill	8,703
Purchased Intangible assets	133
	<u>12,242</u>

The aggregate cash flow derived for the Group as a result of the ADI's acquisition in 2017:

	<u>USD thousands</u>
Cash and cash equivalents paid	4,408
Add- acquisition costs	353
Less- Cash and cash equivalents of the subsidiary	3,127
	<u>1,634</u>

## **Note 16 - Subsidiaries (cont'd)**

### **(2) Acquisition of Tremor Video's Demand side platform**

On 7 August 2017 (hereinafter – the Closing Date) the Company entered into an agreement to purchase from Tremor Video (the “Seller”) its demand-side platform (“DSP”). DSP is the Seller’s patented auto-optimization solution for buying effective, programmatic cross-screen video brand advertising. The total consideration for the transaction amounted to USD 50 million and the Company received a commitment for the transfer of working capital in the total amount of USD 22.5 million to be executed about 90 days after the date of closing the transaction.

As part of the acquisition, the Company acquired also 100% of the issued shares of Tremor Video PTE Ltd, a Singapore subsidiary of Tremor Video Inc.

In order to finance the transaction, the Company took a bridge loan, until execution of bank financing agreement, in the amount of USD 10 million from shareholder (related party) holding 10.8% of the Company through a company owned by it. The loan bears interest of 5% p.a., was received on the date of closing the transaction and was fully repaid on 29 August 2017. In 30 September 2017, the Company signed on financing agreement with HSBC for loan in the amount of \$30 million that will be repaid in 11 quarterly payments in the amount of USD 2.7 million as from 30 September 2018. The loan bears interest on the outstanding balance of principal at the rate of Libor plus 1.375% that is payable at the end of one, two or three month, selected by the borrower. In accordance with the terms of the financing agreement, the Company is obliged to comply with certain financial covenants. As of 31 December, 2017, the Company comply with the requirements.

With respect of repayment of the loan subsequent to the balance sheet date see also Note 18(2).

The purchase cost was allocated to the acquired tangible assets, intangible assets and liabilities on the basis of their fair value at the acquisition date. The fair value of the assets and liabilities is subject to a final allocation of the purchase price to the fair value of the assets and liabilities, which has not yet been completed at the date of approval of these financial statements. Presented hereunder are the assets and liabilities that were allocated to Tremor video's DSP at the acquisition date based on provisional amounts:

## Note 16 - Subsidiaries (cont'd)

### B. Acquisition of subsidiaries (cont'd)

#### (2) Acquisition of Tremor Video's Demand side platform (cont'd)

	<u>USD thousands</u>
<u>Current assets:</u>	
Cash and cash equivalents	476
Trade receivables	43,426
Other receivables	94
Prepaid expenses	3,256
<u>Non-current assets:</u>	
Property, plant and equipment	2,126
Intangible assets(1)	27,632
Deferred tax assets, net	314
<u>Current liabilities:</u>	
Other payables	(5,380)
Trade payables	(20,498)
<u>Non-current liabilities:</u>	
Other long-term liabilities	(1,446)
	<u>50,000</u>

(1) Comprised as follow:

	<u>Fair value as at 7</u> <u>August 2017</u>
Brand and domain name	1,940
Technology	16,903
Customer relations	4,074
Residual goodwill	4,715
	<u>27,632</u>

The aggregate cash flow derived for the Group as a result of the Tremor Video acquisition in 2017:

	<u>USD thousands</u>
Cash and cash equivalents paid	50,000
Add- acquisition costs	1,852
Less- Cash and cash equivalents of the subsidiaries	476
	<u>51,376</u>

## Note 17 - Operating Segments

The Group has a single reportable segment as a provider of marketing services.

### A. Entity level disclosures

#### Information on geographical segments

The Company is domiciled in Israel and it produces its income primarily in USA, Israel, China, Germany Korea, Japan, India and UK.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	Year ended 31 December	
	2017	2016
	<u>USD thousands</u>	<u>USD thousands</u>
<b>External revenues</b>		
America	<b>115,905</b>	56,902
Asia	<b>60,825</b>	22,784
Europe	<b>25,580</b>	35,697
Israel	<b>4,696</b>	5,868
Others	<b>3,919</b>	4,610
<b>Consolidated</b>	<b><u>210,925</u></b>	<u>125,861</u>

## Note 18 - Subsequent Events

1. With respect to issuing new shares, for a total consideration of USD 30 million, see Note 11A(4).
2. Subsequent to the balance sheet date, the Company repaid USD 15 million out of the loan balance described in Note 16B(2).
3. During 23 January 2018, the Company granted 2,888,000 options, 765,000 restricted share units and 300,000 performance share units from 2017 Equity Incentive plan as described in Note 13(2).