Taptica International Ltd.

Annual Report and Accounts 2018

For the year ended 31 December 2018

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Directors, Secretary & Advisers

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Non-Executive Director and Chairman

Ofer Israel Druker
Chief Executive Officer

Yaniv Carmi
Chief Financial Officer

Joanna Rachael Parnell
Independent Non-Executive Director

Neil Garth Jones
Senior Independent
Non-Executive Director

Ronnie Zehavi
Independent Non-Executive Director

Company Secretary

Yaniv Carmi

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Financial and Operational Highlights

Financial Highlights

- Earnings in line with management expectations and significantly ahead of guidance at the start of 2018
- Revenues up 31% to $276.9 million (2017: $210.9 million)
  - Business remained highly cash generative with a strong balance sheet
  - Sustained diversification of revenue streams with a focus on margin improvement
- Gross profit increased 38% to $111.4 million (2017: $80.6 million)
  - Increase in gross margin to 40.25% (2017: 38.2%) resulting from increased efficiencies enabling campaign optimisation
- Adjusted EBITDA* increased 29% to $44.1 million (2017: $34.2 million)
- Reported EPS of 32.81 cents (2017: 22.49 cents) and adjusted DPS (diluted earnings per share) 52.36 cents (2017: 40.44 cents)
- Net cash inflow from operating activities of $37.5 million (2017: $30.8 million)
- Net Cash as at 31 December 2018 of $54.4 million** (31 December 2017: net debt of $4.0 million)

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

** *Net cash is defined as cash and cash equivalents less short and long-term interest-bearing debt including capital and finance leases*

Operational Highlights

- Expanded global presence with extension of customer base
- Operating efficiencies achieved, in particular within Tremor Video DSP, resulting in improved margins and overall profitability
- Performance-based marketing (47% of total revenue):
  - Increased traction with existing household-name clients
  - Added blue-chip customers including Bytedance, Yandex and Shein
  - China, India and UK territories performed particularly well
- Brand advertising (53% of total revenue):
  - Significant improvements in Tremor Video DSP operating and media buying efficiencies post-acquisition
  - Added new data partnerships and optimized existing ones
  - Client wins include TJMaxx, Hertz and Chobani

Post-period End

- Taptica announced the completion of a recommended all-share merger with RhythmOne plc in April 2019, the combination of the two businesses is expected to create one of the leading digital advertising companies in the US
  - $15 million discretionary share buyback recommenced immediately post-completion of the merger
  - Ofer Druker, previously Executive Chairman of Tremor Video DSP, has been appointed CEO of the enlarged Group and executive director
- Taptica remains highly cash generative and the board is confident in the overall outlook for the Group

Strategic Report

Tim Weller
Chairman 29 April 2019

Chairman's Statement and Operational Review

We are delighted with the strategic progress that we have seen across the Group in 2018 and the sustained demand for Taptica's technologies from an increasingly diversified customer base. The Group performed well during the year, achieving an increase in revenues of 31% to $276.9 million (2017: $210.9 million) and Adjusted EBITDA* increasing 29% to $44.1 million (2017: $34.2 million). Adjusted EBITDA* was in-line with management expectations and significantly ahead of the guidance given at the start of 2018. In addition, we saw an increase in both gross profit and gross margin as a result of the increased efficiencies and the scale of media across the Group, enabling campaign optimisation throughout the business.

Taptica is an agile business, with a track record of monitoring industry shifts and successfully positioning the business by optimising its offering in order to take advantage of the transitions in the advertising space. Therefore, the Group remains very well-placed to capitalise on the current shift in digital advertising technologies to brand advertising and video.

The Company continues to implement its strategy to increase its penetration internationally and to add blue-chip clients. Specifically, progress has been made against the Group's top-level strategic priorities, which are to focus on:

- improving margins, with a focus on higher quality earnings;
- increasing operating efficiencies, in particular within Tremor Video DSP;
- developing and leveraging the Company's economies of scale; and
  continuing to execute on technology enhancements.

Post-period end we announced the completion of a recommended all-share merger of Taptica with RhythmOne plc in April 2019, which has the potential to be transformational for the Group. It is anticipated that the merger of these two businesses would create one of the leading digital advertising companies in the US, with the capabilities to compete with the world's leading digital advertising groups.

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

Our unique and agile proposition

Taptica is a leading player in the advertising technology industry and our agile approach enables us to consistently evolve in this fast-moving sector.
We currently have two core defined revenue streams:

- performance-based marketing activities ;and
- our brand advertising business (Tremor Video DSP).

Our performance-based marketing activities focus on our proprietary technology advertising platform which helps brands reach valuable users utilising a wide range of traffic sources. Tremor Video, which we acquired in 2017, is a programmatic video platform that enables advertisers to match campaigns to their audiences and deliver custom video experiences across multiple devices.

Taptica's unique proposition is underpinned by its abilities to:

- build unique strategic partnerships with exclusive data partners;
  expand its global presence and therefore meet local demand with global supply;
- develop its proprietary technology;
- provide analytical-based support and optimisation; and
- deliver exceptional customer service and performance.

We have established a position in the global advertising technology space which enables us to react quickly to the fast-changing habits of consumers and how they interact with brands and companies. We do this by locating and leveraging new sources of growth whilst continuing to deliver on the strong underlying fundamentals of our business, ultimately enabling us to build our market position and deliver value for stakeholders.

Data regulation

The appropriate use of data came into the spotlight in 2018, with the introduction by the EU of the General Data Protection Regulation ("GDPR"). The way the performance-based marketing division utilises sensitive personal data focuses on how a user interacts with the particular advertisement that is shown. We do not use any tools that remain in mobile devices – such as cookies – nor do we collect data that is outside the context of the advertisement. Taptica does not misuse data or collect or store sensitive personal data. In our Tremor Video division, we buy segmental data from reputable, regulatory-compliant third parties such as Nielsen, Oracle and IBM, as targeting particular audiences based on demographics is required by our customers in this division.

A growing market opportunity

Growth in the advertising technology industry shows no signs of abating and is constantly changing as consumer's habits and preferences continue to evolve. There is an evident shift from more traditional advertising methods as audiences who previously viewed content on desktop screens have shifted to viewing via mobile devices. Furthermore, the trend towards consumption of content on connected TV ("CTV") platforms and over-the-top media ("OTT") continues to accelerate rapidly.

With global video advertising spend expected to grow from $37.45 billion in 2018 to $70.66 billion in 2021[1], the opportunity for the Group to expand continues to increase, particularly, as this advertising spend has been triggered by the improving targeting abilities around CTV and OTT platform users. OTT content is streamed through the internet directly onto a device and CTV is one of the primary devices through which OTT content is consumed (alongside laptops, mobile devices, tablets or OTT TV boxes).

There are projected to be nearly 218 million OTT users and 204 million CTV users in the US by 2022 [2] with all major OTT providers (Amazon, Netflix, Hulu, YouTube) expected to grow their user bases through 2021. CTV devices (Smart TV, Roku, Chromecast, connected game consoles, etc.) are also expected to experience increases in usage through 2021.

The Group is well-placed to capitalise on this growth in OTT and CTV through Tremor, not only in mature markets such as the

United States, but also fast-growing international markets. This trend also underpins the recommended merger with RhythmOne, as it is anticipated that the enlarged group will gain significant reach into this fast-growing media segment.

Whilst it remains the case that both Facebook and Google carry significant influence across the sector, we believe that Taptica's increasing scale and reputation ensures its market position. As has been the case for a number of years, independent ad tech providers such as Taptica will continue to be the preferred choice of partner as we continue to tailor our offering for customers.

(1) Source: July 2018 Cowen and Company report "Cowen's Inaugural Midyear Ad Buyer Survey - Ahead Of The Curve Follow Up Series", via eMarketer
(2) Source: Marketer, July 2018

Growth strategy

We have a multi-pronged growth strategy with the central aim being to evolve within the industry in which we operate. Our core strategic objectives are to:

- continue to focus on operating efficiencies and generate high-quality earnings;
- capitalise on the shift to video advertising and the focus on the consumer within the industry through our Tremor Video division, and the fast-growing market trends of CTV and OTT in the US;
- everage our global presence and experience in order to target territories outside of the US with our video advertising offering;
- augment our technologies through the increased use of automation and data in order to heighten our user targeting abilities;
- build upon our performance marketing segment by leveraging our highly experienced team to increase demand from global marketing partners for our services; and
- further review select acquisition opportunities which either enhance our product stack within performance marketing or give us greater penetration into select territories.

Operational Review

2018 was a year of significant progress, with the Group delivering strong adjusted EBITDA growth and sustained cash generation.
This strategy to improve margins resulted in the Company achieving EBITDA of $44.1 million, representing growth of 29%.

Revenue ($'000s)	2018	2017	% change
Mobile Apps* (Performance based marketing)	123,929	131,544	- 5.8%
Legacy Display and video (Performance based marketing)	6,891	15,631	-55.9%
Branding*	146,052	63,750	+129.1%
Total	**276,872**	**210,925**	**+31.3%**

**The comparative period includes months prior to the acquisition of Tremor Video DSP and Adinnovation Inc*

Taptica continued to expand its Tier 1 client base in the year, adding blue-chip customers to both its performance marketing division and brand advertising segment, with increasing international presence and China, India and the UK performing particularly strongly during the year.

Performance-based marketing

Revenue generated by the performance-based marketing business decreased by 11% to $130.8 million in the year, a significant part of this decline was as a result of an anticipated reduction in legacy revenues in display and video.

The 5.8% decline in mobile apps revenue has been as a result of industry movements within the year that have decreased the level of online inventory supply available. The industry has seen the implementation of more stringent measures to combat fraudulent marketing activities, which has resulted in a reduction in the amount of overall traffic that is available for marketers. Therefore, in order to deliver scale, app developers and customers are having to pay a higher cost per user, which has had what we believe to be a short-term impact on revenues but, more recently the Group has seen signs of developers willing to increase their budgets to accommodate this new trend.

The division continued to increase its international presence through its operations in Asia Pacific. In Japan, Taptica operates through its majority-owned subsidiary Adinnovation Inc. who offer Taptica's product as an in-house marketing solution throughout Japan. Following its integration, significant strides have been made in developing Adinnovation as a business, with a new corporate structure implemented and an expansion of the partner sales team. In addition, Adinnovation benefits from the partnership with Taptica in the advertising agency business through the media buying within Taptica. The market in Japan continues to grow with the e-commerce subsegment opening-up additional opportunities for Taptica.

In China, the performance marketing business continues to perform well, with a focus on leveraging Taptica's relationships within the territory to help local Chinese companies grow globally. In particular, we have seen strong growth in the retail segment with multinational brands increasing their spend with Taptica.

Taptica continued to grow its presence in the UK, with the region performing well in the year, particularly within the sports betting segment. Taptica attracted some of the UK's biggest brands in the year, as a result of a partnership with one of the UK's leading marketing agencies. We continue to focus on strengthening our relationships with some of the UK's biggest agencies in order to build upon the positive momentum we have seen in 2018. We have seen a 234% growth in revenues from the UK between 2017 and 2018.

Following the expansion of our footprint in India, the Group continued to see further growth in the territory. Within the Indian and south-east Asian market, supported by our strong sales team, Taptica continued to leverage our partnerships with local agencies and marketers.

Taptica's performance business continues to innovate and augment its technology offering. In a continuous effort to ensure regulated, high quality media, the Company introduced its proprietary fraud prevention module, capable of detecting, and eliminating in real time, low quality, non-human, media behavior. Taptica continued to introduce unique buying optimization and

Strategic Report

automation tools in its Ad Operations group, which ensures campaigns are optimized in real time rather than the traditional daily optimization approach. Taptica finalized a major engineering scalability exercise by migrating its US East data center to an up-scale hosting facility, thus ensuring better performance and scalability, at a lower operational cost. In order to cater to a larger audience of advertisers, the Company extended its ability to integrate with third party attribution tools, and introduced several new attribution models such as server-to-server and view-through.

Brand advertising

The Tremor Video DSP ("TVDSP") business traded strongly in the year, generating revenues of $146.1 million. The division continued to perform well with management focusing on media buying efficiencies and improving net margins, which led to a material improvement in gross profit when compared to legacy DSP performance. The division added clients such as TJMaxx, the American department store chain, Hertz, the international car rental company, and Chobani, the top-selling Greek yogurt brand in the US, with the leisure, retail and auto segment verticals performing strongly.

Tremor has unique audience creating capabilities powered by an unparalleled ability to connect the big screen to the small screen, reaching consumers wherever and however they engage. This is achieved by partnering with a number of established and well-trusted data providers in order to compile unique data sets, thereby securing maximum return on investment across all chosen distribution channels. Tremor consolidates the data provided by its partners, including TV viewership patterns, geo-behavioural data, keyword targeting and social platform intelligence to precisely target consumers, ensuring the most relevant audiences are reached.

