Matomy Media Group Ltd.

2019 Annual Report and Accounts

Content Guide

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

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA), founded in 2007 with headquarters in Tel Aviv, is dual-listed on the London and Tel Aviv Stock Exchanges.

1 Overview

1. Overview

2019 Operational & Business Highlights

- In December 2019, the Company sold its subsidiary, Team Internet AG ("Team Internet"), paid its debts to Rainmaker Investments GmbH ("Rainmaker"), the minority shareholder in Team Internet, and in January 2020, the Company fully redeemed its convertible bond. For further details see Note 1b to the financial statements.

- Matomy's domain monetization activity (sold on 24 December 2019) recorded revenue of $74.0 million and Adjusted EBITDA of $12.3 million in 2019.

- Following the sale of Team Internet, the Company exited all of its operational activities and as detailed below, Matomy further reduced its corporate team and brought its operational overhead to a bare minimum.

- For further details regarding the post-balance sheet events see page 23 below.

Matomy Overview

Selected Domain Monetization Activity's Financial Data:

($ million)	**Year ended 31 December** Unaudited		
	2019	**2018**	**Change**
Revenue	74.0	75.6	(2.1)%
Adjusted gross profit*	20.2	21.4	(5.6)%
Adjusted gross margin*	27.3%	28.3%	(3.5)%
Adjusted EBITDA**	12.3	14.2	(13.4)%

In 2019, Matomy's domain monetization showed a slight increase in both revenue and EBITDA. However, due to Foreign Exchange fluctuations – revenues in group currency (USD) decreased: Revenue was $74.0 million in FY2019 showing a decrease of 2.1% (FY2018 $75.6 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 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)	**2019**	**2018**	**Change**
Revenue - Domain Monetization Activity and Exited Activities	74.0	88.7	(16.6)%
Adjusted gross profit*	20.2	27.3	(26.0)%
Adjusted gross margin*	27.3%	30.8%	(11.4)%
Adjusted EBITDA **	8.9	7.0	27.1%

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 generated 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.

*****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).

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 Unaudited	
$ million	**2019**	**2018**
Revenues	74.0	88.7
Direct media costs	(53.8)	(61.4)
Adjusted gross profit	**20.2**	**27.3**
Adjusted gross margin (%)	27.3%	30.8%
Other cost of revenues	(3.3)	(8.4)
Gross profit	16.9	18.9

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 Unaudited	
$ million	**2019**	**2018**
Net loss from continuing operations	(21.0)	(6.9)
Taxes on income (benefit)	1.6	3.7
Financial expenses (income) , net	12.3	(6.7)
Bond issuance costs	-	1.6
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	-	0.1
Depreciation and amortization	1.7	4.9
Share-based compensation (cash and non-cash) expenses	(0.1)	(0.8)
Exceptional items	14.4	11.1
Adjusted EBITDA	8.9	7.0

2 Strategic Report

2. Strategic Report

Board of Director's statement

Introduction

2019 was a year of conflict resolution. During the year, Matomy conducted discussions with bondholders, Rainmaker and shareholders regarding steps to enable the Company to move forward. Just before year-end, the Company was successful in resolving this conflict: sold all its shares in Team Internet, and after year end redeemed the Bonds, and fully repaid its debts to all stakeholders.

Operating Performance

In 2019, Matomy's domain monetization showed a slight increase in both revenue and EBITDA. However, due to Foreign Exchange fluctuations – revenues in group currency (USD) decreased: Revenue was $74.0 million in FY2019 showing a decrease of 2.1% (FY2018 $75.6 million).

Outlook

Following the sale of Team Internet in December 2019 and thereby exiting all of the Company's operational activities, Matomy is now considering its options and scouting for new opportunities going forward. The Company has been informed by the London Stock Exchange that it must comply in full with all continuing eligibility requirements under the HGS Rules within six months of the date of the extraordinary general meeting of the Company's shareholders approving the sale of Team Internet which occurred on 24 December 2019 (the "Compliance Period"). If the Company is unable to meet all continuing eligibility requirements within the Compliance Period, the Company's securities will be suspended from admission to trading on the High Growth Segment of the London Stock Exchange's main market for listed securities.

Ilan Tamir
Director

28 April 2020

Strategy

Following the sale of its shares in Team Internet, and after the Company fully repaid its debts to all stakeholders, Matomy is considering its options and scouting for new opportunities going forward.

Business & Financial Review

Revenues by Media Channel

The following table sets out Matomy's revenues by business unit for the years ended 31 December 2019 and 2018, not including the discontinued Mobfox operations. Mobfox's performance in 2018 is detailed in the financial statements.

	Year ended 31 December		
($ millions)	**2019**	**2018**	**Change**
Domain monetization	74.0	75.6	(2.1%)
Exited activities (Email, Video, etc)	-	13.1	(100%)
Total	74.0	88.7	(16.6%)

Domain monetization

Domain monetization revenues increased by €2.4 million in operating currency (Euro), due to an increase in revenue from new customers during the year.
However, revenues in group currency (USD) decreased by $1.6 million, for the year ended 31 December 2019 compared to 2018 due to Foreign Exchange movements.

FINANCIAL REVIEW

GAAP Financial Highlights Including Exited Activities:

This excludes the discontinued Mobfox operations:

Overview of results	**Year ended 31 December**		
($ millions, except EPS)	**2019**	**2018**	**Change**
Revenue	74.0	88.7	(16.6%)
Gross profit	16.9	18.9	(10.6%)
Operating income / (loss)	(7.1)	(8.4)	(15.5%)
Pre-tax income / (loss)	(19.4)	(3.3)	487.9%
Net income / (loss) from continuing operations	(21.0)	(6.9)	204.3%
Net income / (loss) from continuing operations attributable to Matomy	(21.0)	(6.8)	208.8%
Earnings / (loss) per share from continuing operations	(0.22)	(0.07)	214.3%

Revenue

As Matomy exited non-core activities, revenues in 2019 decreased compared to 2018.

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

	Year ended 31 December Unaudited	
$ millions, except as otherwise indicated	**2019**	**2018**
Media costs	53.8	61.4
Other cost of revenues	3.3	8.4
Cost of revenues	**57.1**	**69.8**
Gross margin (%)	22.8%	21.3%
Adjusted gross margin (non-GAAP) (%)	27.3%	30.8%

Cost of revenues for the Group decreased by $12.8 million, or 18.3%, to $57.1 million (77.2% of total revenues) for the year ended 31 December 2019 from $69.9 million (78.7% 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 activities.

Gross margin remained largely consistent, increased slightly by 1.5%.

Non-GAAP Operating expenses excluding exceptional items

	Year ended 31 December Unaudited	
$ millions	**2019**	**2018**
Research and development	0.6	2.3
Sales and marketing	3.6	7.7
General and administrative	6.4	6.1
Non-GAAP **Total operating expenses** of continuing operations	10.6	16.1
Total operating expenses as a percentage of revenues (Non-GAAP)	14.3%	18.2%

Operating expenses (Non-GAAP) decreased by $5.5 million, or 34.2%, to $10.6 million (FY2018: $16.1 million). Operating expenses as a percentage of revenues were 14.3% (FY2018: 18.2%).

The decrease in operating expenses is mainly attributable to the sale of exited activities during 2018, which lowered general, administrative, sales and marketing costs. As a result of the sale of Team Internet in late 2019, this trend is expected to continue through the year 2020.

Financial expenses (income)

Net financial expenses, excluding bond issuance costs, increased by $19.0 million to $12.3 million expense for the year ended 31 December 2019 (FY2018: $6.7 million income). The increase is primarily due to financial expense recorded due to change in the fair value of the convertible bond.

