Taptica

Ad the Right User

Annual Report and Accounts 2017

For the year ended 31 December 2017

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Directors, Secretary & Advisers

Directors

Timothy Grainger Weller
Non-Executive Director and Chairman

Hagai Tal
Chief Executive Officer

Yaniv Carmi
Chief Financial Officer

Joanna Rachael Parnell
Non-Executive Director

Neil Garth Jones
Non-Executive Director

Ronni Zehavi
Non-Executive Director

Company Secretary

Yaniv Carmi

Registered Office

121 Hahashmonaim
Tel Aviv 6713328
Israel

Nominated Adviser and Joint Broker

finnCap Ltd
60 New Broad Street
London EC2M 1JJ

Joint Broker

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP

Legal Advisers – English law

Charles Russell Speechlys LLP
5 Fleet Place
London EC4M 7RD

Legal Advisers – Israeli law

Naschitz, Brandes, Amir & Co
5 Tuval Street
Tel Aviv 6789717, Israel

Reporting Accountants and Auditors

KPMG Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street
P.O.B. 609
Tel Aviv 61006, Israel

Financial Public Relations Adviser

Luther Pendragon
48 Gracechurch Street
London EC3V 0EJ

Registrar

Link Market Services (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH

Depositary

Link Market Services Trustees Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial & Operational Highlights 2017

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

Financial Highlights

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

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

Operational Highlights

- Continued to gain traction with existing household-name clients and added new customers, such as Addison Lee
- Significantly enhanced offering and US presence with purchase of Tremor Video DSP; integration completed ahead of schedule
- Increased contribution from Asia-Pacific, particularly Japan and China, while US continued to be the largest single geography by revenue generation
- Increased international presence with establishment of offices in London and Japan. In total, Company has a physical presence in 10 countries
- Post period, conducted fundraise to provide extra fire power for future acquisitions, which remain under active consideration

Tim Weller
Chairman May 2018

Chairman's Statement

The past year has been one of substantive change; the whole ad-tech industry has been in the process of reinventing itself to adapt to the fast changing habits of the consumer and how they interact with brands and companies. Taptica, as a leader in this industry, constantly asks itself whether it is the company that it needs to be in order to succeed in the future. In 2017, we responded with a well-thought-out strategy that we believed would deliver new sources of growth, whilst continuing to deliver on the strong underlying fundamentals of our business.

2017 was a good year for Taptica where we continued to deliver on our organic growth objectives and, through two acquisitions during the year, we reinforced the strong foundation from which we can continue to grow the Company's performance-based marketing business as well as become a major global player in the brand advertising business.

The Company's significant growth was helped by the contribution of our newly-established offices in the Asia-Pacific region, where consumers continued to increase their use of apps and accessing the internet on their mobiles, and the acquisitions that we made during 2017. We carried out effective campaigns for existing Tier 1 customers and were successful in on-boarding new ones. Our two acquisitions – Japan-based Adinnovation and US-based Tremor Video DSP – transformed the business by giving us a broader footprint in the Asia-Pacific region and the US – the two standout regions for growth in digital ad spending. I am pleased to report that Taptica continues to count global household brands and other Tier 1 customers as clients. In the Chief Executive's statement we outline the progress we have made in expanding our footprint into South East Asia. In these new territories, we are focused on serving clients located in those geographies as well as current clients based elsewhere who want access to those markets.

Brand advertising

The acquisition of Tremor Video DSP represents Taptica's entry into the brand advertising market where the aim is to use adverts to build a connection between a brand (the advertiser) and the user over time, compared with Taptica's performance-based marketing that focuses on achieving a particular action such as click-through or app download. By targeting both types of marketing, Taptica will be covering both sides of the advertising ecosystem and the Company can take advantage of the significant upselling and cross selling. There is also an opportunity to enable further global expansion when the Company introduces the Tremor Video DSP brand video solution to geographies outside of the US.

Ad-tech growth trends to continue

The ad-tech industry continues to expand and grow. Internet ad spending has been transitioning to mobile over the past few years. By 2019, mobile ad spending is expected to reach $156 billion and account for 62.5 percent of internet ad expenditure and 26.4 percent of all ad expenditure, according to Zenith, the media measurement company. That's more than all the traditional media, except television, put together. However, there was a significant move in advertising on television. For the first time since 2009, it dropped in 2017. This was driven primarily by large brands beginning to migrate to digital advertising. We expect this trend to continue.