Tremor's demand services have gained a significant algorithmic upgrade by introducing new machine learning techniques, perfecting campaign delivery without human intervention. The core engine is now also capable of successfully delivering narrow targeted campaigns, providing the Company the ability to beat the competition where it fails to deliver. Staying on top of changes in the industry, Tremor has improved its geographic and device targeting precision, introduced cross-device targeting, sharpened its TV targeting abilities and continued to innovate its advanced creative platform. The Company continued to leverage the vast ecosystem of service providers to boost its offering, and in 2018 partnered with Grapeshot to enforce brand safety, with DrawBridge to introduce cross device targeting and with Adjuster to ensure realtime KPI matching.

Post period-end, Tremor Video DSP announced the expansion of its suite of CTV capabilities that featured its exclusive data partnerships. Through its platform, marketers are now able to engage CTV audiences with a granularity that was previously only offered on desktop or mobile. Tremor's comprehensive suite of CTV solutions includes seamless activation, holistic audience targeting, custom and advanced creatives, as well as audience measurement and attribution. The development of Tremor's offering in this segment is central to Tremor's ongoing strategy given the proliferation of CTV globally and ongoing R&D in both OTT and CTV.

Board changes

In December 2018, Taptica announced the appointment of Rivi Bloch, the Division Chief Executive Officer of the Taptica Performance Advertising, as Interim Chief Executive Officer following the resignation of Hagai Tai from his position as Chief Executive Officer and Director of the Company.

Post period end, Ofer Druker, previously Executive Chairman of Taptica's Tremor Video division, was appointed as Chief Executive Offer of Taptica and the enlarged group and executive director. Mr Druker has been instrumental in the successful integration of Tremor Video and Taptica since Tremor's acquisition. Ms Bloch is continuing as CEO of Taptica's Performance Division.

Successful all-share merger with RhythmOne

On 4 February 2019, Taptica announced it had reached an agreement with RhythmOne plc on the terms of a recommended offer to be made by Taptica to acquire the entire issued and to be issued ordinary share capital of RhythmOne. The offer was implemented by means of a court-sanctioned scheme of arrangement under Part 26 of the Companies act and this became effective on 1 April 2019.

The combination of the two businesses is expected to create one of the leading video digital advertising companies in the US, delivering significant economies of scale, a global blue-chip customer base and supply chains to compete with the industry leaders.

The Enlarged Group launched a $15 million discretionary share buy-back programme on 2 April 2019 to purchase shares in the market.

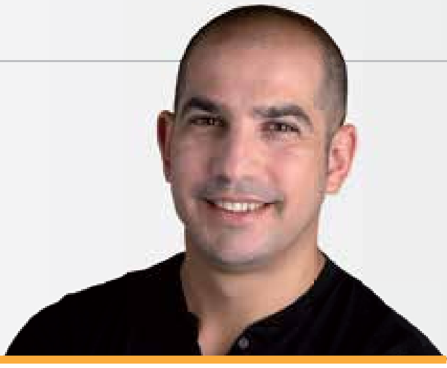
Outlook

While overall the Company has performed to plan in 2018, the post period end merger with RhythmOne plc has the potential to be a step-change for Taptica. The Board believes it will create a leading video advertising business with a strong US and international footprint, coupled with significant economies of scale across the supply chain and an end-to-end advertising technologies stack.

The outlook for the Group remains positive and as previously flagged in our March 2019 update, trading at the beginning of the current financial year has been mixed between the two divisions. The Board's expectations for Taptica's brand advertising platform, Tremor Video DSP, remains strong with management focused on delivering sustainable margin improvement in this segment. Taptica's performance-based advertising division has performed to plan at the outset of the current financial year however it has encountered headwinds across the supply chain affecting much of the industry and a few key customers have engaged later this year than in previous years. The Board expects that aside from creating one of the leading digital advertising companies in the US, the merger with RhythmOne will mitigate much of the market volatility within Taptica's performance-based marketing activities by providing additional access to quality supply, as well as to deliver a number of further synergies within both the performance and branding businesses.

Tim Weller
Non-executive Chairman
29 April 2019

Strategic Report



Yaniv Carmi
Chief Financial Officer 29 April 2019

Chief Financial Officer's Review

2018 was another strong financial year for Taptica, with improvements achieved across all key financial metrics. In addition, significant cost-savings efficiencies and synergistic benefits were generated following the integration of the acquisitions made in the prior year.

Revenues for the twelve months ended 31 December 2018 increased by 31% to $276.9 million compared with $210.9 million for 2017. As a result, gross profit increased by 38% to $111.4 million (2017: $80.6 million). Cost of sales, which consists primarily of traffic acquisition and data costs that are directly attributable to revenue generated by the Company and based on the revenue share arrangements with audience and content partners, decreased as a proportion of revenue compared with the prior year. This was as a result of increased technology efficiency gains from an improved use of data along with the leveraging of the Company's increased scale in media buying, leading to a significant improvement in gross margins. Consequently, total gross margin was 40.25% (2017: 38.2%).

Operating profit for the year increased by 52% to $26.7 million (2017: $17.6 million), demonstrating good operational leverage.

Adjusted EBITDA for full year 2018 was $44.1 million compared with $34.2 million for 2017, which is comprised as follows:

	2018 $m	2017 $m
Operating profit	26.7	17.6
Depreciation & Amortisation	10.8	13.5
Share-based payments	8.0	0.9
Acquisition-related costs	0.2	2.2
Extraordinary Income	(1.6)	0
Adjusted EBITDA	**44.1**	**34.2**

Net Profit for the year increased by 63.6% to 22.5m (2017: $13.7 million).

Operating costs for the year increased, primarily as a result of the first full year of reporting for the acquisitions made during 2017 (which included a six-month contribution from Adinnovation and five-month contribution from Tremor Video DSP). The Company continues to selectively invest in areas that management believe should drive better results and business performance whilst focusing on driving efficiencies and savings across its operations.
R&D expenses increased to $20.2 million in the year (2017: $17 million), as the Company continued to invest in R&D to support the growing scale of Taptica's technology platform and expansion in its offering. During the year we were also able to consolidate and decrease infrastructure and operating costs within R&D.

Sales & Marketing expenses increased to $44.7 million (2017: $31.5 million), with the focus on enhancing brand recognition, expanding the global customer base and investing in the expansion of the US and global offices, whilst simultaneously, the Company decreased its cost base within the performance marketing division.

General & administrative expenses increased to $19.9 million (2017: $14.5 million), primarily to support growing the global operations and sales efforts. On a like for like basis, there was no significant change in G&A expenses.

The Company continued to be cash generative with cash generated from operating activities of $37.5 million (2017: $30.8 million).

In January 2018, the Company raised $30 million of equity in order to reduce the level of debt under the Company's existing debt facility. As at 31 December 2018, cash and bank deposits were $67.1 million after dividend payments of $6.4 million and net cash as at 31 December 2018 of $54.4 million*.

During the year, the Company distributed dividend payments of a total of $6.4 million.

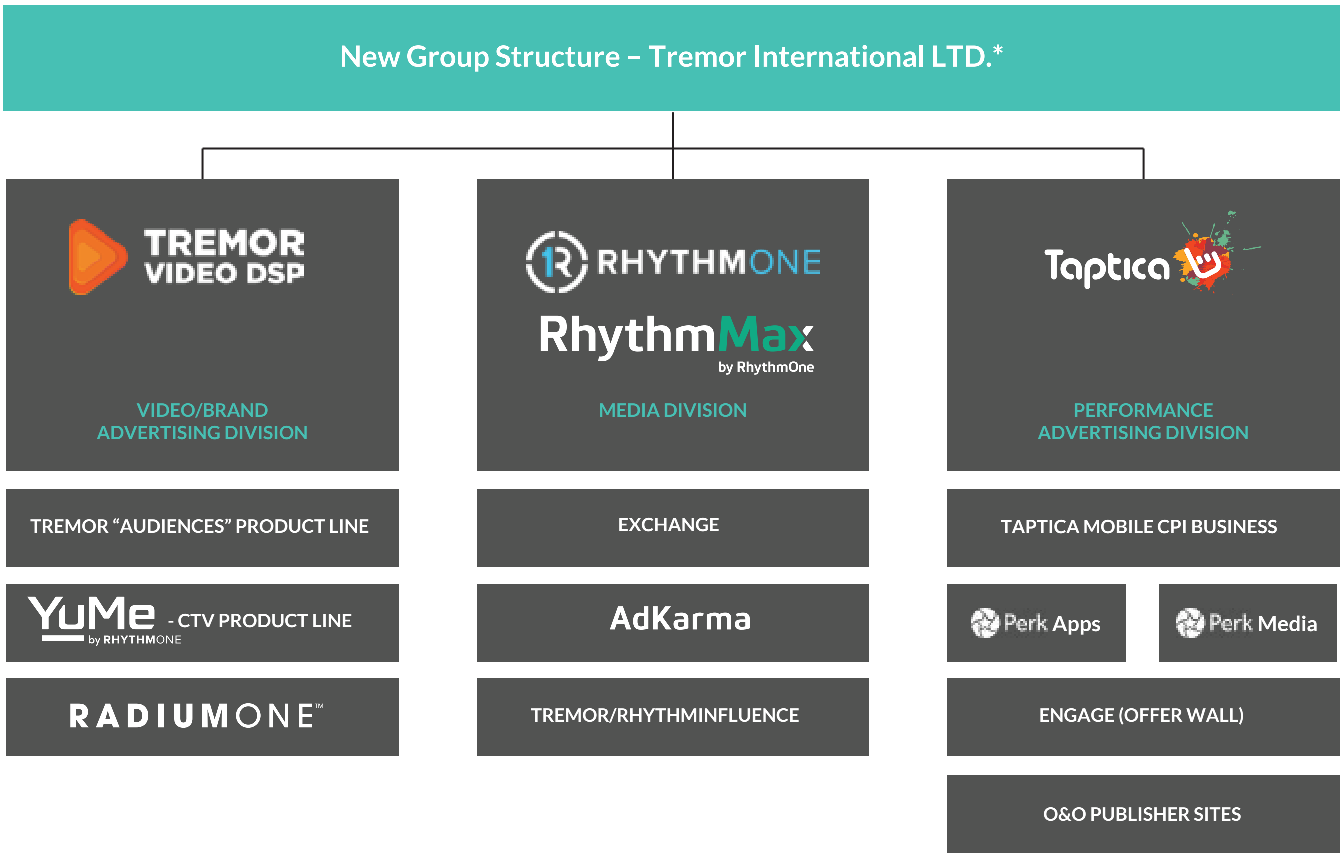
During the period, Taptica commenced a company led share buy-back programme funded from the Company's net cash balance, however, shortly after starting the share buy back the Company had to pause the share buy-back as it became in possession of price sensitive information in connection with the acquisition of RhythmOne plc. In line with Taptica's broader strategy to deliver shareholder value, Taptica has launched a discretionary $15 million share buy-back since the period end.

