matomy

Data driven marketing and technology

2016 Annual Report and Accounts

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About Matomy

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is a world-leading media company with smarter technology and a personalized approach to advertising. By providing customized performance and programmatic solutions supported by internal media capabilities, big data analytics, and optimization technology, Matomy empowers advertising and media partners to meet their evolving growth-driven goals. Matomy's programmatic platforms include the MobFox SSP, the video advertising platform Optimatic, and the mobile demand side platform myDSP. Matomy's data-driven mobile advertising agency, mtmy, is fueled by an in-house Data Management Platform (DMP), and offers a fully-managed service across channels including video, native, social, email and search. Founded in 2007 with headquarters in Tel Aviv and 11 offices around the world, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges. Learn more about Matomy at *www.matomy.com.*

2 Overview

Operational Highlights

In July 2016, Matomy announced a strategic investment plan to increase investment in research and development.

Matomy has continued to enhance its programmatic capabilities and invest in new product innovation to support our proprietary technology.

Research and development expenses
↑
$12.6m
(+60%)
FY2015: $7.9m

Sales and marketing expenses
↑
$30.6m
(+17%)
FY2015: $26.2m

Adjusted Ebitda
↓
$17.1m
(-34%)
FY2015: $25.7m

Revenue
↑
$276.6m
(2.1%)
FY2015: $271.1m

Business Highlights

Matomy is shifting activity from desktop display advertising toward the fast growing market of Mobile, Video and programmatic advertising, which generates higher quality and more sustainable long-term revenues.

mobile in-app (Mobfox) revenue
↑
$36.6m
(+104%)
FY2015: $17.9m

Revenues generated from aggregate[1] programmatic advertising activity
↑
79%
FY2015: 60%

Aggregate video activity[1]
↑
$111.9m
(+55%)
FY2015: $72.3m

Domain Monetization
↑
$63.3m
(+17%)
FY2015: $54.3m

(1) Aggregate traffic across all media channels.

Matomy Overview

Matomy Media Group is one of the world's leading digital media companies. Continuing the transition begun in 2014, the company is now squarely focused on the areas of mobile, video and programmatic advertising. Milestones on this path include acquisitions of mobile supply side platform (SSP), Mobfox, in October 2014 and the video SSP, Optimatic, in November 2015. Additionally, Matomy increased its internal investment in research and development to support related products. In 2016, mobile represented 13% of company revenues, video represented 40% and programmatic 79%.

These investments position the company well for the new advertising ecosystem where:

- **All digital advertising will be transacted programmatically**
- **Mobile will be the dominant platform for consuming media**
- **And video is the preferred format for content**

Matomy has built a strong leadership position serving the needs of advertisers and publishers in the areas of programmatic mobile and video advertising.

Matomy began 2016 with a promise to maintain a laser-focus on the market opportunities created by the intersection of programmatic, mobile and video advertising – the three fastest growing segments of digital advertising.

Matomy encourages its business units to remain close to the markets they serve to make sure the company is providing outstanding value for customers and partners. An additional benefit of this approach is the opportunity for rapid innovation, as Matomy learns quickly about changing customer and partner needs within a constantly evolving advertising landscape, and responds accordingly.

By 2018 programmatic advertising is expected to account for $68.70 billion in spending up from $27.30 billion in 2015, growing by 252%, while mobile and video advertising should grow by more than 230% and 223% over the same period.

source: eMarketer, Sep, 2016

In this regard, 2016 was a year of notable accomplishments for the company, as product capabilities announced this year leapfrogged those offered by many competitors and set the company on a strong path to capture anticipated growth. Matomy programmatic platforms include the MobFox SSP, the video advertising platform, Optimatic, and the mobile demand side platform (DSP), myDSP.