Continued growth

The sector we operate in, once again, showed how fast paced it can be and 2018 promises to be another exciting year.
Ultimately, we wish to establish and further grow a significant presence in the key worldwide hubs of Japan, China, South Korea, India, US, South America, East Europe, Germany, France and the UK. Our aim is to build a business that is truly global in scale. Where we lack a market presence, we are actively looking for complementary acquisitions to gain a foothold in those territories.

I have every confidence that we will continue to innovate and take advantage commercially. We continue to invest in mobile R&D, developing our mobile data analytics tool so that we maintain our competitive edge as we strive to continue to optimise campaign effectiveness, which, in turn, improves mobile advertising performance. Also, in order to accelerate our technological superiority, we continue to actively look for innovative companies to team up with or acquire.

Our success is down to the hard work and dedication of our talented staff, who have positioned us well to compete, grow and keep us ahead of our industry. Our success is also due to the support of our partners and customers, for which I am very grateful. Finally, I would like to thank you, our shareholders, for your continued support and I look forward to reporting further progress in due course.

Hagai Tal
Chief Executive Officer May 2018

Chief Executive Officer's Review

We are pleased to report another year of significant growth in what was a transformational period for Taptica. In particular, we made our largest acquisition to date with the purchase of Tremor Video's demand-side platform ("Tremor Video DSP") for video advertising optimisation, which added brand advertising to our performance-based marketing offer as well as significantly enhancing our US presence. We also grew our existing business to gain traction with existing household-name clients and adding new customers. As a result, total revenue increased by 68% to $210.9 million, including mobile in-app (non-video) year-on-year growth of 35%.

Geographic expansion

A key driver of growth was the significant contribution to revenues from our newly established international offices, particularly in the Asia-Pacific region. In China, we gained 91 new clients and expanded into new segments, such as e-commerce where we were appointed by one of China's largest ecommerce companies. There was also strong growth among existing clients, such as one of China's leading mobile internet companies that increased its spend by over 200% in 2017 compared with 2016. To support this expansion, we increased our employee base in China from four to twelve.

We established a presence in Japan with the acquisition of a majority shareholding in Adinnovation Inc. This was part of our strategy to increase our presence in the Asia-Pacific region and, in particular, accelerate raising Taptica's brand awareness in Japan, a key growth market. Since the acquisition, the business has performed well and we have also introduced new management practices with an increased focus on efficiency, which is improving the operations and efficiency of the Adinnovation unit.

At the beginning of the year, we opened an office in the UK to better serve our existing client base in the UK and Europe as well as to target new customers and leverage our relationship with two of Europe's largest advertising agencies with headquarters in the UK. During the year, we increased our engagement with the leading agencies and significantly enhanced our local customer base with new clients accounting for 70% of UK sales. This included expanding into the ride-sharing, food delivery and e-commerce segments, gaining clients such as Addison Lee and Runtastic. We were also awarded the Europe-focused campaigns of a number of US-based Tier 1 businesses.

We also expanded our global footprint by securing representatives in India, Indonesia, Russia and Germany.

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

Acquisition of Tremor Video DSP

Since acquiring Tremor Video DSP in August, we worked hard to install new management alongside the existing team, set targets and budgets, establish cost control measures and finalise the three-year strategic plan and vision for the brand advertising division. As a result, we completed the integration ahead of schedule and Tremor Video DSP performed better than anticipated, including achieving profitability during 2017.

As Tim Weller discusses in his Chairman Statement, with the addition of brand advertising alongside our existing performance-marketing offer, we are covering both sides of the advertising ecosystem and also have opportunities to cross-sell.

R&D

We continued to enhance our offering through R&D into machine learning to further improve our ability to leverage data and enable ever-more accurate user targeting.

Outlook

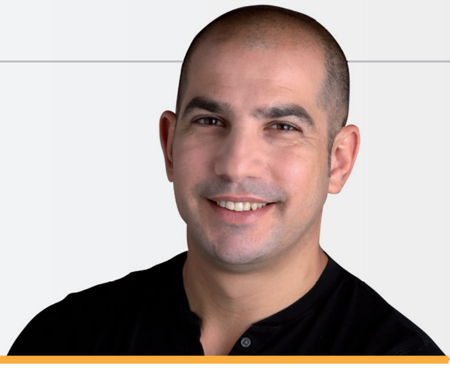
In 2018, Taptica is on track to build on the successes achieved in 2017 as we continue to make significant progress with an enhanced offering to Tier 1 advertisers supported by strong industry trends as use of apps by consumers and accessing the internet on smartphones show no sign of abating. We are continuing to strengthen our position with sustained investment in R&D and sales & marketing, particularly in new geographies, as well as having bolstered the management team to support further growth.

