Matomy Media Group Ltd.

2018 Annual Report and Accounts

Content Guide

About Matomy Media Group Ltd. ("**Matomy**" or the "**Company**")

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is a global advertising technology company. Founded in 2006 with headquarters in Tel Aviv and offices in Germany, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges.

1 Overview

2018 Operational & Business Highlights

In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet, a market leading domain advertising and monetization platform.

Matomy's domain monetization activity recorded revenue of $75.6 million and Adjusted EBITDA of $14.2 million in 2018.

Matomy Overview

Selected Domain Monetization Activity's Financial Data:

($ million)	**Year ended 31 December**		
	2018	**2017**	**Change**
Revenue	75.6	105.4	(28.3)%
Adjusted gross profit*	21.4	30.3	(29.4)%
Adjusted gross margin*	28.3%	28.8%	(1.7)%
Adjusted EBITDA**	14.2	24.5	(42.0)%

In 2017, Matomy's domain monetization activity's revenue and Adjusted EBITDA enjoyed a substantial increase following the closing of a competitor and the transfer of business. However, in 2018, in response to a key partner's more stringent compliance requirements, some of the new business was rejected. When comparing 2018 to 2016 figures instead of comparing 2018 to 2017 figures, Matomy's domain monetization activity shows a substantial increase in revenue (FY2016: $63.3 million).

Matomy sold the mobile advertising platform Mobfox in November 2018, which is classified for accounting purposes as a "discontinued" activity and is excluded from 2017 and 2018 results below. All other activities that were sold or otherwise closed are referred as "exited" activities and are included in operations and the chart below.

Matomy Non-GAAP Unaudited Financial Highlights:

Overview of results	**Year ended 31 December**		
($ million)	**2018**	**2017**	**Change**
Revenue - Domain Monetization Activity and Exited Activities	88.7	194.4	(54.4)%
Adjusted gross profit*	27.3	63.0	(56.7)%
Adjusted gross margin*	30.8%	32.4%	(4.9)%
Adjusted EBITDA **	7.0	18.8	(62.8)%

Selected Mobfox (Programmatic Mobile Advertising) Financial Data

Mobfox was sold in November 2018. Therefore Mobfox 2018 figures below do not represent a full year.

($ million)	**Eleven months ended 30 November**	**Year ended 31 December**	
	2018	**2017**	**Change**
Revenue	34.8	50.6	(31.2)%
Adjusted gross profit*	10.3	14.0	(26.4)%
Adjusted gross margin*	29.6%	27.8%	6.5%
Adjusted EBITDA**	(4.1)	1.8	(327.7)%

Reconciliation of GAAP measures to non-GAAP measures

The following table presents a reconciliation of adjusted gross profit to gross profit and to revenues, the most directly comparable financial measures calculated in accordance with US GAAP, for the periods indicated:

	Year ended 31 December	
$ million	**2018**	**2017**
Revenues	88.7	194.4
Direct media costs	(61.4)	(131.4)
Adjusted gross profit	**27.3**	**63.0**
Adjusted gross margin (%)	30.8%	32.4%
Other cost of revenues	(8.4)	(18.1)
Gross profit	18.9	44.9

The following table presents a reconciliation of adjusted EBITDA from continuing operations to net loss from continuing operations, the most directly comparable financial measure calculated in accordance with US GAAP, for the periods indicated:

	Year ended 31 December	
$ million	**2018**	**2017**
Net loss from continuing operations	(6.9)	(13.9)
Taxes on income (benefit)	3.7	(2.3)
Financial expenses (income) , net	(6.7)	2.5
Bond issuance costs	1.6	-
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	0.1	0.1
Depreciation and amortization	4.9	10.9
Share-based compensation (cash and non-cash) expenses	(0.8)	2.8
Exceptional items	11.1	18.7
Adjusted EBITDA	7.0	18.8

Adjusted gross profit/margin

Adjusted gross profit is a non-GAAP financial measure that Matomy defines as revenues less direct media costs, which are the direct costs associated with the purchase of digital media. These costs include: payments for digital media based on the revenues Matomy generates from its customers on a revenue-sharing basis; payments for digital media on a non-revenue-sharing basis (CPC or CPM); and serving fees for third-party platforms. Adjusted gross margin in a non-GAAP financial measure that Matomy defines as Adjusted gross profit divided by revenue.

Matomy believes that adjusted gross profit and adjusted gross margin are meaningful measures of operating performance because they are frequently used for internal management purposes, indicates the performance of Matomy's solutions in balancing the goals of delivering results to its customers whilst meeting margin objectives, and facilitates a more complete understanding of factors and trends affecting Matomy's underlying revenues performance.

*****Adjusted EBITDA***

Adjusted EBITDA is a non-GAAP financial measure that Matomy defines as net income (loss) from continuing operations before taxes on income, financial expenses (income), net, bond issuance costs, equity losses of affiliated companies, net, depreciation and amortization, share-based compensation expenses (cash and non-cash) and exceptional items (as described below). Adjusted EBITDA is a key measure Matomy uses to understand and evaluate its operating performance and trends.

Business and operating highlights

- Liam Galin succeeded Sagi Niri as Matomy's President and Chief Executive Officer in January 2018 and announced his resignation in March 2019. The Board suggested Mr. Sami Totah, the Chairman of the Board, to assume the CEO position, subject to the approval of the general meeting as required under the Israeli Companies Law, 5759-1999 (the "**Israeli Companies Law**").
- The Company remains focused on its domain monetization activity, in which it has a competitive edge, and exited all other activities.
- According to the Company's focused strategy, and following the decrease in revenues of the other activities, the Company:
    - Closed the Optimatic video programmatic platform in June 2018
    - Sold myDSP media buying platform in July 2018
    - Sold Whitedelivery email marketing platform in August 2018
    - Sold Mobfox supply side mobile advertising platform in November 2018
- In 2018, Matomy's domain monetization activity, now the Company's single activity, generated revenues of $75.6 million, (FY2017: $105.4 million) and Adjusted EBITDA of $14.2 million (FY2017: $24.5 million).
- In February 2018, the Company raised 103 million NIS (approx. $30 million as of the issuance date) in convertible bonds. The Company is in negotiations with the holders of its outstanding convertible bonds (the "**Bondholders**") in order to reach an agreement to amend certain terms of the bonds, as part of the Company's Proposed Plan, as noted in the Going Concern section below.
- In March 2018, the Company increased its holding in Team Internet AG ("**Team Internet**") to 90%. The Company is in negotiations with Team Internet's minority shareholder as noted in the Liability to Non-controlling Interests section below.
- The Company's platforms took all required steps to be compliant with the new regulation of General Data Protection Regulation (GDPR) that came into effect on May 25, 2018.
- Matomy took aggressive measures to ascertain high quality, sustainable, and "clean" revenue. Non-compliant traffic sources were expunged from its platforms, affecting revenues in the short-term, while strengthening the Company's long-term position.
- Following the sale of certain activities, as detailed above, Matomy reduced the corporate team and significantly decreased operational overhead.

2 Strategic Report

Chairman's Statement

Introduction

2018 was a year of restructuring. Matomy focused on the core activity of domain monetization, and exited activities where we believed we no longer had a clear competitive advantage. This transformation has allowed us to streamline our corporate team - and is, we believe, a natural and encouraging mark of organizational maturity. Matomy is conducting discussions with Bondholders, Rainmaker Investments GmbH ("**Rainmaker**") and shareholders regarding steps to enable the company to move forward.

Operating Performance

Now the results of Matomy's domain monetization activity, the sole activity of Matomy, are the clearest indicators of Matomy’s operating performance moving forward.

In 2018, Matomy showed a decrease in both revenue and EBITDA as it closed all activities outside of domain monetization activity and took aggressive measures to ascertain high quality, sustainable, and "clean" revenue. Non-compliant traffic sources were expunged from its platforms, affecting revenues in the short-term, while strengthening the Company's long-term position. Compared to 2016, before the one-off spike of traffic following the closure of a competitor, Matomy's domain monetization activity's revenue of $75.6 million in FY2018 showed growth of 19.4% (FY2016 $63.3 million).

Outlook

Matomy’s domain monetization activity is in a burgeoning industry with growth opportunity. To keep pace with industry changes, we invest carefully in technology and R&D to ensure product excellence and are dedicated to providing features and services that keep advertisers and publishers exceeding their goals. We maintain a small and nimble forward-thinking executive team.

Sami Totah

Chairman

30 April 2018

Strategy

On November 30, 2018 with the sale of Mobfox, Matomy completed the disposition and shutdown of all of its non-profitable units. The Company remains focused in the domain advertising and monetization area, holding Team Internet, which provides steady profitability and cash-flow. Through Team Internet's solid management and technological advantage, the Company expects this positive performance to continue and strive for the foreseeable future. Using this cash flow, as per the Proposed Plan (as detailed further below), the Company intends to serve the debt to the Bondholders by the end of 2022.

Business & Financial Review

Revenues by Media Channel

The following table sets out Matomy's revenues by business unit for the years ended 31 December 2018 and 2017, not including the discontinued Mobfox operations. Mobfox's performance in 2018 is detailed in the Company's financial statements for the period ending on December 31, 2018, as were published on March 31, 2019 (the "**Financial Statements**").

	Year ended 31 December		
($ millions)	**2018**	**2017**	**Change**
Domain monetization	75.6	105.4	(28.3%)
Exited activities (Email, Video, etc)	13.1	89.0	(85.3%)
Total	88.7	194.4	(54.4%)

Domain monetization

Domain monetization revenues decreased by $29.8 million, for the year ended 31 December 2018 compared to 2017, as the Company removed non-compliant traffic sources.

In 2018, Team Internet's proprietary ad delivery engines served semantically relevant ads to approximately 2 billion monthly visitors across about 145 million websites, generating more than 100 million paid clicks per month.

Team Internet's performance is mainly attributable to its leading technology across its various platforms. The technology yields enhanced performance in comparison to peers and has led to increased recruitment of new clients.

Exited activities

At the time of closure or sale, the exited activities showed a consistently decreasing trend in both revenue and profitability and required resources which caused Matomy to deviate from its core growth activities. The activities exited in 2017 include legacy display, social and search and virtual currency media channels. The activities exited or sold in 2018 include email, video, and mobile advertising platforms. Exited or sold activities will not be included in the results for periods going forward.

FINANCIAL REVIEW

GAAP Financial Highlights Including Exited Activities:

This excludes the discontinued Mobfox operations:

Overview of results	**Year ended 31 December**		
($ millions, except EPS)	**2018**	**2017**	**Change**
Revenue	88.7	194.4	(54.4%)
Gross profit	18.9	44.9	(57.9%)
Operating income / (loss)	(8.4)	(13.8)	39.1%
Pre-tax income / (loss)	(3.3)	(16.3)	79.8%
Net income / (loss) from continuing operations	(6.9)	(13.9)	50.4%
Net income / (loss) from continuing operations attributable to Matomy	(6.8)	(15.3)	55.6%
Earnings / (loss) per share from continuing operations	(0.07)	$(0.34)	79.4%

Revenue

As Matomy exited non-core activities and removed revenue sources no longer compliant with key partners' requirements, revenues in 2018 decreased compared to 2017.

Cost of revenues including exited activities and excluding the discontinued Mobfox operations:

	Year ended 31 December	
$ millions, except as otherwise indicated	**2018**	**2017**
Media costs	61.4	131.4
Other cost of revenues	8.5	18.2
Cost of revenues	**69.9**	**149.6**
Gross margin (%)	21.3%	23.0%
Adjusted gross margin (non-GAAP) (%)	30.8%	32.4%

Cost of revenues for the Group decreased by $79.7 million, or 53.3%, to $69.9 million (78.7% of total revenues) for the year ended 31 December 2018 from $149.6 million (76.9% of total revenues) last year.

Other cost of revenues, which includes allocated costs, server expenses and amortization of capitalized R&D and intangible assets, also decreased with the closure of non-core activities.

Gross margin remained largely consistent, dropping slightly by 1.7%.

Non GAAP Operating expenses excluding exceptional items

	Year ended 31 December	
$ millions	**2018**	**2017**
Research and development	2.3	7.2
Sales and marketing	7.7	22.7
General and administrative	6.1	10.1
Non GAAP T**otal operating expenses** of continuing operations	16.1	40.0
Total operating expenses as a percentage of revenues (Non-GAAP)	18.2%	20.6%

Operating expenses (Non-GAAP) decreased by $23.9 million, or 59.8%, to $16.1 million (FY2017: $40.0 million). Operating expenses as a percentage of revenues were 18.2% (FY2017: 20.6%).

The decrease in operating expenses is mainly attributable to the sale of exited activities throughout the year, which lowered general, administrative, sales and marketing costs. This trend is expected to continue through the year 2019.

Financial expenses (income)

Net financial expenses, excluding bond issuance costs, decreased by $9.2 million to $6.7 million in income for the year ended 31 December 2018 (FY2017: $2.5 million expense). The decrease is primarily due to financial income recorded due to change in the fair value of the convertible bond in the amount of $11.4 million, off-set in part by an increase of $2.2 million in interest expenses on credit facilities and foreign exchange rate fluctuations.

Taxes on income

Taxes on income shifted to $3.7 million expense for the year ended 31 December 2018 (-113.3% of loss before taxes), compared to $2.3 million benefit last year (14.1%).

The effective corporate tax rate of (113.3%) in 2018 was mainly affected by tax expenses with a tax rate of 33% on Team Internet profit without recording deferred tax on its loss from the exited activities, as there is no future expected profit in the relevant Company's subsidiaries.

The effective corporate tax rate of 14.1% in 2017 was mainly due to (1) reversal of deferred tax liability resulting from impairment of intangible assets and (2) income from changes in fair value of contingent payment obligation related to acquisitions which are non-deductable for tax purposes, off-set by (a) tax rate of 33% on Team Internet profit, and (b) record of full valuation allowances on current year and carry forward losses in the parent company and most of its subsidiaries.

Matomy is subject to corporate tax on its income, principally in Israel, the United States and Germany. Matomy may also be subject to corporate tax on its income in other jurisdictions in which Matomy has operations.

Amortization of intangible assets

Amortization expenses of continuing operations were $3.3 million in 2018 and $9.1 million in 2017 with total amortization expenses at $4.6 million in 2018 compared to $10.6 million in 2017. The decrease is a result of intangible assets being fully amortised or impaired in prior years and during 2018.

Net loss

Net loss from continuing operations was $6.9 million in 2018 (2017: $13.9 million), and total net loss was $46.6 million (2017: $14.4 million). The net loss attributable to Matomy Media Group's shareholders from continuing operations was $6.8 million in 2018 (2017: $15.3 million).

Exceptional items

Matomy views the following items, which were recorded in profit and loss, either as expense or income, as exceptional items which are material to the Financial Statements and therefore has excluded them from non-GAAP measures:

- Impairments of intangible assets, goodwill and capitalized R&D amounting to $7.9 million in 2018 and $27.2 million in 2017.
- Earnout adjustments income of $0.4 million in 2018 and $8.5 million in 2017.
- Loss from sale of an activity of $1.7 million in 2018 and gain of $0.9 million in 2017.
- Restructuring costs relating to the exited and sold activities amounting to $1.9 million in 2018 and $0.9 million in 2017.

Liquidity and cash flows

The following table sets out selected cash flow information for the Group for the years ended 31 December 2018 and 2017.

	Year ended 31 December	
$ millions	**2018**	**2017**
Net cash provided by (used in) operating activities	(14.5)	17.5
Net cash provided by (used in) investing activities	0.2	2.2
Net cash provided by (used in) financing activities	(7.9)	(12.0)
Increase (decrease) in cash and cash equivalents	(22.2)	7.7
Cash and cash equivalents at beginning of period	29.4	21.7
Cash and cash equivalents at end of period	7.2	29.4

(A) *Net cash provided by / used in operating activities*

Matomy's net cash used in operating activities was $14.5 million (FY2017: $17.5 million inflow). In 2018, net cash used in operating activities consisted of a net loss of $46.6 million increased by $5.8 million relating to a net increase in working capital and offset by $37.9 million relating to noncash expenses. Noncash expenses were primarily impairment of intangible assets, capitalized R&D and goodwill of $38.6 million, depreciation and amortization of $8.6 million and loss from disposal of property and equipment and loss from sale of activity of $2.7 million, off-set in part by fair value revaluation of the bond of $11.4 million and a decrease in deferred tax assets of $0.7 million.

In comparison, for the year ended 31 December 2017, net cash provided by operating activities consisted of a net loss of $14.4 million which was offset by $7.4 million relating to a net decrease in working capital, and $24.5 million relating to noncash expenses. Noncash expenses were primarily impairment of intangible assets, capitalized R&D and goodwill of $27.1 million, depreciation and amortization of $14.4 million and stock-based compensation expense of $1.4 million, off-set in part by earnout adjustments income of $10.0 million, a decrease in deferred tax assets of $7.8 million and gain from sale of activity of $0.9 million.

Net changes in working capital in 2018 were mainly driven by a decrease of $22.7 million in trade receivables, which was offset by the effects of a decrease in trade payables ($17.8 million), and a decrease of $10.5 million in withholding tax receivable, employees and payroll accrual and accrued expenses and other liabilities. The decrease in both trade receivables and trade payables was mainly attributable to the sale and closure of the exited activity, and lower scale of activities in the mobile discontinued operation and the domain monetization activity.

(B) *Net cash provided by / used in investing activities*

Net cash provided by investing activities was $0.2 million (FY2017: $2.2 million inflow). In 2018, net cash provided by investing activities primarily included $6.5 million from the sale of activity, off-set by $2.3 million capitalized investment in R&D, $1.1 million investment in domains and $3.0 million restricted cash.

For the year ended 31 December 2017, net cash provided by investing activities primarily included $5.6 million from the sale of activity, $1.8 million from the sale of investment in the affiliated company, off-set in part by $3.9 million of capitalized investment in R&D and $1.0 million of investment in domains.

(C) *Net cash used in / provided by financing activities*

Net cash used in financing activities decreased was $7.9 million (FY2017 $12 million outflow).

In 2018, net cash used in financing activities related primarily to $29.9 million inflow due to the bond issuance, which was offset by $23.5 million of total payments to non-controlling interests and earnout payments and $14.3 million due to repayments of loans and credit lines.

In 2017, net cash used in financing activities related primarily to $17.7 million of total payments to non-controlling interests and earnout payments, less $5.2 million net increase in outstanding term loans and utilization of credit lines and $0.5 million of proceeds from the exercise of stock-based compensation during the year.