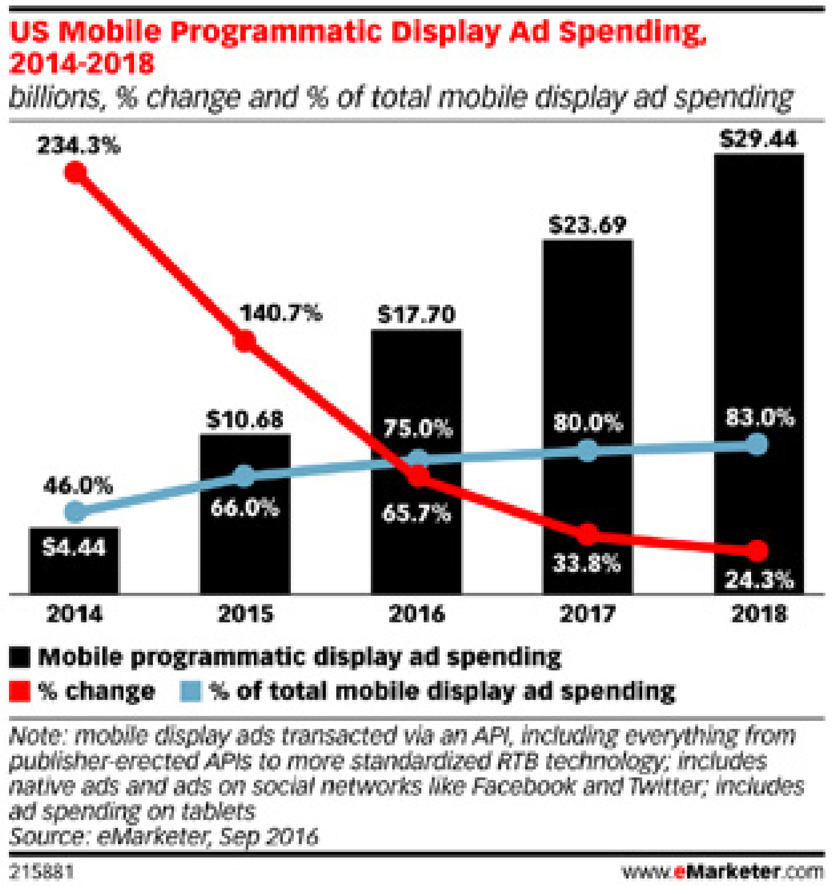
Matomy is also staying close to markets in those international markets where growth opportunities remain highest. The company's decision to increase its presence and executive leadership in the United States continues to yield significant benefits in terms of new customers, broader partnerships and greater integration into the advertising ecosystem. Matomy also continues to expand its operating presence in China and South Korea supporting proximity to greatly expanding advertiser and publisher communities, in what have become the fastest growing mobile app economies in the world.

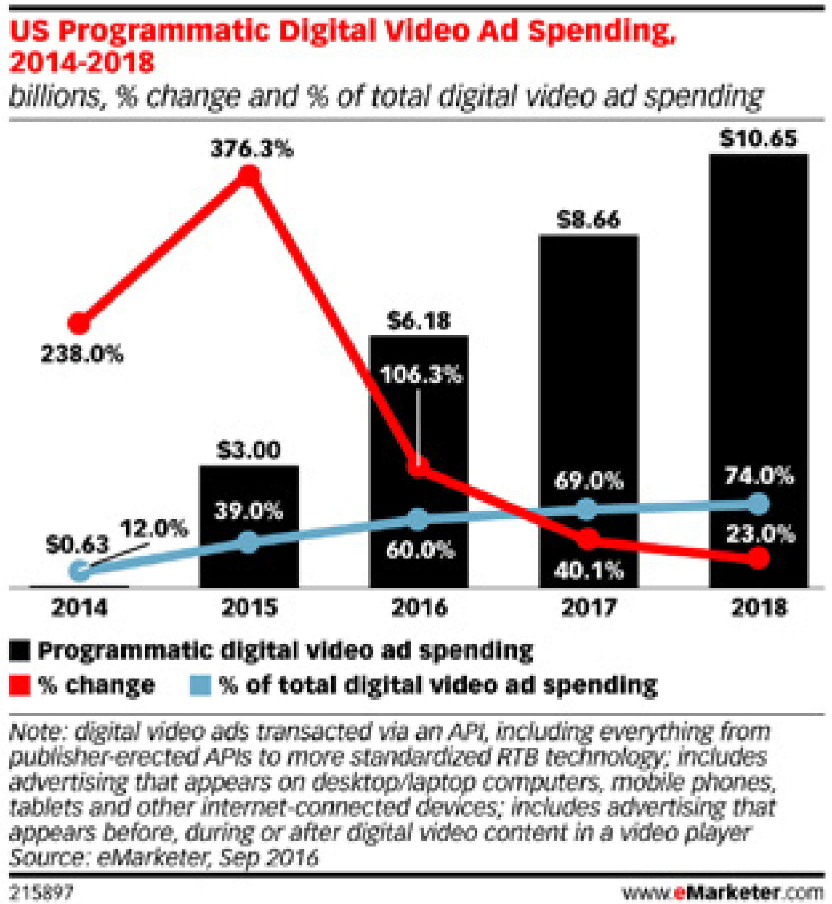
Advertising continues to move strongly towards programmatic

Matomy technology enables programmatic media buying and management, audience targeting, data analysis and campaign monitoring and reporting across channels and formats. Programmatic now accounts for more than 60% of Matomy revenue. Matomy places major emphasis on effective media management, and accelerated these capabilities by acquiring Mobfox and Optimatic. Internal development strengthens Matomy's programmatic capabilities including improvements to core DMP technology, and positions the company for strong growth in programmatic activity.