Taxes on income

Taxes on income decreased by $2.2 to $1.5 million expense for the year ended 31 December 2019 (-7.8% of loss before taxes), compared to $3.7 million expense last year (-112.1%).

The effective tax rate of (7.8%) in 2019 was mainly affected by lower taxable income for 2019 compared to 2018 and full valuation allowance on our operating losses and other temporary differences.

Amortization of intangible assets

Amortization expenses of continuing operations were $1.6 million in 2019 and $3.3 million in 2018. Including discontinued operations, amortization expenses were $1.6 million in 2019 compared to $4.6 million in 2018. The decrease is a result of the sale of Mobfox activity in late 2018 and intangible assets being fully amortised or impaired in prior years.

Net loss

Net loss from continuing operations was $21.0 million in 2019 (2018: $6.9 million). Including discontinued operations, net loss was $21.0 million (2018: $46.6 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 $16.0 million in 2019 and $7.9 million in 2018.
· Earnout adjustments income of $0.4 million in 2018.
· Gain from sale of subsidiary of $2.6 million in 2019 and loss from sale of activities of $1.7 million in 2018.
· Restructuring costs relating to the exited and sold activities amounting to $1.9 million in 2018.
· One-off bonus of $1.0 million to Rainmaker in 2019.

Liquidity and cash flows

The following table sets out selected cash flow information for the years ended 31 December 2019 and 2018.

	Year ended 31 December	
$ millions	**2019**	**2018**
Net cash provided by (used in) operating activities	3.7	(14.5)
Net cash provided by investing activities	25.2	3.2
Net cash (used in) financing activities	(5.6)	(7.9)
Increase (decrease) in cash and cash equivalents	23.3	(19.2)
Cash and cash equivalents at beginning of period	10.3	29.5
Cash and cash equivalents at end of period	33.6	10.3

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

Matomy's net cash provided by operating activities was $3.7 million (FY2018: $14.5 million used in operations). In 2019, net cash provided by operating activities consisted of a net loss of $20.9 million decreased by $0.7 million relating to a net decrease in working capital and $23.9 million relating to noncash expenses. Noncash expenses were primarily goodwill impairment of $16 million, depreciation and amortization of $1.7 million, loss from fair value revaluation of the bond of $10.7 million, off-set in part by gain from sale of subsidiary of $2.6 million, and a decrease in deferred tax liability of $2.3 million.

In comparison, for the year ended 31 December 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 (including discontinued operations), 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 liability of $0.7 million.

Net changes in working capital in 2019 were mainly driven by a decrease of $7.0 million in trade payables and other liabilities, mainly attributable to the sale of Mobfox in late 2018, offset mainly by a decrease of $8.7 million in tax receivables as a result of tax refunds received during 2019.

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 investing activities*

Net cash provided by investing activities was $25.2 million (FY2018: $3.2 million inflow). In 2019, net cash provided by investing activities primarily included $26.0 million from the sale of activities and subsidiary, off-set by $0.6 million investment in capitalized R&D, and $0.2 million investment in property and equipment and domains.

For the year ended 31 December 2018, net cash provided by investing activities primarily included $6.5 million from the sale of activity, off-set by $2.3 million investment in capitalized R&D and $1.1 million investment in domains.

(C) *Net cash used in financing activities*

Net cash used in financing activities was $5.6 million (FY2018 $7.9 million).

In 2019, net cash used in financing activities related to repayments of loans and credit lines.

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

Goodwill

Goodwill represented the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. As of 31 December 2019, the Company no longer has a goodwill asset on its balance sheet.

Matomy's goodwill was created mainly through the 2013, 2014 and 2015 acquisitions. The Company performed 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 years ended 31 December 2019 and 2018 the Company recorded in its continuing operations a goodwill impairment loss of $16.0 million and $5.0 million, respectively, which is attributable to the domain monetization activity.

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

During the year ended 31 December 2018, 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. For further information See Note 2g to the financial statements.

Sale of subsidiary

On 15 November 2019, the Company and Rainmaker, a minority shareholder (10%) in Team Internet AG ("Team Internet") signed an agreement with Centralnic Group PLC ("CNIC") to sell all the shares in Team Internet for the total consideration of €46.6 million, of which Rainmaker received consideration of €19.0 and the Company received consideration of €27.6 million.

The consideration of the Company consisted of the following: (1) a cash payment of €23.8 million; (2) deferred share payment of €1.6 million; (3) a Retention amount of €0.5 million and; (4) 2,336,341 shares of CNIC in a total value of €1.6 million.

On 24 December 2019 the transaction was completed. For further information See Note 1b to the financial statements.

Loss per share

Matomy's loss per share in 2019 was $0.22. In 2018, Matomy's loss per share from continuing activities was $0.07 and the total loss per share was $0.48.

Treasury shares

As of 31 December 2019, Matomy had a total of 9,758,875 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

As of 31 December 2019, Matomy had a financial obligation to its bondholders of $29.2 million which was fully repaid on 8 January 2020.

Financial reporting

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

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

The Directors, whose names and functions are set out in “Board of Directors” paragraph on page 19, confirm that to the best of their knowledge the set of final audited financial statements, which has been prepared in accordance with US GAAP principles, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole. In addition, the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Ilan Tamir
Director and CFO

Principal Risks & Uncertainties

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:

- Matomy's cash flow in the coming year depends on the financial viability of Centralnic Group PLC.
- Matomy is currently going through changes in its management team thereby adding further managerial challenges in this transitional period.
- Matomy may be subject to third-party claims brought against it.
- 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.
- The Company has been informed by the London Stock Exchange that it must comply in full with all continuing eligibility requirements under the HGS Rules within six months of the date of the extraordinary general meeting of the Company's shareholders approving the sale of Team Internet which occurred on 24 December 2019 (the "Compliance Period"). If the Company is unable to meet all continuing eligibility requirements within the Compliance Period, the Company's securities will be suspended from admission to trading on the High Growth Segment of the London Stock Exchange's main market for listed securities.

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.

3 Corporate Governance

Board of Directors

During 2019, the following directors served as members of the Company's Board of Directors: Mr. Sami Totah (chairman of the board of director), Mr. Amir Efrati (director), Mr. Nir Tarlovsky (director), Mr. Stephane Estryn (director), Mr. Harel Locker (external director) and Mrs. Shirith Kasher (external director). During February and March 2020, Mr. Sami Totah, Mr. Amir Efrati, Mr. Nir Tarlovsky, Mr. Stephane Estryn and Mr. Harel Locker announced their resignation as members of the Board of Directors. For further details see page 20 below.

As at the date of this report, the board of directors comprises two (2) members: Mrs. Shirith Kasher and Mr. Ilan Tamir. Biographical details of the members of our Board of Directors, as of 28 April 2020, are as follows:

Name:	**Shirith Kasher**
Age:	52
Membership of Board sub-committees:	Audit Committee and Remuneration Committee
Serves as external director:	Yes
Is an independent director:	Yes
Date of appointment:	May 28, 2019
Education:	B.S.C, Tel Aviv University's Faculty of Life Sciences (1992); LL.B, Tel-Aviv University's School of Law (1997); MBA, Ono Academic College (2018).
Employment over the past five years:	BCRE Group - Head of Corporate and Structured Finance.
Companies of which he is a director (other than the Company):	H Mer Ltd, BCH Ltd, BCI Ltd, P2P Social Loans Ltd.