The sales momentum of 2017 has been sustained into 2018 with an expanding Tier 1 client base and as our newly established international offices, primarily in the Asia-Pacific region, make a growing contribution to revenues. We are also continuing to grow our brand advertising revenue stream.

In addition, the successful integration of Tremor Video DSP has established the infrastructure to facilitate us in acquiring further businesses to expand our geographic footprint, or provide technology and database enrichment. In January 2018 we raised $30 million of equity to pay down debt and provide extra fire power for prospective acquisitions, and we remain in conversation with a number of potential acquisition targets.

We also note the recent press coverage on Facebook and confirm that this does not affect our business model.

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



Yaniv Carmi
Chief Financial Officer May 2018

Chief Financial Officer's Review

This was a momentous year for Taptica. We remained highly cash generative and achieved significant revenue growth driven by the contribution of new international offices and successful acquisitions. This geographic expansion to become truly global as well as the M&A activity has transformed our infrastructure and diversified our revenue streams. As a result, we strengthened our foundations and entered 2018 in a better position than at the same point of the previous year.

Now to look at the financial results in more detail.

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

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

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

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

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

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

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

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

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

This was another active year for Taptica and I would like to thank our employees, shareholders and partners for their support, which has enabled us to continue to deliver fantastic results.

TREMOR VIDEODSP
A TAPTICA COMPANY

Tremor Video DSP is the leading programmatic video platform, matching advertisers with audiences – wherever they may be. Delivering custom video experiences across all screens, Tremor Video DSP helps advertisers tell captivating brand stories to create meaningful, personalized moments with prospective customers.

TV RETARGETING

Target Customer

Marketers, TV buyers, lifestyle teams, brand activation teams, strategy teams, creative shops

Competitive Landscape

TIER 1

Facebook, Twitter, YouTube

TIER 2

TVTY, SAMBA TV, VIANT., SAMSUNG

TRADITIONAL PROGRAMMATIC VIDEO

Target Customer

Digital buyers
Video teams

Competitive Landscape

TIER 1

doubleclick by Google
theTradeDesk

TIER 2

Adobe, TURN, Oath:, amazon, MediaMath

REACHING AUDIENCES WITH UNIQUE & EXCLUSIVE DATASETS

Directors' Biographies

Tim Weller

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.

Hagai Tal

Chief Executive Officer

Hagai Tal joined Taptica in 2010 as a major shareholder and became the Company's Chief Executive Officer in December 2013. Mr Tal has invested in, led and developed a number of companies through successful growth, continued investment and the IPO/ disposal process. These companies include Kontera, Amadesa, Payoneer, BlueSnap (formerly Plimus) and Spark Networks (NYSE:LOV). Mr Tal's previous positions include being Co-Founder and Chief Executive Officer at BlueSnap (formerly Plimus) and Vice President of Marketing at Spark Networks. Mr Tal holds a Masters in Management Information Technology from the University of Sunderland. Mr Tal is also a member of The Aspen Global Leadership Network.

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.

Corporate Governance

Joanna Parnell
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
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
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 effective direction and control of the Company, which is aimed to generate long-term success for the Company. This report describes the framework for corporate governance and internal control that the directors have established to enable them to carry out this responsibility.

As an AIM listed company, the Company is not required to comply with the provisions of the UK Corporate Governance Code (the "Code") and this is not a statement of compliance as required by the Code. However, the directors recognize the importance of sound corporate governance and, accordingly, comply with the Code, to the extent they believe appropriate for a company of its nature and size. The Board also follows, as far as practicable, the recommendations in the Corporate Governance Code for Small and Mid-size Quoted Companies published by the QCA (the "QCA Guidelines"), which have become a widely recognised benchmark for corporate governance of small and mid-size quoted companies, particularly AIM companies. 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 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, Hagai Tal and Yaniv Carmi, and four non-executive directors, Tim Weller (Chairman of the Board), Neil Jones, 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 the Director of International Operations, Efrat Shpiro, 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 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 2017, the Board met on 11 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.

Corporate Governance

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.

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 2017, the Committee met on 5 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.

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.

Operation of the Remuneration Committee

The Committee operates under written terms of reference.

During 2017, the Committee met on 7 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 adoption of a new 2017 Equity Incentive Plan; the grant of equity incentive awards to the Company's employees, including employees of the Tremor business acquired in 2017; and increasing the pool of equity incentive awards available for employee grants under the Company's

Corporate Governance

equity incentive plans. The Committee reviewed and recommended to the Board and shareholders, for their approval, annual bonuses and option grants 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.