** Net cash is defined as cash and cash equivalents less short and long-term interest-bearing debt including capital and finance lease*

Yaniv Carmi
Chief Financial Officer
29 April 2019

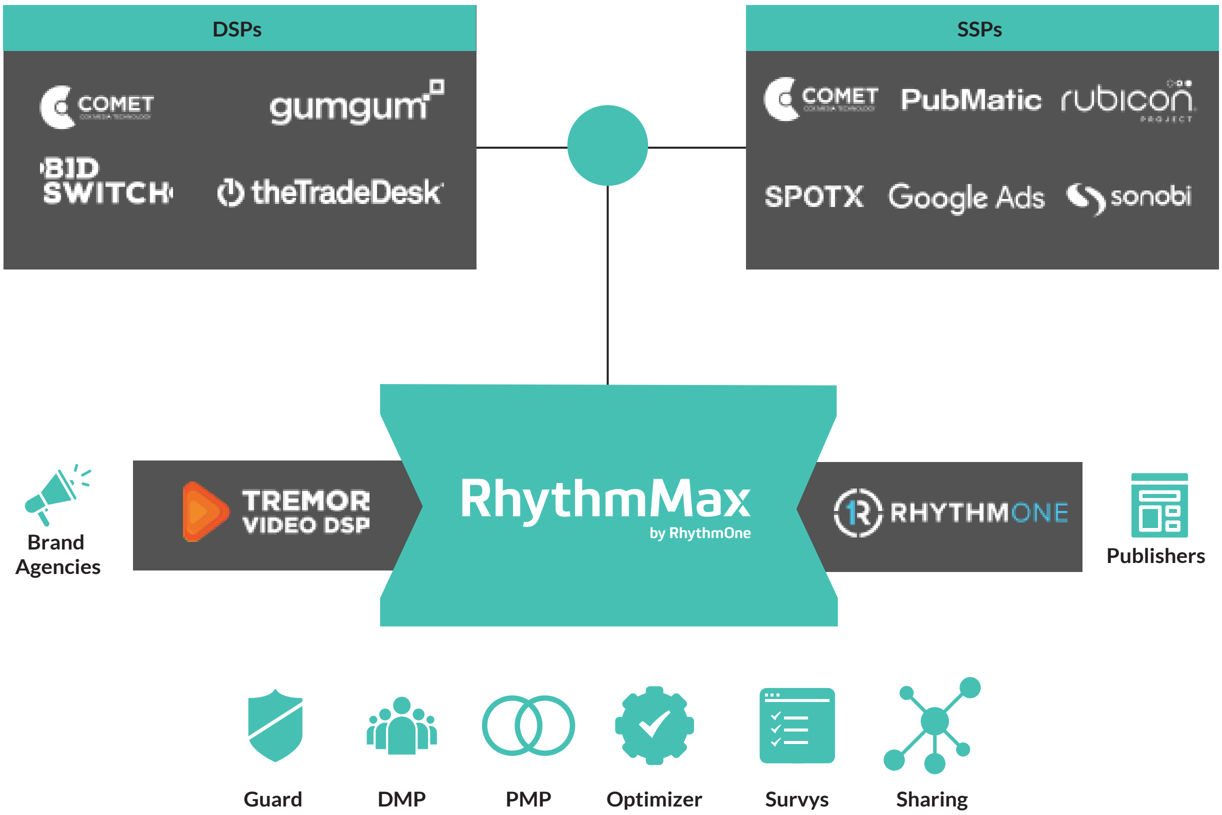
The Combined Group

Post period end, the company completed the all share merger with RhythmOne Plc. The combination of the two businesses is expected to create one of the leading video advertising companies in the US, delivering significant economies of scale, customer base and supply chains to compete with the industry leaders.



*Name change pending approval, brand names also yet to be finalised

Technology Stack



RhythmMax Exchange connects brands into millions of supply auctions every second
Our Technology supports our internal DSP and SSP platforms alongside third party platforms

Directors' Biographies

Tim Weller

Independent Non-Executive Director and Chairman

Tim Weller is the founder of Incisive Media and its Chairman. He successfully floated the company on the Main Market of the London Stock Exchange in 2000 and in 2006 he led the £275m management buyout which took the company private again. Mr Weller was non-executive director and Chairman of RDF Media from 2005-2010 and was also Non-Executive Chairman of Polestar from 2009-2011 until its sale to Sun European Partners LLP. Mr Weller was a member of the Shadow Cabinet New Enterprise Council, which advised the then Shadow Chancellor of the Exchequer, George Osborne, on business and enterprise prior to the 2010 General Election. Mr Weller was Chairman of InternetQ from April 2013 – April 2016. Tim is also Chairman of Trustpilot, a leading provider of trusted company reviews, and Superawesome, a company with leading technology that powers the global kids' digital media ecosystem.

Ofer Druker

Chief Executive Officer

Ofer Druker joined Taptica in November 2017 as Executive Chairman of the Tremor Video division of Taptica and has been instrumental in the successful integration of Tremor Video since its acquisition by Taptica in August 2017. Mr Druker was appointed Chief Executive Officer and executive director in April 2019 following the completion of the merger with RhtyhmOne plc. Mr Druker was the founder and CEO of Matomy Media Group Ltd until April 2017, having built Matomy from its inception in 2007 into a digital media company with revenues of $276.6 million for the full year ended December 2016. Mr Druker was responsible for leading and integrating Matomy's most important strategic transactions, including the acquisitions of Team Internet, Media Whiz, Mobfox and Optimatic.

Yaniv Carmi

Chief Financial Officer

Yaniv Carmi joined Taptica in 2010 and became Chief Financial Officer of the Company in January 2011. Mr Carmi is an experienced finance professional, whose previous roles include tax and audit senior at KPMG, Israel. At Taptica, he was instrumental in the IPO of the Company in 2014 and in the subsequent global expansion in operations, including through significant M&A. Mr Carmi is responsible for all elements of financial operations, strategic and tactical matters related to budget management as well as directing key corporate initiatives. Mr Carmi is a Certified Public Accountant and holds a B.A. degree in Economics and Accounting from Ben-Gurion University and an MBA in Financial Management from Tel Aviv University.

Joanna Parnell

Independent Non-Executive Director

Joanna Parnell is a Managing Partner at Wavemaker (formerly MEC), one of the world's leading media agency networks and owned by WPP plc, where she leads the paid digital team and oversees the agency's focus on data driven campaigns. Prior to moving to MEC in March 2016, Ms Parnell was Director of Strategy and sat on the Board at Unique Digital, with responsibility for setting product and business strategy, including leading the multichannel planning strategy (crossdevice and cross- platform), managing product heads and driving key initiatives across data buying, attribution modelling and biddable media adaptation. Ms Parnell has a Masters in German and Business from the University of Edinburgh and studied as a postgraduate at the London School of Marketing between 2005 and 2006.

Neil Jones

Senior Independent Non-Executive Director

Neil Jones has been Chief Financial Officer and a Director of Huntsworth plc, a healthcare communications and public relations group, which is listed on the Main Market of the London Stock Exchange, since February 2016. He joined Huntsworth from ITE Group plc, the international exhibitions group, where he held the position of Chief Financial Officer from 2008. Between 2003 and 2008, Mr Jones was Group Finance Director at Tarsus Group plc and prior to that, he spent five years as Finance Director (Europe) at Advanstar Communications. Mr Jones has a BA degree in Economics from the University of Manchester and completed the ACA in July 1990 with Price Waterhouse.

Ronni Zehavi

Independent Non-Executive Director

Ronni Zehavi has 25 years' experience in the technology industry, including holding executive roles at publicly traded companies, with a primary focus on SaaS businesses, IT security and content delivery. Most recently, he founded hibob, a cloud-based HR and benefits provider. Before that he was Senior Manager of Akamai Technologies, Inc., a NASDAQ-listed provider of content delivery network services. Mr Zehavi joined Akamai in 2012 when it acquired Cotendo, Inc., a content delivery network and site acceleration services company that he had founded in 2008, for approximately $300m. Prior to Cotendo, he held the position of Vice President of Sales & Business Development of NASDAQ-listed Commtouch Ltd. (now 'CYREN Ltd.'), a cloud-based, internet security technology company.

Corporate Governance Statement

The Board is responsible to shareholders for the effective direction and control of the Company, with the aim of generating long-term success for the Group. This report describes the framework for corporate governance and internal control that the directors have established to enable them to carry out this responsibility.

The directors recognise the importance of high standards of corporate governance and have chosen to adopt the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as the basis of the Company's governance framework. This is in line with the London Stock Exchange's AIM Rules requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code. As an Israeli company, the Company also complies with the corporate governance provisions of Israel's Companies Law, 5759-1999 (the "Companies Law").

The Board believes that good corporate governance reduces risks within the business, promotes confidence and trust amongst its stakeholders and is an important part of the effectiveness and efficiency of the Company's management framework.

The QCA Code includes ten broad principles that Taptica strives to implement in order to deliver growth to its shareholders in the medium and long-term. The table below references how the Board complies with the principles of the QCA Code. The QCA Code can be found on the QCA's website: www.theqca.com.

Deliver Growth

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

Taptica has reiterated its strategy in its announcements and presentations to investors, particularly at the time of its financial results, which is to grow the business via geographic expansion, particularly in the Asia-Pacific region, and via acquisition of complementary technologies or to gain a presence in new markets. The company is also focused on the continual improvement of its technology to increase efficiency and implementing operational efficiencies in its acquired units to enable profitable growth. The key challenges to the business and how these are mitigated is detailed on pages 20 to 21 of this report.

Taptica also provides investors with in-depth reviews of its strategy and how it manages risks at Capital Markets Days, with one held in London in June 2018.

Seek to understand and meet shareholder needs and expectations

Taptica encourages participation of both institutional and private investors, and responds quickly to all queries received. The Company provides the contact details for its IR advisers and CFO under 'IR Contact' on its website. Taptica also engages with investors via its broker.

The CFO, Yaniv Carmi, and CEO, Ofer Druker, meet regularly with institutional investors, usually in regard to the issuance of financial results, and endeavours to accommodate all meeting requests from investors.

The Board recognises the AGM as an important opportunity to meet private shareholders. The Directors – Non-executive and Executive – are also available to listen to the views of shareholders informally immediately following the AGM.

Three out of Taptica's four non-executive directors are UK-based and available to meet with shareholders as requested. This includes the Chairman, who meets regularly with shareholders (independent of management) and seeks to understand voting decisions/intentions where appropriate. The Chairman either directly or indirectly through Taptica's broker regularly solicits feedback from its investors. The Chairman also receives questions from shareholders and looks to address them in a timely manner.

Regular reports are provided to the Board on meetings with shareholders and any concerns are communicated.

Taptica also seeks to meet the needs of shareholders on an ad hoc basis where necessary, such as with the recent publication of a Q&A document and webcast in January 2019 to provide further detail around the Recommended Offer for RhythmOne and with a presentation for private investors hosted in April 2019. Members of the management team also conduct interviews with Proactive Investors and seek to address any matters that have been commonly raised by shareholders.

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

Taptica's management team encourages employees to share their feedback, ideas and thoughts by promoting a transparent organisational culture and an "open door" policy. Employees share their feedback with their managers on a regular basis one-on-one. Those participating in the leadership programs are asked to share in group discussion their thoughts and feelings, and any feedback they might have in regard to management, culture and the company's actions. The Company also recently introduced internal surveys to garner employee feedback and satisfaction and to receive suggestions. The Company shares its list of core values with all employees, which are the foundation of its culture: "everything is possible" (referring to endless and equal opportunities for personal and professional growth) and "work hard – play hard" (which refers to the importance of diligence and collaboration).

Staff retention rate is a key consideration and is a factor in determining the bonus payment of the Executive Directors. Retention is also a matter reported on to the Board. Each year, at least one board meeting is held at the Company's headquarters in Israel, and the non-executive directors will interact with the employees and present to them.

The Company communicates and builds a relationship with external stakeholders via its marketing efforts, including social media, events, PR, direct marketing, online advertising and more. The Company offers

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to meet with stakeholders at regular events globally, and also sometimes directly contacts investors to offer meetings.

Taptica has a 'People & Culture' program, which includes providing employees with opportunities for volunteering in the community – with a particular focus on education, such as tutoring youth at risk and collaborating with schools that care for underprivileged children. Taptica also regularly donates to voluntary associations.

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

The risks to the business and how these are mitigated are detailed on pages 20 to 21 and its internal control measures on page 17 of this report.

Both the Executive Directors and senior managers are responsible for reviewing and evaluating risk on an ongoing basis and the Board considers risks to the business at every board meeting. The Board also allocates certain meetings to have a more in-depth review of strategy and risk, such as in the June 2018 meeting where Mr Tal Mor, the Chief Technology Officer, provided a detailed presentation for board members on the state of ad-tech industry and the actions the company takes to address the risks of operating in a constantly evolving industry.

The Audit Committee of the Board consults with external advisers as/when needed to support execution on strategy and risk mitigation, such as holding executive sessions with KPMG to discuss the audit process and the manner in which the Company's finance team is expanding to address the significant international growth of the business.

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

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

The composition, roles and responsibilities of the Board and its committees are set out on pages 14 to 16 of this report.
The number of meetings of the Board and the committees are also detailed.

High level and in-depth analytic materials, including the minutes from the prior meeting, are sent in a timely manner ahead of each committee or board meeting allowing the Board members adequate time to review the materials. After each meeting, the minutes are sent to the chair for review and approval. All directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the Company's expense.

The composition of the Board is outlined on page 14 of this report. The Board considers all of the non-executive directors to be independent.

The time devoted by directors to their duties varies depending on the activities of the company. In 2018, the company held nine meetings plus numerous phone calls. Each year, the Board holds at least one 3-day meeting to review strategy and interact with senior managers. The Executive Directors work full-time for Taptica. The Non-executive Chairman spends a minimum of three to four days per month on Taptica business. This is primarily via in-person meetings or phone calls with management, brokers and shareholders. The other non-executive directors spend a minimum of two days per month on their duties, primarily through formal face-to-face meetings and phone calls with management and other board members.

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

The composition of the Board and the credentials of the individual directors are outlined on pages 11, 14 and 20 of this report. All of the directors remain active in the media and marketing industry – working for public and private companies – which ensures that their skillsets remain up-to-date.
The Nomination Committee of the Board oversees the process and makes recommendations to the Board on new board appointments as well as re-election of existing directors. Where new board appointments are considered the search for candidates is conducted, and appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Nomination Committee also considers succession planning.