Name:	**Ilan Tamir(*)**
Age:	61
Membership of Board sub-committees:	No
Serves as external director:	No
Is an independent director:	No
Date of appointment:	February 27, 2020
Education:	MBA, Tel-Aviv University (2000);

	Technion – Israel Institute of Technology (1985).
Employment over the past five years:	The Company's CFO and COO CFO at Kyron Systems Ltd. Co-Founder and CEO of iMER Ltd.
Companies of which he is a director (other than the Company):	None

(*) Mr. Tamir was appointed to serve as a director of the Company until the next annual meeting of the shareholders of the Company or an Extraordinary General Meeting for appointment of directors.

Pursuant to the Company announcement dated March 25, 2020 (RNS: 5688H), Medigus purchased 24,611,111 ordinary shares of the Company and holds 24.99% of the voting rights of the Company. Medigus sent to the Company a demand letter according to Section 63(b)(2) of the Companies Law requesting that the board of directors of the Company convene an Extraordinary General Meeting of the shareholders of the Company, the agenda of which shall be, inter alia, the appointment of the following directors: Mr. Eli Yoresh, Mr. Liron Carmel, Mr. Lior Amit, Mr. Amitay Wiss and Mrs. Kineret Tzedef and Mr. Udi Kalifi will be appointed as an external director of the company. The Extraordinary General Meeting will be held on May 4, 2020. For additional details regarding such proposal please refer to the announcement published by the Company on March 30, 2020 (RNS Number: 1205I).

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 2019.

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 previously 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, app developers, domain owners.

During 2019, the Company exited all of its operational activities.

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 8 to 16. 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 27 to 33. The Corporate Governance Report and the Audit Committee Report form part of this Directors' Report.

Results and dividends

Matomy's audited Financial Statements for 2019 are set out on pages 40 to 75. Revenue during 2019 amounted to $74.0 million (2018: $88.7 million).

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

Post-balance sheet events

The material events after 31 December 2019 are:

(i) The full and immediate repayment of the Company's outstanding convertible bonds (Series A) (the "Bonds") was transferred to the trustee of the Bonds, and the full redemption of the outstanding Bonds was executed on 8 January, 2020.

(ii) On February 17, 2020, Mr. Sami Totah, former chairman of the board of directors and interim CEO, announced his resignation from his positions as a member of the Company's Board of Directors following the sale of Viola A.V. Adsmarket L.P's shares in the Company.

(iii) On February 17, 2020, Mr. Amir Efrati announced his resignation from his positions as a member of the Company's Board of Directors.

(iv) On February 25, Mr. Nir Tarlovsky announced his resignation from his position as a member of the Company's Board of Directors following the sale of his shares in the Company.

(v) On February 27, 2020, Mr. Harel Locker announced his resignation from his position as a member of the Company's Board of Directors. The Board of Directors appointed Mr. Ilan Tamir, the Company's CFO and COO, as a member of the Company's Board of Directors.

(vi) On March 25, 2020 Mr. Stephane Estryn announced his resignation from his position as a member of the Company's Board of Directors following the sale of Publicis Groupe Holdings BV's shares in the Company.

(vii) On February 18, 2020, Medigus purchased 2,284,865 ordinary shares of Matomy, representing 2.32% of the issued and outstanding share capital of Matomy. On March 25, 2020, Medigus has completed a transaction to purchase additional 22,326,246 ordinary shares of Matomy, representing 22.67% of the issued and outstanding share capital of Matomy for a total consideration of US$ 1,463,807.46.

Share capital

As at 31 December 2019, 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 98,483,839 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 Rules**.**

Shareholder	Number of ordinary shares/voting rights notified	Percentage of ordinary share capital/voting rights notified
Medigus Ltd.	24,611,111	24.99%
MH Ezer Nechasim Ltd	5,860,000	6%
Meitav and its affiliated entities	10,668,886	10.8%

Interests in own shares

As of 31 December 2019, (i) 65,625 Ordinary Shares were held by Matomy; and (ii) 9,693,250 Ordinary Shares were held by Matomy Media Ltd., a wholly-owned subsidiary of Matomy (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**.**

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. During 2019, 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 described above, during February and March 2020, 5 members of the Board announced their resignation. As at the date of this report, the Board comprises two (2) members: An Executive Director (Ilan Tamir) and a Non-Executive Director (Shirith Kasher). During 2019 Harel Locker and Shirith Kasher served as an External Directors (as required by Israeli Companies Law). On February 27, 2020, Mr. Harel Locker announced his resignation from his position as a member of the Company's Board of Directors. As detailed above, an Extraordinary General Meeting of the shareholders of the Company will be held on May 4, 2020, the agenda of which shall be, inter alia, the appointment of an additional external director and the appointment of the additional directors.

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. The biographical details of each of the nominee directors are detailed in the notice of the Extraordinary General Meeting of the shareholders of the Company published by the Company on March 30, 2020 (RNS Number: 1205I).

Subject to law and the Company'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 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.

The Audit Committee met six times during 2019. Going forward, the Audit Committee will meet at the 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. The Remuneration Committee meets when necessary to fulfill its duties.

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 2019, no Director had any material interest in any contract of significance to the Group's business.

Directors' share interests

As of the date of this report, the directors have no interests in Matomy's shares. .

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**").

According to the Company's Remuneration Policy, 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. It is also stated in the Company's Remuneration Policy, that the Company intends to procure such D&O Insurance with liability limits not exceeding $50,000,000 per insured event and the annual premium is not to exceed US $100,000 plus 15% per year as of July 7, 2019; and that the run-off policy shall be for a period of up to 7 years, with a coverage amount that shall not exceed the coverage limitations of the D&O Insurance, and the premium shall not exceed 3 times the annual premium of the D&O Insurance in effect at the year of purchase.

Until September 6, 2019 the Company had in place an insurance policy with a coverage in the maximum amount of US $ 50 Million (per event and per year) and the annual premium paid was equal to approx. $74,000 ("**The 2018-19 Policy**").

On October 16 and October 17, 2019, the remuneration committee and the board of directors, respectively, approved: (1) the purchase of a new D&O insurance policy covering all future events from a new Insurer. The coverage is for $5,000,000 and the annual premium shall be equal to $80,000 (plus additional fronting fee of $12,000) (the "**Current Policy**"); (2) to invoke the run-off policy with the former insurer of the 2018-19 Policy with a coverage in the maximum amount of $50,000,000 (per event and per year) and with a maximum one – time premium equal to $157,170 (the "**First Run-Off Policy**").

The terms of the Current Policy and the First Run-Off Policy were aligned with the terms of the Company's Remuneration Policy, as detailed above, and as such were approved by the remuneration committee and the board of directors. In addition, on December 9, 2019 the general meeting approved the purchase of an additional coverage of $5,000,000 and an annual premium of $75,000 (plus additional fronting fee of $11,250) (the "**Additional Policy**").

Since the Current Policy and the Additional Coverage included a termination clause, according to which in the event the Company enters into a transaction to sell all of its activity, and in light of the completion of the transaction for the sale of Team Internet, such termination clause was invoked by the insurer. As result the Current Policy and the Additional Coverage were automatically converted into Run-off policies that will expire on September 6, 2020. Such run-off policies will cover the events from the date of the cancellation of the D&O Insurance by the insurer (i.e. 23.12.2019) (the "**Effective Date**"), with respect to claims that will be filed after the Effective Date for actions that were taken from September 7, 2019 (the date of the purchase of the Current Policy) and until the Effective Date.