Operation of the Nomination Committee
The Committee operates under written terms of reference. During 2017, the Committee met on 1 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, Yaniv Carmi and, non-executive directors, Tim Weller, Neil Jones, Joanna Parnell and Ronni Zehavi, which was approved at the Company's 2017 Annual General Meeting. Hagai Tal, 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.

Disclosure Committee Composition
The Disclosure Committee comprises Tim Weller, Hagai Tal 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 (including one non-executive director) constitutes the legal quorum for a Committee meeting.

Board and Committees Evaluation
The performance of the Board, the Board committees and the individual Board 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).

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

Corporate Governance

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, Hagai Tal, and Chief Financial Officer, Yaniv Carmi, 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.taptica.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 Luther Pendragon.

Internal Controls

The Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues. The Company's organisational 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 Mrs Irit Segal.

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.

Mandatory bids, squeeze out and sell out rules relating to the ordinary shares

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; orthe 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 that operates in more than 70 countries. It has two revenue streams: performance-based marketing, provided by the original Taptica business, and brand advertising, provided by the recently-acquired Tremor Video DSP.

Taptica 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 and, combined with state-of-the-art machine learning, enables quality media targeting at scale.

Tremor Video DSP matches advertisers to their audiences and delivers custom video experiences across screens using its programmatic video platform. Tremor curates audiences via data, leveraging its hub of qualified data providers that supply exclusive, anonymized data.

Business Review

The information that fulfils the requirements of the business review, including details of the 2017 results, principal risks and uncertainties and the outlook for future years, are set out in the Chairman's, Chief Executive Officer's and Chief Financial Officer's statements on pages 6 to 8, and in this Directors' Report.

Dividends

The Company has paid dividends to its Shareholders in each of the last five years. The Board recognises the importance of dividend income to Shareholders and intends to adopt a progressive dividend policy to reflect the expectation of future cash flow generation and long-term earnings potential of the Company. For 2017, the Company maintained its 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 2017 and up to the date of signing the consolidated financial statements except where otherwise shown.

Tim Weller – Non-Executive Chairman (Throughout 2017-present)

Hagai Tal – Chief Executive Officer (Throughout 2017-present)

Yaniv Carmi – Chief Financial Officer (Throughout 2017-present)

Joanna Parnell - Non-Executive Director (Throughout 2017-present)

Neil Jones - Non-Executive Director (Throughout 2017-present)

Ronni Zehavi - Non-Executive Director (Throughout 2017-present)

Directors' Remuneration and Interests

The Remuneration Report is set out on pages 20 to 21. It includes details of Directors' remuneration, interests in the Ordinary Shares of the Company and share options.

Corporate Governance

The Board's Corporate Governance Report is set out on pages 12 to 15.

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

Corporate Governance

became effective in May 2018, could harm the Company's business.

- 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 fraud.
- 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. Accordingly, the Company has updated its Privacy Policy and Terms and Conditions, including the data processing clauses, which will be implemented to the extent required and in accordance with applicable law. 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

Both of the Company's revenue streams are based 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 50. Following the acquisition of Tremor Video DSP during the year, the Company now also has a research and development team based in the Tremor office in New York, with a staff of 48. Research and development expenses during the year were $17.0m (2016: $6.1m).

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2017 are set out in Note 11 to the consolidated financial statements.

At 16 May 2018 the total issued and outstanding number of Ordinary Shares were 67,616,278 and 8,088,337 Ordinary Shares were held in treasury as dormant shares. The following held 3% or more of the ordinary share capital of Taptica:

Shareholder	%
Schroder Investment Mgmt	13.7
Eitan Epstein and Shirley Dahan Trust on Behalf of MTD PTE Ltd[1]	13.2
River & Mercantile Asset Mgmt	6.7
Smart and Simple Ltd[2]	6.4
Legal & General	4.2
Investec Asset Mgmt	3.8
Ibex Investors LLC	3.7

(1) The shares are held in trust on behalf of Mr Hagai Tal (Chief Executive Officer and Director). Mr Tal, through his direct and indirect holdings, is the beneficial owner of 9,501,259 ordinary shares representing 14.1% of the issued share capital of the Company.

(2) The shares are held in trust on behalf of Mr Ehud Levy. Mr Levy, through his direct and indirect holdings, is the beneficial owner of 4,800,009 ordinary shares representing 7.1% 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 2017 audit. The total fee paid to the Company's auditors for audit services rendered to the Company during that year was $105,000.