As of 31 December 2018, Matomy had $2.9 million in term loans. Of those, $1.8 million are due within one year. As of that date Matomy also had a revolving credit line amounting to $3.9 million.

NOTES TO FINANCIAL STATEMENTS

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired.

Matomy's goodwill was created mainly through the 2013, 2014 and 2015 acquisitions. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine whether the net book value of each reporting unit exceeds its estimated fair value. During the year ended 31 December 2018 the Company recorded in its continuing operations a goodwill impairment loss of $5.0 million which is attributable to the domain monetization activity. During the year ended 31 December 2017, the Company recorded a goodwill impairment loss of $9.0 related to the exited activities. In addition, the Company recorded in 2018 a goodwill impairment related to its discontinued operation in the amount of $30.6 million. For further information see Note 2h to the Financial Statements.

Impairment of long-lived assets and intangible assets subject to amortization

During the years ended 31 December 2018 and 2017, following the changes in the Company's business focus, the Company performed an impairment review of all its long-lived assets and intangible assets which resulted in impairment charge of $2.9 million and $18.1 million, respectively. For further information see Note 2g to the Financial Statements.

Liability to non-controlling interests

In accordance with the share purchase agreement dated December 2017 (the "2017 SPA") with the minority shareholders of Team Internet, Rainmaker, in which the Company, through its UK and German subsidiaries, currently holds 90% of the share capital, the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018, which is claimed by Rainmaker to be equal to EUR 16,015 thousand. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares. Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand. The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), then the sole remedy available to Rainmaker is the exercise of the repurchase option. If the failure to pay is not as specified above, then Rainmaker is not limited in the legal remedies that it may pursue.

The Company is conducting discussions with Rainmaker regarding the terms of the purchase by the Company of the shares held by Rainmaker in Team Internet. In preliminary discussions held between the parties, and as part of the Proposed Plan of the Company (as further described below), the understanding is that the payment to Rainmaker will be in the amount of $13.5 million and that Rainmaker will be allowed to retain a certain portion of the shares of Team Internet that were originally required to be sold by Rainmaker. As of the date of the approval for the issuance of this report there is no new agreement regarding the terms for the purchase of the shares held by Rainmaker and no legal remedies have been waived or exercised.

On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet, namely 90% of Team Internet's share capital (held indirectly through the Company's wholly owned subsidiaries), to an entity to be formed by Rainmaker, the owner of the remaining 10% of Team Internet's share capital, alone or together with a partner designated by Rainmaker (the "**Sale Offer**" and the "**Purchaser**", respectively), for a cash consideration in the amount of $36 million, payable on execution of the definitive agreement for the Sale Offer; such consideration shall be first used for the full payment of the amounts owed by Matomy to the Bondholders, which currently amount to approximately NIS 101 million in principal, plus interest.

Rainmaker attached to the Sale Offer a letter of support by a German Private Equity fund, according to which it confirms its full intent to partner with Rainmaker regarding the Sale Offer, having conducted extensive research on the business of Team Internet.

The Sale Offer is subject to certain conditions, including:

- approval of the Sale Offer by Matomy and the Bondholders by no later than April 11, 2019 (the "**Approvals Deadline**");
- Performance of satisfactory due diligence by the Purchaser within a period of one month following the Approvals Deadline (such period may be extended by the Purchaser for additional 30 days); and
- Customary anti-trust approvals.

For additional details regarding the Sale Offer please refer to the announcement published by the Company on April 4, 2019 (RNS Number 2145V).

The Board has considered the Sale Offer and decided to proceed in facilitating due diligence by the Purchaser and in negotiating a definitive agreement that reflects the terms of the Sale Offer (though, the Sale Offer will not stop or delay the negotiations that are currently ongoing between Matomy and Rainmaker, as described above, and between Matomy and the Bondholders regarding the Proposed Plan).

On April 10, 2019 Bondholders have unanimously voted to approve the Sale Offer, and it was clarified that such vote was also considered to include an approval of the Bondholders to a full early payment of the bonds at their par value to be made around the same time of the closing of the Sale Offer transaction, as well as to the amendment of the Trust Deed to allow such early payment and constituted the authorization of the Trustee to execute such an amendment to the Trust Deed, all subject to the closing of the Sale Offer transaction.

THE NEGOTIATIONS RELATING TO THE FINAL TERMS OF THE SALE OFFER ARE STILL NOT FINALIZED AND THERE IS NO CERTAINTY THAT SUCH NEGOTIATIONS WILL RESULT IN A BINDING AGREEMENT.

Sale of exited activities

On 29 July 2018, the Company signed an agreement for the sale of "myDSP" activity for a consideration of $850 thousand, which would be paid in two payments: $600 thousand upon closing and $250 deferred to be received on 1 December 2018. These payments were made in full.

On 13 August 2018, the Company signed an agreement for the sale of its Whitedelivery email marketing activity. The Company also signed an agreement with the buyer for data-licensing. The maximum total consideration from the agreements amounts to $8.5 million which includes performance-based payments subject to meeting pre-defined milestones. The Company does not expect to collect any material amount from this transaction due to the buyer's financial difficulties.

On 15 November 2018 the Company sold its mobile core-business ("Mobfox") for a total consideration of $7,500, of which a payment of $6.0 million was received as of 31 December 2018 and the remaining $1.5 million was subject to fulfillment of certain payment requirements to publishers that were transferred with the framework of the sale. Until April 29, 2019 $1.486 million was received. As a result of the sale of the Mobfox business, the operating results from the Mobfox mobile-core segment and the related assets and liabilities have been presented as discontinued operations in the consolidated Financial Statements for all periods presented.

Loss per share

Matomy's loss per share for continuing activities in 2018 was $0.07 (2017: $0.34). The total loss per share was $0.48 in 2018 (2017: $0.35).

Treasury shares

As of 31 December 2018, Matomy had a total of 10,970,111 treasury shares, of which, 1,211,236 shares were held by Team Internet.

Financial obligations and covenants

Matomy's financial obligations and commitments as at 31 December 2018

$ million	Due within 1 year	Due >1 year	Total
Bank loans	1.8	1.1	2.9
Operating lease obligations, net of sublease rental	0.5	0.8	1.3
Convertible bond	-	26.9*	26.9
Total	2.3	28.8	31.1

Details regarding these main obligations and financial covenants may be found in notes 1B, 8, 9 and 10 in the Financial Statements.

* In respect of the Company's convertible bonds, as described in Note 1B, noncompliance with certain covenants during two consecutive quarters constitutes an event of default, which under certain circumstances, as detailed in the bond, entitles the Bondholders to claim immediate repayment of the Bonds. As of 31 December 2018, the Company was not in compliance for two consecutive quarters with certain covenants, therefore, the convertible bond in the amount of $18,540 thousand, (principal of $26,948 thousand as of 31 December 2018) was classified to short term liabilities as of 31 December 2018. The Company is holding discussions with the trustee of the bonds and with the representatives and legal counsel of the Bondholders in order to reach an agreement to amend certain terms of the Bonds. Alternatively, in the event of consummation of the Sale Offer, as described above, the Company shall first use the consideration from such transaction for the full payment of the amounts owed by Matomy to the Bondholders.

Further details are described in the Going Concern section below.

Financial reporting

This financial information has been prepared under US GAAP principles and in accordance with Matomy's accounting policies.

The Company changed its accounting policy regarding the offsetting of bank overdraft and cash balances in the same bank account. According to the new accounting policy, the Company presents overdraft and cash balance in the same account on gross basis compared to previous presentation which was presented net. Management believes presenting on gross basis the overdraft and cash balances in the same bank account is a more appropriate presentation. Prior year's amounts were reclassified to conform to current year's presentation.

Going concern

The Company requires additional capital in order to fund its liabilities (such liabilities include, among others, liability to non-controlling interest and convertible bond liability). There is no assurance that the Company will be able to obtain such required additional capital. The Company believes that these conditions raise substantial doubt regarding the Company's ability to continue as a going concern. For further details, refer to Note 1b to the Company’s Financial Statements and to the Auditors’ Report.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company proposed comprehensive plan that will enable it to raise funds, adjust the terms of the bonds to the Company's current and anticipated financial position and planned future activity, and fund the purchase of Rainmaker's shares in Team Internet from Rainmaker (the "Proposed Plan"). The main updated key features of the Proposed Plan are detailed below in Note 1B.

On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet to an entity to be formed by Rainmaker, alone or together with a partner designated by Rainmaker, for a cash consideration in the amount of $36 million, payable on execution of the definitive agreement for the Sale Offer; such consideration shall be first used for the full payment of the amounts owed by Matomy to the Bondholders, which currently amount to approximately NIS 101 million in principal, plus interest.

For further details please refer to section Liability to non-controlling interests above.

Cautionary statement regarding forward-looking statements

This announcement includes certain forward-looking statements, forecasts, estimates, projections, and opinions. These forward-looking statements may be identified by the fact that they do not relate only to historical or current facts or the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements include statements regarding the Proposed Plan, the negotiations with Rainmaker and the Bondholders, the business strategy, objectives, financial condition, results of operations and market data of the Company and its subsidiaries (the “**Group**”), as well as any other statements that are not historical facts. These statements reflect the Company’s current view concerning future events and are based on assumptions made by the Company (including, without limitation, assumptions concerning currency exchange rate fluctuations, requirements of additional capital, costs of sale or closure of various operations and changes to regulations) and information currently available to the Company.

Although the Company considers that these views and assumptions are reasonable, by their nature, forward-looking statements involve unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Group. These factors, risks, uncertainties, and assumptions could cause actual outcomes and results to be materially different from those projected. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation that trends or activities underlying past performance will continue in the future. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. These factors, risks, assumptions, and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to the Company or persons acting on its behalf.

The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein, or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

No statement in this announcement is intended or is to be construed, as a profit forecast or estimate or to be interpreted to mean that earnings per Company share or overall earnings for the current or future financial years will necessarily match or exceed the historical published earnings per Company share or overall earnings.

Directors' responsibility statements pursuant to Disclosure Guidance and Transparency Rule 4.1.12R

Each of Matomy's Directors confirms that, to the best of his or her knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Matomy and the undertakings included in the consolidation taken as a whole; and
- the management report, which comprises the Directors' Report and the Strategic Report, includes a fair review of the development and performance of the business and the position of Matomy and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Sami Totah	**Ilan Tamir**
Chairman	**COO**

Principal Risks & Uncertainties

Going concern

The Company requires additional capital in order to fund its liabilities (such liabilities include, among others, liability to non-controlling interest, and convertible bond liability). There is no assurance that the Company will be able to obtain such required additional capital. The Company believes that these conditions raise substantial doubt regarding the Company's ability to continue as a going concern. For further details, please refer to Note 1b to the Company's Financial Statements and to the Auditors' Report.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company proposed comprehensive plan that will enable it to raise funds, adjust the terms of the bonds to the Company's current and anticipated financial position and planned future activity, and fund the purchase of Rainmaker's shares in Team Internet from Rainmaker. The main updated key features of the Proposed Plan are detailed in Note 1B in the Financial Statements.

On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet to an entity to be formed by Rainmaker, alone or together with a partner designated by Rainmaker, for a cash consideration in the amount of USD 36 million, payable on execution of the definitive agreement for the Sale Offer; such consideration shall be first used for the full payment of the amounts owed by Matomy to the Bondholders, which currently amount to approximately NIS 101 million in principal, plus interest.

For further details please refer to section Liability to non-controlling interests above.

THE NEGOTIATIONS RELATING TO THE FINAL TERMS OF THE SALE OFFER ARE STILL NOT FINALIZED AND THERE IS NO CERTAINTY THAT SUCH NEGOTIATIONS WILL RESULT IN A BINDING AGREEMENT.

Principal risks

The Directors assess and monitor the key risks of the business on an ongoing basis. The principal risks and uncertainties that could have a material effect on the Group's performance include, among other things, the following:

- As a result of recent dispositions, reflecting Matomy's recently-adopted strategy, Matomy's operations are currently focused exclusively on the domain monetization business through its subsidiary Team Internet. Such a focus creates a significant dependence on a single Group entity, which scope of business is much narrower and less diverse than the business that the Group as a whole used to operate until recently. Furthermore, such a focus creates a significant dependence on a single Group entity and its strong brand reputation, and limits the Group's ability to offset or mitigate risks that may arise in the Team Internet business, which could have a material and adverse effect on Matomy's business, financial condition, and results of operations.
- In past years, Matomy recognized impairments in the carrying value of goodwill and purchased intangible assets. Events and conditions that could result in impairment and further charges in the future could negatively affect Matomy's results of operations and shareholders' equity.
- If Matomy fails to comply with the terms or covenants of its debt obligations, Matomy's financial position may be adversely affected (and see Note 1b of the Financial Statements for details about Matomy's noncompliance with certain covenants under its publicly listed bonds and about its negotiations with the Bondholders in that regard).
- Matomy is currently negotiating with Team Internet's minority shareholder, Rainmaker and the Bondholders (for description of disputes and negotiations with Rainmaker and the Bondholders, see Note 1b of the Financial Statements). There is no assurance that the negotiations with either Rainmaker and/or the Bondholders will be successfully concluded, or as to the ability of the Company to execute the Proposed Plan, or as to the full implications of not reaching an agreement, or delay in reaching an agreement, with respect to any (or both) of these two main stakeholders.
- Matomy is currently going through changes in its management team thereby adding further managerial challenges in this transitional period.

- Matomy is dependent on relationships with certain third parties with significant market positions; Specifically, the Group's current mode of operation in the domain monetization business is significantly based on the relationship with significant costumer, the continuation of which cannot be guaranteed.
- Certain internet and technology companies may intentionally or unintentionally adversely affect Matomy's operations, mainly, due to announced or unannounced changes and restrictions by such companies
- The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards
- Matomy's business may be affected by complex tax laws in many jurisdictions, and its customers could become liable for additional taxes as a result of changes in taxation regimes.
- Matomy's revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business.
- Matomy operates in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do
- The digital advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition
- Matomy relies on the continued compatibility of its technological platforms with third-party operating systems, software and content distribution channels
- Matomy may be subject to third-party claims brought against it
- Matomy's intellectual property rights may not be adequately protected. Matomy's business and IT systems, and other proprietary intellectual property are not protected by patents, registered design rights, or registered copyrights, and Matomy does not intend to apply for patent protection, registered design rights, or registered copyrights. Matomy is thus particularly reliant on copyright, trademark, trade secret protection, and confidentiality agreements relating to know-how, and licence agreements with its employees, customers, suppliers, consultants, and others to protect its intellectual property rights.
- Matomy has historically derived the majority of its revenues from customers that use its solutions for display marketing campaigns which are now rapidly declining
- The digital advertising industry remains susceptible to fraud
- Matomy is an Israeli-domiciled company and as such the rights and obligations of shareholders are governed by Israeli law and differ in some respects from English law
- As a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results.
- If currency exchange rates were to fluctuate substantially in the future, Matomy's operating results, which it reports in US dollars, could be adversely affected.
- Accounting treatment under US GAAP differs from IFRS. Matomy prepares its consolidated financial information in accordance with, and intends to continue to report its consolidated financial information under, generally accepted accounting practices in the United States ("US GAAP"). US GAAP differs in certain material respects from international financial reporting standards as adopted by the European Union ("IFRS"). In particular, such differences affect Matomy's accounting treatment of, among other things, put and call options and its measure of investments in unquoted equity securities.

The tables below summarise, in the opinion of the Board, the principal material financial and operational risks to Matomy and how it seeks to mitigate those risks in the day-to-day running of the business. Matomy utilises a formal risk identification and management process designed to ensure that it properly identifies, evaluates and mitigates such risks. Matomy's Audit Committee and Board have joint responsibility for Matomy's risk management process and review its effectiveness annually. On a day-to-day basis, the Senior Management team is responsible for providing leadership in the management of risk and ensuring that it is integrated as appropriate into Matomy's business processes and activities. In common with other organisations, Matomy is affected by a number of risks, not all of which are within its control. Some risks, such as those around digital media and technologies, are likely to affect the performance of digital advertising businesses generally, whilst others are particular to Matomy's operations.