In light of the above, on December 31 the Board of Directors approved to procure an extension to the run-off policy of the Current Policy until December 31, 2020 (until the lapse of a period of one year following the completion of the sale of Team Internet), for a premium of $50K (the "**Extended Run-Off Policy**") and approved to purchase a new coverage to the Company's ongoing activities with liability limits that shall not exceed $1,000,000 per insured event and the annual premium that will not exceed a sum of $115,000.

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 27 to 33 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).

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 2019, which was a challenging year in which the Company focused on stabilizing its financial state, exiting all 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: Matomy had only one external director (while the Companies Law requires at least two) until May 2019. In addition, as of February 27, 2020 Matomy has only one external director, since Mr. Harel Locker, who served as an external director, resigned from his position as a member of the Company's Board of Director; However, as detailed above, an Extraordinary General Meeting of the shareholders of the Company will be held on May 4, 2020, the agenda of which shall be, inter alia, the appointment of an additional external director.

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 34 to 37, 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 comprises two members.

The biographical details of each of the current Directors are set out on pages 18 to 19 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 2019. 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.

Following Mr. Sami Totah, Mr. Amir Efrati, Mr. Nir Tarlovsky and Mr. Harel Locker resignations as members of the Company's Board of Directors, the Board suggested Mr. Ilan Tamir, the Company's CFO and COO, as a member of the Company's Board of Directors until the next annual general meeting of the shareholders of the Company or an extraordinary general meeting.

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 should include 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. In 2019, Matomy regards all of the Non-Executive Directors to be independent for purposes of the UK Corporate Governance Code. As detailed above, an Extraordinary General Meeting of the shareholders of the Company will be held on May 4, 2020, the agenda of which shall be, inter alia, the appointment of an external director.

The Directors consider that the Board has an appropriate skills and experience by virtue of the Directors' 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 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 have received 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. Usually, 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 30 to 37. Information pertaining to the work of the Nomination Committee during the year can be found on page 23.

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

Audit	Remuneration	Nomination
Shirith Kasher	Shirith Kasher	

Due to the resignation of the directors from the Company's Board of directors in the beginning of this year, as detailed above, some of the positions in the committees are currently vacant. As aforesaid, an Extraordinary General Meeting of the shareholders of the Company will be held on May 4, 2020, at the request of a major shareholder of the Company. The agenda of such EGM shall be, inter alia, the appointment of an external director and other directors. Upon the appointment of the nominated directors, the Board of director shall convene and appoint additional committee members, in addition to the appointment of the nominee to serve as external director as a member of the audit 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

During 2019, the following directors served as members of the Audit Committee: Mr. Harel Locker (External Director and Chairman of the Audit Committee), Mr. Nir Tarlovsky (Director) and Mrs. Shirith Kasher (External Director).

Currently, the Audit Committee comprises of one Independent Non-Executive Director, 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.

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 six scheduled times in 2019. 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.

Corporate governance

The Board requested 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 all 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.

During 2019, 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 and tax advisory services ; and
- advising the Company on preparation of a prospectus to be issued in connection with a proposed fundraising on the London Stock Exchange, which was not executed.

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 compliance services, impairment checks, valuation and regulatory advice.

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

During 2019, the Committee continued to remain satisfied with the work of Kost Forer Gabbay & Kasierer, and that it continued 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 next Annual General Meeting of Matomy.

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 page 41 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. The Board considered whether the 2019 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 Board 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 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.

The key procedures operating within Matomy were as follows:

- 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 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 during 2019 the Audit Committee was working effectively.

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

SHIRITH KASHER

Chairman of the Audit Committee

28 April 2020

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 2019 the internal auditor partially completed the defined Internal Audit Work Plan by examining the Company's Third-party transactions and its Bond Regulatory undertakings. No material findings were found.

Remuneration Committee

Currently, the Remuneration Committee comprises one Non-Executive Director, as detailed above. The Remuneration Committee convened four times during 2019 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.

Upon the appointment of the nominated directors, as aforesaid, the Board of director shall convene and appoint additional committee member, in addition to the appointment of the nominee to serve as external director as a member of the remuneration Committee in order to comply 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 2019

Until May 28, 2019 Mr. Locker was entitled to receive an annual remuneration of $70 thousand, as was approved by the shareholders.

Following 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, the annual fee is NIS 47,295 and a sum of NIS 2,455 per-meeting (including board committee meetings). The fee for a meeting via conference call is equal to 60% of the sum per-meeting and the fee for a written resolution is 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 2019 (in USD)

Name and Title	Base Salary(1)	Employer Cost(1), [(2)]	Variable Compensation + Equity-Based Compensation(1), (3)	Total Cost (employer cost + Equity- Based Compensation)(1)	Comment
Ilan Tamir, COO and CFO	207,027	330,570	101,195	330,570	
Keren Farag Krygier, former CFO(4)	73,467	320,576	193,114	425,197	No longer employed by the Company
Ido Barash, former Internal Legal Advisor and Secretary of the Company(5)	92,562	205,574	73,450	220,846	No longer employed by the Company
Liam Galin, former CEO(6)	145,807	202,661	-	202,661	No longer employed by the Company
Sami Totah, former Interim CEO and Chairman(7)	139,211	139,211	-	139,211	No longer serves as CEO and Chairman

(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, 2019.

(2) Amounts reported in the column titled "Employee 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, 2019 together with the expense recorded on account of equity based compensation in our Financial Statements for the year ended December 31, 2019.

(4) Resigned during July 2019.

(5) Resigned during August 2019.

(6) Resigned during July 2019.

(7) Resigned during February 2020.

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

Due to the resignation of the directors in the beginning of 2020, as aforesaid, there are currently no directors serving as a member of the Nomination committee. Upon the appointment of the nominated directors, as aforesaid, the board of director shall convene and determine the composition of the Committee in order to comply with the requirements of any applicable law. 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.

The Board's Nomination Committee will structure to comply with the recommendations of the UK Corporate Governance Code. The Nomination Committee's terms of reference will 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 Directors 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.

<u>Remuneration Policy for Executive Directors & Senior Managers</u>

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 August 29 2019 the shareholders approved the adoption of an Amended Remuneration Policy with respect to the terms of office and employment of the Company's "office holders". Such Remuneration Policy in effect until August 2022.

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.

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 18, 2020, including the independent Auditors report

MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2019

IN US DOLLARS IN THOUSANDS

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Building a better
working world

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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. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of 31 December 2019 and 2018, 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 2019 and 2018 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.

Sale of all of the Company's activities

As described in Note 1b to the financial statements, in December 2019, the Company completed the sale of all of its activities and in January 2020 fully repaid all of its obligations to the bondholders. Our opinion is not modified with respect to this matter.