Research shows that the automated buying and selling of advertising continued to gain traction, with ever higher percentages of ad budgets being spent programmatically. Ending 2016 more than 75% of mobile and 60% of video budgets were conducted programmatically.

source; eMarketer,Sep,2016





Matomy's mobile technology enables global advertisers and publishers

According to comScore, mobile has grown so quickly that it is now the leading digital platform, with activity on smartphones and tablets accounting for two-thirds of digital media time spent, and smartphone apps alone now taking 50 percent of all time spent on digital media. For Matomy, this rapid pace of change reinforces the direction the company is taking, including by building on the acquisition of Mobfox to develop new mobile advertising capabilities. In 2016, Matomy enhanced the Mobfox SSP to improve our support for the mobile publisher community, and launched two new products including myDSP, a mobile-focused DSP, and mtmy, a data-driven advertising agency now utilized by many app developers throughout Asia to increase mobile app acquisition and engagement.

Matomy continues to lead in video advertising

Matomy's acquisition of Optimatic offers expanded video advertising opportunities, including access to an advanced video advertising platform supporting top-tier publishers and video supply-side platform (SSP) capabilities. Advertisers and publishers turn to Matomy to generate reach, scale and quality in video advertising.

Video, whether seen on mobile or desktop devices, delivers the most engaging advertising experience. Consumers are watching more video than ever before – increasingly on their mobile devices. In fact, as the fastest-growing advertising category on mobile, video is expected to reach $6.31 billion in the U.S. alone by 2018. Additionally, 2016 is the first year when more than half of all U.S. digital video advertising was bought and sold programmatically.

source; eMareter,Sep, 2016

US Mobile Programmatic Display Ad Spending, by Format, 2014-2018

billions, % change and % of total mobile programmatic display ad spending

	2014	2015	2016	2017	2018
Video*	**$0.19**	**$1.17**	**$2.78**	**$4.76**	**$6.18**
—% change	914.0%	519.2%	138.1%	71.2%	29.7%
—% of total mobile programmatic display ad spending	4.3%	10.9%	15.7%	20.1%	21.0%
Other**	**$4.25**	**$9.51**	**$14.92**	**$18.93**	**$23.26**
—% change	224.6%	123.9%	56.8%	26.9%	22.9%
—% of total mobile programmatic display ad spending	95.7%	89.1%	84.3%	79.9%	79.0%

*Note: mobile display ads transacted via an API, including everything from publisher-erected APIs to more standardized RTB technology; includes ad spending on tablets; *includes advertising that appears before, during or after digital video content in a video player; **includes banners, rich media, sponsorship and other; includes native ads and ads on social networks like Facebook and Twitter*
Source: eMarketer, Sep 2016

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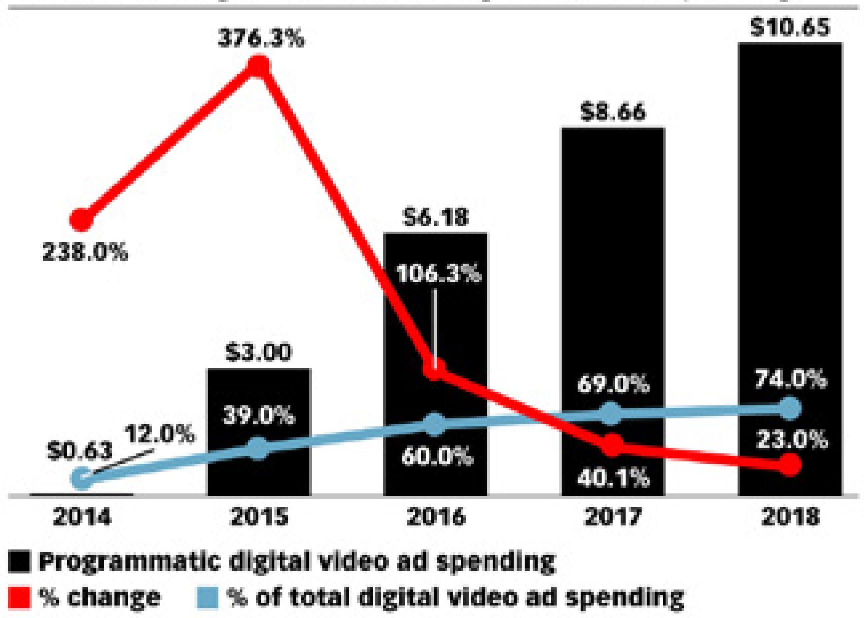
US Programmatic Digital Video Ad Spending, 2014-2018