Macro Risks

Risk area	Potential impact	Mitigation
Dependency on Internet and technology companies; macro business dynamics and user behavior	Certain Internet and technology companies that operate platforms and systems on which Matomy relies to execute its customers' digital marketing campaigns may make changes to their policies or systems that have an intentional or unintentional adverse effect on Matomy's operations. Because of such companies' significant market positions, any such changes may materially disrupt Matomy's ability to deliver targeted ads and record performance metrics on certain media channels or operate in certain industry verticals, thus causing Matomy to lose significant revenues and be materially limited in the amount of data it is able to collect and use and, consequently, negatively affect its overall customer offering. Additionally, continual changes to how consumers engage and interact with digital advertising, particularly on mobile and tablet devices, may require Matomy adequately support and continually adjust its business model to adequately support its customers' digital and performance-based advertising goals in line with consumers 'media consumption habits.	Matomy constantly monitors changes in technologies, user behavior and technological trends which could affect (positively or negatively) the sustainability, usability and economic viability of its products and services.
Geopolitical, economic and other risks relating to Matomy's domicile and operations in Israel and its listing in the UK	Matomy is incorporated under Israeli law, and its principal executive offices are located in Israel. In addition, political, economic and military conditions in Israel directly and indirectly affect Matomy's business. Matomy's commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. In addition, as a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results.	Although geopolitical, economic and military factors relating to Matomy's domicile and operations in Israel and listing in the UK are out of Management's control, the Group closely monitors the ongoing security situation in the Middle East, both to ensure the safety of its employees and partners, and to ensure the continuity of its operations.
Regulatory change and the costs of compliance	The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards, including with respect to data collection, privacy, fraud, transparency, view ability and overall ad quality. Matomy is subject to AML, sanctions, and anti-bribery regulation and related compliance costs and third party risks in the jurisdictions in which it operates. Legal requirements and industry standards may adversely affect Matomy's current operations and/ or require Matomy to make changes to the way in which it operates. The regulations, legal requirements and industry standards vary by	Matomy actively monitors laws and regulations applicable to it and its customers, especially as it expands into new territories. Matomy invests in ensuring compliance of its operations and continues to implement appropriate compliance programmers. The Company's platforms took all required steps to be compliant with the new regulation of General Data

Risk area	Potential impact	Mitigation
	jurisdiction of operation, and are subject to continuous change, and compliance with such regulations and other legal requirements may be burdensome and costly. In particular, the General Data Protection Regulation (GDPR), came into effect in the European Union (EU) on May 25, 2018, and applies to products and services that we offer to EU users. The GDPR creates a range of new compliance obligations with respect to the EU, including a risk of being subject to financial penalties for noncompliance.	Protection Regulation (GDPR).
Macro-economics vs. revenue and geographic diversity	Matomy's revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns and seasonality, particularly in the fourth quarter, can make it difficult to predict Matomy's revenue and could adversely affect Matomy's business.	Matomy continually invests and makes significant efforts to provide best in class services and solutions in order to establish loyal and long lasting commercial relations with its advertisers and media sources

Group Risks

Ongoing fragmentation and subsequent consolidation within the digital advertising market	The digital advertising market is rapidly evolving, complex and fragmented, and is currently experiencing consolidation, resulting in increasing competition. Existing and potential competitors may have significantly more financial, technical, marketing and other resources than Matomy has, be able to devote greater resources to the development, promotion, sale and support of their products and services, have more extensive customer and digital media source relationships than Matomy has, and may have longer operating histories and greater name recognition than Matomy has. As a result, these current and potential competitors may be better able to respond quickly to new technologies, develop deeper customer relationships or offer services at lower prices. This, in turn, may affect Matomy's ability to retain existing customers, attract new customers, obtain competitive pricing from its digital media sources or increase its sales and marketing budget.	Matomy continually evaluates the state of the digital advertising market and makes appropriate and proportionate adjustments to its business model, products and services to align the Group's business with the ongoing needs of its customers and media partners.
Short term engagements with costumers	The Company does not have long term agreements with its customers, and it may be unable to retain customers, attract new customers, or replace departing customers with new customers from whom comparable amounts of revenues can be generated. As a result, the Company has limited visibility of its future	Matomy continually invests and makes significant efforts to provide best in class services and solutions in order to establish loyal and long lasting commercial relations

	revenue streams. The termination of contracts or failure to retain customers could have a material adverse effect on the Company's reputation, business operations, financial position, competitive position, and overall prospects.	with its advertisers and media sources.
Reliance on key technologies and operations	Matomy's business is naturally reliant on its technology and operational functions to support and develop its platforms, systems and infrastructure to meet the needs of the Group's businesses. Matomy's continued success depends on the uninterrupted performance of its internal information technology ("IT") systems, as well as third party IT services and systems, which Matomy uses to execute and monitor the performance of digital marketing campaigns and manage digital media. System failures could significantly disrupt Matomy's operations and cause Matomy to lose customers.	Matomy devotes significant management time and resources to the identification and mitigation of risks relating to its technology and operations which are key to its businesses.
Noncompliance with the terms or covenants of its debt obligations	In respect of the Company's convertible bonds, as described in Note 1B in the Financial Statements, noncompliance with certain covenants during two consecutive quarters constitutes an event of default, which under certain circumstances, as detailed in the bond, entitles the Bondholders to claim immediate repayment of the Bonds. As of 31 December 2018, the Company was not in compliance for two consecutive quarters with certain covenants, therefore, the convertible bond in the amount of $18,540, (principal of $26,948 as of 31 December 2018) was classified to short term liabilities as of 31 December 2018.	The Company is holding discussions with the trustee of the bonds and with the representatives and legal counsel of the Bondholders in order to reach an agreement to amend certain terms of the bonds. Alternatively, in the event of consummation of the Sale Offer, as described above, the Company shall first use the consideration from such transaction for the full payment of the amounts owed by Matomy to the Bondholders.
Matomy may be subject to third- party claims brought against it	Matomy may be exposed to claims brought by third parties against it, its customers or its digital media sources. Such claims may allege, for example, that the digital media on which its customers' marketing and advertising campaigns appear, or the content contained in such campaigns, infringes, and/or helps to facilitate the infringement of, the IP or other rights of third parties, are false, deceptive, misleading or offensive, or that its customers' products are defective or harmful.	Matomy has a robust internal policies and procedures relating to dealing with claims brought by third parties against it, its customers or its digital media sources.
The digital advertising industry remains susceptible to fraud	Our business relies on effectively and efficiently delivering digital ad campaigns. We have in the past, and may in the future, be subject to fraudulent and malicious activities. It may be difficult to detect fraudulent or malicious activity because we do not own content and rely in part on our publisher partners for controls with respect to such activity. If fraudulent or	Matomy continually monitors and implements the leading tools for fraud detection combined with internal processes and procedures which are meant to mitigate the risks relating to

	other malicious activity is perpetrated by others, and we fail to detect or prevent it, the affected advertisers may experience or perceive a reduced return on their investment and our reputation may be harmed. High levels of fraudulent or malicious activity could lead to dissatisfaction with our solutions, refusals to pay, refund demands or withdrawal of future business.	undetected fraudulent activity.

3 Corporate Governance

Board of Directors

Biographical details of the members of our Board of Directors, as of 30 April 2019, are as follows.

Name:	**Sami Totah, Non-Executive Chairman of the Board of Directors***
Age:	61
Membership of Board sub-committees:	Nomination Committee
Serves as external director:	No
Is an independent director:	No
Date of appointment:	June 2018
Education:	Degree in Practical Software Engineering, Yad Singalovski College, Israel
Employment over the past five years:	Mr. Totah is a General Partner at Viola Growth. Mr. Totah is a former Senior Vice President of Operation (COO) at Amdocs (NYSE:DOX), Israel's largest software company. He is a seasoned executive with over 25 years of international management leadership in the IT industry. He has extensive knowledge and execution experience in overseeing very large IT projects, and has built an extensive global network with customers, partners, investors and executives. Mr. Totah has extensive global experience in leading and serving tier-one telecom giants such as Vodafone (Germany), T-Mobile US, Tele Denmark (TDC) and KT FreeTel (Korea).
Companies of which he is a director (other than the Company):	Mr. Totah has served as an active Chairman in several leading startup companies in the telecommunication arena, such as Sheer Networks, which was sold to Cisco for $123 million, and Flash Networks and as a board member in ECtel (NASDAQ: ECTX) and Pilat Media (AIM: PGB).

* Subject to the approval of the general meeting, to be convened on May 28, 2019, as required under the Israeli Companies Law, Mr. Sami Totah will be appointed as the Company's interim Chief Executive Officer. For additional details regarding such proposal please refer to the announcement published by the Company on April 22, 2019 (RNS Number 7114W).

Name:	**Amir Efrati, Non-Executive Director**
Age:	45
Membership of Board sub-committees:	Remuneration Committee
Serves as external director:	No
Is an independent director:	Yes
Date of appointment:	November 2016
Education:	MBA (honors) from Columbia Business School and a BA (honors) in Economics from Tel Aviv University.
Employment over the past five years:	Mr. Efrati brings over 20 years of business experience to the role. Mr. Efrati is the Managing Partner and Portfolio Manager of Brosh Capital. Previously Mr. Efrati was the Managing Partner of the Dragon Variation Fund. Before that, Mr. Efrati was a Portfolio Manager at JCK Partners and Elm Ridge Capital in NYC as well as an investment banker at Morgan Stanley.
Companies of which he is a director (other than the Company):	None

Name:	**Nir Tarlovsky, Deputy Chairman & Non-Executive Director**
Age:	52
Membership of Board sub-committees:	Audit Committee; Nomination Committee
Serves as external director:	No
Is an independent director:	No
Date of appointment:	November 2016
Education:	BA and MA (summa cum laude) in Economics from Tel Aviv University
Employment over the past five years:	Currently a Co-Founder at thetime, a leading early stage investor in Israeli in the digital space. Operating the leading incubator in Israel and firstime ventures, a post-seed / pre-A $60mm fund. Mr. Tarlovsky was the EVP Business Development at Churchill Ventures, Lead Investor at Nielsen BuzzMetrics and Co-Founder and EVP Business Development at RSL Communications.
Companies of which he is a director (other than the Company):	Pixellot, Playbuzz and Kidbox.com.

Name:	**Rishad Tobaccowala, Non-Executive Director***
Age:	59
Membership of Board sub-committees:	No
Serves as external director:	No
Possesses accounting and financial expertise or a professional qualification:	Yes
Is an independent director:	No
Date of appointment:	February 2015
Education:	BS in Mathematics from the University of Bombay and an MBA in Marketing and Finance from the Booth School of Business at the University of Chicago.
Employment over the past five years:	Mr. Tobaccowala is Strategy & Growth Officer and member of the Directoire/+ of Publicis Groupe, the world's third largest communications group. He was most recently the Chairman of DigitasLBi and of Razorfish, two global firms owned by Publicis Groupe focused on marketing and business transformation. Mr. Tobaccowala was previously the Chief Strategy and Innovation officer of VivaKi, a global leader in digital advertising solutions. He has 35 years of experience in marketing and has worked, helped grow, founded/ co-founded or incubated a variety of companies including Leo Burnett, Starcom, SMG Next, Starcom IP, Giant Step, Play, and Denuo.
Companies of which he is a director (other than the Company):	Mr. Tobaccowala is a chairman of The Tobaccowala Foundation, which helps 10,000 people in India access better education and healthcare, and board member of the Wharton Future of Advertising Project.

* Mr. Tobaccowala has notified the Board that he will not stand for re-election as a director of the Company at the forthcoming shareholder meeting, to be convened on May 28, 2019. As a consequence, Mr. Tobaccowala will cease to be a director of the Company immediately following the shareholders meeting. In place of Mr. Tobaccowala, the Board has recommended to elect Mr. Stephane Estryn at the forthcoming shareholder meeting. For additional details regarding Mr. Estryn please refer to the announcement published by the Company on April 22, 2019 (RNS Number 7114W).

Name:	**Harel Locker, Independent Non- Executive Director***
Age:	53
Membership of Board sub-committees:	Audit Committee; Remuneration Committee; Nomination Committee
Serves as external director:	Yes
Is an independent director:	Yes
Date of appointment:	April 2016
Education:	Mr. Locker earned an LL.B. from Tel-Aviv University's School of Law (1994), a B.A. degree in accounting from Tel-Aviv University Business School (1994) and an LL.M. (with distinction) in taxation from Georgetown University Law School, Washington DC (2001).
Employment over the past five years:	Mr. Locker currently serves as a Chairman of the Board of Directors of Israel Aerospace Industries (IAI). Until 2015, Mr. Locker served as the Director General of the Israeli Prime Minister's Office and head of Prime Minister Benjamin Netanyahu's economic headquarters. Prior to joining in 2011 the Prime Minister's Office, Mr. Locker practiced law for almost 20 years in prominent Tel-Aviv and Wall Street commercial law firms as an associate and partner.
Companies of which he is a director (other than the Company):	Israel Aerospace Industries (IAI)

* Mr. Locker' term of office has ended on April 30, 2019 and the Board has recommended to the shareholders to re-elect Mr. Locker as an "External Director" for a second term of three years at the forthcoming shareholder meeting, to be convened on May 28, 2019. In addition, the Board has recommended to the shareholders to elect Mrs. Shirith Kasher as an additional "External Director" for a term of three years. For additional details regarding Mrs. Shirith Kasher please refer to the announcement published by the Company on April 22, 2019 (RNS Number 7114W).

Directors' Report

The Directors present their report and the Group Financial Statements of Matomy Media Group Ltd. ("Matomy" or the "Group") for the financial year ended 31 December 2018.

Matomy was incorporated in Israel as a private limited liability company. Its registered office is in Israel and its registered number is 513795427. The principal legislation under which Matomy operates is the Israeli Companies Law 5759-1999 (the ''Israeli Companies Law'' or the "Companies Law").

Matomy together with its subsidiaries offered and provided a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers, domain owners.

In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet, a market leading domain advertising and monetization platform, with two key activities: (i) a proprietary domain parking platform that enables customers to monetize their domain portfolios; and (ii) a proprietary self-serve platform that allows publishers and advertisers to buy and sell traffic on a smart programmatic real time bidding model.

Strategic report

Pursuant to sections 414A-D of the Companies Act 2006, the business review has been replaced with a strategic report, which can be found on pages 9 to 21. This report sets out the development and performance of Matomy's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group.

UK Corporate Governance Code

Matomy's statement on corporate governance can be found in the Corporate Governance Report and the Audit Committee Report on pages 40 to 49. The Corporate Governance Report and the Audit Committee Report form part of this Directors' Report and are incorporated into it by reference.

Results and dividends

Matomy's audited Financial Statements for 2018 are set out on pages 53 to 99. Revenue during 2018 amounted to $88.7 million (2017: $245.1 million).

Matomy does not anticipate paying any dividends for the foreseeable future**.**

Post-balance sheet events

The material events after 31 December 2018 are: (i) On January 2019, the majority of the Bondholders voted in favor of the Proposed Plan of the Company and resolved not to require immediate repayment of the Bonds; (ii) On March 6, 2019, Mr. Liam Galin announced his resignation from the position as the Company's Chief Executive Officer. The Board suggested Mr. Sami Totah, the Chairman of the Board, to assume the CEO position, subject to the approval of the general meeting as required under the Israeli Companies Law; (iii) On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet to an entity to be formed by Rainmaker, alone or together with a partner designated by Rainmaker, for a cash consideration in the amount of USD 36 million, payable on execution of the definitive agreement for the Sale Offer (additional details are described above).

Share capital

As at 31 December 2018, the authorised share capital of Matomy was 4,305,000 New Israeli Shekels divided into 430,500,000 Ordinary Shares, par value NIS 0.01 per share. The issued voting share capital was 98,090,681 ordinary shares.

As at the date of this report, Matomy had been notified of the following significant holdings of voting rights in its ordinary shares in accordance with the Financial Conduct Authority's Disclosure Guidance and Transparency.

Shareholder	Number of ordinary shares/voting rights notified	Percentage of ordinary share capital/voting rights notified
Publicis Groupe B.V.	22,326,246	22.76%
Ilan Shiloah	9,773,487	9.96%
Viola A.V Adsmarket L.P	9,266,524	9.45%
Meitav and its affiliated entities	10,684,058	10.89%
Brosh Capital and its affiliated entities	5,429,963	5.54%

Interests in own shares

As of 31 December 2018, (i) 65,625 Ordinary Shares were held by Matomy; (ii) 9,693,250 Ordinary Shares were held by Matomy Media Ltd., a wholly-owned subsidiary of Matomy; and (iii) 1,211,236 Ordinary Shares were held by Team Internet AG, a principal subsidiary of Matomy (collectively, the ''Dormant Shares''). In accordance with the Israeli Companies Law, the Dormant Shares are classified as dormant shares with no voting rights for so long as they are held by Matomy or any of its subsidiaries.

Going concern

As discussed in Note 1b to the Financial Statements, the Company has recurring losses from operations, has a working capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are described in Principal Risks& Uncertainties on pages 21 to 26 above.

Directors

Matomy's Board of Directors is responsible, inter alia, to determine the policy of the Group and supervise the performance of the functions and acts of the Senior Management within that framework, and to determine the Group's plans of action, principal activities for funding them and the priorities between them; to examine the Group's financial status, and set the credit limits applicable to Matomy; to determine the organizational structure of the Group and its wage policy; and shall be responsible for preparing financial reports and certifying them. Matomy has established properly constituted Audit, Remuneration and Nomination Committees of the Board (in accordance with the Israeli Companies Law), which have formally delegated duties and responsibilities.

The UK Corporate Governance Code recommends that at least half the directors of the board of a UK-listed company, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. The Israeli Companies Law requires Matomy to appoint at least two External Directors. The Israeli Companies Law also requires the Board to determine the minimum number of board members who are required to possess accounting and financial expertise; one of such persons must be an External Director. In determining the number of board members required to have such expertise, the Board must consider, amongst other things, the type and size of the business and the scope and complexity of its operations.

As at the date of this report, the Board has five members: the Non-Executive Chairman (Sami Totah); and four Non-Executive Directors (Harel Locker, Amir Efrati, Nir Tarlovsky and Rishad Tobaccowala). During 2018 only Harel Locker served as an External Director (as required by Israeli Companies Law). The Board has recommended to the shareholders to re-elect Mr. Locker as an External Director for a second term of three years at the forthcoming shareholder meeting, to be convened on May 28, 2019. In addition, the Board has recommended to the shareholders to elect Mrs. Shirith Kasher as an additional External Director (as required by Israeli Companies Law) for a term of three years. For additional details please refer to the announcement published by the Company on April 22, 2019 (RNS Number 7114W).

The biographical details of each of the current Directors and details of their membership of the Board's committees are set out elsewhere in this report.

Subject to law and the Group's Articles of Association, the Directors may exercise all of the powers of the Group and may delegate their power and discretion to committees.

Matomy's Articles of Association give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment to the Board of Matomy must be recommended by the Nomination Committee for approval by the Board. The Articles of Association also state that all Directors (other than External Directors) shall be elected by ordinary resolution at an annual general meeting or at an extraordinary general meeting. Each Director shall serve until the first annual general meeting that follows the annual general meeting or extraordinary general meeting at which such Director was elected, where such Director may, subject to eligibility, offer him- or herself up for re-election.

In relation to the External Directors of the company, under the Israeli Companies Law, the term of office of an External Director shall be three years, and the company may appoint him or her for two further consecutive terms of three years each.

In accordance with the UK Corporate Governance Code, the Board has reserved certain matters that can only be decided by the full Board. In addition, the Board has established Audit, Nomination and Remuneration Committees (in accordance with the Israeli Companies Law) with formally delegated duties and responsibilities within written terms of reference. If the need should arise, the Board may establish additional committees, as it deems appropriate.

The Board has a formal schedule of matters reserved to it for decision and approval that include, but are not limited to:

- the Group's business strategy;
- annual budget and operating plans;
- major capital expenditure and acquisitions;
- the systems of corporate governance, internal controls and risk management;
- the approval of the interim and annual financial statements and interim management statements; and
- any interim dividend and the recommendation of any final dividend.

Audit Committee

The Board's Audit Committee has been structured to comply with the recommendations of the UK Corporate Governance Code and the requirements of the Israeli Companies Law. The Audit Committee's terms of reference covers issues such as membership, the right to attend meetings, the frequency of meetings and quorum requirements. The terms of reference also set out the Audit Committee's duties (including under Israeli Companies Law) and the authority to carry out its duties.

The duties of the Audit Committee include:

- monitoring the integrity of Matomy's financial statements;
- reviewing the adequacy and effectiveness of Matomy's financial controls and internal controls and risk management policies and systems;
- making recommendations concerning the appointment of the internal auditor and external auditor;
- reviewing and monitoring the internal audit function;
- overseeing Matomy's relationship with its external auditor;
- determining whether certain engagements and transactions are material or extraordinary;
- determining if non-extraordinary transactions with a Controlling Shareholder must be tendered pursuant to a competitive process; and
- otherwise approving certain engagements and transactions and reporting to the Board on its proceedings.