Tel-Aviv, Israel
March 18, 2020

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	31 December 2019	31 December 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,295	$ 7,167
Restricted cash	-	3,134
Restricted cash for bond payment	29,295	-
Trade receivables, net	-	5,947
Government authorities	281	9,009
Other receivables and prepaid expenses	1,911	3,474
Discontinued operation	-	4,634
Total current assets	35,782	33,365
LONG-TERM ASSETS:		
Property and equipment, net	-	1,413
Domains	-	11,904
Other intangible assets, net	-	1,451
Goodwill	-	42,279
Investment in financial assets measured at fair value	2,450	-
Other assets	557	59
Total long-term assets	3,007	57,106
Total assets	$ 38,789	$ 90,471

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	31 December	
	2019	**2018**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liability to non-controlling interest	$ -	$ 19,375
Short-term bank credit and current maturities of bank loans	-	5,752
Trade payables	149	7,498
Employees and payroll accrual	407	1,813
Convertible bond at fair value (principal of ILS 101,000 thousand)	29,225	18,540
Accrued expenses and other liabilities	3,448	6,057
Discontinued operation	-	3,928
Total current liabilities	33,229	62,963
LONG-TERM LIABILITIES:		
Deferred tax liabilities	-	2,727
Bank loans, net of current maturities	-	1,116
Other liabilities	173	318
Total long-term liabilities	173	4,161
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	254	254
Additional paid-in capital	80,993	86,031
Accumulated other comprehensive loss	-	(3,174)
Accumulated deficit	(74,745)	(53,788)
Treasury shares	(1,115)	(6,231)
Total Matomy Media Group Ltd. shareholders' equity	5,387	23,092
Non-controlling interests	-	255
Total equity	5,387	23,347
Total liabilities and equity	$ 38,789	$ 90,471

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

March 18, 2020	
Date of approval of the financial statements	Ilan Tamir Director and CFO

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands except earnings per share data

	Year ended 31 December 2019	Year ended 31 December 2018
Revenues	$ 74,035	$ 88,734
Cost of revenues	57,128	69,867
Gross profit	16,907	18,867
Operating expenses:		
Research and development	601	2,266
Selling and marketing	3,594	7,694
General and administrative	6,411	6,125
Impairment, net of change in fair value of contingent consideration	15,984	7,435
Restructuring costs	-	1,923
Loss (gain) from sale of activities and subsidiary (Refer to Note 1)	(2,575)	1,777
Total operating expenses	24,015	27,220
Operating loss from continuing operations	(7,108)	(8,353)
Convertible bond issuance costs	-	1,588
Financial expenses (income), net	12,270	(6,691)
Loss from continuing operations before taxes on income	(19,378)	(3,250)
Tax on income	1,579	3,683
Loss from continuing operations before gain from sale of affiliated companies	(20,957)	(6,933)
Gain from sale of affiliated companies	-	75
Loss from continuing operations	(20,957)	(6,858)
Loss from discontinued operations, net	-	(39,787)
Net loss	(20,957)	(46,645)
Net loss (income) attributable to other non-controlling interests in subsidiary	(1)	53
Net loss attributable to Matomy Media Group Ltd. from continuing operations	$ (20,958)	$ (6,805)
Net loss attributable to Matomy Media Group Ltd. from discontinued operations	-	(39,787)
Net loss attributable to Matomy Media Group Ltd.	$ (20,958)	$ (46,592)
Basic and diluted loss per ordinary share from continuing operations	$ (0.22)	$ (0.07)
Basic and diluted loss per ordinary share from discontinued operations	-	(0.41)
Basic and diluted loss per ordinary share	$ (0.22)	$ (0.48)
Weighted average number of shares used in computing basic and diluted net loss per share	97,218,972	96,511,986

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non-controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2018	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
Stock-based compensation	-	-	78	-	-	-	78	-	78
Vesting of restricted share units	111,500	*)	*)	-	-	-	-	-	-
Sale of subsidiary	-	-	(5,116)	3,277	-	5,116	3,277	(256)	3,021
Net loss	-	-	-	(103)	(20,957)	-	(21,060)	1	(21,059)
Balance as of 31 December 2019	98,483,839	$ 254	$ 80,993	$ -	$ (74,745)	$ (1,115)	$ 5,387	$ -	$ 5,387

*) Represents an amount lower than $ 1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended 31 December	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (20,957)	$ (46,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,694	8,647
Stock-based compensation	78	102
Impairment of intangible assets, goodwill and capitalized research and development	15,984	38,580
Change in deferred tax, net	(2,269)	(664)
Change in accrued interest and effect of foreign exchange differences on long term loans and leases liability	(109)	(167)
Gain from sale of affiliated companies	-	(75)
Fair value revaluation - convertible bond	10,685	(11,390)
Decrease (increase) in trade receivables	(1,086)	22,679
Decrease (increase) in other receivables and prepaid expenses	187	(186)
Decrease (increase) in other assets	(552)	57
Decrease in trade payables	(5,157)	(17,796)
Changes in fair value of payment obligation recognized in earnings	1,833	260
Decrease (increase) in tax receivable	8,728	(3,399)
Decrease in employees and payroll accruals	(841)	(2,294)
Decrease in accrued expenses and other liabilities	(998)	(4,818)
Loss (gain) from sale of activities and subsidiary	(2,575)	1,835
Change in fair value of investment in financial assets	(863)	-
Loss from disposal of property and equipment and domains	35	847
Other	(103)	(57)
Net cash provided by (used in) operating activities	3,714	(14,484)
Cash flows from investing activities:		
Sale of activities and subsidiary, net	26,024	6,510
Change in long-term deposit	-	66
Sale of investment in affiliated company	-	149
Purchase of property and equipment	(149)	(206)
Purchase of domains	(73)	(1,134)
Proceeds from sale of domains and property and equipment	-	76
Capitalization of research and development costs	(646)	(2,258)
Net cash provided by investing activities	25,156	3,203

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended 31 December	
	2019	**2018**
Cash flows from financing activities:		
Short-term bank credit, net	(3,807)	(4,322)
Exercise of options	-	(*)
Issuance of convertible bond	-	29,930
Repayment of bank loans	(1,774)	(10,019)
Additional payments related to previous acquisitions	-	(681)
Acquisition of non-controlling interest	-	(20,146)
Dividend paid to non-controlling interest	-	(2,711)
Net cash used in financing activities	(5,581)	(7,949)
Increase (decrease) in cash, cash equivalents and restricted cash	23,289	(19,230)
Cash, cash equivalents and restricted cash at beginning of year	10,301	29,531
Cash, cash equivalents and restricted cash at end of year	$ 33,590	$ 10,301
Supplemental disclosure of cash flow activities		
Cash paid during the year for:		
Income taxes, net	$ 390	$ 8,210
Interest paid, net	$ 950	$ 2,623
Non-cash investing activities:		
Receivable in connection with sale of subsidiary and activities	$ 2,288	$ 1,839
Investments in financial assets measured at fair value in connection with sale of subsidiary	$ 1,587	$ -

*) Represents less than $ 1.

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 and domain owners, primarily in the United States and Europe.

Matomy was incorporated in 2006. The Company's shares are traded on the London Stock Exchange and on the Tel Aviv Stock Exchange.

In the period spanning from mid-2017 through December 2019, the Company exited all its activities, as further described in Notes 1b and 1c below. In addition, as described in Note 9, on 8 January 2020, the Company fully repaid all its obligations to the bondholders.

b. Sale of subsidiary:

On 15 November 2019, the Company and Rainmaker Investments GmbH ("**Rainmaker**"), a minority shareholder (10%) in Team Internet AG ("Team Internet"), signed a binding agreement with Centralnic Group PLC, whose shares are traded on the AIM Market of the London Stock Exchange, ("**Purchaser**" or "**CNIC**") to sell all the shares in Team Internet (the "**Transaction**") for total consideration of €45,854,332, plus Interest Amount as determined in the agreement, which consisted of the following (the "**Purchase Price**"):

(a) A cash payment on closing date in an amount of €39,554,332 (the "Cash Payment"), plus Interest Amount (€764,286), in addition to a retained amount of €900,000 (the "**Retention Amount**"). The Retention Amount will be fully released after 15 months period, less deductions for settled claims or for outstanding claims (which are supported by documents as specified in the agreement). The retention amount (net of deferred cash payment that Rainmaker are entitled to receive – see below) is presented at fair value of $551 upon closing and is included within other assets on the balance sheet ($557 as of 31 December 2019).