Events after the reporting period

For significant events after the reporting period please refer to Note 18 on page 56.

Remuneration Report

Directors' Remuneration

The Board recognizes 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 2017 was as follows (all amounts in GBP – NIS 4.63: GBP 1):

Tim Weller	83,750
Hagai Tal	574,745
Yaniv Carmi	619,087
Neil Jones	37,917
Joanna Parnell	33,750
Ronni Zehavi*	25,000

** The amount includes share-based payments.*

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 (including two of its executive directors) in 2017 was as follows (all amounts in GBP):

	Base salary*	Bonus	Share-based	Total
Hagai Tal, CEO	238,134	315,666	20,945	574,745
Yaniv Carmi, CFO	202,114	369,661	47,311	619,086
Tal Feigel, GM, Europe	190,644	349,415	10,795	550,854
Galia Reichenstein, GM, US	165,271	339,030	11,281	515,582
Rivi Bloch, VP Client Success	63,569	374,238	57,466	495,273

** The amount includes employer costs.*

Corporate Governance

During 2017, the Company granted 4,078 thousand options over ordinary shares of NIS 0.01 each ("Ordinary Shares") to certain employees under the Company's Global Share Incentive Plan (2011) and the Company's 2015 U.S. Equity Incentive Plan. As of 31 December 2017 options were held by employees over an aggregate of 6,424 thousand Ordinary Shares under the Plan, with 357 thousand exercisable at 31 December 2017. The options have an exercise price of GBP 0.00 to GBP 4.31, vest in tranches from 2017-2022, and expire in tranches in 2021-2024.

Following the passing of resolutions 12 and 13 at the 2017 AGM, the Company granted a total of 360,677 options over Ordinary Shares to its two executive directors under the Company's Global Share Incentive Plan (2011) at an exercise price of NIS 0.01 per Ordinary Share. The options vest in tranches from 2018-2020, and expire in 2022. The options were granted to the directors of the Company as follows:

Director	Number of options granted	Total number of options held
Hagai Tal, Chief Executive Officer	110,677	110,677
Yaniv Carmi, Chief Financial Officer	250,000	250,000

In addition, the Company's shareholders adopted the Company's 2017 equity incentive plan to provide for the grant of equity incentive awards to executives and employees of Tremor Video DSP following the acquisition in August 2017 and other US employees.

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

Directors' Interests

As of 16 May 2018:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of outstanding share capital
Tim Weller	94,630	Nil	0.1
Hagai Tal[1]	9,501,259	110,677	14.1
Yaniv Carmi	110,000	250,000	0.2
Joanna Parnell	Nil	Nil	Nil
Neil Jones	3,267	Nil	0.0
Ronni Zehavi	31,443	Nil	0.0

1) The number of ordinary shares includes 8,903,125 shares that are registered in the name of Eitan Epstein and Shirley Dahan Trust on behalf of MTD PTE Ltd. Mr Tal is the sole shareholder and beneficial owner of MTD PTE Ltd.

Consolidated Financial Statements 2017

Independent Auditors' Report

Auditors' Report to the Shareholders of Taptica International Ltd.

We have audited the accompanying consolidated statements of financial position of Taptica International Ltd. (hereinafter – "the Company") as at 31 December 2017 and 2016 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 2017. These financial statements are the responsibility of the Company's Board of Director 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 above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of 31 December 2017 and 2016 and their results of operations, changes in equity and cash flows for each of the two years in the period ended 31 December 2017, in accordance with International Financial Reporting Standards (IFRS).

Somekh Chaikin

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

March 2018

Consolidated Statements of Financial Position

as at 31 December

	Note	**2017 US$ 000s**	2016 US$ 000s
Assets			
Cash and cash equivalents	9	**26,985**	21,471
Trade receivables, net	7	**78,554**	27,443
Other receivables	7	**3,831**	1,890
Total current assets		**109,370**	50,804
Fixed assets, net	5	**2,141**	433
Intangible assets, net	6	**61,560**	33,046
Deferred tax assets	4	**2,329**	301
Total non-current assets		**66,030**	33,780
Total assets		**175,400**	84,584
Liabilities			
Credit and current maturities of loans		**5,930**	–
Trade payables	8	**46,232**	22,501
Other payables	8	**22,053**	9,443
Total current liabilities		**74,215**	31,944
Employee benefits		**976**	176
Long-term loans	16B(2)	**25,085**	–
Deferred tax liabilities	4	**1,587**	1,740
Liability for put option on non-controlling interests	16B(1)	**8,619**	–
Total non-current liabilities		**36,267**	1,916
Total liabilities		**110,482**	33,860
Equity	11		
Share capital		**180**	175
Share premium		**32,886**	29,759
Capital reserves		**1,276**	1,238
Retained earnings		**30,576**	19,552
Total equity		**64,918**	50,724
Total liabilities and equity		**175,400**	84,584