The terms of reference also set out the authority of the Audit Committee to carry out its responsibilities.

Subject to the provisions of the Israeli Companies Law, the Audit Committee meets at least four times per year at appropriate intervals in the financial reporting and audit cycle, and at such other times as the Audit Committee's chairman deems necessary.

Nomination Committee

The Board's Nomination Committee has been structured to comply with the recommendations of the UK Corporate Governance Code. The Nomination Committee's terms of reference cover issues such as membership, the right to attend meetings, the frequency of meetings and quorum requirements.

The terms of reference also set out the Nomination Committee's duties and the authority to carry out its duties.

The duties of the Nomination Committee include:

- assisting the Board in determining the appropriate structure, size and composition of the Board;
- formulating Director and Senior Management succession plans;
- making recommendations concerning the nomination and re-election of the Group's Chairman and other Directors;
- recommending suitable candidates for the role of Senior Independent Director and for membership of the Audit Committee and Remuneration Committee; and
- reporting to the Board on its proceedings.

The Nomination Committee meets as frequently as the Nomination Committee's Chairman deems necessary. Any member of the Nomination Committee may request a meeting if he or she considers that one is necessary.

Remuneration Committee

The Board's Remuneration Committee has been structured to comply with the recommendations of the UK Corporate Governance Code and the requirements of the Israeli Companies Law. The Remuneration Committee's terms of reference covers issues such as membership, the right to attend meetings, the frequency of meetings and quorum requirements. The terms of reference also set out the Remuneration Committee's duties (including under Israeli Companies Law) and the authority to carry out its duties.

The duties of the Remuneration Committee include:

- recommending to the Board for approval a compensation policy, in accordance with the requirements of the Israeli Companies Law;
- advising on the development of incentive-based remuneration plans and equity-based plans;
- determining whether to approve transactions concerning the terms of engagement and employment of the Directors, Chief Executive Officer and other Senior Management;
- approving the design of, and determining targets for,
- performance-related pay schemes and approving the total annual payments made under such schemes; and
- making recommendations with respect to the individual remuneration packages of the Chairman, Directors, Chief Executive Officer and other Senior Managers.

The Remuneration Committee shall also produce an annual remuneration report to be approved by the shareholders at the annual general meeting. The Remuneration Committee meets at least two times per year, and at such other times as the Remuneration Committee's Chairman deems necessary.

Directors' remuneration

The Remuneration Committee, on behalf of the Board, has adopted a policy that aims to attract and retain the Directors needed to run Matomy successfully. Details of the Directors' remuneration are set out elsewhere in this report.

Directors' interests

Details of the Directors' and their connected persons' interests in the ordinary shares of Matomy are set out in the Share Capital Section above. During 2018, no Director had any material interest in any contract of significance to the Group's business.

Directors' share interests

Directors' holdings in the shares of Matomy as at 31 December 2018 are shown on page 34.

Directors' insurance and indemnities

The Company releases its Directors and Senior Executives from liability and provides them with indemnification to the fullest extent permitted by the Israeli Companies Law and the Company's Articles of Association, and provides them with indemnification and release agreements for this purpose (the "**Indemnification and Release Agreement**"). In addition, Directors and Senior Executives are covered by a D&O liability insurance policy ("**D&O Insurance**") with liability limits that shall not exceed $10,000,000 per event and subject of payment of premium at market range. The Company may purchase D&O insurance policies covering the liability of its Directors and officers as same shall be from time to time (including Directors or officers that are deemed a controlling shareholder of the Company or that are associated with the controlling shareholder(s) of the Company) provided that (i) the purchase of the such policy is on market terms and does not have material adverse effect on Matomy's assets liabilities or profitability, and (ii) such purchase has been approved by the Remuneration Committee.

The Remuneration Committee and the Board of Directors shall review the Indemnification and Release Agreement and the D&O Insurance from time to time, in order to ascertain whether they provide appropriate coverage.

In accordance with section 236 of the Companies Act 2006, qualifying third-party indemnity provisions are in place for the Directors and Company Secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law.

Management report

The Directors' Report and Strategic Report comprises the "management report" for the purposes of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 4.1.8R).

Internal controls

The Corporate Governance Report and Audit Committee Report on pages 40 to 49 includes the Board's assessment of Matomy's system of internal controls.

Financial risk management

It is Matomy's objective to manage its financial risk so as to minimise the adverse fluctuations in the financial markets on the Group's profitability and cash flow. The specific policies for managing each of Matomy's main financial risk areas are determined by the Audit Committee.

Auditors

Disclosure of information to auditor in accordance with section 418(2) of the Companies Act 2006, each of the Group's Directors in office as at the date of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which Matomy's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

One of the duties of the Audit Committee, as mentioned above, is to review the scope of work of the auditor and the audit fee and make its recommendations in these matters to the Board.

The Group's auditor is Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global). A resolution to re-appoint Kost Forer Gabbay & Kasierer as auditor to Matomy will be proposed at the forthcoming Annual General Meeting.

Annual general meeting

Matomy's 2019 Annual General Meeting will be held at 08:00 (London time) / 10:00 (Tel Aviv time) on Tuesday, May 28, 2019 at the Company's Registered Office. On April 22, 2019 Matomy has issued a formal notice to all shareholders informing them of the scheduled date and the proposed resolutions (RNS Number 7114W).

Corporate Governance Report

The Board is committed to high standards of corporate governance, which it considers to be central to the effective management of the business and to maintaining the confidence of investors

The Board monitors and keeps under review the Group's corporate governance framework.

During 2018, which was a challenging year in which the Company focused on stabilizing its financial state, implementing its new business strategy anchored in domain monetization activity and exiting all other activities, and during which there were significant changes in the company's senior management level (with a substantial decrease in the number of headquarters' personnel), the company was not in timely compliance with the following provisions set out in the Israeli Companies Law: (i) Matomy did not convene an annual general meeting in a timely manner; (ii) Matomy had only one external director (while the Companies Law requires at least two) since October 24, 2017; and (iii) Matomy did not renew its Remuneration Policy, which was due to be extended by August 2018 (for additional details please see pages 47 and 50 in this report). However, the Board is taking actions in order to remediate matters as soon as practicable, and in this regard it has ordered the convening of an annual general meeting of shareholders (due to take place on May 28, 2019) to consider and, if thought fit, approve the nomination of an additional external director (and an extension of the term of the currently serving external director), as required under the Israeli Companies Law. Following the appointment of the external directors, the Company will be in a position to take all necessary additional steps in order to also comply with the provisions of the Israeli Companies Law regarding the approval of a remuneration policy .

Subject to the matters above, Matomy confirms that since its admission to the High Growth Segment of the London Stock Exchange on 8 July 2014 (the "Admission"), it has substantially complied with the relevant provisions set out in the UK Corporate Governance Code to the extent applicable to it, and the Israeli Companies Law, 5799-1999 (the "Israeli Companies Law"). Furthermore and subject to the above matters, following Matomy's commencement of trading on the Tel/Aviv Stock Exchange the "TASE") on 16 February 2016, Matomy substantially complies with the applicable provisions relating to its trading on TASE.

This report, together with the Remuneration Committee Report on pages 47 to 49, provides details of how Matomy has applied the principles and complies with its legal obligations.

The Board

The Board is collectively responsible for promoting Matomy's success.

The Board provides leadership for the Group and concentrates its efforts on strategy, performance, governance and internal control. As at the date of this report, the Board has five members.

The biographical details of each of the current Directors are set out on pages 28 to 32 in this report, and details of their membership of the Board's committees are set out below.

The Board has a formal schedule of matters reserved to it for decision and approval that include, but are not limited to:

- the Group's business strategy;
- annual budget and operating plans;
- major capital expenditure and acquisitions;
- the systems of corporate governance, internal control and risk management;
- the approval of the interim and annual financial statements and interim management statements; and any interim dividend and the recommendation of any final dividend.

The Board and Audit Committee held four quarterly scheduled meetings in 2018. Additionally, ad hoc conference calls and committee meetings were also convened between scheduled Board meetings to address specific matters that required the Board's attention, at which the Group's strategy was regularly reviewed. The Directors participated in discussions relating to Matomy's strategy, financial and trading performance and risk management.

Certain Directors were unable to attend one or more due to conflicting engagements.

At the request of any Non-Executive Director, the Non-Executive Chairman will arrange meetings consisting of only the Non-Executive Directors to allow the opportunity for any concerns to be expressed.

As of June 2018, Mr. Sami Totah succeeded Mr. Harel Beit On as Chairman. The Executive Chairman is responsible for leading the Board and its effectiveness.

Following Mr.Liam Galin resignation as the President & Chief Executive Officer, the Board suggested Mr. Sami Totah, the Chairman of the Board, to assume the CEO position, subject to the approval of the general meeting as required under the Israeli Companies Law.

At the invitation of the Chairman of the Board or any of its Committees, the Chief Executive Officer and the Chief Finance Officer may attend meetings of the Board or its Committee, except when they have a conflict or personal interest. No Director is involved in determining his or her own remuneration.

Board balance and independence

In accordance with recommendations of the relevant sections of the UK Corporate Governance Code applicable to smaller companies and the Israeli Companies Law, Matomy's Board includes at least two non-Executive Directors whom the Board determines to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. Matomy regards all of the Non-Executive Directors to be independent for purposes of the UK Corporate Governance Code, other than Sami Totach, Rishad Tobaccowala and Amir Efrati.

The Directors consider that the Board has an appropriate balance of skills and experience by virtue of the Directors' varied backgrounds (see biographical details on pages 28 to 32).

Board appointments

Board nominations are recommended to the Board by the Nomination Committee under its terms of reference. All Directors, excluding External Directors (as defined in the Israeli Companies Law), are subject to re-election by shareholders at the annual general meeting following their appointment and thereafter to re-election at each annual general meeting, in accordance with Matomy's Articles of Association and the Israeli Companies Law. Each external director is appointed for an initial three-year term, in accordance with Matomy's Articles of Association and the Israeli Companies Law.

Information and professional development

On appointment, Independent Directors receive a full, formal and tailored induction, including meetings with members of the Management team and briefings on particular issues. As an ongoing process, Directors are briefed and provided with information concerning major developments affecting their roles and responsibilities. In particular, the Directors' knowledge of Matomy's operations is regularly updated by arranging presentations from Senior Management throughout the Group.

The Non-Executive Chairman liaises with the Company's legal counsels to ensure that the Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to effectively discharge its duties.

Directors are also supplied with a monthly financial report and receive ongoing updates from the Chief Executive Officer or Chief Finance Officer, who provides the Board with information on operational and financial performance and the Group’s business plans. During the months during which there is no scheduled Board meetings, the Board conducts ad-hoc telephone Board update calls.

Directors may obtain, in the furtherance of their duties, independent professional advice, if necessary, at the Group’s expense.

Board performance evaluation

The Board recognises that it is required to undertake regularly a formal and rigorous review of its performance and that of its committees.

Board committees

The Board is supported by several committees, including the following principal committees: Audit Committee, Remuneration Committee and Nomination Committee. All the Independent Non-Executive Directors are members of each of the principal committees of the Board. Details of the work of the Audit and Remuneration Committees during the year are given in the reports of those Committees on pages 43 to 50. Information pertaining to the work of the Nomination Committee during the year can be found on page 36.

Set out below is a table identifying the Directors who serve on each of the Committees as of the date of this report(1):

Audit	Remuneration	Nomination
Mr. Locker (Chair)	Mr. Locker (Chair)	Mr. Totah (Chair)
Mr. Tarlovsky	Mr Efrati	Mr. Locker
		Mr. Tarlovsky

(1) Subject to the approval of her nomination by the general meeting, Mrs. Shirith shall serve as member of the Company's audit committee and remuneration committee.

The terms of reference of each of the principal committees are available on request by writing to the Company at its registered address.

The committees, if they consider it necessary, can engage with third-party consultants and independent professional advisers and can call upon other resources of the Group to assist them in developing their respective roles.

Audit Committee Report

Audit Committee

Currently, the Audit Committee comprises of two Independent Non-Executive Directors, as detailed above.

The main roles and responsibilities of the Audit Committee are set out in written terms of reference. The Audit Committee's terms of reference cover issues such as membership, the right to attend meetings, the frequency of meetings and quorum requirements. They also set out the Audit Committee's duties (including under the Israeli Companies Law) and the authority to carry out its duties.

Harel Locker satisfies the requirements to serve as Chairman of the Audit Committee (see biographical details on page 32).

The duties of the Audit Committee include:

- monitoring the integrity of Matomy's financial statements;
- reviewing the adequacy and effectiveness of Matomy's financial controls and internal control and risk management policies and systems;
- making recommendations concerning the appointment of the internal auditor and external auditor;
- reviewing and monitoring the internal audit function;
- overseeing Matomy's relationship with the external auditor;
- determining whether certain engagements and transactions are material or extraordinary;
- determining if non-extraordinary transactions with a Controlling Shareholder must be tendered pursuant to a competitive process; and
- otherwise approving certain engagements and transactions and reporting to the Board on its proceedings.

The Board is satisfied, in accordance with the provisions of the Israeli Companies Law, that at least one member of the Audit Committee is qualified as a "financial and accounting expert", pursuant to the requirements of the Israeli Companies Law.

Matomy's Annual Report and the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess Matomy's performance, business model and strategy.

Operation of the Audit Committee

The Audit Committee met four scheduled times in 2018. At the invitation of the Chairman of the Audit Committee, the Chief Executive Officer, the Chief Financial Officer and the Group's external auditors regularly attend meetings.

Financial statements and significant accounting matters

The Audit Committee was presented by the Group's Management with updates of Matomy's current internal control procedures and risk management systems. The Audit Committee is satisfied that the current arrangements and Matomy's internal controls and risk management systems are appropriate. The Audit Committee considers that the Group continued to make good progress with respect to the issues considered during the year, resulting in better processes, understanding and awareness combined with a greater engagement across the business. The debate on risk, risk tolerance and risk appetite will continue to be a focus for the Board and the Committee during 2018 and beyond.

Corporate governance

The Board requested, and the Audit Committee has advised, that the annual Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess Matomy's performance, business model and strategy.

External auditor

Matomy's external auditor, Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global), attends various meetings of the Audit Committee. It is the responsibility of the Audit Committee to provide oversight of the external audit process and assess the effectiveness, objectivity and independence of the external auditor.

The Audit Committee reviewed the following to provide oversight of the external audit process:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter for the forthcoming year;
- the external auditor's overall work plan for the forthcoming year;
- the external auditor's fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements and estimates;
- the levels of errors identified during the audit; and
- recommendations made by the external auditor in their management letters and the adequacy of management's response.

The Audit Committee reviewed the independence of the auditor having regards to:

- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent and nature of non-audit services provided by the external auditor.

The Audit Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements.

These policies are kept under review to ensure that Matomy benefits in a cost-effective manner from the cumulative knowledge and experience of its auditor whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity.

During the year under review, Matomy's external auditor, Kost Forer Gabbay & Kasierer, performed a variety of non-audit services. A significant proportion of non-audit services related to the following:

- the provision of tax compliance services in relation to both direct and indirect taxation; and
- the provision of the prospectus of the convertible bond issuance.
- The provisions of Mobfox Sale.

The assurance provided by Matomy's auditor on the items above is considered by the Group as strictly necessary in the interests of the Group. The level of non-audit services offered reflects the auditor's knowledge and understanding of Matomy's operations. Matomy has also continued with the appointment of other accountancy firms to provide certain non-audit services to the Group in connection with tax impairment checks, valuation and regulatory advice and anticipates that this will continue for the foreseeable future.

The provision of tax advisory services, due diligence and regulatory advice is permitted with the Audit Committee's prior approval. The provision of internal audit services, valuation work and any other activity that could result in the external auditor reviewing and relying on its own work and conclusions is prohibited. Kost Forer

Gabbay & Kasierer was not engaged during the year to provide any services which would have given rise to a conflict of interest.

The Audit Committee considers the effectiveness of the external audit process on an annual basis, reporting its findings to the Board as part of its recommendation. This process is completed through completion of a detailed questionnaire (which includes consideration of the audit partner, the approach, communication, independence, objectivity and reporting). This is completed by members of the Audit Committee and senior members of Matomy's finance team who regularly interact with the external auditor. The results of the questionnaire are reported to and discussed by the Audit Committee. It also assessed the cost effectiveness and value-for-money aspect of the audit.

The Audit Committee holds private meetings with the external auditor as required to discuss review key issues within their sphere of interest and responsibility.

The Audit Committee considered the length of Kost Forer Gabbay & Kasierer's, a member of Ernst & Young Global, tenure and the results of the detailed questionnaire when assessing its continued effectiveness, independence and re-appointment.

The Committee continues to remain satisfied with the work of Kost Forer Gabbay & Kasierer, and that it continues to remain independent and objective. The Committee has therefore recommended to the Board that a resolution is put to shareholders recommending its reappointment at the Annual General Meeting of Matomy, to be convened on May 28, 2019.

This will continue to be assessed on an annual basis.

Accountability

The Board acknowledges that this report should present a fair, balanced and understandable assessment of Matomy's position and prospects.

In this context, reference should be made to the Directors' Responsibility Statements, which includes a statement in compliance with the Code regarding Matomy's status as a going concern, and to the independent auditor's report which includes a statement by the auditor about their reporting responsibilities. See pages 54 and 55 in the Company's Financial Statement.

The Board recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as information required to be presented by law. At the request of the Board, the Audit Committee considered whether the 2018 Annual Report is fair, balanced and understandable, and whether it provided the necessary information for shareholders to assess Matomy's performance, business model and strategy. The Audit Committee is satisfied that, taken as a whole, the Annual Report is indeed fair, balanced and understandable.

Internal controls

The Board acknowledges that it is responsible for Matomy's system of internal controls, and the Audit Committee reviews its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee has reviewed the effectiveness of the key procedures which have been established to ensure internal control. As part of this review there are procedures designed to capture and evaluate failings and weaknesses, and in the case of those categorised by the Board as significant, procedures exist to ensure that necessary action is taken to remedy the failings.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process is regularly reviewed by the Audit Committee which reports its findings for consideration by the Board. As part of Team Internet becoming a material part of Matomy's activity, the board shall consider recommending on additional measures of control with regard to such activity.