(b) 3,911,650 Purchaser shares. The number of shares was determined by dividing €2,700,000 by the Purchaser's share price, as determined in the agreement. Such shares are subject to a lock-up period of 12 months, plus an additional 6-month period during which any disposal must be approved by and coordinated with the Purchaser and its broker. The investment in these shares (net of shares paid to Rainmaker – see below), is presented at fair value of $1,587 on the closing date ($2,450 as of 31 December 2019) and is presented as investment in financial assets measured at fair value on the balance sheet. Subsequent to the balance sheet date, the fair value of the investment declined. The fair value of the investment amounted to $1,519 on 17 March 2020.

(c) A deferred cash payment of €2,700,000 payable 6 months following the closing. Such payment (net of deferred cash payment that Rainmaker are entitled to receive – see below) is presented at fair value of $1,737 upon closing and is included within other receivables and prepaid expenses on the balance sheet ($1,760 as of 31 December 2019).

NOTE 1:- GENERAL (Cont.)

On 24 December 2019 the Transaction was completed. As a result of the Transaction, the Company recorded a gain of $ 2,575 which is included in statements of operations.

As part of the Transaction, immediately prior to closing date, the Company consummated the purchase of the remaining 10% stake of Rainmaker in Team Internet in accordance with the share purchase agreement dated December 2017 between the Company and Rainmaker, by assigning to Rainmaker a portion of the Purchase Price. Rainmaker received a total sum of €19,050,000: (i) a sum of € 16,508,190 out of the Cash Payment; (ii) €1,087,350 paid in Purchaser shares (1,575,309 shares); (iii) a sum of €1,087,350 out of the deferred cash payment; (iv) a sum of € 367,110 out of the Retention Amount. Upon the consummation of such purchase of the remaining 10% stake of Rainmaker in Team Internet, the Company and Rainmaker confirmed in writing, that no further claims between Rainmaker and the Company will exist and all alleged obligations of the Company towards Rainmaker will be settled.

The remaining amount of the Cash Payment (€23,046,142) plus the Interest Amount of €765,286, in total €23,810,427 was paid to the trustee of the Bonds (Series A) (the "**Bonds**" and the "**Trustee**", respectively) for a full early redemption of the outstanding Bonds (ILS101,000 thousands) (principal and interest), as approved by the bondholders meeting on 1 December 2019. In order to facilitate the early redemption of the outstanding Bonds in full, the Company transferred to the Trustee a cash amount of €2,500,000.

The full redemption of the outstanding Bonds was executed on 8 January 2020. As of 31 December 2019, the amount of $29,295 transferred to the Trustee is presented as restricted cash for bond repayment on the balance sheet.

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 was paid in two payments: $600 upon closing and $250 was received during 2019.

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.

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 requirements. During 2019, the entire amount 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL (Cont.)

d. Loss from sale of subsidiary and activities:

	Year ended 31 December 2019	Year ended 31 December 2018
Cash consideration, net	$ 24,185	$ 6,463
Deferred consideration	1,737	1,839
Retention amount	551	-
Investment in CNIC shares	1,587	-
Total consideration, net	28,060	8,302
The book value of the identifiable assets and liabilities of on sale date:		
Property and equipment, including R&D capitalization	(1,487)	(4,123)
Operating lease right-of-use asset	(1,766)	-
Domains	(11,874)	-
Other intangible assets	(509)	(202)
Goodwill	(26,295)	(5,827)
Minority interest	256	-
Liability to non-controlling interest	21,209	-
Working capital	(3,526)	35
Operating lease liabilities	1,393	-
Deferred tax liabilities	446	2
Accumulated other comprehensive loss	(3,277)	-
Other	(55)	(22)
Loss (gain) from sale of subsidiary and activities	$ (2,575)	$ 1,835

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 operated. A substantial portion of the revenues and expenses of the Company were 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.

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 2019 and 2018 were $ 0 and $ 3,470, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

During the years ended 31 December 2019 and 2018 bad debt expenses were $ 850 and $ 3,598, respectively, and the write offs of balances included in allowances for doubtful accounts amounted to $ 3,914 and $ 1,530 in the years ended 31 December 2019 and 2018, respectively. During the years ended 31 December 2019 and 2018 recoveries amounted to $ 27 and $ 246, respectively, of amounts previously included in 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 2019 and 2018, the Company performed an impairment review of all its long-lived assets and intangible assets which resulted in impairment charge of $ 0 and $ 2,917, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 31 December each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. 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.

Due to changes in compliance requirements during 2019, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's projected EBIDTA. As a result, the Company recorded during the year ended 31 December 2019, goodwill impairment charges of $15,984 related to its Domain Monetisation reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly. During the year ended 31 December 2018, the Company recorded goodwill impairment charges of $30,648 related to its Mobile reporting unit, which is included in loss from discontinued operations, and $5,014 related to its Domain Monetisation 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.

i. 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 2019 and 2018 were $ 77 and $ 927, respectively.

j. 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 sale of activities and companies (refer to Note 1c), in 2019 the Company generated revenue only from its domain monetization technology.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following the sale of Team Internet (refer to Note 1b), the Company does not generate any more revenue.

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 recognized 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 evaluated 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 considered 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.

k. 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.

l. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Internally developed software:

The Company capitalized 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 2019 and 2018, the Company capitalized software development costs of $ 646 and $ 2,258, respectively. Amortization expense for the related capitalized internally developed software in 2019 and 2018 totaled $ 539 and $ 3,345, 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 during 2018, management decided to abandon certain projects and therefore recorded an impairment charge of $ 0 and $ 790 in 2019 and 2018, respectively.

n. 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 recognized 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.

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 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.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- *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.

The fair value of the Company's stock options granted to employees and directors for the years ended 31 December 2019 and 2018 was estimated using the following weighted average assumptions:

	Year ended 31 December	
	2019	**2018**
Volatility	-	40%
Expected option term (in years)	-	6.2
Risk-free interest rate	-	2.65%
Dividend yield	-	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.

o. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Concentrations of credit risks:

Financial instruments that could potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash for bond payment and the deferred consideration amount (refer to Note 1b above). Cash and cash equivalents are managed in major banks, mainly in Israel.

q. 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.

r. 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". The total weighted average number of shares related to the outstanding options and RSUs excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, was 87,500 and 1,512,343 for the years 2019 and 2018, respectively.

s. 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.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Domains:

Domains are non-current assets with indefinite useful lives. 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 2019 and 2018, no impairment losses were recorded.

u. 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 18.

NOTE 3:- PROPERTY AND EQUIPMENT, NET

a. Composition:

	31 December	
	2019	2018
Cost:		
Computers and software	$ -	$ 571
Office furniture and equipment	-	878
Electronic equipment	-	50
Capitalized research and development costs	-	2,252
Leasehold improvements	-	211
Total cost	-	3,962
Less: accumulated depreciation and amortization	-	(2,549)
Property and equipment, net	$ -	$ 1,413

b. Depreciation and amortization expense amounted to $ 679 and $ 4,031 for the years ended 31 December 2019 and 2018, respectively.