Date of approval of the financial statements by the Board of Directors: 25 March 2018

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

Consolidated Statements of Comprehensive Income

for the year ended 31 December

	Note	2017 US$ 000s	2016 US$ 000s
Revenues		**210,925**	125,861
Cost of sales		**130,350**	79,880
Gross profit		**80,575**	45,981
Research and development expenses		**16,995**	6,127
Selling and marketing expenses		**31,460**	14,202
General and administrative expenses	10	**14,493**	5,919
		62,948	26,248
Profit from operations		**17,627**	19,733
Profit from operations before amortization of purchased intangibles and business combination related expenses*		**30,609**	22,910
Financing income		**257**	355
Financing expenses		**(564)**	(504)
Financing expenses, net		**(307)**	(149)
Profit before taxes on income		**17,320**	19,584
Taxes on income	4	**(3,561)**	(3,115)
Profit for the year		**13,759**	16,469
Profit for the year before amortization of purchased intangibles and business combination related expenses (net of tax)**		**25,015**	19,042
Other comprehensive income items			
Foreign currency translation differences for foreign operation		**(1)**	–
Total other comprehensive income for the year		**(1)**	–
Total comprehensive income for the year		**13,758**	16,469
Earnings per share			
Basic earnings per share (in USD)	12	**0.2249**	0.2627
Basic earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses (net of tax)**		**0.4088**	0.3038
Diluted earnings per share (in USD)	12	**0.2161**	0.2592
Diluted earnings per share (in USD) before amortization of purchased intangibles and business combination related expenses (net of tax)**	12	**0.3929**	0.2997

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

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

The accompanying notes are an integral part of these 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
			US$ thousands		
Balance as at 1 January 2016	190	35,566	2,450	7,073	45,279
Total comprehensive income for the year					
Profit for the year	–	–	–	16,469	16,469
Total comprehensive income for the year	–	–	–	16,469	16,469
Transactions with owners, recognized directly in equity					
Business combination	–	(344)	(1,656)	–	(2,000)
Own shares acquired	(15)	(5,505)	–	–	(5,520)
Share based payments	–	27	453	–	480
Exercise of share options	*	15	(9)	–	6
Dividends to owners	–	–	–	(3,990)	(3,990)
Balance as at 31 December 2016	175	29,759	1,238	19,552	50,724
Comprehensive income for the year					
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)**
Balances as at 31 December 2017	**180**	**32,886**	**1,276**	**30,576**	**64,918**

* Less than USD 1 thousand.

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

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

Consolidated Statements of Cash Flows

for the year ended 31 December

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

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

Notes to the Consolidated Financial Statements

as at 31 December 2017

1. General

A. Reporting entity

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

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

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

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

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

B. Definitions

In these financial statements –

(1) The Company – Taptica International Ltd. (former name: Marimedia Ltd.)

(2) The Group – Taptica International Ltd. and its subsidiaries.

(3) Subsidiaries – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

(4) Related party – As defined by IAS 24, "Related Party Disclosures".

2. Basis of Preparation

A. Statement of compliance

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

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

B. Functional and presentation currency

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

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

as at 31 December 2017

2. Basis of Preparation *(continued)*

C. Basis of measurement

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

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

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

D. Use of estimates and judgments

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

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

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

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

E. Determination of fair value

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

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

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

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

as at 31 December 2017

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.

(2) Subsidiaries

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

(3) Transactions eliminated on consolidation

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

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

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

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

B. Foreign currency

(1) Foreign currency transactions

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

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

(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.

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition of financial assets

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

Derecognition of financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Receivables

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

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

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables.

Initial recognition of financial liabilities

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

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

Derecognition of financial liabilities

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

Offset of financial instruments

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

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

C. Financial instruments *(continued)*

(3) Share capital

Ordinary shares

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

Treasury shares

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

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	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.

(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.

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

E. Intangbible assets *(continued)*

(3) Goodwill

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

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

(4) Other intangible assets

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

(5) Amortization

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

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

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

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

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

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

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

F. Impairment of financial assets

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

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

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

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

G. Impairment of non-financial assets

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

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

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

H. Employee benefits

(1) Post-employment benefits

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

(a) Defined contribution plans

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

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

(b) Defined benefit plans

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

(2) Short-term benefits

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

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

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

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

H. Employee benefits *(continued)*

(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

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

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

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

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

J. Classification of expenses

Cost of revenues

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

Research and development

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

Selling and marketing

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

General and administrative

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

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.