The key procedures operating within Matomy were as follows:

- during the year under review, the Audit Committee met to evaluate risk and consider the appropriateness of Matomy’s risk assessment systems and internal control policies;
- Matomy maintains a risk register which cover the strategic and operational business risks. This register is updated on an ongoing basis, and is presented to the Audit Committee no less often than a quarterly basis;
- The senior executives of Matomy report to the Executive Directors on a regular basis regarding ongoing financial and operational progress within the respective business units and functions they manage; The senior executives of Matomy report to the supervisory board on a regular basis with respect to the Group's high level and material issues.
- The significant risks faced by the Group are considered regularly by Matomy’s Board, which is charged with the development and implementation of appropriate monitoring and mitigation plans, where appropriate.
- Matomy has a comprehensive system of budgetary and reforecasting control, focused on quarterly performance reporting which is at an appropriate detailed level. The performance measures are subject to review to ensure that they provide relevant and reliable indications of business performance;
- Matomy has established procedures for the delegation of authority;
- Matomy has established policies and procedures designed to ensure the maintenance of accurate accounting records sufficient to enable the preparation of consolidated financial statements, in accordance with the financial reporting frameworks

Internal auditor

- The Israeli Companies Law requires the Board to appoint an internal auditor who is recommended by the Audit Committee. An internal auditor may not be:
- a person (or a relative of a person) who holds 5% or more of Matomy’s outstanding Ordinary Shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of Matomy;
- an office holder or Director of Matomy or a relative thereof; or
- a member of Matomy’s independent accounting firm, or anyone on its behalf.

Audit Committee effectiveness

The Board, as part of its general review of its overall effectiveness, concluded that the Audit Committee was working effectively.

This report was approved by the Board and signed on its behalf by:

HAREL LOCKER

Chairman of the Audit Committee

30 April 2019

Internal Audit

Under the Israeli Companies Law, the board of directors of a publicly traded company must appoint an internal auditor nominated by the audit committee. The role of the internal auditor is to examine whether the company’s actions comply with the law, integrity and orderly business practice. Under the Israeli Companies Law, the internal auditor may not be an interested party, an office holder, or an affiliate, or a relative of an interested party, office holder or affiliate, nor may the internal auditor be the company's independent accountant or its representative. Daniel Spira, Certified Public Accountant (Isr.) serves as our Internal Auditor.

The Audit Committee defined a two year Internal Audit Work Plan. During 2018 the internal auditor partially completed the defined Internal Audit Work Plan by examining the Company's subsidiary, Team Internet, and its procedures. No material findings were found.

Remuneration Committee

Currently, the Remuneration Committee comprises two Non-Executive Directors, as detailed above. The Remuneration Committee convened three times during 2018, and reviewed and recommended to the Board regarding the Remuneration Policy, and compensation terms of senior office holders.

The Remuneration Committee is responsible for:

- recommending to the Board for approval a remuneration policy in accordance with the requirements of the Israeli Companies Law;
- incentive-based remuneration plans and equity- based plans;
- determining whether to approve transactions concerning the terms of engagement and employment of the Directors, CEO and other senior management; and
- approving the design of and determining targets for performance-related pay schemes and approving the total annual payments made under such schemes and making recommendations with respect to the individual remuneration packages of the Chairman, Directors, CEO and Senior Management.

Subject to the nomination of the external directors at the annual general meeting of the Company that shall be convened on May 28, 2019 as committee members, the Board considers that Matomy complies with the requirements of the Israeli Companies Law and the applicable recommendations of the UK Corporate Governance Code with regard to the composition of the Remuneration Committee.

Information regarding Directors Remuneration in 2018

Mr. Locker was entitled to receive a remuneration of $70 thousand, as was approved by the shareholders.

Subject to the re-election of Mr. Locker and the election of Mrs. Kasher on the Annual General Meeting of the Company's shareholders on May 28, 2019, they will be entitled to receive an annual fee of NIS 47,295 and a sum of NIS 2,455 per-meeting (including board committee meetings). A meeting via conference call shall entitle them for a compensation equal to 60% of the sum per-meeting and a written resolution shall entitle them for a compensation equal to 50% of the sum per-meeting. For additional details regarding such proposals please refer to the announcement published by the Company on April 22, 2019 (RNS Number 7114W).

Information regarding Senior Executives Remuneration in 2018 (in USD)

Name and Title	Base Salary	Employer Cost	Variable Compensation + Equity-Based Compensation	(employer cost + Equity- Based Compensation)
Gil Klein, former Managing Director of Mobfox	175,257	391,676	280,342	568,173
Keren Farag Krygier, former CFO	179,343	337,795	182,162	445,467
Ido Barash, Internal Legal Advisor and Secretary of the Company	145,669	240,094	236,098	432,050
Nico Zeifang, member of the executive board of Team Internet	279,612	349,514	133,940	413,551
Maio Witte, member of the executive board of Team Internet	279,612	349,514	133,940	413,551

(1) Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for the year ended December 31, 2018.

(2) Amounts reported in the column titled "Total Cost" include benefits and perquisites or on account of such benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances, convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.

(3) Amounts reported in this column titled "Variable Compensation + Equity-Based Compensation" include such sums paid as commission, incentive and bonus payments as recorded in our Financial Statements for the year ended December 31, 2018 together with the expense recorded on account of equity based compensation in our Financial Statements for the year ended December 31, 2018.

Adoption of remuneration policy

Pursuant to the Israeli Companies Law, a public company must adopt a remuneration policy, recommended by its remuneration committee and approved by the board of directors and the shareholders, in that order. In general, all senior executives' terms of remuneration — including fixed remuneration, bonuses, equity remuneration, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability — must comply with the company's remuneration policy. Information regarding the Company's Remuneration Policy is included below.

Nomination committee

The Nomination Committee comprises three Independent Non-Executive Directors. The Nomination Committee shall meet as frequently as the Committee chairman deems necessary. Any member of the Nomination Committee may request a meeting if he or she considers that one is necessary.

During 2018, the Nomination Committee provided its recommendations relating to the appointment of senior VP level executives and CEO.

The Board's Nomination Committee is structured to comply with the recommendations of the UK Corporate Governance Code. The Nomination Committee's terms of reference cover issues such as membership, the right to attend meetings, the frequency of meetings and quorum requirements. The terms of reference also set out the Nomination Committee's duties and the authority to carry out its duties. The duties of the nomination committee include:

- assisting the Board in determining the appropriate structure, size and composition of the Board;
- formulating Director and senior management succession plans;
- making recommendations concerning Chairman and other Director nomination and re-election;
- recommending suitable candidates for the role of senior independent director and for membership of the Audit Committee and Renumeration Committee; and
- reporting to the Board on its proceedings.

Relations with shareholders

The Board recognises the importance of maintaining good communication with its shareholders, and does this through the Annual Report, preliminary/final and interim financial statements, interim management statements and the Annual General Meeting. The Non-Executive Directors are available to meet with major shareholders.

Annual general meeting

Voting at the coming Annual General Meeting will be by way of poll. The results of the voting at the Annual General Meeting will be announced and details of the votes will be available to view on the Matomy website, www.matomy.com, as soon as possible after the meeting.

Remuneration Policy for Executive Directors & Senior Managers

The Israeli Companies Law and the regulations adopted thereunder require the Remuneration Committee to adopt a policy for the Remuneration of Directors and Executive Officers, referred to in this section as ‘‘office holders’’.

The Remuneration policy must be approved at least once every three years by the Shareholders at a general meeting.

At the Extraordinary General Meeting (the “EGM”) held on 10 August 2015 the shareholders approved the adoption of a Remuneration Policy with respect to the terms of office and employment of the Company’s “office holders”. Such Remuneration Policy (as included in the Company’s annual report for the year ended on December 31, 2017) was in effect until August 2018.

Currently, the Company does not have a valid Remuneration Policy. Following the approval by the Company's shareholders of an additional External Director such director shall be appointed as a member of the Remuneration Committee, as detailed above, and the Company will act to adopt an updated Remuneration Policy.

The information provided in this part of the Directors’ Remuneration Report is not subject to audit.

Policy general overview

The Company believes that the most effective executive remuneration program is one that is designed to reward achievement to encourage a high degree of execution, and that aligns executives’ interests with those of Matomy and its shareholders by rewarding performance, with the ultimate objective of building a sustainable company together with improving Shareholder value. The Company will seek to ensure that it maintains the ability to attract and retain leading employees in key positions and that the remuneration provided to key employees remains competitive relative to the remuneration paid to similarly situated executives of a selected group of the Company’s peer companies and the broader marketplace from which the Company recruit and compete for talent.

The Group’s policy is that performance-related components should form a significant portion of the overall remuneration package, with maximum total rewards being earned through the achievement of challenging performance targets based on measures that reflect the best interests of shareholders.

Consideration of shareholder views

The Remuneration Committee will consider shareholder feedback received in relation to the AGM each year at its next meeting following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, will then be considered as part of the Group’s annual review of remuneration policy. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be made to the remuneration policy.

Consideration of employment conditions elsewhere in the Group

The Remuneration Committee does not formally consult employees in relation to remuneration policy for Executive Directors and/or Senior Managers. However, Matomy regularly carries out engagement surveys which enable employees to share their views with management. To the extent that employees are shareholders, they can vote on this policy at the AGM.

Directors’ Responsibility Statements

Directors’ responsibility statements in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group Financial Statements and approve them in accordance with applicable laws and regulations.

Matomy’s Articles of Association require the Directors to prepare Group Financial Statements for each financial year. The consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United Sates (“US GAAP”).

Under Matomy’s Articles of Association, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of their profit or loss for that period.

In preparing each of the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with US GAAP principles; and
- prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain Matomy’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of Matomy and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors’ Report, Directors’ Remuneration Report and Corporate Governance Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Matomy website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Board considers that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess Matomy’s performance, business model and strategy.

4 Consolidated Financial Statements of the Company as were published on March 31, 2019, including the independent Auditors report

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2018

IN US DOLLARS IN THOUSANDS

INDEX

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The Board of Directors and shareholders of Matomy Media Group Ltd.

Re: Report of Independent Auditors

We have audited the accompanying consolidated financial statements of Matomy Media Group Ltd. ("the Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2018 and 2017, and the related consolidated statements of operations, changes in shareholders` equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 subsidiaries at 31 December 2018 and 2017 and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Matomy Media Group Ltd. Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1b to the consolidated financial statements, the Company has recurring losses from operations, has a working capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1b. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Tel Aviv, Israel	KOST FORER GABBAY & KASIERER
March 31, 2019	A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

US dollars in thousands

	31 December	
	2018	**2017**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,167	$ 29,407
Restricted cash	3,134	124
Trade receivables, net	5,947	22,402
Government authorities	9,009	3,781
Other receivables and prepaid expenses	3,474	2,364
Discontinued operation	4,634	11,988
Total current assets	33,365	70,066
LONG-TERM ASSETS:		
Property and equipment, net	1,413	3,922
Domains	11,904	10,797
Other intangible assets, net	1,451	6,921
Goodwill	42,279	48,692
Discontinued operation	-	41,454
Other assets	59	176
Total long-term assets	57,106	111,962
Total assets	$ 90,471	$ 182,028

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

CONSOLIDATED BALANCE SHEETS

US dollars in thousands

	31 December 2018	31 December 2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liability to non-controlling interest	$ 19,375	$ 41,547
Short-term bank credit and current maturities of bank loans	5,752	18,375
Trade payables	7,498	18,252
Employees and payroll accrual	1,813	2,805
Convertible bond (principal of ILS 101,000 thousands)	18,540	-
Accrued expenses and other liabilities	6,057	8,832
Discontinued operation	3,928	14,263
Total current liabilities	62,963	104,074
LONG-TERM LIABILITIES:		
Deferred tax liabilities	2,727	3,411
Bank loans, net of current maturities	1,116	3,001
Discontinued operation	-	67
Other liabilities	318	1,585
Total long-term liabilities	4,161	8,064
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	254	252
Additional paid-in capital	86,031	85,931
Accumulated other comprehensive loss	(3,174)	(3,174)
Accumulated deficit	(53,788)	(7,196)
Treasury shares	(6,231)	(6,231)
Total Matomy Media Group Ltd. shareholders' equity	23,092	69,582
Non-controlling interests	255	308
Total equity	23,347	69,890
Total liabilities and equity	$ 90,471	$ 182,028

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

March 31, 2019		
Date of approval of the financial statements	Sami Totah Chairman of the board of directors	Ilan Tamir Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

US dollars in thousands except earnings per share data

	Year ended 31 December 2018	Year ended 31 December 2017
Revenues	$ 88,734	$ 194,442
Cost of revenues	69,867	149,569
Gross profit	18,867	44,873
Operating expenses		
Research and development	2,266	7,154
Selling and marketing	7,694	22,679
General and administrative	6,125	10,114
Impairment, net of change in fair value of contingent consideration	7,435	18,668
Restructuring costs	1,923	924
Loss (gain) from sale of activity	1,777	(913)
Total operating expenses	27,220	58,626
Operating loss from continuing operations	(8,353)	(13,753)
Bond issuance costs	1,588	-
Financial expenses (income), net	(6,691)	2,536
Loss from continuing operations before taxes on income	(3,250)	(16,289)
Tax on income (benefit)	3,683	(2,303)
Loss from continuing operations before equity losses of affiliated companies	(6,933)	(13,986)
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity gains of affiliated companies, net	75	135
Loss from continuing operations	(6,858)	(13,851)
Loss from discontinued operations, net	(39,787)	(583)
Net loss	(46,645)	(14,434)
Net income attributable to redeemable non-controlling interests in subsidiaries	-	(1,466)
Net loss (income) attributable to other non-controlling interests in subsidiary	53	(23)
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from continuing operations	$ (6,805)	$ (15,340)
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from discontinued operations	$ (39,787)	$ (583)
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	$ (46,592)	$ (15,923)
Basic and diluted loss per ordinary share from continuing operations	$ (0.07)	$ (0.34)
Basic and diluted loss per ordinary share from discontinued operations	$ (0.41)	$ (0.01)
Basic and diluted loss per ordinary share	$ (0.48)	$ (0.35)

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Retained Earnings	Treasury shares	Total Matomy Media Group Ltd. shareholders' Equity	Non-controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2017	95,787,694	$ 247	$ 101,066	$ (3,174)	$ 8,795	$ (6,231)	$ 100,703	$ -	$ 100,703
Cumulative-effect adjustment from adoption of ASU 2016-09	-	-	68	-	(68)	-	-	-	-
Change in parent's ownership interest in subsidiary	-	-	-	-	-	-	-	285	285
Stock-based compensation	-	-	1,374	-	-	-	1,374	-	1,374
Exercise of options and vesting of restricted share units	1,493,229	4	522	-	-	-	526	-	526
Exercise of warrants	254,100	1	-	-	-	-	1	-	1
Accretion of redeemable non-controlling interest	-	-	(17,099)	-	-	-	(17,099)	-	(17,099)
Net loss	-	-	-	-	(15,923)	-	(15,923)	23	(15,900)
Balance as of 31 December 2017	97,535,023	252	85,931	(3,174)	(7,196)	(6,231)	69,582	308	69,890
Stock-based compensation	-	-	102	-	-	-	102	-	102
Exercise of options and vesting of restricted share units	837,316	2	(2)	-	-	-	-	-	-
Net loss	-	-	-	-	(46,592)	-	(46,592)	(53)	(46,645)
Balance as of 31 December 2018	98,372,339	$ 254	$ 86,031	$ (3,174)	$ (53,788)	$ (6,231)	$ 23,092	$ 255	$ 23,347

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

US dollars in thousands

	Year ended 31 December	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$ (46,645)	$ (14,434)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,647	14,397
Stock-based compensation	102	1,374
Impairment of intangible assets, goodwill, domains and capitalized research and development	38,580	27,144
Change in deferred tax, net	(664)	(7,802)
Change in accrued interest and effect of foreign exchange differences on long term loans	(167)	516
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity losses of affiliated companies, net	(75)	(135)
Fair value revaluation of convertible bond	(11,390)	-
Decrease in trade receivables	22,679	21,981
Increase in other receivables and prepaid expenses	(186)	(1,469)
Decrease in other assets	57	58
Decrease in trade payables	(17,796)	(14,814)
Changes in fair value of contingent payment obligation related to acquisitions recognized in earnings and liability to non-controlling interest	260	(9,963)
Increase in withholding tax receivable	(3,399)	(71)
Accretion of contingent payment obligation related to acquisitions	-	359
Decrease in employees and payroll accruals	(2,294)	(846)
Increase (decrease) in accrued expenses and other liabilities	(4,818)	2,078
Loss (gain) from sale of activity	1,835	(913)
Loss from disposal of property and equipment	847	229
Other	(57)	(234)
Net cash provided by (used in) operating activities	(14,484)	17,455
Cash flows from investing activities:		
Sale of activity	6,510	5,642
Purchase of property and equipment	(206)	(322)
Purchase of domains	(1,134)	(1,002)
Proceeds from sale of domains and property and equipment	76	160
Capitalization of research and development costs	(2,258)	(3,901)
Investments in subsidiaries net of cash acquired	-	(141)
Restricted cash	(3,010)	-
Change in long term deposit	66	-
Sale of investment in affiliated company	149	1,823
Net cash provided by investing activities	$ 193	$ 2,259

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

US dollars in thousands

	Year ended 31 December	
	2018	**2017**
Cash flows from financing activities:		
Short-term bank credit, net	$ (4,322)	$ 12,135
Receipt of bank loans	-	2,000
Issuance of convertible bond	29,930	-
Repayment of bank loans	(10,019)	(8,937)
Additional payments related to previous acquisitions, net	(681)	(3,228)
Acquisition of redeemable and non-redeemable non-controlling interest	(20,146)	(10,994)
Dividend paid to redeemable non-controlling interest	(2,711)	(3,491)
Exercise of options and warrants	-	527
Net cash provided by (used in) financing activities	(7,949)	(11,988)
Effect of exchange rate differences on cash	-	10
Increase (decrease) in cash and cash equivalents	(22,240)	7,736
Cash and cash equivalents at beginning of year	29,407	21,671
Cash and cash equivalents at end of year	$ 7,167	$ 29,407
Supplemental disclosure of cash flow activities		
Cash paid during the year for:		
Income taxes, net	$ 8,210	$ 5,263
Interest paid, net	$ 2,623	$ 997
Non-cash investing activities:		
Receivable in connection with acquisitions	$ 1,839	$ 75

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

NOTE 1:- GENERAL

a. Matomy Media Group Ltd. ("Matomy") together with its subsidiaries (collectively - the "Company") offered and provided a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers, domain owners.