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

In 2018, the Company derecognised property and equipment in the amount of $2,771, which were fully depreciated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 4:- OTHER INTANGIBLE ASSETS, NET

Other intangible assets comprise of the following:

	Technology	Customer relationships	Database	Total
1 January 2018	$ 2,006	$ 3,655	$ 2,736	$ 8,397
Amortization	(1,909)	(2,099)	(608)	(4,616)
Impairment	-	-	(2,128)	(2,128)
Sale of activities	-	(202)	-	(202)
31 December 2018	97	1,354	-	1,451
Additions	73	-	-	73
Amortization	(65)	(950)	-	(1,015)
Sale of subsidiary	(105)	(404)	-	(509)
31 December 2019	-	-	-	-

NOTE 5:- GOODWILL

Changes in goodwill for the years ended 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Goodwill at beginning of year	$ 42,279	$ 83,768
Sale of subsidiary and activities	(26,295)	(5,827)
Impairment	(15,984)	(35,662)
	$ -	$ 42,279

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 2019 and 2018:

	31 December 2019			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment in financial assets measured at fair value	$ -	*) $ 2,450	$ -	*) $ 2,450
Total financial assets	$ -	*) $ 2,450	$	*) $ 2,450
Liabilities:				
Bonds	$ 29,225	$ -	$ -	$ 29,225
Total financial liabilities	$ 29,225	$ -	$ -	$ 29,225

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

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

*) Investment in financial assets measured at fair value:

	Year ended 31 December 2019
Quoted price	$ 2,758
Discount for lock up period (refer to Note 1b)	(308)
Total fair value at the end of year	$ 2,450

	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

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:

	Year ended 31 December 2018
Total fair value at the beginning of the year	$ 43,263
Classification of liability to non-controlling interest to current liabilities (*)	(19,488)
Changes in fair value of liability to non-controlling interest	798
Changes in fair value of payment obligation related to acquisitions recognized in earnings	(538)
Payment of contingent consideration during the period	(110)
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)
Total fair value at the end of year	$ -

(*) 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). For additional information refer to Note 1b.

NOTE 8:- BANK LOANS, CREDIT LINES AND OTHER LIABILITIES

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. 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. As of 31 December 2018, the Company presented the entire loan amount in current liabilities. On 5 February 2019, the loan was repaid in full.

c. 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.

d. 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.

e. 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. 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.

f. 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.

g. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 8:- BANK LOANS, CREDIT LINES AND OTHER LIABILITIES (Cont.)

h. In connection with the Company's acquisition of Optimatic which was completed on 13 November 2015, the Company has an outstanding liability in the amount of $2,971, which is included within accrued expenses and other liabilities on the balance sheets as of 31 December 2019 and 2018. The Company has made repeated efforts to locate certain former shareholders of Optimatic in order to pay such debt, with no success. As a result, the Company cannot determine when, if at all, such amount will be paid.

NOTE 9:- CONVERTIBLE BOND

In February 2018, the Company completed a public offering in Israel of convertible (Series A) bonds (the "Bonds"). On 8 January 2020, the Company fully repaid all of its obligations to the bondholders.

The terms of the Bond were as follows: The Company raised a total gross consideration of ILS 103 million (approximately $29,930 as of issuance date), issued a total of 101,000 units of Bond, which was to 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 was to be paid on a semi-annual basis.

The Company elected to apply the fair value option in accordance with ASC 825, “Financial Instruments”, to the convertible bond and therefore all unrealized gains and losses are recognized in earnings.

The changes of the convertible bond in the year ended 31 December 2019 were as follows:

Balance 1 January 2019	$ 18,540
Change in fair value	10,685
Balance as of 31 December 2019	$ 29,225

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, the Company is party to ordinary and routine litigation incidental to its business. As of 31 December 2019 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 2019			31 December 2018		
	Authorised	Issued	Outstanding	Authorised	Issued	Outstanding
	Number of shares					
Ordinary shares	430,500,000	108,242,714	98,483,839	430,500,000	108,131,214	98,372,339

U.S. dollars in thousands (except share and per share data)

NOTE 11:- EQUITY (Cont.)

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 2019, there were 8,351,334 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 2019	1,473,843	$ 1.45	3.50	$ 0
Granted	-	$ 0		
Exercised	-	$ 0		
Forfeited	1,386,343	$ 1.35		
Outstanding and exercisable at 31 December 2019	87,500	$ 1.49	2.94	$ 0

As of 31 December 2019, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to $ 0.

The aggregate intrinsic value of all stock options at 31 December 2019 and 2018 amounted to zero since all options were out-of-the-money as of such dates.

The weighted average grant date fair values of options granted for the years ended 31 December 2019 and 2018 were $ 0 and $ 0.37, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 11:- EQUITY (Cont.)

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

	Number of RSU's
Unvested at 1 January 2019	38,500
Granted	106,000
Vested	(111,500)
Forfeited	(33,000)
Unvested at 31 December 2019	-

The weighted average grant date fair value per share for the year ended 31 December 2019 $ 0.03. There were no grants during 2018.

As of 31 December 2019, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to $ 0.

d. Treasury shares

As of 31 December 2019, treasury shares amounted to 9,758,875 shares. As of 31 December 2018, treasury shares amounted to 10,970,111 shares of which 1,211,236 shares are held by Team Internet and were considered outstanding.

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates in Israel:

   The Israeli corporate income tax rate was 23% in 2019 and 2018.

2. Carryforward operating tax losses of the Israeli parent amounted to $ 55,400 as of 31 December 2019 and may be used indefinitely. These losses may be subject to limitations on their utilization.

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 were located in Germany and in the United States, and were subject to tax rate of 33% and 27%, respectively in 2019 and 2018.

c. As of 31 December 2019, all the Company subsidiaries were dissolved or initiated the process of dissolution.

U.S. dollars in thousands (except share and per share data)

NOTE 12:- TAXES ON INCOME (Cont.)

d. 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	
	2019	2018
Deferred tax assets:		
Carry forward losses	$ 12,722	$ 10,297
Research and development expenses	558	1,991
Allowance for doubtful debts	-	766
Intangible assets	-	891
Other	-	1,765
Gross deferred tax assets	13,280	15,710
Valuation allowance	(13,280)	(15,618)
Total deferred tax assets	-	92
Deferred tax liabilities:		
Intangible assets	-	757
Gain on achieving control	-	2,022
Other	-	40
Deferred tax liabilities	-	2,819
Deferred tax liabilities, net	$ -	$ (2,727)

The net change in the valuation allowance primarily reflects a decrease in deferred tax assets on net operating losses and other temporary differences due to sale of subsidiary and dissolution of other subsidiaries.

e. Income (loss) before taxes on income is comprised as follows:

	Year ended 31 December	
	2019	2018
Domestic	$ (24,736)	$ (1,631)
Foreign	5,358	(1,619)
	$ (19,378)	$ (3,250)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- TAXES ON INCOME (Cont.)

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

	Year ended 31 December	
	2019	**2018**
Current:		
Domestic	$ 175	$ (11)
Foreign	3,673	4,358
	3,848	4,347
Deferred:		
Domestic	-	2
Foreign	(2,269)	(666)
	(2,269)	(664)
	$ 1,579	$ 3,683

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

	31 December	
	2019	**2018**
Beginning balance	$ 183	$ 193
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(10)	(10)
Ending balance	$ 173	$ 183

The entire amount of unrecognised tax benefits as of 31 December 2019, 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 2019 and 2018, 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.

U.S. dollars in thousands (except share and per share data)

NOTE 12:- TAXES ON INCOME (Cont.)

As of 31 December 2019, the Company and its subsidiaries in Israel besides one subsidiary in Israel received final, or considered final, tax assessments through 2014.