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

The Board currently runs a self-evaluation process on board effectiveness, and encourages open and transparent communication.

All directors are subject to re-election by the shareholders each year (excluding the external non-executive directors, which are subject to re-election every three years, in accordance with Israeli law).

The Executive Directors are subject to an annual performance review with they are measured against pre-set criteria.

The Board is constantly looking at ensuring the executive management of the company evolves. The Company conducts a leadership program to ensure talent can be promoted within the business. If there are skill gaps, we look to fill those externally. At present, the directors are confident there is sufficient talent within the Company to be able to appoint new leadership from within.

The directors – executive and non-executive – are, however, required to give three months' notice under their employment contracts if they wish to leave the Company.

Promote a corporate culture that is based on ethical values and behaviours

Taptica's 'People & Culture' programme is designed to preserve the culture of the Company. It includes "lecture of the month" which is used to present different private and public social initiatives that aim to encourage employee volunteering and social awareness. Taptica also offers volunteering opportunities directly to employees.

The Company has a 'Leadership Program' that is designed to facilitate career progression while promoting leadership based on Taptica's core values and ethical behaviour. Similarly, the Company's recruiting efforts and methods are based on the notion of being the culture's gate keepers: aiming to recruit people who are a cultural fit and share a common ground of ethical values and behaviours.

The Company's senior management team observes the culture of the Company in operation at the local business units (throughout its geographies) through visits, and maintaining company culture is a matter discussed by the Board. The Board also maintains regular dialogue with company management outside of the Executive Directors to monitor the disposition of the broader employee-base and ensure the continuation of a healthy, growth-oriented culture.

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

The Corporate Governance Report on pages 12 to 23 of this report details the corporate governance structures and processes for the Company.

BUILD TRUST

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

The CFO, Yaniv Carmi, and CEO, Ofer Druker, meet regularly with institutional investors, usually in regards to the issuance of financial results.

The Chairman meets regularly with shareholders (independent of management) and either directly or indirectly through Taptica's broker regularly solicits feedback from its investors.

The Board recognizes the AGM as an important opportunity to meet private shareholders. The Directors – Non-executive and Executive – are also available to listen to the views of shareholders informally immediately following the AGM.

Taptica also seeks to meet the needs of shareholders on an ad hoc basis where necessary, such as with the recent publication of a Q&A document and webcast to explain the rationale behind the merger with RhythmOne and address any shareholder queries, as well as a presentation for private investors hosted in April 2019.

Taptica describes its communication practices under 'Relationship with Shareholders' (page 17 of this report).

The Company communicates and builds a relationship with external stakeholders via its marketing efforts, including social media, events, PR, direct marketing, online advertising and more. As noted above, Taptica Board and management have established practices for communicating with employees and for receiving their feedback.

The Board and Committees

Board of Directors

The Board is responsible for the overall strategy and financial performance of the Company and has a formal schedule of matters reserved for its approval. In order to lead the development of the strategy of the Company and the progress of financial performance, the Board is provided with timely and comprehensive information that enables the Board to review and monitor the performance of the Company and to ensure it is in line with the Company's objectives in order to achieve its strategic goals.

Board Composition

The Board is comprised of two executive directors, Ofer Druker and Yaniv Carmi, and four non-executive directors, Tim Weller (Chairman of the Board), Neil Jones (Senior Independent Non-executive Director), Joanna Parnell and Ronni Zehavi. The balance between executive and non-executive directors does not allow any group to dominate the Board's decision making.

In accordance with the Companies Law, the Board must always have at least two external directors who meet certain statutory requirements of independence (the "External Directors"). The Company's External Directors are currently Neil Jones and Joanna Parnell. The term of office of an External Director is three years, which can be extended for two additional three-year terms. Under the Companies Law, External Directors are elected by shareholders by a special majority and may be removed from office only in limited cases. Any committee of the Board must include at least one External Director and the Audit Committee and Remuneration Committee must each include all of the External Directors (including one External Director serving as the chair of the Audit Committee and Remuneration Committee), and a majority of the members of each of the Audit Committee and Remuneration Committee must comply with the director independence requirements prescribed by the Companies Law.

Collectively, the non-executive directors bring a valuable range of expertise in assisting the Company to achieve its strategic aims. The effectiveness of the Board benefits from the following skills and experience which is currently on the Board: advertising, media, finance and accounting, governance, research and development and technology expertise.

Operation of the Board

The Company Secretary, Yaniv Carmi, together with Chief Marketing Officer, Sharon Reisner, are responsible for ensuring that the Company complies with the statutory and regulatory requirements and maintains high standards of corporate governance. They support and work closely with the Chairman of the Board, the Chief Executive Officer and the Board committee chairs in setting agendas for meetings of the Board and its committees and support

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the transfer of timely and accurate information flow from and to the Board and the management of the Company.

The Board holds its meetings in accordance with its scheduled calendar. During 2018, the Board met on nine occasions. The Board also holds regular telephone calls to update the members on operational and other business, and the Board convenes occasionally for additional updates and conversations on ad-hoc emerging matters that arise in between the scheduled Board meetings. A majority of the Board members, which constitutes the legal quorum for a board meeting, attended each of the board meetings. Each board meeting is preceded by a clear agenda and any relevant information is provided to directors in advance of the meeting.

An agreed procedure exists for directors in the furtherance of their duties to take independent professional advice. Newly appointed directors are to be made aware of their responsibilities through the Company Secretary. The Company provides to the directors training sessions via internal meetings, presentations and conversations which are being conducted by Company advisors, management and other relevant persons during the year in order to enable greater awareness and understanding of the Company's business and the environment in which it operates.

The Board has established properly constituted Audit, Remuneration, Nomination and Disclosure Committees of the Board with formally delegated duties and responsibilities.

Audit Committee
Responsibilities
The Audit Committee has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors.

In addition, under the Companies Law, the Audit Committee is required to monitor the effectiveness of the internal control environment of the Company, including consulting with the internal auditor and independent accountants, to review, classify and approve related party transactions and extraordinary transactions, to review taxation and transfer pricing, to review the internal auditor's audit plan and to establish and monitor whistle-blower procedures.

Audit Committee Composition
The UK Corporate Governance Code recommends that an audit committee should comprise at least three members who are independent non-executive directors, and that at least one member should have recent and relevant financial experience.

The Audit Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi, and is chaired by Neil Jones, all of whom are independent non-executive directors.

Operation of the Audit Committee
The Committee operates under written terms of reference and meets at least twice a year with the Company's external auditors, and with the executive directors present by invitation only. The Committee meets with the external auditors without the executive directors present as it considers appropriate.

During 2018, the Committee met on four occasions. A majority of the Committee members, which constitutes the legal quorum for a Committee meeting, attended each of the Committee meetings. Each Committee meeting is preceded by a clear agenda and any relevant information is provided to the Committee members in advance of the meeting.

Among others, the Committee reviewed the financial performance and financial statements of the Company and reviewed an assessment of the control environment and progress on implementing external audit recommendations. It was approved and recommended that the Company proceed with the Placing of Shares, which was completed on 16 January 2018 and raised $30 million. It was also proposed that the Company expand the scope of the internal audit role in light of the extensive expansion of the Company's operations.

Remuneration Committee
Responsibilities
The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive Officer, the Chairman of the Board, the executive and non-executive directors, the Company Secretary and other senior executives. The Remuneration Committee also has responsibility for: (i) recommending to the Board a remuneration policy for directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Company's shareholders, the total individual remuneration package of the Chairman of the Board, each executive and non-executive director and the Chief Executive Officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the Chief Executive Officer. No Director or manager may be involved in any discussions as to their own remuneration.

Remuneration Committee Composition
The UK Corporate Governance Code recommends that a remuneration committee should comprise at least three members who are independent non-executive directors. The Remuneration Committee comprises Joanna Parnell, Neil Jones and Ronni Zehavi, and is chaired by Joanna Parnell, all of whom are independent non-executive directors.

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Operation of the Remuneration Committee
The Committee operates under written terms of reference. During 2018, the Committee met on five occasions. A majority of the Committee members, which constitutes the legal quorum for a Committee meeting, attended each of the Committee meetings. Each Committee meeting is preceded by a clear agenda and any relevant information is provided to the Committee members in advance of the meeting.

During these meetings the Committee reviewed and recommended to the Board the grant of equity incentive awards to the Company's employees; and increasing the pool of equity incentive awards available for employee grants under the Company's equity incentive plans. The Committee reviewed and recommended to the Board for its approval, annual bonuses for the Company's Chief Executive Officer and Director and for the Company's Chief Financial Officer and Director, and the allotment of shares to a non-executive director in lieu of a cash payment. The Committee also determined and agreed with the Board about the Company's remuneration philosophy and the principles of its remuneration policy for executives, ensuring that these are in line with the business strategy, objectives, values and long-term interests of the Company and comply with all regulatory requirements.

Nomination Committee
Responsibilities
The Nomination Committee has responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, and giving full consideration to succession planning. It also has responsibility for recommending new appointments to the Board.

Nomination Committee Composition
The UK Corporate Governance Code recommends that a nomination committee should comprise at least three members who are independent non-executive directors. The Nomination Committee comprises Ronni Zehavi, Neil Jones and Joanna Parnell, and is chaired by Ronni Zehavi, all of whom are independent non-executive directors.

Operation of the Nomination Committee
The Committee operates under written terms of reference. During 2018, the Committee met on one occasion. A majority of the Committee members, which constitutes the legal quorum for a Committee meeting, attended the Committee meeting. Each Committee meeting is preceded by a clear agenda and any relevant information is provided to the Committee members in advance of the meeting.

During this meeting the Committee reviewed and recommended to the Board the re-election of Hagai Tal (prior to his resignation from the Board in December 2018), Yaniv Carmi and, non-executive directors, Tim Weller and Ronni Zehavi, which was approved at the Company's 2018 Annual General Meeting. Ofer Druker, Yaniv Carmi and, non-executive directors, Tim Weller and Ronni Zehavi will be standing for re-election at the forthcoming Annual General Meeting. In accordance with Israeli law, the Company's External Directors, Neil Jones and Joanna Parnell, whose current term of office continues until September 2020, will continue in office without standing for reelection at the forthcoming Annual General Meeting.

The Nomination Committee's members believe that the directors put forward for re-election at the forthcoming Annual General Meeting continue to be effective and demonstrate commitment to their role.

Disclosure Committee
Responsibilities
The Disclosure Committee has responsibility for assisting the Board in fulfilling its responsibilities in respect of the requirement to make timely and accurate disclosure of all information that is required to be disclosed to meet legal and regulatory obligations, including compliance with MAR.

The Disclosure Committee comprises Tim Weller, Neil Jones and Yaniv Carmi, and is chaired by Tim Weller.

Operation of the Disclosure Committee
The Committee operates under written terms of reference. A majority of the Committee members constitutes the legal quorum for a Committee meeting. Information is provided to the Committee members in advance of the meeting.

Board and Committees Evaluation
The performance of the Board, its committees and individual members is assessed on an evaluation of Board performance survey conducted on an annual basis via questionnaire and detailed Board discussion. An implementation plan is then actioned for any matters arising.

Conflicts of Interest
The Company has procedures for the disclosure and review of any conflicts, or potential conflicts, of interest in compliance with the Companies Law, which the directors may have and for the authorization of such conflict matters by the Board.

Under the Companies Law, any transaction of the Company with a director or any transaction of the Company in which a director has a personal interest requires the approval of the Board. The transaction must not be approved if it is not in the Company's best interest. If the transaction is an extraordinary transaction (i.e. a transaction that is not in the ordinary course of business, that is not on market terms or that is likely to have a material impact on a company's profitability, assets or liabilities), then Audit Committee approval is required in addition to Board approval.

If the transaction concerns exculpation, indemnification, insurance or remuneration of the director, then the approvals of the Remuneration Committee, the Board and the shareholders by way of ordinary resolution are required (in that order).

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A director who has a personal interest in a matter that is considered at a meeting of the Board, the Audit Committee or the Remuneration Committee may not attend that meeting or vote on that matter, unless a majority of the Board, the Audit Committee or the Remuneration Committee, as applicable, has a personal interest in the matter. If a majority of the Board, the Audit Committee or the Remuneration Committee, as applicable, has a personal interest in the transaction, then shareholder approval, by way of ordinary resolution, is also required. The authorisation of a conflict matter, and the terms of authorisation, may be reviewed at any time by the Board.

The Board considers that these procedures are operating effectively. There have been no matters of a material nature arising requiring assessment by the Board as a potential conflict during the year.