In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet, a market leading domain advertising and monetization platform, with two key activities: (i) a proprietary domain parking platform that enables customers to monetize their domain portfolios; and (ii) a proprietary self-serve platform that allows publishers and advertisers to buy and sell traffic on a smart programmatic real time bidding model.

Matomy was incorporated in 2006. The Company's markets are located primarily in the United States and Europe. The Company's shares are traded on the London Stock Exchange and also on the Tel Aviv Stock Exchange.

b. In 2018, the Company incurred a net loss of $ 46,645 and had negative cash flows from its operating activities of $ 14,484. In addition, the Company's working capital deficiency amounted to $ 29,598 as of 31 December 2018.

In accordance with the share purchase agreement dated December 2017 (the "2017 SPA") with the minority shareholders of Team Internet, Rainmaker Investments GmbH ("Rainmaker"), in which the Company, through its UK and German subsidiaries, currently holds 90% of the share capital, the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018, which is claimed by Rainmaker to be equal to EUR 16,015 thousand. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares. Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand. The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), then the sole remedy available to Rainmaker is the exercise of the repurchase option. If the failure to pay is not as specified above, then Rainmaker is not limited in the legal remedies that it may pursue.

NOTE 1:- GENERAL (Cont.)

The shares purchased by the Company are detailed below:

Number of shares	Original Purchase price per share	Percentage of the total Team Internet's share capital
14,706	EUR 153.20	20%
36,765	EUR 535.84	50%
7,353	EUR 1,715.67	10%
7,353	EUR 2,481.33	10%

The Company is conducting discussions with Rainmaker regarding the terms of the purchase by the Company of the shares held by Rainmaker in Team Internet. In preliminary discussions held between the parties, and as part of the Proposed Plan of the Company (as further described below), the understanding is that the payment to Rainmaker will be in the amount of $13,500 and that Rainmaker will be allowed to retain a certain portion of the shares of Team Internet that were originally required to be sold by Rainmaker. As of the date of the approval for the issuance of these financial statements there is no new agreement regarding the terms for the purchase of the shares held by Rainmaker and no legal remedies have been waived or exercised.

In respect of the Company's convertible bond, as described in Note 9 herein, noncompliance with certain covenants during two consecutive quarters constitutes a default event, which under certain circumstances, as detailed in the bond, entitles the holders to claim immediate repayment of the Bonds. The following includes summary of the bond financial covenants:

Covenant
Minimum Equity (as defined therein) of $40,000
Net Debt to Adjusted EBITDA Ratio (as defined therein) of not more than 2.5
Adjusted EBITDA (as defined therein) of at least $10,000

As of 31 December 2018, the Company was not in compliance for two consecutive quarters with its Minimum Equity covenant and was not in compliance for one quarter with its Adjusted EBITDA and Net Debt to Adjusted EBITDA covenants. Therefore, under ASC 470, Debt, the convertible bond in the amount of $18,540, (principal of $26,948 as of 31 December 2018) was classified to short term liabilities as of 31 December 2018.
Noncompliance with certain covenants in the bonds triggers an increase of interest. As a result of the Company’s Shareholders’ Equity being lower than $50,000, the interest rate on the outstanding balance of the principal of the Bonds was increased by 0.5% as of October 1, 2018.

Beginning in the fourth quarter of 2018, the Company has been holding discussions with the trustee of the outstanding Bonds (the "**Trustee**") and with the representatives and legal counsel of the bondholders in order to reach an agreement to adjust certain terms of the Bonds.

NOTE 1:- GENERAL (Cont.)

The bondholders have, among other things, made a claim that they are entitled, at the fourth quarter of 2018, to call the Bonds for immediate repayment based on the "material adverse effect on the Company's business" clause, comparing the then current Company's business conditions and the Company's business conditions as of the bond's issuance date. The Company rejected this claim.

During January 2019, The Trustee issued a voting proxy, according to which the bondholders are requested to either vote in favor of an indicative non-binding approval of the Company's Proposed Plan (as further described below) or demand immediate repayment of the Bonds. On 29 January 2019, the majority of the bondholders voted in favor of the Proposed Plan of the Company and resolved not to require immediate repayment of the Bonds pursuant to that voting proxy. To date no agreement was reached.

On 28 December 2017, major shareholders of the Company holding in the aggregate approximately 30% of the Company's voting share capital, provided letters of support addressed to the Company stating that such shareholders agreed to provide sufficient financial support, if necessary, to the Company to ensure that the Company can continue its operations for at least twelve months from 27 December 2017. Under such letters, all eligible shareholders will have the right to participate under the same terms, which will be determined by the Board, subject to receipt of any applicable shareholder approvals (the "Letters of Support").

With respect to such Letters of Support, the Company received two letters, the first letter from legal counsel to the minority shareholder in Team Internet, Rainmaker, claiming, among other things, that the Letters of Support impose a liability upon such major shareholders to inject funds into the Company in order to enable it to pay the consideration for the Third Sale Exit. The second letter from legal counsel to the major shareholders, who provided the Letters of Support, which include, *inter alia*, claims that the obligation under the Letters of Support is intended to cover funding relating to the Company's on-going operations, that is, salaries payments and other on-going expenses etc., but does not cover the consideration for the Third Sale Exit or discharge the Company's liabilities. The bondholders have also raised claims that based on their interpretation, the Letters of Support are intended to cover the payments due to them.

On 20 December 2018, the Company received a letter from legal counsel to the shareholders who provided the Letters of Support, confirming that in support of the current discussions among the Company and various stakeholders, including the bondholders, the aforementioned shareholders agree not to claim that the Letters of Support expire with respect to the period up to 10 January 2019. This extension further states that the foregoing extension relates only to the extent of the circumstances under which the major shareholders would have been required to provide support pursuant to the terms of the original Letters of Support until 27 December 2018. The Company received several additional letters from legal counsel to the shareholders who provided the Letters of Support, further extending the Letters of Support as described above up to April 30, 2019.

NOTE 1:- GENERAL (Cont.)

It should be noted that the Company engaged independent legal experts in order to advise about the appropriate measures and actions it should take in connection with the Letter of Support. In light of the indicative approval of the Proposed Plan (as described below) by the majority of the bondholders, the continued negotiations regarding Proposed Plan, and the extension of the Letters of Support as described above, the Company is of the opinion that it is not necessary, at this stage, to reach a conclusion regarding the above disputed interpretation of the Letters of Support.

The Company requires additional capital in order to fund its liabilities (such liabilities include, among others, liability to non-controlling interest, bank loans and convertible bond liability). There is no assurance that the Company will be able to obtain such require additional capital.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company proposed comprehensive plan that will enable it to raise funds, adjust the terms of the Bonds to the Company's current and anticipated financial position and planned future activity, and fund the purchase of Rainmaker's shares in Team Internet from Rainmaker (the "Proposed Plan"). The main key features of the Proposed Plan are as follows:

(i) A fund raising by the Company of not less than $12,000, in which key shareholders holding in the aggregate approximately 55% of the voting share capital of the Company would commit to secure an amount of $10,000 through a capital raising and an additional amount of up to $2,000 through the issuance of additional Bonds, at a market price (the "Additional Amount"). The commitment for the Additional Amount will enter into effect only in the event that no additional amounts are raised beyond the commitment by the key shareholders of $10,000. Therefore, any consideration received by the Company in excess of the original commitment by the key shareholders of $10,000, will proportionately reduce the liability of the key shareholders for the Additional Amount accordingly (the specific terms of the fundraising have not been finalized);

(ii) Discussions with Rainmaker regarding the terms of the purchase of the shares held by it in Team Internet with the intention of modifying the existing terms (for further details see above);

(iii) Adjustment of the payment schedule of the principal amount and the financial covenants of the Bonds as follows:
- A waiver on the measurement of the covenants until the end of 2019.
- Adjusting the minimum shareholder equity covenant to $5,000.
- Adjusting the minimum Adjusted EBITDA covenant to $9,000.
- Adjusting the payment schedule of the principal amount of the Bonds, by advancing a partial repayment of a minimum amount of $6,100 during 2019 (depending on the success of the fund-raising exceeding $10,000), together with extending the overall payment period.
- Ability to make prepayment at par

The Company is proposing to the bondholders:
- Increased interest of 7% per annum

NOTE 1:-GENERAL (Cont.)

- Issuance of warrants to purchase up to 10% of the Company's share capital, after the proposed fundraising, for a period of 3 years at an exercise price equal to 150% of the share price of the fundraising. These warrants will replace the conversion mechanism of the Bonds.
- Any additional sum to be received by the Company (excess fundraising, over performance in the business activity etc.) will be used to advance/increase the repayments of the Bonds.
- The Company will grant a security interest in the tax refunds due to be received in 2019 and its shares in Team Internet for the benefit of the Bonds (subject to consent of a bank, which is currently holding a security).

As noted above, the majority of the bondholders voted in favor of the Proposed Plan. To date no agreement has been signed and there can be no assurance with respect to the outcome of such discussions between the Company and the various stakeholders, including the bondholders, or with respect to the actual implementations of the Proposed Plan.

It is noted that the adoption of any proposal and/or amendments to the existing agreements are subject to receipt of all required approvals, including the approval of key shareholders, the Company's Board of Directors, the bondholders, Rainmaker, the competent Israeli court and any other body or authority whose approval may be required. As of the date hereof, such required approvals have not yet been received and there is no certainty that they will be obtained.

These conditions raise, as described above, substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

c. Sale of activities:

On 29 July 2018, the Company signed an agreement for the sale of "myDSP" activity for a consideration of $850, which would be paid in two payments: $600 upon closing and $250 is deferred and was supposed to be received on 1 December 2018. The first payment in the amount of $600 was received in September 2018. The second payment in the amount of $250 has yet to be received.

On 13 August 2018, the Company signed an agreement for the sale of its White delivery email marketing activity. In addition, the Company signed an agreement with the buyer for data-licensing. The maximum total consideration from the agreements amounts to $8,500, which includes performance-based payments subject to meeting pre-defined milestones. The Company does not expect to collect any material amount from this transaction due to the buyer's financial difficulties.

NOTE 1:- GENERAL (Cont.)

On 15 November 2018 the Company sold its mobile core-business ("Mobfox") for a total consideration of $7,500, of which a payment of $6,000 was received as of 31 December 2018 and the remaining $1,500 was subject to fulfilment of certain payment requirement to publishers that were transferred with the framework of the sale. In January 2019 $ 1,000 was received. Accordingly, the results of operations of Mobfox have been classified as discontinued operations in the consolidated statements of operations in accordance with Accounting Standards Codification (“ASC”) ASC 205-20 (Presentation of Financial Statements - Discontinued Operations). Additionally, the assets and associated liabilities have been classified as discontinued operations in the consolidated balance sheets.

On 29 June 2017, the Company entered into an agreement for the sale of its intangible assets and transfer of all employees related to part of its non-core business, for a total consideration of up to $10,892, comprised of $5,642 in cash and a contingent consideration up to $5,250 based on future business performance.

The sale resulted in a gain of $913, which is included in operating results for the year ended 31 December 2017.

Following the consummation of this transaction, the Company has exited from the legacy web display, social and search and virtual currency media channels, which are deemed non-core activities, and these media channels ceased to be part of the Company's activity.

The Company elected to recognize the future contingent proceeds when the contingency is resolved and therefore the contingent consideration amount was not accounted for as part of the gain/loss.

Loss (gain) from sale of activities:

	Year ended 31 December	
	2018	**2017**
Cash consideration, net	$ 6,463	$ 5,642
Deferred consideration - presented in receivables	1,839	-
Total consideration, net	8,302	5,642
Property and equipment - R&D capitalization	(4,061)	-
Other intangible assets, net	(202)	(69)
Goodwill	(5,827)	(4,660)
Working capital and other	(47)	-
Loss (gain) from sale of activities	$ 1,835	$ (913)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United Sates ("US GAAP"). The significant accounting policies are applied in the preparation of the consolidated financial statements on a consistent basis, as follows:

a. Principles of consolidation:

The consolidated financial statements include the accounts of Matomy Media Group Ltd and its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

Changes in the parent's ownership interest in a subsidiary with no change of control are treated as equity transactions, with any difference between the amount of consideration paid and the change in the carrying amount of the non-controlling interest recognised in equity.

b. Use of estimates:

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable, fair values of financial instruments, fair values and useful lives of intangible assets, liability to non-controlling interest, fair values of stock-based awards, deferred taxes and income tax uncertainties and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

c. Financial statements in US dollars:

The US dollar is the currency of the primary economic environment in which Matomy Media Group and its subsidiaries operate. A substantial portion of the revenues and expenses of the Company are generated in US dollars. In addition, financing activities including equity transactions and cash investments are made in US dollars, which is prepared in US dollars. Thus, the functional and reporting currency of the Company is the US dollar.

Accordingly, monetary accounts maintained in currencies other than the US dollar are remeasured into US dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses of the remeasured monetary balance sheet items using exchange rates in effect at the balance sheet date are reflected in the statements of income as financial income or expenses, as appropriate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash and cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible into cash with original maturities of three months or less at acquisition.

e. Accounts receivable and allowance for doubtful accounts:

Accounts receivable are stated at realisable value, net of an allowance for doubtful accounts. The Company evaluates specific accounts where information indicates the Company's customers may have an inability to meet financial obligations. Allowance for doubtful accounts as of 31 December 2018 and 2017 were $ 3,470 and $ 1,648, respectively.

During the years ended 31 December 2018 and 2017 bad debt expenses were $3,598 and $ 1,958, respectively, and the write offs of balances included in allowances for doubtful accounts amounted to $1,530 and $ 1,884 in the years ended 31 December 2018 and 2017, respectively. During the years ended 31 December 2018 and 2017 recoveries amounted to $246 and $130, respectively, of amounts previously included allowance for doubtful accounts.

f. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and software	33
Office furniture and equipment	6 - 10
Electronic equipment	10 - 20
Capitalized research and development costs	33
Leasehold improvements	Over the shorter of related lease period or the life of the improvement

g. Impairment of long-lived assets and intangible assets subject to amortization:

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", and ASC 350, "Intangibles - Goodwill and other" whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability of these assets is measured by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

In determining the fair values of long-lived assets for purpose of measuring impairment, the Company's assumptions include those that market participants will consider in valuations of similar assets.

During the years ended 31 December 2018 and 2017, following the changes in the Company's business focus, the Company performed an impairment review of all its long-lived assets and intangible assets which resulted in impairment charge of $2,917 and $18,139, respectively.

h. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net identifiable assets acquired. Goodwill and indefinite intangible assets are not amortized but instead are tested for impairment, in accordance with ASC 350, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company adopted in 2017, the Financial Accounting Standards Board ("FASB") authoritative guidance, which simplifies the subsequent measurement of goodwill. The standard eliminates Step 2 of the current goodwill impairment test, which requires companies to determine the implied fair value of goodwill when measuring the amount of impairment loss. Under the new standard, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, with the loss limited to the total amount of goodwill allocated to that reporting unit.

During 2018, following the recent changes in the Company's business focus and sale of its mobile activity, the Company recorded a goodwill impairment of $30,648 related to its Mobile reporting unit. The Company did not record any goodwill impairment related to its Mobile reporting unit in 2017.

In addition, the Company determined that certain indicators of potential impairment existed during 2018, which triggered goodwill impairment analysis for its domain monetization unit. The Company determines the fair value of its domain monetization unit using the income approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, gross margin, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discounted and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record additional impairment charges for its goodwill. As a result of the impairment test in 2018, the Company recorded goodwill impairment charges of $5,014 using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly. The Company did not record any goodwill impairment related to its domain monetization reporting unit in 2017.

During 2017 the Company recorded goodwill impairment charges of $9,005 related to its non-core reporting unit.

The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives. Customer relationships and trade name are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such intangible assets as compared to the straight-line method. Technology and database are amortised over their useful lives on a straight-line basis. For impairment of intangible assets, refer to Note 2g.

i. Investments in affiliated companies:

In December 2017 the Company sold its investment in Adperio for a total consideration of $1,972, comprised of $1,823 in cash and $149 which is held in escrow for additional year. The Company estimated that 50% of the escrow amount will be received, and therefore an amount of $75 was included in other receivables and prepaid expenses in the balance sheet as of 31 December 2017. The sale resulted in a gain of $7, which is included in operating results for the year ended 31 December 2017. During the year ended 31 December 2018, the Company received the entire $149 amount, and as a result recorded a gain from sale of $74.

j. Severance pay:

Effective September 2007, the Company's agreements with employees in Israel are generally in accordance with section 14 of the Severance Pay Law - 1963 which provide that the Company's contributions to severance pay fund shall cover its entire severance obligation with respect to period of employment subsequent to September 2007. Upon termination, the release of the contributed amounts from the fund to the employee shall relieve the Company from any further severance obligation and no additional payments shall be made by the Company to the employee. As a result, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from severance obligation to employees once the amounts have been deposited, and the Company has no further legal ownership on the amounts deposited.

Severance expenses during the years ended 31 December 2018 and 2017 were $ 927 and $ 1,063, respectively.

k. Revenue recognition:

The Company provided smart marketing services through customized programmatic solutions supported by internal media capabilities, big data analytics, and optimization technology. Matomy empowered advertising and media partners to meet their evolving growth-driven goals across several media channels, including mobile, domain monetization, email and video, for multiple industry verticals on a wide variety of devices and operating systems. Following the recent sale of activities (refer to Note 1c), the Company generates revenue only from its domain monetization technology.

On 1 January 2018, the Company adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). In addition, the guidance in Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08") was considered to the extent that it applies to the Company's revenue arrangements.

The Company elected to apply the modified retrospective method for transition to the new accounting standard. This applies the standard retrospectively without amending comparative figures, with the cumulative effect of initially applying the guidance recognized as an adjustment to retained earnings at the date of initial application. The Company's adoption of the new standard was evaluated on a qualitative basis and did not have any material effect on the financial statements for the year ended 31 December 2018.

The Company recognizes revenue once the performance obligations for all transactions are satisfied, and the corresponding revenue is recognized, at a distinct point in time; the Company has no arrangements with multiple performance obligations. The Company considers the following when determining if a contract exists (i) contract approval by all parties, (ii) identification of each party's rights regarding the goods or services to be transferred, (iii) specified payment terms, (iv) commercial substance of the contract, and (v) collectability of substantially all of the consideration is probable.