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

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.

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.

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

as at 31 December 2017

3. Significant Accounting Policies *(continued)*

P. New standards and interpretations not yet adopted

IFRS 9 (2014), Financial Instruments

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

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

IFRS 16, Leases

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

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

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

4. Income Tax

A. Tax under various laws

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

B. Details regarding the tax environment of the Israeli companies

(1) Corporate tax rate

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

2016 – 25%

2017 – 24%

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

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

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

as at 31 December 2017

4. Income Tax *(continued)*

B. Details regarding the tax environment of the Israeli companies *(continued)*

(1) Corporate tax rate *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

as at 31 December 2017

4. Income Tax *(continued)*

D. Composition of income tax expense

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Current tax expense		
Current year	**6,372**	4,172
Adjustment for prior years, net	–	–
	6,372	4,172
Deferred tax expense (income)		
Creation and reversal of temporary differences	**(2,656)**	(444)
Change in tax rate	**(155)**	(613)
	(2,811)	(1,057)
Income tax expense	**3,561**	3,115

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

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Profit before taxes on income	**17,320**	19,584
Primary tax rate of the Company	**24%**	25%
Tax calculated according to the Company's primary tax rate	**4,157**	4,896
Additional tax (tax saving) in respect of:		
Non-deductible expenses	**246**	242
Effect of reduced tax rate on preferred income according to the Law for the Encouragement of Capital Investments – 1959	**(2,148)**	(1,492)
Utilization of tax losses from prior years for which deferred taxes were not created	–	(6)
Effect on deferred taxes at a rate different from the primary tax rate	**580**	(506)
Foreign tax rate differential	**788**	161
Other differences	**(62)**	(180)
Income tax expenses	**3,561**	3,115

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

as at 31 December 2017

4. Income Tax *(continued)*

F. Deferred tax assets and liabilities

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

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

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

as at 31 December 2017

5. Fixed Assets, net

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

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

as at 31 December 2017

6. Intangible Assets, net

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

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.

B. Capitalized development costs

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

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

as at 31 December 2017

7. Trade and Other Receivables

	31 December	
	2017	2016
	US$ 000s	US$ 000s
Trade receivables, net [(1)]	**78,554**	27,443
Other receivables		
Prepaid expenses	**1,044**	391
Institutions	**2,397**	1,314
Related parties (see Note 15)	**4**	4
Pledged deposits	**386**	181
	3,831	1,890
	82,385	29,333

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

8. Trade and Other Payables

	31 December	
	2017	2016
	US$ 000s	US$ 000s
Trade payables [(1)]	**46,232**	22,501
Other payables		
Advances from customers	**1,404**	1,297
Wages and salaries	**9,251**	3,217
Provision for vacation	**842**	517
Institutions	**8,143**	4,071
Related parties (see Note 15)	**164**	17
Contingent consideration commitment (see Note 16B[(1)])	**1,300**	200
Others	**949**	124
	22,053	9,443
	68,285	31,944

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

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

as at 31 December 2017

9. Cash and Cash Equivalents

	31 December	
	2017	2016
	US$ 000s	US$ 000s
Cash	**22,978**	20,571
Bank deposits	**4,007**	900
Cash and cash equivalents	**26,985**	21,471

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

10. General and Administrative Expenses

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Payroll and related expenses	**5,386**	2,627
Rent and office maintenance	**1,943**	675
Professional expenses	**1,302**	1,044
Doubtful debts	**1,745**	589
Acquisition costs	**2,202**	–
Other expenses	**1,915**	984
	14,493	5,919

11. Equity

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

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

(1) Rights attached to share

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

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

as at 31 December 2017

11. Equity *(continued)*

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

(2) Director share allotment

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

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

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(3) Own share acquisition

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

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

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(4) Issuing new shares

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

B. Dividends

Details on dividends (in USD thousand):

	For the year ended 31 December	
	2017	2016
Declared and paid	**2,612**	3,990

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

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

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

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

as at 31 December 2017

12. Earnings per Share

Basic earnings per share

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

Profit for the year

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Profit for the year	**13,759**	16,469

Weighted average number of ordinary shares:

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

Diluted earnings per share

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

Weighted average number of ordinary shares (diluted):

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

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

as at 31 December 2017

13. Share-Based Payment Arrangements

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

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Selling and marketing	**427**	303
Research and development	**285**	95
General and administrative	**172**	55
	884	453

(2) Share-based compensation plan

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

- All the share options that were granted are non-marketable.
- All options are to be settled by physical delivery of shares.
- Vesting conditions are based on a service period of between 2-4 years.