Relationship with Shareholders
The Company encourages the participation of both institutional and private investors. The Chief Executive Officer and Chief Financial Officer meet regularly with institutional investors, usually in regard to the issuance of half and full year results. Communication with private individuals is maintained through the Annual General Meeting and the Company's annual and interim reports. In addition, further details on the strategy and performance of the Company can be found at its website (www.tapticainternational.com), which includes copies of the Company's press releases.

Regular updates are provided to the Board on meetings with shareholders and analysts, and broker's opinions. Non-executive directors are available to meet major shareholders, if required. Investors are encouraged to contact the Company's Investor Relations advisors at Vigo Communications.

Internal Controls
The Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues. The Company's organizational structure has clearly defined lines of authority, responsibility and accountability, which is reviewed regularly. The annual budget and forecasts are reviewed by the Board prior to approval being given. This includes the identification and assessment of the business risks inherent in the Company and the digital media industry as a whole along with associated financial risks.

The Board has overall responsibility for the Company's systems of internal control and for monitoring their effectiveness. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance that issues are identified on a timely basis and dealt with appropriately. The Company's key internal financial control procedures include:

- a review by the Board of actual results compared with budget and forecasts;
- reviews by the Board of year end forecasts;
- the establishment of procedures for acquisitions, capital expenditure and expenditure incurred in the ordinary course of business;
- the appraisal and approval of
- proposed acquisitions; and
- the appointing of experienced and suitably qualified staff to take responsibility for key business functions to ensure maintenance of high standards of performance.

The external auditors are engaged to express an opinion on the financial statements. They discuss with management the reporting of operational results and the financial condition of the Company, to the extent necessary to express their audit opinion.

In accordance with Companies Law, the Board must appoint an internal auditor nominated following the recommendation of the Audit Committee. The primary role of the internal auditor is to examine whether a company's actions comply with the law and proper business procedure. The internal auditor may be an employee of the Company but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the Company's independent accounting firm or its representative. The Company's internal auditor is Yisrael Gewirtz (Fahn Kanne Control Management Ltd., Grant Thornton Israel).

Audit and Auditor Independence
An additional responsibility of the Audit Committee is to keep under review the scope and cost effectiveness of the external audit. This includes recommending to the Board the appointment of the external auditors and reviewing the scope of the audit, approving the audit fee and, on an annual basis, the Committee being satisfied that the auditors are independent.

Somekh Chaikin, member firm of KPMG International, is retained to perform audit and audit-related work on the Company and its subsidiaries. The Audit Committee monitors the nature and extent of non- audit work undertaken by the auditors. It is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. Periodically, the Audit Committee monitors the cost of non- audit work undertaken by the auditors. The Audit Committee considers that it is in a position to take action if at any time it believes that there is a risk of the auditors' independence being undermined through the award of this work.

Takeovers & Mergers

As the Company is incorporated in Israel, it is subject to Israeli law and the City Code on Takeovers and Mergers will not apply to the Company, except to the extent share control limits are incorporated into the Company's Articles of Association, as described below.

Mergers

The Companies Law permits merger transactions, provided that each party to the transaction obtains the approval of its board of directors and shareholders (excluding certain merger transactions which do not require the approval of the shareholders, as set forth in the Companies Law).

Pursuant to the Company's Articles of Association, the shareholders of the Company are required to approve the merger by the affirmative vote of a majority of the Ordinary Shares of the Company represented at the shareholders meeting in person or by proxy and voting thereon. In addition, for purposes of the shareholder vote of each party, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, has voted against the merger.

The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

In addition, the provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares voted on the matter, as well as 75 per cent. of each class of creditors. In addition to shareholder approval, court approval of the transaction is required.

Under the Companies Law, in the event the Company enters into a merger or an "arrangement" under the Companies Law (as described above), the provisions of the Companies Law and the Articles of Association rules with respect to tender offers (as described below) do not apply.

Articles of Association and Special Tender Offer

The Company's Articles of Association contain a prohibition on a person acquiring shares, whether by himself or in concert, which, when aggregated with shares held by his concert parties, carry 25 per cent. or more of the voting rights attributable to the shares of the Company except as a result of a "permitted acquisition". An acquisition is a "permitted acquisition" if (i) the acquisition is made in compliance with any applicable tender offer rules under the Companies Law as may be in effect at such time and (ii) the acquisition is made in circumstances which the Takeover Code, if it applied to the Company, would require an offer to be made as a consequence and such offer is made in accordance with Rule 9 of the Takeover Code, as if such rule applied. The Companies Law provides that an acquisition of shares of a public Israeli company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser could become a holder of 25 per cent. or more of the voting rights in the Company. This rule does not apply if there is already another holder of at least 25 per cent. of the voting rights in the Company.

Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser could become a holder of more than 45 per cent. of the voting rights in the company, if there is no other shareholder of the company who holds more than 45 per cent. of the voting rights in the company.

A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5 per cent. of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5 per cent. of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer. Shares that are acquired in violation of this requirement to make a tender offer will be deemed Dormant Shares (as defined in the Companies Law) and will have no rights whatsoever for so long as they are held by the acquirer.

Full Tender Offer

Under the Companies Law, a person may not purchase shares of a public company if, following the purchase, the purchaser would hold more than 90 per cent. of the company's shares or of any class of shares, unless the purchaser makes a tender offer to purchase all of the target company's shares or all the shares of the particular class, as applicable. If, as a result of the tender offer, either:

- The purchaser acquires more than 95 per cent. of the company's shares or a particular class of shares and a majority of the shareholders that did not have a Personal Interest accepted the offer; or the appointing of experienced and suitably qualified staff to take responsibility for key business functions to ensure maintenance of high standards of performance.
- The purchaser acquires more than 98 per cent. of the company's shares or a particular class of shares;

then, the Companies Law provides that the purchaser automatically acquires ownership of the remaining shares. However, if the purchaser is unable to purchase more than 95 per cent. or 98 per cent., as applicable, of the company's shares or class of shares, the purchaser may not own more than 90 per cent. of the shares or class of shares of the target company.

Directors' Report

Principal Activities

Taptica International Ltd is a global leader in advertising technologies, operating in more than 70 countries. It has three core divisions: Tremor Video DSP (brand advertising), Taptica (performance advertising) and a Media division.

Tremor Video DSP helps advertisers deliver impactful brand stories across all screens through the power of creative video intelligence—innovative video technology combined with advanced audience data and captivating creative. Tremor Video is one of the largest and most innovative video advertising companies in North America, with offerings in CTV, influencer marketing, and private marketplaces.

The Taptica performance business is an end-to-end mobile technology advertising platform that helps the world's top brands reach their most valuable users with the widest range of traffic sources available today. Its proprietary technology leverages big data to target quality media at scale. It works with more than 600 advertisers including Amazon, Alibaba, Bytedance, Netmarble, Stubhub and OpenTable.

Business Review

The information that fulfils the requirements of the business review, including details of the 2018 results, principal risks and uncertainties and the outlook for future years, are set out in the Chairman's and Chief Financial Officer's statements on pages 5 to 8, and in this Directors' Report.

Dividends

The Company has paid dividends to its Shareholders in each of the last six years. The Board recognises the importance of dividend income to Shareholders and still maintains its intentions to adopt a progressive dividend policy to reflect the expectation of future cash flow generation and long-term earnings potential of the Company. In 2018, the Company distributed dividend payments of a total of $6.4 million which was in-line with the Company's policy of distributing 25% of net profits in dividend payments.

Directors

The following Directors held office as indicated below for the year ended 31 December 2018 and up to the date of signing the consolidated financial statements except where otherwise shown.

Tim Weller – Non-Executive Chairman (Throughout 2018-present)
Hagai Tal – Chief Executive Officer (Resigned 5 December 2018)
Ofer Druker – Chief Executive Officer (Appointed 2 April 2019)
Yaniv Carmi – Chief Financial Officer (Throughout 2018-present)
Joanna Parnell - Independent Non-Executive Director (Throughout 2018-present)
Neil Jones - Senior Independent Non-Executive Director (Throughout 2018-present)
Ronni Zehavi - Independent Non-Executive Director (Throughout 2018-present)

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 22 and 23. It includes details of Directors' remuneration, interests in the Ordinary Shares of the Company and share options.

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The Board's Corporate Governance Report is set out on pages 12 to 19.

Directors' Responsibilities

The Companies Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the relevant financial year pursuant to applicable accounting standards.

The Directors, after considering the risks and uncertainties and after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient resources at their disposal to continue their operations for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Principle Risks and Uncertainties

The Directors assess and monitor the key risks of the business on an ongoing basis. Following are the principal risks and uncertainties that could have a material effect on the Company's performance:

- Large and established internet and technology companies, such as Facebook and Google, play a substantial role in the mobile advertising market and may implement changes that significantly impair the Company's ability to operate in this industry.
- The Company depends on publishers to supply it with advertising inventory in order for it to deliver advertising campaigns in a cost-effective manner.
- The advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition.
- A key part of the Company's strategy relates to acquisitions and the ability to effectively finance, integrate and manage them. Regulatory, legislative, or
- self-regulatory developments relating to e-commerce, internet advertising, privacy and data collection and protection, and uncertainties regarding the application or interpretation of existing laws and regulations, such as the EU General Data Protection Regulation (GDPR), which became effective in May 2018, could harm the Company's business.

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- The Company is required to continue to innovate and provide high-quality advertising solutions and services in order to remain competitive.
- The Company's growth depends in part on the success of its relationships with advertising agencies.
- The Company's revenue and operating results are highly dependent on the overall demand for advertising.
- The Company's brand advertising division depends on relationships with data providers to supply it with data sets in order for it to deliver targeted campaigns and this may involve material upfront guaranteed minimum purchase commitments.
- The mobile advertising industry remains susceptible to fraudulent marketing activities which impacts on newly created regulation and traffic levels.
- The Company's software could be susceptible to errors, defects or unintended performance problems that could result in loss of reputation, lost inventory or liability.
- Interruptions of services from our bandwidth providers, data centers, electricity providers and service providers may disrupt the Company's operations.
- Following the acquisition of RhythmOne, the Company may fail to realise some or all of the anticipated cost savings, synergies, growth opportunities and other benefits, which could adversely affect the operating capability of the Company in the future.
- Increased availability of advertisement- blocking technologies could limit or block the delivery or display of advertisements by the Company's solutions.

The Company's risk management methods rely on a combination of internally-developed controls and monitoring and observation of market behavior. Commercial risks are managed through Taptica's technological lead as well as through establishing partnerships with key publishers, and Tremor Video DSP is also focused on establishing and maintaining exclusive relationships with key data providers. The Company invests significant resources in research to continually develop its technology to enhance its offer and algorithms. Its ability to address and align to industry changes with speed and flexibility has been demonstrated, particularly with the successful transition to become a mobile- focused business.

Regarding data protection regulation, and GDPR specifically, Taptica is committed to data protection compliance throughout its offering and is taking all steps necessary to ensure a structured approach to managing its business. The relevant aspects have been reviewed, and necessary actions have been taken. Taptica will continue to update and implement ongoing review, processes and policies in order to meet industry developments and ensure Taptica satisfies the requirements under the applicable law.

Research and Development
All three of the Company's revenue streams rely on the use of technological tools, in particular, machine learning that leverages data for real-time bidding. In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Company's market position and for future growth. Taptica's research and development team is based at the Company's headquarters in Tel Aviv and has a staff of c30. In New York, Taptica also has a research and development team, with a staff of c30. Following the acquisition of RhythmOne, the Company added approximately 50 personnel to the research and development team. Research and development expenses during the year were $20.0m (2017: $17.0m).

Share Capital and Substantial Shareholdings
Details of the share capital of the Company as at 31 December 2018 are set out in Note 4 to the consolidated financial statements.

At 29 April 2019, the total issued and outstanding number of Ordinary Shares were 134,604,883 and 8,995,917 Ordinary Shares were held in treasury as dormant shares. The following held 3% or more of the ordinary share capital of Taptica:

Shareholder	%
Toscafund	17.8
Schroder Investment Mgmt	8.4
River Mercantile Asset Mgmt	8.0
Lombard Odier Asset Mgmt	7.3
Eitan Epstein* and Shirley Dahan Trust on Behalf of MTD PTE Ltd**	6.6
Credit Suisse	5.4
Ibex Investors LLC	4.1
Hargreaves Lansdown Asset Mgmt	3.7
Smart and Simple Ltd.	3.6
Interactive Investor	3.1

**Eitan Epstein and Shirley Dahan Trust on Behalf of MTD PTE Ltd and Smart and Simple Ltd announced on 24 April 2019 the Secondary Sale of the entirety of their associated holding to Institutional Investors and the Company's Share Buy Back by way of an Accelerated Bookbuild, the trade will settle and complete on or around 10 May 2019 upon which neither entity will hold any shares in the Company.*
***The shares are held in trust on behalf of Mr Hagai Tal. Mr Tal, through his direct and indirect holdings, is the beneficial owner of 9,501,259 ordinary shares representing 7% of the issued share capital of the Company.*

Independent Auditors
The Audit Committee of the Board of Directors reviews annually the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditors. KPMG Somekh Chaikin was engaged to perform the 2018 audit. The total fee paid to the Company's auditors for audit services rendered to the Company during that year was $125,000.