The Company evaluates whether it acts as the principal to determine whether revenue should be reported on a gross or net basis. The Company has determined that it acts as the principal. In making that evaluation, the Company considers indicators such as whether the Company is: (i) the primarily responsible for fulfilling the promise to provide the specified good or service, (ii) has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to the customer and (iii) has discretion in establishing the prices for the specified goods or service.

The Company records deferred revenues for unearned amounts received from customers for services that were not recognised as revenues. Deferred revenues amounted to $ 808 and $ 1,059 at 31 December 2018 and 2017, respectively, and are included within accrued expenses and other liabilities on the balance sheets.

l. Cost of revenues:

Cost of revenues consists primarily of direct media costs associated with the purchase of digital media, data centre costs, amortization of technology and internally developed software and allocation of attributable personnel and associated costs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company's items of other comprehensive income relate to foreign currency translation adjustments, which were immaterial for the years 2018 and 2017.

n. Research and development costs:

Research and development costs are charged to the statement of operations as incurred, except for certain costs relating to internally developed software, which are capitalized and amortized on a straight-line basis over their estimated useful life once the asset is ready for its intended use.

o. Internally developed software:

The Company capitalizes certain internal software development costs, consisting of direct labor associated with creating the internally developed software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (costs are capitalized) and the post implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight line method over the estimated useful life of the software, generally 3 years, once it is ready for its intended use. The Company believes the straight-line recognition method best approximates the manner in which the expected benefit will be derived. During 2018 and 2017, the Company capitalized software development costs of $ 2,258 and $ 3,901, respectively. Amortization expense for the related capitalized internally developed software in 2018 and 2017 totaled $ 3,345 and $ 2,757, respectively, and is included in cost of revenues in the accompanying consolidated statements of operations. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. As a result of changes in circumstances in the non-core activity, management decided to abandon certain projects and therefore recorded an impairment charge of $790 and $447 in 2018 and 2017, respectively.

Capitalized internally developed software of $ 817 and $ 6,755 are included in property and equipment in the consolidated balance sheets as of 31 December 2018 and 2017, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Accounting for stock-based compensation:

The Company accounts for stock-based compensation under ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated grant date fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based awards on the date of grant, using an option-pricing model. The Company elected to account for forfeitures when they occur and adopted this change on a modified retrospective basis.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the accelerated attribution method, over the requisite service period of each of the awards.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The update simplifies several aspects of accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for annual reporting periods beginning after 15 December 2016, including interim periods within those annual reporting periods, early adoption is permitted. The Company adopted the standard commencing 1 January 2017. The impact of the adoption was to reduce retained earnings and to increase additional paid-in capital by $ 68 as of 1 January 2017.

1. The Company estimates the fair value of stock options granted to its employees and directors using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton model requires a number of assumptions, of which the most significant are the expected stock price volatility and expected option term. The assumptions are estimated as follows:

   - *Volatility* - the expected share price volatility was based on the historical equity volatility of the ordinary shares of comparable companies that are publicly traded and the Company's historical equity volatility.
   - *Expected option term* - the expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, which is the midpoint between the vesting date and the end of the contractual term of the option.
   - *Risk-free interest* - the risk-free interest rate assumption is based on the yield from zero-coupon US government Bonds appropriate for the expected term of the Company's employee stock options.
   - *Dividend yield* - the Company estimates its dividend yield based on historical pattern, however the Company currently intends to invest funds in business development and not to distribute dividends.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of the Company's stock options granted to employees and directors for the years ended 31 December 2018 and 2017 was estimated using the following weighted average assumptions:

	Year ended 31 December	
	2018	**2017**
Volatility	40%	47%
Expected option term (in years)	6.2	5.9
Risk-free interest rate	2.65%	1.97%
Dividend yield	0%	0%

2. The Company estimates the fair value of restricted share units ("RSUs") granted to employees according to the fair value of the Company's share at the grant date.

q. Income taxes:

The Company is subject to income taxes in Israel, Germany, the United States and numerous other jurisdictions. The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realised. In such determination, the Company considers future reversal of existing temporary differences, future taxable income, tax planning strategies and other available evidence in determining the need for a valuation allowance.

The Company implements a two-step approach to recognise and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (on a cumulative basis) likely to be realised upon ultimate settlement. The Company classifies interest incurred payable to tax authorities as interest expenses.

r. Concentrations of credit risks:

Financial instruments that could potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables.

Cash and cash equivalents are managed in major banks, mainly in Israel, United Kingdom and Germany.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are derived from sales to customers located mainly in Europe and the United States. The Company performs ongoing credit evaluations of its customers and a specific allowance for doubtful accounts is provided.

s. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- **Level 1 -** Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2 -** Other inputs that are directly or indirectly observable in the market place.
- **Level 3 -** Unobservable inputs which are supported by little or no market activity.

t. Basic and diluted earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares outstanding during the year, in accordance with ASC 260, "Earnings per Share".

w. Treasury shares:

In accordance with ASC 505-30, the Company shares held by the Company and/or its subsidiaries are recognized at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Domains:

During the year ended 31 December 2017, the Company changed its long-term strategy regarding the manner it relates to domains which were previously held for sale and accordingly reclassified the domains from current assets to non-current assets with indefinite useful lives. As of the date of reclassification, no impairment losses were recorded in accordance with ASC 350, "Intangibles - Goodwill and other".

Since the domains have no expiry date, management believes that these intangible assets have indefinite useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. For the years ended 31 December 2018 and 2017, no impairment losses were recorded.

y. Discontinued operations

For all periods presented, the operating results of our mobile advertising segment have been excluded from continuing operations and reported as income (loss) from discontinued operations, net of tax in the accompanying consolidated financial statements. In addition, the assets and liabilities related to our discontinued mobile advertising segment are reported as assets and liabilities of discontinued operations in the accompanying consolidated balance sheets. Cash flow information of our discontinued operations was not presented. For additional information on the discontinuation of our mobile advertising segment, refer to Note 17.

z. Change in accounting policies:

In 2018 the Company changed its accounting policy regarding the offsetting of bank overdraft and cash balances in the same bank account. According to the new accounting policy, the Company presents overdraft and cash balance in the same account on gross basis compared to previous presentation which was presented net. Management believes presenting on gross basis the overdraft and cash balances in the same bank account is a more appropriate presentation. Prior year's amounts were reclassified to conform to current year's presentation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The reclassification had no effect on previously reported net loss or shareholders' equity. The effect on 31 December 2017 is as follow:

	Year ended 31 December 2017	
	Before	**After**
Cash and cash equivalents	$ 28,827	$ 29,407
Short-term bank credit and current maturities of bank loans	$ 17,795	$ 18,375

aa. Recently issued accounting standards:

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet.

The guidance is effective for the interim and annual periods beginning on or after December 15, 2018, and early adoption is permitted. For operating leases having initial or remaining non-cancelable lease terms in excess of one year, the lessee shall disclose both of the following: a. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years. b. The total of minimum rentals to be received in the future under non-cancelable subleases as of the date of the latest balance sheet presented.

The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

NOTE 3:- PROPERTY AND EQUIPMENT, NET

a. Composition:

	31 December	
	2018	**2017**
Cost:		
Computers and software	$ 571	$ 1,659
Office furniture and equipment	878	1,179
Electronic equipment	50	98
Capitalized research and development costs	2,252	10,465
Leasehold improvements	211	1,339
Total cost	3,962	14,740
Less: accumulated depreciation and amortization	(2,549)	(5,944)
Property and equipment, net	$ 1,413	$ 8,796

b. Depreciation and amortization expense amounted to $ 4,031 and $ 3,784 for the years ended 31 December 2018 and 2017, respectively.

NOTE 3:- PROPERTY AND EQUIPMENT, NET (Cont.)

In connection with the restructuring plan, the Company recorded in 2018 and 2017 an impairment of $ 905 and $152, respectively, relating to disposal of certain office furniture and equipment which are included in restructuring charges in the statement of operations.

In 2018 and 2017, the Company recorded a loss on disposal of property and equipment in the amount of $ 0 and $ 77, respectively. In 2018 and 2017, the Company derecognised property and equipment in the amount of $ 2,771 and $ 2,602, respectively, which were fully depreciated.

NOTE 4:- OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets comprise of the following:

	Technology	Customer relationships	Database	Trade name	Total
1 January, 2017	$ 15,880	$ 13,498	$ 4,593	$ 2,606	$ 36,577
Acquisition	194	-	-	-	194
Amortization	(4,741)	(4,761)	(587)	(524)	(10,613)
Impairment	(9,327)	(5,013)	(1,270)	(2,082)	(17,692)
Sale of activity	-	(69)	-	-	(69)
31 December 2017	2,006	3,655	2,736	-	8,397
Amortization	(1,909)	(2,099)	(608)	-	(4,616)
Impairment	-	-	(2,128)	-	(2,128)
Sale of activity	-	(202)	-	-	(202)
31 December 2018	$ 97	$ 1,354	$ -	$ -	$ 1,451

Related deferred tax liabilities of $ 0 and $ 6,148 have also been written off and are included in taxes on income, as tax benefit, for the years ended 31 December 2018 and 2017, respectively.

b. The estimated future amortization expense of other intangible assets as of 31 December 2018 is as follows:

2019	$ 1,031
2020	420
	$ 1,451

NOTE 5:- GOODWILL

Changes in goodwill for the years ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Goodwill at beginning of year	$ 83,768	$ 97,015
Acquisitions	-	418
Sale of activity	(5,827)	(4,660)
Impairment	(35,662)	(9,005)
	$ 42,279	$ 83,768

NOTE 6:- FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present assets and liabilities measured at fair value on a recurring basis as of 31 December 2018 and 2017:

	31 December 2018			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Bonds	$ 18,540	$ -	$ -	$ 18,540
Derivative	-	933	-	933
Total financial liabilities	$ 18,540	$ 933	$ -	$ 19,473

	31 December 2017			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative asset	$ -	$ 22	$ -	$ 22
Total financial asset	$ -	$ 22	$ -	$ 22
Liabilities:				
Liability to non-controlling interest	$ -	$ -	$ 41,547	$ 41,547
Contingent consideration in connection with acquisitions	-	-	1,716	1,716
Total financial liabilities	$ -	$ -	$ 43,263	$ 43,263

NOTE 6:- FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the year ended 31 December 2018 and 31 December 2017:

	31 December	
	2018	2017
Total fair balance at the beginning of the year	$ 43,263	$ 17,358
Classification of liability to non-controlling interest from Redeemable to fair value financial instrument	-	41,547
Classification of liability to non-controlling interest to current liabilities (*)	(19,488)	-
Changes in fair value of liability to non-controlling interest	798	-
Accretion of contingent liability related to acquisitions	-	359
Changes in fair value of payment obligation related to acquisitions recognized in earnings	(538)	(9,963)
Payment of contingent consideration during the period	(110)	(5,794)
Classification of contingent obligation into current liabilities	(976)	-
Payment of liability non-controlling interests	(20,146)	-
Dividend to non-controlling interests	(2,711)	-
Other adjustments	(92)	(244)
Total fair value at the end of year	$ -	$ 43,263

(*) As 31 December 2018 the total aggregate liability to non-controlling interest was set on an amount of EUR16,921 thousand ($19,375 based on the exchange rate on 31 December 2018), of which EUR16,015 thousands is for the Third Sale Exit amount claimed by Rainmaker which was due on 30 November 2018. This amount accrues interest rate of 8% from 1 October 2018 till payment date. The accumulated interest rate as of 31 December 2018 is EUR319 thousands. The liability to non-controlling interest includes also an estimated liability of EUR587 which is due in 2019. The payment is yet to be made. For additional information refer to Note 1b.

NOTE 7:- LIABILITY TO NON-CONTROLLING INTEREST

a. The following table provides the movement in the redeemable non-controlling interests:

	31 December
	2017
Redeemable non-controlling interest at beginning of year	$ 23,691
Decrease in redeemable non-controlling interests due to change in ownership in subsidiaries *)	(565)
Revaluation of redeemable non-controlling interest in subsidiaries	17,099
Net income attributable to redeemable non-controlling interests	1,466
Dividend declaration/distributed to non-controlling interests	(144)
Classification of redeemable non-controlling interest into current liabilities **)	(41,547)
	$ -

NOTE 7:- LIABILITY TO NON-CONTROLLING INTEREST (Cont.)

*) In June 2017 the non-controlling interest of Matomy Social exercised their put option, and sold 10% of Matomy Social to the Company. As of 31 December 2018 and 2017, the Company holds 100% of Matomy Social.

**) In the end of 2017, as part of the 2017 SPA, Rainmaker exercised its put option to sell to the Company its remaining 20% during 2018 (see Note 1b). As a result, as of 31 December 2017, the Company recorded a liability for the expected consideration based on fair value according to its best estimates and classified the respective amount from redeemable to current liabilities.

b. The following table summarises the effect on the Company's shareholders:

	Year ended 31 December 2017
Net loss attributable to Matomy Media Group Ltd before accretion of redeemable non-controlling interest from continuing operations	$ 15,340
Accretion of redeemable non-controlling interest	17,099
Net loss attributable to Matomy Media Group Ltd. shareholders after accretion of redeemable non-controlling interest from continuing operations	$ 32,439

NOTE 8:- BANK LOANS AND CREDIT LINES

a. On 16 June 2014, the Company signed a loan agreement with an Israeli bank in an amount of $21,600. The loan agreement requires repayment of 85% of the principal in 12 equal payments every three months commencing 16 September 2014, and 15% of the principal in 4 equal payments every three months commencing 16 September 2017. The loan bore interest of three months USD LIBOR plus 3.5% to be paid together with the relevant portion of the principal. The loan was repaid in full on 16 June 2018.

b. As of 31 December 2017, the Company had an unsecured line of credit with Israeli banks which was available to the Company based on meeting certain account receivable conditions, out of which, it utilized $ 8,269. Interest rate of the credit line was USD LIBOR plus 3.25%. The credit line was repaid in full during 2018 and the Company has no credit line available as of 31 December 2018.

c. On 3 January 2017, the Company signed a term loan agreement with an Israeli bank in an amount of $ 2,000. In accordance with the loan agreement, repayment of the principal and the interest shall be made in 12 equal quarterly payments, commencing 10 April 2017. The loan bears annual interest of three months USD LIBOR plus 4.6%. The remaining principal as of 31 December 2018 was $ 893. On 5 February 2019, after balance sheet date, the loan was repaid in full and therefore the Company presented the entire loan amount in current liabilities.

The loan was secured by way of: (i) a fixed charge over the unpaid equity of the Company; and (ii) a floating charge over all the assets of the Company; and (iii) mutual guarantees between the Israeli companies.

d. On 20 August 2015, the Company's subsidiary Team Internet signed a term loan agreement with a German bank in an amount of EUR1,192 thousands ($ 1,365 based on the exchange rate on 31 December 2018). In accordance with the loan agreement, repayment of the principal shall be made in 54 equal monthly payments, commencing 31 March 2016. The loan is indexed to the Euro and bears interest of 1.8% to be paid on a monthly basis, commencing 31 August 2015. The remaining principal as of 31 December 2018 was $ 505 (EUR 441 thousand).

e. On 28 April 2016, Team Internet signed a loan agreement with a German bank in an amount of EUR 2,660 thousand ($ 3,046 based on the exchange rate on 31 December 2018). In accordance with the loan agreement, repayment of the principal shall be made in 20 equal quarterly payments, commencing 30 September 2016. The loan is indexed to the Euro and bears interest of 1.1% to be paid on a quarterly basis, commencing 30 June 2016. The remaining principal as of 31 December 2018 was $ 1,523 (EUR 1,330 thousand).

f. On 28 September 2016, the Company's subsidiary in the US ("Matomy US") signed a loan agreement with a bank in the US in an amount of $ 4,000, and a secured line of credit in the amount of $ 1,000. The line of credit bore a used credit line interest rate of LIBOR plus 3.25% and was repaid in full in November 2017. The term loan agreement required repayment of principal and interest every 3 months commencing 28 December 2016. The loan bore interest of three months USD LIBOR plus 3.65%. In December 2017 the Company signed an addendum to the loan agreement, and repaid loan principal of $ 500. The remaining principal of $ 1,834 was paid in full in February 2018.

g. On 10 January 2017, the Company's subsidiary in the US signed a secured line of credit in the amount of $ 5,000, all was utilized with a bank in the US. The line of credit bore an interest rate of LIBOR plus 3.25%, and an interest of 0.35% on the unused credit line. The credit line was repaid in full in May 2018.

h. On 16 May 2018, Team Internet signed a secured line of credit in the amount of EUR 6,000 thousands ($6,870 based on the exchange rate on 31 December 2018), with a German bank, out of which it utilized $3,947 as of 31 December 2018. The line of credit bears an interest rate of 2%, and an interest of 0.5% on the unused credit line. Team internet is required to comply with certain covenants, as defined in the credit line agreement. As of 31 December 2018, Team Internet was in full compliance with the financial covenants.

i. As of 31 December 2018, the aggregate principal annual maturities according to the loan agreement are as follows:

2019 (current maturities)	$	1,805
2020		811
2021		305
Total	$	2,921

NOTE 9:- CONVERTIBLE BOND

In February 2018, the Company completed a public offering in Israel of convertible bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately $29,930 as of issuance date) issuing a total of 101,000 units of Bond, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The interest is paid on a semi-annual basis. Interest prepayment in the amount of ILS 2.8 million (approximately $ 798) is included in other receivables and prepaid expenses on the balance sheet as of 31 December 2018. Transaction costs amounted to $1,588 and were expensed as incurred. The principal of the Bonds, denominated in ILS, is required to be repaid in two equal annual instalments commencing in December 2020. The Bonds are by their terms convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (i.e. December 21, 2021). The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend. The Company may redeem the Bond upon delisting of the Bond from the TASE, subject to certain conditions. Refer to Note 1b for further information. As of 31 December 2018, the Company did not meet part of its bond covenants and as a result, the bond interest increased to 6% per annum. Refer to Note 1b for further information on the Bonds, including the potential consequences of noncompliance with the financial covenants in the Bonds.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the Bonds and therefore all unrealized gains and losses are recognized in earnings. As of 31 December 2018, the fair value of the Bonds, based on its quoted price at the TASE was $18,540.