On December 4, 2017, the Company's shareholders adopted the Company's 2017 Equity Incentive Plan (the "2017 Plan") to provide for the grant of equity incentive awards to the executive officers and employees of Tremor Video DSP following the acquisition in August 2017, and other U.S.-based employees of the Taptica Group.

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

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

(3) Option grants during 2017 and 2016

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

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

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

as at 31 December 2017

13. Share-Based Payment Arrangements *(continued)*

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

	Weighted average exercise price		Number of options	
	2017	**2016**	**2017**	**2016**
	(US$)		**(000s)**	
Outstanding at 1 January	**1.55**	1.6	**5,526**	5,144
Forfeited during the year	**2.45**	1.36	**(1,112)**	(1,360)
Exercised during the year	**1.11**	0.33	**(2,068)**	(16)
Granted during the year	**3.56**	1.23	**4,078**	1,758
Outstanding at 31 December			**6,424**	5,526
Exercisable at 31 December			**357**	–

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

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

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

The parameters used to calculate fair value:

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

14. Financial Instruments

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

as at 31 December 2017

14. Financial Instruments *(continued)*

B. Credit risk

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

Exposure to credit risk

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

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

	31 December	
	2017	2016
	US$ 000s	US$ 000s
Cash and cash equivalents[(1)]	**26,985**	21,471
Trade receivables, net [(2)]	**78,554**	27,443
Other receivables	**390**	185
	105,929	**49,099**

[(1)] At 31 December 2017, USD 163 thousand are held in NIS, USD 350 thousand are held in GBP and USD 143 thousand are held in EUR, USD 237 thousand are held in CAD, USD 5,157 thousand are held in JPY, USD 9 thousand are held in SGD with the remainder held in USD. At 31 December 2016, USD 475 thousand are held in NIS, USD 160 thousand are held GBP, and USD 149 thousand are held in EUR, with the remainder held in USD.

[(2)] At 31 December 2017, the Group included provision to doubtful debts in the amount of USD 2,369 thousand (31 December 2016: USD 655 thousand) in respect of collective impairment provision and specific debtors that their collectability is in doubt.

C. Liquidity risk

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

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

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

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

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

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

as at 31 December 2017

14. Financial Instruments *(continued)*

D. Market risk

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

Linkage and foreign currency risks

Currency risk

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

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

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

E. Fair value

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

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

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

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

as at 31 December 2017

15. Related Parties

A. Compensation and benefits to key management personnel

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

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

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
Share-based payments	**153**	30
Other compensation and benefits	**3,866**	2,562
	4,019	2,592

B. Transactions with related parties

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

		Year ended 31 December	
		2017	2016
		Value of transactions	
		US$ 000s	US$ 000s
Related party	**Nature of transaction**		
webisaba	Sale of media from the Company	–	17
	Purchase of media from the Company	(15)	(147)
Ehud Levy, Shareholder	Interest on loan (see Note 16B[(2)])	(34)	–

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

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

as at 31 December 2017

16. Subsidiaries

A. Details in respect of subsidiaries

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

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

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

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

B. Acquisition of subsidiaries and business combinations

(1) Acquisition of Adinnovation INC

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

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

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

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

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

as at 31 December 2017

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries *(continued)*

(1) Acquisition of Adinnovation INC *(continued)*

	US$ 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:

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

(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.

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

as at 31 December 2017

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries and business combinations *(continued)*

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

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

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

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

	US$ 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 liabilities, 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 17 August, 2017
Brand and domain name	**1,940**
Technology	**16,903**
Customer relations	**4,074**
Residual goodwill	**4,715**
	27,632

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

as at 31 December 2017

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries and business combinations *(continued)*

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

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

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

17. Operating Segments

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

A. Entity level disclosures

Information on geographical segments

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

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

	Year ended 31 December	
	2017	2016
	US$ 000s	US$ 000s
External revenues		
America	**115,905**	56,902
Asia	**60,825**	22,784
Europe	**25,580**	35,697
Israel	**4,696**	5,868
Others	**3,919**	4,610
Consolidated	**210,925**	125,861

18. Subsequent Events

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

Taptica International Ltd.
Hashmonaim 121, Tel Aviv 6713328, Israel
Tel: +972 3 545 3900
www.taptica.com