Events after the reporting period
For significant events after the reporting period please refer to Note 19 on page 59.

Remuneration Report

Directors' Remuneration
The Board recognises that Directors' remuneration is of legitimate interest to the shareholders. The Company operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation. As an Israeli company, listed on the AIM market of the London Stock Exchange, the Company is not required to comply with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Policy on Directors' Remuneration
The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the caliber necessary to maintain the Company's position. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Director's responsibilities.

Remuneration
The remuneration of the Directors in 2018 was as follows (all amounts in GBP – NIS 4.80: GBP 1 and USD 1.335: GBP 1). These amounts include share-based:

Tim Weller	93,447
Ofer Druker*	2,072,048
Hagai Tal**	858,054
Yaniv Carmi	1,204,493
Neil Jones	41,147
Joanna Parnell	41,147
Ronni Zehavi	25,000

**Appointed CEO and Executive Director 2 April 2019*
***Resigned as CEO and executive Director 5 December 2018*

The Remuneration Committee is formally required to meet not less than twice a year and at such other times as necessary. The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive Officer, the Chairman of the Board, the executive and non-executive Directors, the Company Secretary and other senior executives. The Remuneration Committee also has responsibility for: (i) recommending to the Board a compensation policy for Directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Company's shareholders, the total individual remuneration package of the Chairman of the Board, each executive and non-executive director and the Chief Executive Officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the Chief Executive Officer. No Director or manager may be involved in any discussions as to their own remuneration. The Remuneration Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi and is chaired by Joanna Parnell and operates under written terms of reference.

Remuneration of Executives and Other Managers
The remuneration of the Company's five most highly compensated executives and managers in 2018 (including two of its current executive directors and one executive director that retired during 2018) was as follows (all amounts in GBP – NIS 4.80: GBP 1 and USD 1.335: GBP 1).

	Base salary	Bonus	Share-based	Total
Ofer Druker	239,767	385,584	1,446,696	2,072,048
Yaniv Carmi	282,413	330,219	591,861	1,204,493
Hagai Tal	307,960	288,072	262,021	858,054
Anthony Flaccavento	272,203	290,218	188,539	750,960
Abbey Thomas	290,750	260,569	188,539	739,858

Corporate Governance

New grants during the period

During 2018, the Group granted 3,756,000 share options, 1,380,000 Performance Share Units (PSUs) and 1,365,000 Restricted Share Units (RSUs) to its executive officers and employees pursuant to the Company's outstanding awards under 2017 Equity Incentive Plan and the Company's Global Share Incentive Plan (2011).

During 2018, no persons serving as a board director were granted any options, RSUs or PSUs.

On 1 June 2018 and following the passing of resolution 6 at the Company's 2018 AGM, the Company granted a total of 120,000 share options and 1,080,000 Performance Share Units (PSUs) at an exercise price of £3.35 per Ordinary Share and 600,000 Restricted Share Units (RSUs) to Ofer Druker (at that time the President of Tremor Video and not a Board Director of the Company) pursuant to the Company's 2017 Equity Incentive Plan.

Directors' and Related Parties Interests

As of 29 April 2019:

Director	Number of ordinary shares	Number of ordinary shares under options and RSUs	Percentage outstanding share capital
Tim Weller	94,630	Nil	0.1
Hagai Tal*	9,501,259	110,677	7.05
Ofer Druker**	0	7,358,082	0.15
Yaniv Carmi**	110,000	3,193,233	0.08
Joanna Parnell	Nil	Nil	Nil
Neil Jones	5,000	Nil	0.0
Ronni Zehavi	36,376	Nil	0.03

*CEO of the Company until 05 December 2018. As announced by the Company on 24 April 2019, the Company has been advised that Hagai Tal has sold 9,501,259 shares to Institutional Shareholders and the Company's Share Buy Back. Settlement and completion is expected to complete on or around the 10 May 2019.
** Post period end, Ofer Druker and Yaniv Carmi received 5,758,082 and 2,943,233 RSUs and options respectively pursuant to the New Taptica Management Incentive Scheme approved by shareholders at the Taptica Extraordinary General Meeting held on 21 March 2019.

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Taptica International Ltd. (hereinafter – "the Company") as at 31 December 2018 and 2017 and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the two years in the period ended 31 December 2018. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) – 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to below present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of 31 December 2018 and 2017 and their results of operations, changes in equity and cash flows for each of the two years in the period ended 31 December 2018, in accordance with International Financial Reporting Standards (IFRS).

Somekh Chaikin

Somekh Chaikin
Certified Public Accountants (Isr.)
Member Firm of KPMG International

March 18, 2019

Consolidated Statements of Financial Position

as at 31 December

	Note	2018 USD thousands	2017 USD thousands
Assets			
Cash and cash equivalents	9	**67,073**	26,985
Trade receivables, net	7	**64,329**	78,554
Other receivables	7	**6,990**	3,831
Total current assets		**138,392**	109,370
Fixed assets, net	5	**2,879**	2,141
Intangible assets, net	6	**53,605**	61,560
Deferred tax assets	4	**2,383**	2,329
Total non-current assets		**58,867**	66,030
Total assets		**197,259**	175,400
Liabilities			
Credit and current maturities of loans		**12,672**	5,930
Trade payables	8	**39,630**	46,232
Other payables	8	**14,920**	22,053
Total current liabilities		**67,222**	74,215
Employee benefits		**836**	976
Long-term loans	17B(2)	**-**	25,085
Deferred tax liabilities	4	**991**	1,587
Liability for put option on non-controlling interests	17B(1)	**3,941**	8,619
Total non-current liabilities		**5,768**	36,267
Total liabilities		**72,990**	110,482
Equity	12		
Share capital		**198**	180
Share premium		**65,305**	32,886
Capital reserves		**7,713**	1,276
Retained earnings		**51,053**	30,576
Total equity		**124,269**	64,918
Total liabilities and equity		**197,259**	175,400

Date of approval of the financial statements: March 18, 2019

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

Consolidated Statements of Comprehensive Income

for the year ended 31 December

	Note	2018 USD thousands	2017 USD thousands
Revenues	10	**276,872**	210,925
Cost of sales		**165,440**	130,350
Gross profit		**111,432**	80,575
Research and development expenses		**20,187**	16,995
Selling and marketing expenses		**44,702**	31,460
General and administrative expenses	11	**19,847**	14,493
		84,736	62,948
Profit from operations		**26,696**	17,627
Profit from operations before amortization of purchased intangibles and business combination related expenses*		**35,642**	30,609
Financing income		**1,251**	257
Financing expenses		**(778)**	(564)
Financing income (expenses), net		**473**	(307)
Profit before taxes on income		**27,169**	17,320
Taxes on income	4	**(5,015)**	(3,561)
Profit for the year		**22,154**	13,759
Profit for the year before amortization of purchased intangibles and business combination related expenses (net of tax)**		**30,960**	25,015
Other comprehensive income items:			
Foreign currency translation differences for foreign operation		**361**	(1)
Total other comprehensive income for the year		**361**	(1)
Total comprehensive income for the year		**22,515**	13,758
Earnings per share			
Basic earnings per share (in USD)	13	**0.3281**	0.2249
Basic earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses (net of tax)**	13	**0.4585**	0.4088
Diluted earnings per share (in USD)	13	**0.3179**	0.2161
Diluted earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses (net of tax)**	13	**0.4442**	0.3929

* Amounting to USD 8,946 thousand (2017: USD 12,982 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses.

** Amounting to USD 8,806 thousand (2017: USD 11,256 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses, net of tax.

The accompanying notes are an integral part of these consolidated 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		
Balance as at 1 January 2017					
Total comprehensive income for the year	175	29,759	1,238	19,552	50,724
Profit for the year	–	–	–	13,759	13,759
Other comprehensive income	–	–	(1)	–	(1)
Total comprehensive income for the year	–	–	(1)	13,759	13,758
Transactions with owners, recognized directly in equity					
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)
Balance as at 31 December 2017	180	32,886	1,276	30,576	64,918
Comprehensive income for the year					
Profit for the year	–	–	**–**	**22,154**	**22,154**
Other comprehensive income	–	–	**361**	**–**	**361**
Total comprehensive income for the year	–	–	**361**	**22,154**	**22,515**
Transactions with owners, recognized directly in equity					
Revaluation of liability for put option on non-controlling interests	**–**	**–**	**–**	**4,678**	**4,678**
Issuance of shares (net of issuance cost)	**15**	**29,707**	**–**	**–**	**29,722**
Buy Back shares	**–**	**(135)**	**–**	**–**	**(135)**
Share based payments	**–**	**25**	**8,012**	**–**	**8,037**
Exercise of share options	**3**	**2,822**	**(1,936)**	**–**	**889**
Dividends to owners	**–**	**–**	**–**	**(6,355)**	**(6,355)**
Balances as at 31 December 2018	**198**	**65,305**	**7,713**	**51,053**	**124,269**

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

Consolidated Statements of Cash Flows

for the year ended 31 December

	2018 USD thousands	2017 USD thousands
Cash flows from operating activities		
Profit for the year	**22,154**	13,759
Adjustments for:		
Depreciation and amortization	**10,808**	13,499
Net financing (income) expense	**(505)**	349
Share-based payment	**8,037**	884
Income tax expense	**5,015**	3,561
Change in trade and other receivables	**15,557**	2,745
Change in trade and other payables	**(10,580)**	647
Change in employee benefits	**(73)**	533
Income taxes received	**217**	83
Income taxes paid	**(12,774)**	(5,094)
Interest received	**381**	58
Interest paid	**(693)**	(267)
Net cash provided by operating activities	**37,544**	30,757
Cash flows from investing activities		
Decrease (increase) in pledged deposits	**51**	(72)
Payment of earn-out	**(1,218)**	-
Acquisition of fixed assets	**(1,461)**	(233)
Acquisition and capitalization of intangible assets	**(1,444)**	(1,471)
Proceeds from sale of intangible assets	**118**	-
Acquisition of subsidiaries, net of cash acquired	**-**	(53,010)
Net cash used in investing activities	**(3,954)**	(54,786)
Cash flows from financing activities		
Issuance of shares	**29,539**	–
Loan received from shareholders	**–**	10,000
Repayment of loan from shareholders	**–**	(10,000)
Repayment of loans	**(18,195)**	(174)
Buy back of shares	**(135)**	-
Proceeds from exercise of share options	**889**	2,287
Loans received from bank	**-**	30,000
Dividends paid	**(6,355)**	(2,612)
Net cash used in financing activities	**5,743**	29,501
Net increase in cash and cash equivalents	**39,333**	5,472
Cash and cash equivalents as at the beginning of the year	**26,985**	21,471
Effect of exchange rate fluctuations on cash and cash equivalents	**755**	42
Cash and cash equivalents as at the end of the year	**67,073**	26,985

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

Notes to the Consolidated Financial Statements

as at 31 December 2018

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, and is listed on the 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 performance-based mobile marketing and brand advertising platform that helps top brands reach their users worldwide. Taptica International works with leading brands and companies in a variety of segments, all over the world. The Company is headquartered in Tel Aviv with offices in USA (the biggest offices are located in San Francisco & New York), Beijing, Seoul, London, Tokyo and New Delhi.

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 17B(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 17B(2).

With respect to the a proposed merger announced by the Company subsequent to the balance sheet date, see note 19.

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".

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 March 18, 2019.

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
- Provisions

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

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

2. Basis of Preparation (cont'd)

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 17, on subsidiaries, with respect to business combination.

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 14, on share-based payments;
- Note 15, on financial instruments; and
- Note 17, on subsidiaries (regarding business combinations).

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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

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 17B(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.