billions, % change and % of total digital video ad spending



Note: digital video ads transacted via an API, including everything from publisher-erected APIs to more standardized RTB technology; includes advertising that appears on desktop/laptop computers, mobile phones, tablets and other internet-connected devices; includes advertising that appears before, during or after digital video content in a video player
Source: eMarketer, Sep 2016

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Matomy believes that mobile and video together offer the greatest opportunity

Cisco predicts that by 2020 over 75% of global mobile data traffic will consist of video. With this increase, mobile ad revenue is on track to increase by an annual compound growth rate of 26.5% through 2020, with U.S. digital video ad revenue growing at 21.9% through that same time frame. Anticipating the opportunity being created by mobile video consumption, in July 2016, Matomy announced a plan to integrate more closely our capabilities in mobile and video advertising.

Matomy's achievements rely on mutually successful relationships between customers and media partners

Matomy continues to broaden its customer base to include many new advertisers and media buyers. Matomy works with leading advertisers in over 100 countries, and is constantly growing its base of clients.

Matomy offers advertisers one of the world's largest and most diversified sources of digital media.

2 Strategic Report

Introduction to Strategic Report

OFER DRUKER
Chief Executive Officer

Matomy made substantial progress towards our strategic goals in 2016, providing a strong foundation from which to grow. Of note was the decision to increase investment in development of proprietary technologies advancing Matomy's capabilities in programmatic mobile and video advertising. This investment resulted in the launch of several new products in addition to greatly strengthening the offerings from acquired companies, Mobfox and Optimatic. Additional investment was made in building the sales organization with an emphasis on USA and Asia, where growth in programmatic and mobile advertising is highest. Matomy also began a process of strategic review to examine opportunities in an effort to maximize shareholder value.

Chairman's Statement

HAREL BEIT-ON
Non-Executive Chairman

I am pleased to have this opportunity to introduce Matomy's 2016 annual report. 2016 saw Matomy continue its successful transition in the direction of programmatic mobile and video advertising. Anticipating the evolution of advertising towards mobile and video and away from desktop display, Matomy delivered several key initiatives to cement our leadership position serving the needs of advertisers and publishers and positioning the company for a strong 2017.

As the advertising industry continues to mature, so too must Matomy. To do so, we made the strategic decision to invest in order to improve. We expanded our mobile, video and programmatic offerings, strengthened our data-driven capabilities and widened our reach in the APAC market.

Matomy made a major shift. After conducting successful acquisitions – Mobfox and Team Internet (both in 2014) Avenlo and Optimatic in late 2015 – the company decided to enhance its product development budget to accelerate the transformation into a leading data-driven, programmatic media company focusing on Mobile and Video.

In 2016, Matomy invested in two primary areas to be a partner of choice and set the company on a successful path for the future. First, Matomy invested in development by adding proprietary technology supporting programmatic mobile and video advertising capabilities. This enabled us to move ahead of our competition by introducing two new services - myDSP and mtmy - that complement our existing portfolio while strengthening core programmatic capabilities.

Secondly, the company significantly strengthened its footprint in the Asia-Pacific market, adding capabilities in both China and South Korea.

Underpinning these mobile and video capabilities is a commitment to lead the market in programmatic advertising, which we believe is the future of advertising due to the unparalleled efficiencies and improved results that it brings to advertisers. Matomy is constantly innovating to improve productivity and efficiency in its programmatic offerings.

While the media and advertising industry continue to evolve, Matomy is well positioned to succeed in this environment. Our technological differentiation continues to attract top-tier advertisers and publishers, and Matomy will continue to invest in people and capabilities in areas that represent the largest advertising market opportunities.

Board composition and diversity
We recognize the importance of diversity at the Board level, and our board members have a wide range of skills and experiences from a variety of business backgrounds to support the strategic and operational direction of the company.