As of 31 December 2019, Team Internet and the Company subsidiaries in the US received final, or considered final, tax assessments through 2014.

h. 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	
	2019	2018
Loss from continuing operations before taxes as reported in the statements of income	$ (19,378)	$ (3,250)
Statutory tax rate in Israel	23%	23%
Theoretical income tax benefit	$ (4,457)	$ (747)
Increase in taxes resulting from:		
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	1,086	2,731
Tax adjustment in respect of different tax rate of foreign subsidiaries	838	277
Non-deductible expense including impairment charge, net	4,533	1,153
Effect of foreign exchange rate *)	(460)	342
Others	39	(73)
	$ 1,579	$ 3,683

*) 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.

U.S. dollars in thousands (except share and per share data)

NOTE 13:- LEASES

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Topic 842, which requires the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases on the consolidated balance sheet. The Company adopted Topic 842 and its related amendments as of January 1, 2019 using a modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to not reassess whether arrangements contain leases, not reassess lease classification and not reassess initial direct costs.

Under the new guidance, the Company determined if an arrangement contains a lease and the classification of that lease, if applicable, at inception or upon modification of a contract. The Company elected to not recognize a lease liability or ROU asset for short-term leases (leases with a term of twelve months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Lease liabilities represent its obligation to make lease payments under the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term.

Some leases include one or more options to renew. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right of use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal options, and, when it is reasonably certain of exercise, it will include the renewal period in its lease term. Lease modifications result in remeasurement of the lease liability.

The right-of-use asset and lease liability are initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate based on the information available at the date of adoption in determining the present value of the lease payments. The determination of its incremental borrowing rate requires judgment

The Company had operating leases for office space, that expire through 2025. Below is a summary of operating right-of-use assets and operating lease liabilities as of the adoption date:

	$
Operating right-of-use assets	2,084
Operating lease liabilities, current	326
Operating lease liabilities long-term	1,758
Total operating lease liabilities	2,084

The weighted average remaining lease terms and discount rates for all of operating leases as of the adoption date were as follows:

U.S. dollars in thousands (except share and per share data)

NOTE 13:- LEASES (Cont.)

Weighted average remaining lease term (years) 3.3
Weighted average discount rate 1.90%

Following the sale of a subsidiary (refer to Note 1b), the Company no longer have leases within the scope of ASC 842.

NOTE 14:- REPORTABLE SEGMENTS

a. General

In 2018, the Company was organized into operating segments based on the products and services, that existed at the time and had operating segments as follows:

- Mobile Advertising ("Mobfox") – Mobfox was 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 offered comprehensive support for all major mobile ad formats. Mobfox also offered media buying services on its myDSP demand-side platform (DSP). Following the sale of the Mobfox activity in November 2018 this operating segment ceased to exist. This segment is reported as Discounted Operations in accordance with ASC 205-20.

- Domain Monetization – Team Internet serves the domain monetisation 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. On 24 December 2019 Team Internet was sold, as further described in Note 1b above.

- Non-core Activities – Matomy's non-core activities included 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 these activities and the restructuring of the remaining non-core activities, this operating segment ceased to exist.

Following the sale of Team Internet, the Company has ceased its operations in all segments.

b. Segments information:

	Year ended 31 December	
	2019	**2018**
Revenues:		
Domain monetisation	$ 74,035	$ 75,636
Other	-	13,098
Total revenues	$ 74,035	$ 88,734

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 14:- REPORTABLE SEGMENTS (Cont.)

	Year ended 31 December	
	2019	**2018**
Operating loss:		
Domain monetisation	$ 11,337	$ 14,181
Other		(4,089)
Reconciling items (1)	(18,445)	(18,445)
Total loss from continuing operations	$ (7,108)	$ (8,353)

(1) Reconciling items are primarily related to impairment loss and depreciation and amortization costs for the year ended 31 December, 2019 and 2018, as well as corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

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

	Year ended 31 December	
	2019	**2018**
Revenues	$ 74,035	$ 75,636
Cost of revenues	57,128	58,089
Gross profit	16,907	17,547
Operating expenses:		
Research and development	601	455
Selling and marketing	3,594	3,792
General and administrative	1,914	1,775
Goodwill Impairment	15,984	5,014
Total operating expenses	22,093	11,036
Operating income (loss)	(5,186)	6,511
Financial expenses (income), net	161	(70)
Income (loss) before taxes on income	(5,347)	6,581
Tax on income	3,667	3,658
Net income (loss)	(9,014)	2,923
Net loss (income) attributable to non-controlling interests in subsidiaries	(1)	53
Net income (loss)	$ (9,015)	$ 2,976

U.S. dollars in thousands (except share and per share data)

NOTE 14:- 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	
	2019	**2018**
United States	$ 39,883	$ 55,665
Europe	24,092	22,709
Asia	3,476	3,483
Other	6,584	6,877
	$ 74,035	$ 88,734

2. Property and equipment, net:

	31 December	
	2019	**2018**
Israel	$ -	$ 53
Germany	-	1,360
	$ -	$ 1,413

d. In the years ended 31 December 2019 and 2018, one customer contributed 87% and 72% of the Company's revenues, while no other customer contributed more than 10%.

U.S. dollars in thousands (except share and per share data)

NOTE 15:- FINANCIAL EXPENSES, NET

	Year ended 31 December	
	2019	2018
Financial income:		
Interest income	$ 167	$ 45
Change in fair value of convertible Bonds	-	11,390
Hedging transactions	77	-
Foreign currency remesurement.net	156	-
Revaluation of investment in financial assets measured at fair value (Refer to Note 1b)	863	-
	1,263	11,435
Financial expenses:		
Bank fees	(179)	(387)
Interest expense	(1,939)	(2,042)
Foreign currency remesurement.net	-	(718)
Hedging transactions	-	(899)
Change in fair value of convertible Bonds	(10,685)	-
Other	(730)	(698)
	(13,533)	(4,744)
	$ (12,270)	$ 6,691

NOTE 16:- 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.

Cost of revenues to related parties amounted to $ 2,882 and $ 5,009 for the years ended 31 December 2019 and 2018, respectively.

As a result of the sale of Team Internet, as described in Note 1b, trade payables to related parties amounted to $ 0 and $ 255 as of 31 December 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands (except share and per share data)

NOTE 17:- RESTRUCTURING COSTS

Following the sale of certain activities in 2018 (refer to Note 1c), the Company has incurred in 2018 cumulative restructuring costs of $ 2,865 as follows:

	Year ended 31 December 2018
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 and was fully paid in 2019.

NOTE 18:- DISCONTINUED OPERATIONS

As a result of the sale of the Mobfox business in November 2018, as detailed in Note 1c, 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 information 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- DISCONTINUED OPERATIONS (Cont.)

The following table summarizes the results of discontinued operations for the year ended 31 December 2018:

	Year ended 31 December 2018
Revenues	$ 34,774
Cost of revenues	31,422
Gross profit	3,352
Operating expenses:	
Research and development	4,774
Selling and marketing	3,076
General and administrative	3,344
Impairment, net of change in fair value of contingent consideration	30,607
Other	1,000
Total operating expenses	42,801
Operating loss	(39,449)
Tax on income	338
Loss from discontinued operations	$ (39,787)

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

	Year ended 31 December 2018
ASSETS	
CURRENT ASSETS:	
Trade receivables, net	$ 4,634
Total current assets of discontinued operation	4,634
Total assets	$ 4,634
LIABILITIES	
CURRENT LIABILITIES:	
Trade payables	$ 3,928
Total current liabilities of discontinued operation	3,928
Total liabilities	$ 3,928

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5 Matomy Media Group Ltd. Shareholder Information

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Company website

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