(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 – policy applicable as from January 1, 2018

Initial recognition and measurement of financial assets

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(1) Non-derivative financial assets – policy applicable as from January 1, 2018 (cont'd)

all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; fair value through other comprehensive income – investments in debt instruments; fair value through other comprehensive income – investments in equity instruments; or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:
- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated at fair value through profit or loss:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the debt instrument give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss. On initial recognition, the Group designates financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

Initial recognition and measurement of financial assets

The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, including assets designated at fair value through profit or loss, 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

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(2) Non-derivative financial assets – policy applicable before January 1, 2018 (cont'd)

Group undertook to purchase or sell the asset.
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including service concession 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 the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Loans and receivables

Loans and 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 loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.
Loans and receivables comprise cash and cash equivalents, trade and other receivables, investments in non-marketable debentures and service concession receivables.
Cash and cash equivalents include cash balances available for immediate use and call 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(3) Non-derivative financial liabilities

Non-derivative financial liabilities include bank overdrafts, loans and borrowings from banks, and trade and other payables.

Initial recognition of financial liabilities

The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities

Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through profit or loss if the Group manages such liabilities and their performance is assessed based on their fair value in accordance with the Group's documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

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.

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

(4) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.
Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognized as an asset in deferred expenses in the statement of financial position. The costs are deducted from equity upon the initial recognition of the equity instruments, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to take place.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from retained earnings.

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:

	Years
Computers and servers	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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

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 2018 and 2017, 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	3-5.4 years
• Technology	4.4-5 years
• Distribution channel	3 years

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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

F. Impairment

(1) Non-derivative financial assets – policy applicable as from January 1, 2018

Financial assets, contract assets and lease receivables

The Group recognizes a provision for expected credit losses in respect of:
- Financial assets at amortized cost;

The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

Measurement of expected credit losses
Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Presentation of provision for expected credit losses in the statement of financial position
Provisions for expected credit losses of financial assets measured at amortized cost and are deducted from the gross carrying amount of the financial assets.

Write-off
The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

(2) Non-derivative financial assets – policy applicable before January 1, 2018

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.

Objective evidence that financial assets are impaired can include:
- Breach of contract by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers;
- Changes in the economic environment that correlate with insolvency of issuers or the disappearance of an active market for a security;
- Observable data indicating a measurable decrease in the cash flow expected from a group of financial assets.

Accounting for impairment losses of financial assets measured at amortized cost
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a provision for loss against the balance of the financial asset measured at amortized cost. Interest income on the impaired assets is recognized using the interest rate that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

F. Impairment (cont'd)

(1) Non-derivative financial assets – policy applicable as from January 1, 2018 (cont'd)

Reversal of impairment loss

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized (such as repayment by the debtor). For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

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 2018 and 2017 the Company accelerated amortization of Intangible assets that were created in a business combination and capitalized development costs. The accelerated amortization amounted to USD 43 thousand and USD 5,493 thousand, respectively.

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.

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).

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

H. Employee benefits (cont'd)

(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.

I. Revenue recognition - Initial application of 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. 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.

The standard introduces a new five-step model for recognizing revenue from contracts with customers:
(1) Identifying the contract with customer.
(2) Identifying distinct performance obligations in the contract.
(3) Determining the transaction price.
(4) Allocating the transaction price to distinct performance obligations.
(5) Recognizing revenue when the performance obligations are satisfied.

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.

As from 1 January 2018, the Group initially applies IFRS 15. The effect of applying IFRS 15 on the financial statements for the period ended 31 December 2018, is immaterial.

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

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

J. Classification of expenses (cont'd)

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.

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.

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

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 standard and interpretation not yet adopted

(1) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019.
The Group has not yet commenced examining the effect of IFRIC 23 on the financial statements.

(2) IFRS 16, Leases

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

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

- According to the new Lease Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

3. Significant Accounting Policies (cont'd)

P. New standard and interpretation not yet adopted (cont'd)

(2) IFRS 16, Leases (cont'd)

- In the event of a change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease.
- The new Lease Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).

The new Lease Standard is effective for annual periods beginning on or after January 1, 2019.

The Company will apply the modified retrospective approach upon the initial adoption of the new Lease Standard by measuring the right-of-use asset at an amount equal to the lease liability, as measured on the transition date.

The Company has a number of lease contracts, mainly leases of an office building. In assessing the impact of the new Lease Standard on the financial statements, the Company evaluated the following matters:

- Options to extend the lease - according to the new Lease Standard, the non-cancellable period of a lease includes periods that are covered by options to extend the lease if the lessee is reasonably certain to exercise the option.
- Separation of lease components - according to the new Lease Standard, all lease components within a contract should be accounted for separately from non-lease components. A lessee is allowed a practical expedient according to which it can elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for them as a single lease component.
- Incremental interest rate - the Company estimates the incremental interest rate to be used for measuring the lease liability and right-of-use asset on the date of initial adoption of the new Lease Standard, based on the lease term and nature of the leased asset.

The Company estimated that the effect of the initial adoption of the new Lease Standard as of January 1, 2019, is expected to result in an increase in the Company's total assets and liabilities in the amount to USD 9.1 million.

Moreover, the effect of the initial adoption of the new Lease Standard in 2019 is expected to result in a decrease in the Company's lease expenses of USD 2.4 million and an increase in the Company's depreciation and finance expenses of USD 2.3 million and USD 0.2 million - USD 0.3 million, respectively. The total effect of the initial adoption of the new Lease Standard in 2019 is expected to result in an increase of USD 0.1 million in operating profit and a decrease of USD 0.1 million - USD 0.2 million in profit before income taxes.
The estimations above are in accordance to the existing contracts of the Company as at 31 December, 2018.

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

Taxable income of the Israeli parent is subject to the Israeli corporate tax at the rate of 24% in 2017 and 23% in 2018.

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

The Investment Law provides tax benefits for Israeli companies meeting certain requirements and criteria. The Investment Law has undergone certain amendments and reforms in recent years.
The Israeli parliament enacted a reform to the Investment Law, effective January 2011. According to the reform, a flat

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

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)

rate tax applies to companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country's economic growth and is a competitive factor for the gross domestic product.

On December 21, 2016 the Knesset plenum passed the second and third reading of the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 in which the Encouragement Law was also amended (hereinafter: "the Amendment"). The Amendment added new tax benefit tracks for a "preferred technological enterprise" and a "special preferred technological enterprise" that awards reduced tax rates to a technological industrial enterprise for the purpose of encouraging activity relating to the development of qualifying intangible assets.

Preferred technological income that meets the conditions required in the law, will be subject to a reduced corporate tax rate of 12%, and if the preferred technological enterprise is located in Development Area A to a tax rate of 7.5%. The Amendment is effective as from January 1, 2017.

On May 16, 2017 the Knesset Finance Committee approved Encouragement of Capital Investment Regulations (Preferred Technological Income and Capital Gain of Technological Enterprise) – 2017 (hereinafter: "the Regulations"), which provides rules for applying the "preferred technological enterprise" and "special preferred technological enterprise" tax benefit tracks including the Nexus formula that provides the mechanism for allocating the technological income eligible for the benefits.

In June 2016, Taptica appealed for a tax ruling to apply "the preferred enterprise" track, which 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, 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 required re- validation from the Israeli tax authority. Therefore Taptica appealed and received on December 2018 re-validation from the Israeli tax authority for the ruling which determines that Taptica owns an industrial enterprise and Preferred Technological Enterprise as defined in the Law for the Encouragement of Capital Investments – 1959. In addition, as a part of the re-validation of the ruling, Taptica also obtained an amendment that includes the acquisition and absorption of Tremor's operation in the rulings and apply the Law for the Encouragement of Capital Investments to this purchased activity as well. The tax rulings which was obtained on December 2018 will apply for the years 2017-2021.

On 4 December 2018, the Company together with Taptica submitted a request to the Israeli tax authorities for a tax ruling regarding to restructuring, whereby Taptica will be merged with and into the Company in such a manner that Taptica will transfer to the Company all its assets and liabilities for no consideration and thereafter will be liquidated. As of 31 December 2018 the merger between the companies was not yet approved by the Israeli Tax Authority. Following the expected approval of the restructuring, the tax rulings regarding Taptica owns an industrial enterprise and preferred technological enterprise which was obtained on December 2018 expected to apply on the merged company.

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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

4. Income Tax (cont'd)

D. Composition of income tax expense

	Year ended 31 December	
	2018	2017
	USD thousands	USD thousands
Current tax expense		
Current year	**5,494**	6,372
	5,494	6,372
Deferred tax expense (income)		
Creation and reversal of temporary differences	**(954)**	(2,656)
Change in tax rate	**475**	(155)
	(479)	(2,811)
Income tax expense	**5,015**	3,561

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

	Year ended 31 December	
	2018	2017
	USD thousands	USD thousands
Profit before taxes on income	**27,169**	17,320
Primary tax rate of the Company	**23%**	24%
Tax calculated according to the Company's primary tax rate	**6,249**	4,157
Additional tax (tax saving) in respect of:		
Non-deductible expenses net of tax exempt income *	**2,665**	229
Effect of reduced tax rate on preferred income and differences in previous tax assessments	**(5,452)**	(2,148)
Utilization of tax losses from prior years for which deferred taxes were not created	**(27)**	-
Effect on deferred taxes at a rate different from the primary tax rate	**1,109**	580
Foreign tax rate differential	**477**	788
Other differences	**24**	(45)
Income tax expenses	**5,015**	3,561

*including non- deductible share based compensation expenses

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

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 and R&D expenses	Employees Compensation*	Other*	Total
		USD thousands		
Balance of deferred tax asset (liability) as at 1 January 2017	(1,763)	111	213	(1,439)
Changes recognized in profit or loss	2,202	193	261	2,656
Business combination	(1,186)	368	188	(630)
Effect of change in tax rate	168	25	(38)	155
Balance of deferred tax asset (liability) as at 31 December 2017	(579)	697	624	742

*Reclassified

	Intangible Assets and R&D expenses	Employees Compensation*	Other*	Total
Balance of deferred tax asset (liability) as at 1 January 2018	**(579)**	**697**	**624**	**742**
Changes recognized in profit or loss	**697**	**151**	**106**	**954**
Effect of change in tax rate	**(168)**	**(22)**	**(285)**	**(475)**
Changes recognized in equity	**(24)**	**12**	**183**	**171**
Balance of deferred tax asset (liability) as at 31 December 2018	**(74)**	**838**	**628**	**1,392**

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

5. Fixed Assets, net

	Computers And Servers	Office furniture and equipment	Leasehold improvements	Total
	USD thousands			
Cost				
Balance as at 1 January 2017	527	158	643	1,328
Additions	**108**	**25**	**100**	**233**
Business combinations (see Note 17)	**1,896**	**186**	**58**	**2,140**
Disposals	–	–	**(2)**	**(2)**
Balance as at 31 December 2017	**2,531**	**369**	**799**	**3,699**
Additions	1,202	236	485	1,923
Balance as at 31 December 2018	**3,733**	**605**	**1,284**	**5,622**
Depreciation				
Balance as at 1 January 2017	420	55	420	895
Additions	512	74	79	665
Disposals	-	-	(2)	(2)
Balance as at 31 December 2017	932	129	497	1,558
Additions	**980**	**67**	**138**	**1,185**
Balance as at 31 December 2018	**1,912**	**196**	**635**	**2,743**
Carrying amounts				
As at 1 January 2017	107	103	223	433
As at 31 December 2017	1,599	240	302	2,141
As at 31 December 2018	**1,821**	**409**	**649**	**2,879**

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

6. Intangible Assets, net

	Software	Trademarks	Customer relationships	Technology	Distribution channel	Residual Goodwill	Total
				USD thousands			
Cost							
Balance as at 1 January 2017	5,266	5,007	900	10,473	1,044	19,600	42,290
Additions	1,471	–	–	–	–	–	1,471
Business combinations (see Note 17)*	136	3,160	6,453	16,985	–	13,143	39,877
Balance as at 31 December 2017	6,873	8,167	7,353	27,458	1,044	32,743	83,638
Exchange rate differences	**4**	**34**	**61**	**-**	**–**	**242**	**341**
Additions	**1,444**	**-**	**-**	**-**	**–**	**-**	**1,444**
Disposals	**(134)**	**-**	**-**	**-**	**–**	**-**	**(134)**
Balance as at 31 December 2018	**8,187**	**8,201**	**7,414**	**27,458**	**1,044**	**32,985**	**85,289**
Amortization							
Balance as at 1 January 2017	3,003	1,965	357	3,641	278	–	9,244
Additions	2,057	2,786	864	6,593	534	–	12,834
Balance as at 31 December 2017	5,060	4,751	1,221	10,234	812	–	22,078
Exchange rate differences	-	10	18	-	-	–	28
Additions	854	2,212	1,357	4,968	232	–	9,623
Disposals	**(45)**	**-**	**-**	**-**	**-**	–	**(45)**
Balance as at 31 December 2018	**5,869**	**6,973**	**2,596**	**15,202**	**1,044**	–	**31,684**
Carrying amounts							
As at 1 January 2017	2,263	3,042	543	6,862	766	19,600	33,046
As at 31 December 2017	1,813	3,416	6,132	17,224	232	32,743	61,560
As at 31 December 2018	**2,318**	**1,228**	**4,818**	**12,256**	**-**	**32,985**	**53,605**

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.