The changes of the Bonds in year ended 31 December 2018 were as follows:

	$
Balance 1 January, 2018	**-**
Convertible bond issuance, net	29,930
Change in fair value	(11,390)
Balance as of 31 December, 2018	**18,540**

As of 31 December 2018, the aggregate annual payments of principal of the Bonds are as follows:

	Repayment amount
	$
2020	13,474
2021	13,474
	26,948

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company rents its facilities under operating lease agreements with a term expiring in 2021. Future minimum lease commitments under non-cancellable operating leases for the year ended 31 December 2018 were as follows:

	Future minimum lease commitment
2019	$ 466
2020	335
2021	335
2022	195
	$ 1,331

Rent expenses, net of sublease rentals, for the years ended 31 December 2018 and 2017, were $ 1,714 and $ 2,105, respectively.

The Company has provided guarantees for rent expenses in the amount of $ 1,072.

The Company leased its motor vehicles under cancellable operating lease agreements. In 2018 the Company cancelled its operating lease agreement.

Lease expenses for motor vehicles for the years ended 31 December 2018 and 2017 were $ 23 and $ 130, respectively.

In connection with the restructuring plan, the Company vacant most of its leased space, refer to Note 16 for further details.

b. From time to time, the Company is party to ordinary and routine litigation incidental to its business. As of 31 December 2018 the Company does do not expect the outcome of any such litigation to have a material effect on its consolidated financial position, results of operations, or cash flows.

NOTE 11:- EQUITY

a. The Company's equity is composed of shares of NIS 0.01 par value each, as follows:

	31 December 2018			31 December 2017		
	Authorised	Issued	Outstanding	Authorised	Issued	Outstanding
	Number of shares					
Ordinary shares	430,500,000	108,131,214	98,372,339	430,500,000	107,293,898	97,535,023

The Ordinary Shares confer upon the holders thereof the right to receive notices and to attend general meetings of the Company, to be present thereat and to participate in and vote at such meetings, the right to participate in all distributions of dividends (whether of cash, assets or in any other lawful way) made by the Company and the right to participate with the other shareholders in the distribution of the surplus of assets of the Company which remains available for distribution on winding-up.

b. Options issued to employees and directors:

Under the global share plan as approved in 2012 options and Restricted Share Unit ("RSU") may be granted to employees, directors, officers and consultants of the Company. Each option granted under the Plans is fully exercisable up to 4 years and expires in between 7 to 10 years from the date of grant. As of 31 December 2018, there were 8,055,670 options available for future grants under the plan.

Any options, which are forfeited or not exercised before expiration, become available for future grants.

A summary of the activity in options granted to employees and directors is as follows:

	Number of options	**Weighted-average exercise price**	**Weighted-average remaining contractual term (in years)**	**Aggregate intrinsic value**
Outstanding at 1 January 2018	4,732,659	$1.50	6.09	$3
Granted	195,000	$0.85		
Exercised	(5,000)	$0.34		
Forfeited	(3,448,816)	$1.44		
Outstanding at 31 December 2018	1,473,843	$1.45	3.50	$0
Exercisable at 31 December 2018	1,076,784	$1.53	4.79	$0

As of 31 December 2018, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to $ 183.

The aggregate intrinsic value of the outstanding stock options at 31 December 2018 and 2017, represents the intrinsic value of 0 and 5,000 outstanding options that are in-the-money as of such dates. The remaining 1,473,843 and 4,727,659 outstanding options are out-of-the-money as of 31 December 2018 and 2017, and their intrinsic value was considered as zero.

NOTE 10:- EQUITY (Cont.)

The aggregate intrinsic value of the exercisable stock options at 31 December 2018 represents the intrinsic value of 0 exercisable options that are in-the-money as of such dates. The remaining 1,076,784 exercisable options are out-of-the-money as of 31 December 2018, and their intrinsic value was considered as zero.

Total intrinsic value of options exercised during the years ended 31 December 2018 was $ 3.

The weighted average grant date fair values of options granted for the years ended 31 December 2018 and 2017 were $ 0.37 and $ 0.55, respectively.

c. Restricted Share Units ("RSU") issued to employees and directors:

	Number of RSU's
Unvested at 1 January 2018	1,094,344
Granted	0
Vested	(832,316)
Forfeited	(223,528)
Unvested at 31 December 2018	38,500

The weighted average grant date fair value per share for the year ended 31 December 2018 and 2017 was $ 0 and $ 1.22, respectively.

As of 31 December 2018, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to $ 39.

d. Treasury shares

As of 31 December 2018, and 2017, treasury shares amounted to 10,970,111 shares of which 1,211,236 shares are held by Team Internet, and are considered outstanding.

NOTE 11:- LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Year ended 31 December	
	2018	**2017**
Basic and diluted net loss attributable to Matomy Media Group Ltd. from continuing operations (Note 7b)	$ (6,805)	(32,439)
Weighted average number of shares used in computing basic and diluted net loss per share (in thousands)	96,512	95,474
Basic and diluted loss per ordinary shares from continuing operations (in dollars)	$ (0.07)	(0.34)
Basic and diluted net loss attributable to Matomy Media Group Ltd. from discontinued operations	$ (39,787)	(583)
Weighted average number of shares used in computing basic and diluted net loss per share (in thousands)	96,512	95,474
Basic and diluted loss per ordinary shares from discontinued operations (in dollars)	$ (0.41)	(0.01)

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, was 1,512,343 and 5,859,047 for years 2018 and 2017, respectively.

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates in Israel:

The Israeli corporate income tax rate was 23% in 2018 and 24% in 2017.

2. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 ("the Law"):

As of 31 December 2018, the Company had ILS 22,630 thousand ($ 6,038 with 31 December 2018 exchange rate) of tax-exempt income attributable to its Privileged Enterprise program resulting from 2012. The Company does not intend to distribute any amounts of its undistributed tax-exempt income as dividends as it intends to reinvest its tax-exempt income within the Company. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Privileged Enterprise programs as the undistributed tax-exempt income is essentially permanent in duration. If such tax exempt income is distributed, it would be taxed at the reduced corporate tax rate applicable to such profits (25%) and an income tax liability of approximately $ 1,509 would be incurred as of 31 December 2018.

NOTE 12:- TAXES ON INCOME (Cont.)

3. Carryforward operating tax losses of the Israeli parent and its Israelis subsidiaries amounted to $ 36,800 as of 31 December 2018 and may be used indefinitely.

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. The Company's main non-Israeli subsidiaries are located in Germany and in the United States, and are subject to tax rate in 2018 of 33% and 27%, respectively, and in 2017 of 33% and 35%, respectively

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

Carryforward operating tax losses of its US subsidiaries amounted to $ 6,300 as of 31 December 2018 which can be carried forward and offset against taxable income up to 20 years, expiring between fiscal 2036 and fiscal 2037.

c. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recorded for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	31 December	
	2018	2017
Deferred tax assets:		
Carry forward losses	$ 10,297	$ 6,711
Research and development expenses	1,991	948
Allowance for doubtful debts	766	254
Intangible assets	891	1,141
Other	1,765	742
Gross deferred tax assets	15,710	9,796
Valuation allowance	(15,618)	(8,763)
Total deferred tax assets	92	1,033
Deferred tax liabilities:		
Intangible assets	757	1,246
Gain on achieving control	2,022	2,022
Deductible goodwill	-	829
Other	40	347
Deferred tax liabilities	2,819	4,444
Deferred tax liabilities, net	$ (2,727)	$ (3,411)

NOTE 12:- TAXES ON INCOME (Cont.)

The net change in the valuation allowance primarily reflects an increase in deferred tax assets on net operating losses and other temporary differences for which full valuation allowance is recorded.

d. Loss before taxes on income is comprised as follows:

	Year ended 31 December	
	2018	**2017**
Domestic	$ (1,631)	$ (15,983)
Foreign	(1,619)	(306)
	$ (3,250)	$ (16,289)

e. Taxes on income (tax benefit) are comprised as follows:

	Year ended 31 December	
	2018	**2017**
Current:		
Domestic	$ (11)	$ 71
Foreign	4,358	5,362
	4,347	5,433
Deferred:		
Domestic	2	(145)
Foreign	(666)	(7,591)
	(664)	(7,737)
	$ 3,683	$ (2,303)

f. A reconciliation of the beginning and ending amount of unrecognised tax benefits related to uncertain tax positions is as follows:

	31 December	
	2018	**2017**
Beginning balance	$ 193	$ 169
Increase related to tax positions taken during prior years	-	24
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(10)	-
Ending balance	$ 183	$ 193

The entire amount of unrecognised tax benefits as of 31 December 2018, if recognised, would reduce the Company's annual effective tax rate.

The Company does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of settlements with tax authorities, the likelihood and timing of which is difficult to estimate.

During the years ended 31 December 2018 and 2017, the Company did not record any interest and exchange rate differences expenses related to prior years' uncertain tax positions, since the amount was immaterial.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net loss in the period in which such determination is made.

As of 31 December 2018, the Company and its subsidiaries in Israel besides one subsidiary in Israel received final, or considered final, tax assessments through 2013.

As of 31 December 2018, Team Internet and the Company subsidiaries in the US received final, or considered final, tax assessments through 2014.

g. Reconciliation between the theoretical tax expenses, assuming all income is taxed at the statutory rate in Israel and the actual income tax as reported in the statements of operations is as follows:

	Year ended 31 December	
	2018	**2017**
Loss from continuing operations before taxes as reported in the statements of income	$ (3,250)	$ (16,289)
Statutory tax rate in Israel	23%	24%
Theoretical income tax benefit	$ (747)	$ (3,909)
Increase in taxes resulting from:		
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	2,731	4,479
Tax adjustment in respect of different tax rate of foreign subsidiaries	277	(381)
Non-deductible expense including impairment charge, net	1,153	(1,446)
Effect of foreign exchange rate *)	342	(730)
Others	(73)	(315)
	$ 3,683	$ (2,303)

NOTE 12:- TAXES ON INCOME (Cont.)

*) Results for tax purposes are measured under, Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985, in terms of earnings in NIS. As explained in Note 2c, the financial statements are measured in U.S. dollars. The difference between the annual changes in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with ASC 740-10-25-3(F), the Company has not provided deferred income taxes in respect of the difference between the functional currency and the tax bases of assets and liabilities.

NOTE 13:- REPORTABLE SEGMENTS

a. General

Following the implementation of the strategic plan in late 2017, the Company was focused on its two core activities Team internet and Mobfox. In 2018, the Company's chief operating decision maker ("CODM") started to review and make decisions about resources based on three reporting segments consisting of Team internet, Mobfox and the remaining non-core activities which reflect the companies updated business activity and its focus strategic. Accordingly, for management purposes, the Company was organized into operating segments based on the products and services and had operating segments as follows:

- Mobile Advertising ("Mobfox") – Mobfox is a data-driven, supply-side platform (SSP) and exchange for mobile in-app advertising. Connected to developers and publishers, along with quality demand sources, Mobfox offers comprehensive support for all major mobile ad formats. Mobfox also offers media buying services on its myDSP demand-side platform (DSP). Following the sale in November 2018 (refer to Note 1c) this operating segment ceased to exist. For the year ended 31 December 2018 this segment is reported as Discounted Operations in accordance with ASC 205-20. (Refer to Note 17)

- Domain Monetization - Team Internet serves the domain monetization market and includes two brands which work seamlessly together to provide a complete offering. Parking Crew is a domain parking platform which integrates with many third-party applications. Tonic, the second platform, is a traffic marketplace that allows users to monetize traffic and target audiences with a variety of ad types.

- Non-core Activities – Matomy's non-core activities include email marketing under the Whitedelivery brand and video advertising services under the Video from Matomy and Optimatic Media Inc. ("Optimatic") brands. Following the sale of certain activities (refer to Note 1c) and the restructuring of the remaining non-core activities, this operating segment ceased to exist.

NOTE 13:- REPORTABLE SEGMENTS (Cont.)

Following the sale of certain activities (refer to Note 1c) and the restructuring of the remaining non-core activities, the Company operates only one segment the domain monetization.

b. Segments information:

	Year ended 31 December	
	2018	2017
Revenues:		
Domain Monetization	$ 75,636	$ 105,358
Other	13,098	89,084
Total revenues	$ 88,734	$ 194,442

	Year ended 31 December	
	2018	2017
Operating income (loss):		
Domain Monetization	$ 14,181	$ 24,499
Other	(4,089)	1,495
Reconciling items (1)	(18,445)	(39,747)
Total loss from continuing operations	$ (8,353)	$ (13,753)

(1) Reconciling items are primarily related to impairment loss and depreciation and amortization costs for the years ended 31 December 2018 and 2017, as well as corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

NOTE 13:- REPORTABLE SEGMENTS (Cont.)

The following includes the statement of operations of the domain monetization:

	Year ended 31 December	
	2018	**2017**
Revenues	$ 75,636	$ 105,358
Cost of revenues	58,089	79,934
Gross profit	17,547	25,424
Operating expenses		
Research and development	455	480
Selling and marketing	3,792	6,147
General and administrative	1,775	1,270
Goodwill Impairment	5,014	-
Total operating expenses	11,036	7,897
Operating income	6,511	17,527
Financial expenses (income), net	(70)	1,286
Income before taxes on income	6,581	16,241
Tax on income	3,658	5,071
Income before equity losses of affiliated companies	2,923	11,170
Gain from achieving control and equity losses of affiliated companies, net	-	125
Net income	2,923	11,295
Net loss (income) attributable to non-controlling interests in subsidiaries	53	(23)
Net income	$ 2,976	$ 11,272

NOTE 13:- REPORTABLE SEGMENTS (Cont.)

c. Geographical information:

Revenues by geography are classified based on the location where the consumer completed the action that generated the relevant revenues.

1. Revenues from external customers:

	Year ended 31 December	
	2018	**2017**
United States	$ 55,665	$ 155,005
Europe	22,709	21,421
Asia	3,483	5,906
Other	6,877	12,110
	$ 88,734	$ 194,442

2. Property and equipment, net:

	31 December	
	2018	**2017**
Israel	$ 53	$ 816
United states	-	1,815
Germany	1,360	1,291
	$ 1,413	$ 3,922

d. In the year ended 31 December 2018 and 2017, one customer contributed 72% and 49% of the Company's revenues, respectively, while no other customer contributed more than 10%.

NOTE 14:- FINANCIAL EXPENSES, NET

	Year ended 31 December 2018	Year ended 31 December 2017
Financial income:		
Interest income	$ 45	$ 16
Change in fair value of convertible bond	11,390	-
Hedging transactions	-	324
	11,435	340
Financial expenses:		
Bank fees	(387)	(628)
Interest expense	(2,042)	(1,078)
Foreign currency remeasurement, net	(718)	(787)
Hedging transactions	(899)	-
Increase in liability to non-controlling interest	(684)	-
Accretion of contingent payment obligation related to acquisitions	-	(359)
Other	(14)	(24)
	(4,744)	(2,872)
	$ 6,691	$ (2,536)

NOTE 15:- RELATED PARTIES

The Company has activity with related parties as part of its ordinary business. The majority of the related parties' transactions include domain monetization activity with the non-controlling interest of Team Internet.

Revenues from related parties amounted to $ 8 and $ 56 for the years ended 31 December 2018 and 2017, respectively. Cost of revenues to related parties amounted to $ 5,009 and $ 3,736 for the years ended 31 December 2018 and 2017 respectively.

Trade receivables from related parties amounted to $ 0 for the years ended 31 December 2018 and 2017. Trade payables to related parties amounted to $ 255 and $ 678 for the years ended 31 December 2018 and 2017, respectively.

NOTE 16:- RESTRUCTURING COSTS

Following the sale of certain activities (refer to Note 1c) and the restructuring of the remaining non-core activities, the Company is now focusing on its Germany based Domain Monetization activity, streamlining its management and corporate overheads to fit its new structure and direction. In March 2019, the CEO has resigned from his position as President and CEO of the Company. The Chairman of the board of directors, will assume an interim CEO role, subject to the approval of the General Shareholders' Meeting of the Company.

Pursuant to the restructuring plan, the Company has incurred cumulative charges of $ 2,865 as follows:

Payroll and related expenses	$	401
Lease facilities and related expenses		926
Property and equipment impairment		847
Servers and related		212
Other expenses		479
	$	2,865

Restructuring costs in the amount of $942 are related to the discontinued operation. As of 31 December 2018 the Company restructuring liability amounted to $ 464 and is included within Accrued expenses in the balance sheet.

NOTE 17:- DISCONTINUED OPERATIONS

As a result of the sale of the Mobfox business, the operating results from the Mobfox mobile-core segment and the related assets and liabilities have been presented as discontinued operations in the consolidated financial statements for all periods presented. The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the former Mobfox segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the Mobfox segment do not necessarily reflect what the results of operations would have been had the former Mobfox segment operated as a stand-alone segment.

NOTE 17:- DISCONTINUED OPERATIONS (Cont.)

The following table summarizes the results of discontinued operations for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	**2017**
Revenues	$ 34,774	$ 50,614
Cost of revenues	31,422	41,806
Gross profit	3,352	8,808
Operating expenses		
Research and development	4,774	3,826
Selling and marketing	3,076	3,125
General and administrative	3,344	3,769
Impairment, net of change in fair value of contingent consideration	30,607	(1,487)
Restructuring costs	942	-
Loss (gain) from sale of activity	58	-
Total operating expenses	42,801	9,233
Operating loss	(39,449)	(425)
Tax on income	338	158
Loss from discontinued operations	(39,787)	(583)

The following table summarizes the assets and liabilities of discontinued operations as of 31 December 2018 and 2017:

	31 December	
	2018	**2017**
ASSETS		
CURRENT ASSETS:		
Trade receivables, net	$ 4,634	$ 10,951
Other receivables and prepaid expenses	-	1,037
Total current assets of discontinued operation	4,634	11,988
LONG-TERM ASSETS:		
Property and equipment, net	-	4,874
Other intangible assets, net	-	1,476
Goodwill	-	35,076
Discontinued operation	-	41,454
Other assets	-	28
Total long-term assets of discontinued operation	-	41,454
Total assets	$ 4,634	$ 53,442

NOTE 17:- DISCONTINUED OPERATIONS (Cont.)

	31 December 2018	31 December 2017
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	$ 3,928	$ 10,982
Employees and payroll accrual	-	1,302
Accrued expenses and other liabilities	-	1,979
Total current liabilities of discontinued operation	3,928	14,263
LONG-TERM LIABILITIES:		
Other liabilities	-	67
Total long-term liabilities of discontinued operation	-	67
Total liabilities of discontinued operation	$ 3,928	$ 14,330

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5 Matomy Media Group Ltd. Shareholder Information

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