* Reclassified

B. Capitalized development costs

Development costs capitalized in the period amounted to USD 1,093 thousand (2017: USD 1,136 thousand) and were classified under software.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

7. Trade and Other Receivables

	31 December	
	2018	2017
	USD thousands	USD thousands
Trade receivables, net	**64,329**	78,554
Other receivables		
Prepaid expenses	**1,328**	1,044
Institutions	**5,336**	2,397
Related parties	**-**	4
Pledged deposits	**326**	386
	6,990	3,831
	71,319	82,385

8. Trade and Other Payables

	31 December	
	2018	2017
	USD thousands	USD thousands
Trade payables	**39,630**	46,232
Other payables		
Advances from customers	**1,676**	1,404
Wages, salaries and related expenses	**9,620**	9,251
Provision for vacation	**841**	842
Institutions	**2,492**	8,143
Related parties	**-**	164
Contingent consideration commitment (see Note 17B [(1)])	**-**	1,300
Others	**291**	949
	14,920	22,053
	54,550	68,285

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

9. Cash and Cash Equivalents

	31 December	
	2018	2017
	USD thousands	USD thousands
Cash	**40,941**	22,978
Bank deposits	**26,132**	4,007
Cash and cash equivalents	**67,073**	26,985

The Group's exposure to credit, and currency risks are disclosed in Note 15 on financial instruments.

10. Revenue

	Year ended 31 December	
	2018	2017
	USD thousands	USD thousands
Branding	**146,052**	63,750
Performance	**130,820**	147,175
	276,872	210,925

11. General and Administrative Expenses

	Year ended 31 December	
	2018	2017
	USD thousands	USD thousands
Wages, salaries and related expenses	**8,693**	6,169
Share base payments	**3,879**	172
Rent and office maintenance	**3,763**	1,943
Professional expenses	**1,527**	1,302
Depreciation and Amortization	**555**	323
Doubtful debts	**507**	1,745
Acquisition costs	**177**	2,202
Other expenses	**746**	637
	19,847	14,493

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

12. Equity

A. Share capital

	Ordinary shares- number of shares	
	2018	2017
Issued and paid-in share capital as at 31 December	**68,522**	62,484
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.

(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.
In the year ended 31 December 2018 and 2017, the Company issued 4,933 and 6,001 ordinary shares of a par value of NIS 0.01 based on the share price on the date of the issuance, respectively.
The total expenses recognized in the statement of Comprehensive Income in the year ended 31 December 2018 and 2017 with respect to the director share allotment amounted to USD 33 and USD 35 thousand, respectively.

(3) 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 USD 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.

(4) Own share acquisition
On 12 December 2018, the Company acquired 55,000 Ordinary Shares of NIS 0.01 ("Ordinary Shares") at a price of GBP 0.195 per share for a total consideration of GBP 107,250 (USD 134,839). The shares purchased represent approximately 0.08% of the total voting rights of the Company as of the acquisition date.

B. Dividends

Details on dividends (in USD thousand):

	For the year ended 31 December 2018	For the year ended 31 December 2017
	USD thousands	USD thousands
Declared and paid	**6,355**	2,612

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.

A dividend in the amount of USD 3,651 thousand (USD 0.054 per ordinary shares) was declared in March 2018, was paid in June 2018.

A dividend in the amount of USD 2,704 thousand (USD 0.0398 per ordinary shares) was declared in September 2018, was paid in November 2018.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

13. Earnings per Share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2018 and 2017 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	
	2018	2017
	USD thousands	
Profit for the year	**22,154**	13,759

Weighted average number of ordinary shares:

	Year ended 31 December	
	2018	2017
	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 as at 31 December	**67,520,554**	61,187,918
Basic earnings per share (in USD)	**0.3281**	0.2249
Basic earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses	**0.4585**	0.4088

Diluted earnings per share (in USD)

The calculation of diluted earnings per share as at 31 December 2018 and 2017 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	
	2018	2017
	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	**67,250,554**	61,187,918
Effect of share options on issue	**2,446,429**	2,472,347
Weighted average number of ordinary shares used to calculate diluted earnings per share	**69,696,983**	63,660,265
Diluted earnings per share	**0.3179**	0.2161
Diluted earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses	**0.4442**	0.3929

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

14. Share-Based Payment Arrangements

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

	Year ended 31 December	
	2018	2017
	USD thousands	
Selling and marketing	**2,738**	427
Research and development	**1,420**	285
General and administrative	**3,879**	172
	8,037	884

(2) Share-based compensation plan

The terms and conditions related to the grants of the share options 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 0.75-4 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.

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.

(3) New grants during the period

During 2018, the Group granted 3,756 thousand share options, 1,380 thousand Performance Share Units (PSUs) and 1,365 thousand Restricted Share Units (RSUs) to its executives officers and employees from outstanding awards under 2017 Plan and 2014 Plan.

The total expense recognized in the year ended 31 December 2018 with respect to the options granted to employees, amounted to approximately USD 8,004 thousand.
The grant date fair value of the share options granted was measured based on the Black-Scholes option pricing model.

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

14. Share-Based Payment Arrangements (cont'd)

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

	Weighted average exercise price		Number of options	
	2018	2017	**2018**	2017
	(GBP)		**(Thousands)**	
Outstanding at 1 January	**1.82**	1.55	**6,733**	5,526
Forfeited during the year	**2.79**	1.90	**(2,161)**	(1,124)
Exercised during the year	**0.55**	0.86	**(1,238)**	(2,031)
Granted during the year	**2.83**	2.66	**6,501**	4,362
Outstanding at 31 December	**2.44**	1.82	**9,835**	6,733
Exercisable at 31 December			**1,559**	395

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

The fair value of employees 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:

	2018	2017
Grant date fair value in USD	0.83-5.92	0.77-5.39
Share price (on grant date) (in GBP)	3.00-4.46	2.39-4.48
Exercise price (in GBP)	0-4.37	0-4.31
Expected volatility (weighted average)	42%	42%
Expected life (weighted average)	3.3-3.9	3.5-3.8
Expected dividends	0.7%-1.35%	0.73%-3.04%
Risk-free interest rate	2.26%-2.73%	1.57%-1.99%

15. 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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

15. Financial Instruments (cont'd)

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

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	
	2018	2017
	USD thousands	USD thousands
Cash and cash equivalents (1)	**67,073**	26,985
Trade receivables, net (2)	**64,329**	78,554
Other receivables	**326**	390
	131,728	105,929

(1) At 31 December 2018, USD 997 thousand are held in NIS, USD 3,062 thousand are held in GBP and USD 297 thousand are held in EUR, USD 215 thousand are held in CAD, USD 5,562 thousand are held in JPY, USD 140 thousand are held in KRW and the remainder held in USD.

(2) At 31 December 2018, the Group included provision to doubtful debts in the amount of USD 2,822 thousand (31 December 2017: USD 2,369 thousand) in respect of collective impairment provision and specific debtors that their collectability is in doubt.

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, 2018 and December 31, 2017, the Group's contractual obligation of financial liability is in respect of capital lease, trade and other payables in the amount of USD 40,320 thousand and USD 49,121 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, 2018, the Company has a loan from bank which an amount of USD 12,273 thousand (2017- USD 5,454 thousand) will be repaid until 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 17B(1), a mutual option was granted to the Company to acquire the remaining 43% of the shares. As of 31 December, 2018, the amount of the liability inherent in the exercise of the option is USD 3,941 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.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

15. Financial Instruments (cont'd)

D. Market risk (cont'd)

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, KRW 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.

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 17).

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.

	Financial instruments level 3
Balance as at December 31, 2016	200
Recognition of contingent consideration (see also Note 17B(1))	1,283
Expenses recognized in profit and loss	17
Settlement of partial contingent consideration	(200)
Balance as at December 31, 2017	**1,300**
Settlement of contingent consideration	**(1,218)**
Recognized in profit and loss	**(82)**
Balance as at December 31, 2018	**-**

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

16. 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 14 regarding share-based payments.

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

	Year ended 31 December	
	2018	2017
	USD thousands	USD thousands
Share-based payments	**3,540**	153
Other compensation and benefits	**3,989**	3,866
	7,529	4,019

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):

		Year ended 31 December	
		2018	2017
		Value of transactions	
		USD thousands	
Related party	**Nature of transaction**		
Webisaba, related company	Purchase of media from the Company	–	(15)
Ehud Levy, Shareholder	Interest on loan (see Note 17B(2))	–	(34)

C. See also Note 17B(2) with respect to a bridge loan from related party.

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

17. Subsidiaries

A. Details in respect of subsidiaries

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

Name of Company	Principal location of the Company's activity	The Group's ownership interest in the subsidiary for the year ended December 31	
		2018	2017
Taptica LTD	Israel	**100%**	100%
Taptica INC	USA	**100%**	100%
Tremor Video DSP	USA	**100%**	100%
Tremor Video PTE Ltd.*	Singapore	**100%**	100%
Adinnovation INC	Japan	**57%**	57%
Taptica Japan	Japan	**100%**	100%
Taptica UK	United Kingdom	**100%**	100%
Taptica Korea	Korea	**100%**	100%
Taptica CN	China	**100%**	100%

* The subsidiary completed liquidation subsequent to the balance sheet date.

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 shareholding 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 March 2018, the Company paid the earn out payment for ADI acquisition in the amount of USD 1.2 million.

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's minority shareholders have a put option for a period of 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. In 2018 the Company recorded a revaluation to decrease the liability in the amount of USD 4,678 thousand.

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

17. Subsidiaries (cont'd)

B. The Acquisition of subsidiaries and business combinations (cont'd)

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

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. Presented hereunder are the assets and liabilities that were allocated to ADI at the acquisition date:

	As at 17 July, 2017 USD thousands
Current assets:	
Cash and cash equivalents	**3,127**
Trade receivables	**4,400**
Other receivables	**64**
Non-current assets:	
Property, plant and equipment	**17**
Intangible assets[(1)]	**12,242**
Current liabilities:	
Other payables	**(912)**
Trade payables	**(3,517)**
Non-current liabilities:	
Other liabilities	**(290)**
Liability for put-option on non-controlling interests	**(8,496)**
Deferred tax liabilities, net	**(944)**
Contingent consideration	**(1,283)**
	4,408

[(1)] Comprised as follow:

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

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

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

Notes to the Consolidated Financial Statements (contd.)

as at 31 December 2018

17. Subsidiaries (cont'd)

B. The Acquisition of subsidiaries and business combinations (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 months, 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, 2018 and 2017, the Company comply with the requirements. On March 2018, the Company repaid USD 15 million out of the loan. As of 31 December 2018 the principal amount is USD 12.3 million.

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. Presented hereunder are the assets and liabilities that were allocated to Tremor video's DSP at the acquisition date:

	As at 7 August, 2017 USD thousands
Current assets:	
Cash and cash equivalents	**476**
Trade receivables	**43,426**
Other receivables	**94**
Prepaid expenses	**3,256**
Non-current assets:	
Property, plant and equipment	**2,126**
Intangible assets[1]	**27,632**
Deferred tax assets, net	**314**
Current liabilities:	
Other payables	**(5,380)**
Trade payables	**(20,498)**
Non-current liabilities:	
Other long-term liabilities	**(1,446)**
	50,000

[1] Comprised as follow:

	Fair value as at 7 August, 2017
Brand and domain name	**1,936**
Technology	**16,985**
Customer relations	**4,271**
Residual goodwill	**4,440**
	27,632

Notes to the Consolidated Financial Statements *(contd.)*

as at 31 December 2018

17. Subsidiaries (cont'd)

B. Acquisition of subsidiaries (cont'd)

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

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

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

18. Operating Segments

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

Geographical information

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	
	2018	2017
	USD thousands	USD thousands
America	**182,067**	115,905
Asia	**72,061**	60,825
Europe	**18,867**	25,580
Israel	**3,483**	4,696
Others	**394**	3,919
Consolidated	**276,872**	210,925

19. Subsequent Events

On February 4, 2019, the Company announced a proposed merger (hereinafter- "the offer") with RhythmOne Plc ("RhythmOne", AIM:RTHM) whereby the Company will acquire the entire issued and to be issued ordinary share capital of RhythmOne under the UK Takeover Code.

Each RhythmOne shareholder will be entitled to receive 28 new shares of the Company for every 33 RhythmOne shares held, so that following the completion of the offer, the Company's current shareholders will hold 50.1% and, RhythmOne Shareholders will hold 49.9% of the merged Group.

The Company launched a $15million discretionary share buy back program on 2 April 2019.

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