Governance
As a Chairman and as a Board we view good corporate governance as vital to our success. The Board meets regularly to discuss strategy and to hold the Senior Management team accountable for its execution. The Board is confident that the proper internal and external controls are in place to ensure the Group's long-term success while continuing to allow for the necessary entrepreneurial spirit that has long guided Matomy and helped it to grow so successfully since its foundation

Looking ahead
Our key priorities for 2017 are as follows:

- Continue to focus business and development efforts around programmatic mobile and video advertising capabilities.
- Invest in developing direct and indirect data capabilities to support our offering through Mobfox and Optimatic.
- Continue to strengthen our presence in the USA advertising market, with emphasis on Mobile and Video.
- Following the successful entry into China and South Korea, accelerate APAC expansion strategy with a focus on mobile activity. Continue to build a strong team with unique offering to the APAC market.
- Advance with our Strategic Review, as announced on 18 October 2016.
- Continue to invest in technological innovation and human capital while maintaining control over costs.

We are pleased with our progress during 2016. Matomy is now positioned to leverage advanced technology in a global market. We look forward to seeing the return on our investments in 2017, while delivering a strong increase in shareholder value.

HAREL BEIT-ON
Non-Executive Chairman
30 April 2017

CEO's Statement

OFER DRUKER
Chief Executive Officer

The best companies evolve with their industry. We spent the past year bolstering our proprietary technology and data-driven capabilities to strengthen our leading marketing technology platforms.

In 2016, Matomy underwent a transition with the goal of maximizing today's technologies in preparation for tomorrow's opportunities. After conducting successful acquisitions, MobFox and Team Internet, both in 2014 and Avenlo and Optimatic in late 2015, the company decided to enhance its product development budget to accelerate our transformation into a leading data-driven, programmatic media company focusing on mobile and video.

We saw a significant shift in the digital advertising landscape continue in 2016 as mobile and video advertising spending grew rapidly, while display advertising declined. With these trends, the market affirms Matomy's strategic direction.

A primary initiative we began in July 2016 was our strategic plan to increase investment in research and development. By enhancing our proprietary technology enabling programmatic mobile and video advertising, with additional capabilities added to our existing leading marketing technology platforms.

Our ongoing investment in our regional sales and marketing capabilities builds on our successful strategy we began in 2015. Within the past 18 months, Matomy has significantly increased the number of staff, the pace of sales and partnership opportunities with U.S. based companies. Likewise, in both China and South Korea, Matomy added considerably to our existing market presence in these regions.

In 2016, Matomy aligned both people and resources behind our business units supporting programmatic mobile and video advertising. These actions have already begun to deliver new opportunities for Matomy.

Combined with our focus on serving the needs of advertisers and publishers in the areas of programmatic mobile and video advertising, demonstrable progress on these key initiatives positions Matomy for a strong year ahead. We look forward to building on these successes in 2017 and generating the growth based on our proprietary technological platforms.

Achievements
2016 was a year of transition marked by investment in data-driven technologies, with continued focus around superior proprietary Video, Mobile and other Programmatic solutions.

This transition was achieved through a combination of substantial internal development in our propriety technology, among other things strengthen the capabilities of MobFox (a mobile SSP) and Optimatic (a video advertising platform that also offers SSP services).

To support growth and leadership around Mobile, the company took the following important steps:
• Matomy launched myDSP, a data-driven, mobile self-serve demand side platform (DSP), thereby empowering media buyers to optimize their advertising spending, while enhancing the development of the company's central data management platform (DMP).
• Matomy introduced mtmy, a full-service data-driven advertising agency, providing cross-channel

optimisation with focus on social, search and programmatic.

Matomy continued to benefit from the strong industry trend for programmatic advertising spend in the second half of the year. As a result, H2 represented 54% of Matomy's full year revenue and 65% of its adjusted EBITDA (H1 2016: 46% revenue, 35% adjusted EBITDA).

Matomy established offices in China and South Korea in April 2016 to access the fast-growing APAC market. In 2016, revenues generated from activity in Asia increased 56% to $17.9 million (2015: $11.5 million).

Mobile media channel revenues relate solely to revenues generated from mobile web and in-app activities (as opposed to aggregate mobile traffic, which refers to traffic from mobile devices across all media channels). Aggregate mobile traffic across all media channels contributed approximately 40% of Matomy's revenues in 2016 (FY2015: 30%).

We believe Matomy is now well-positioned with proprietary advanced technology platforms, enabled programmatic, mobile, and video advertising to entrench our position among the leading tier of digital advertising providers in 2017. Nevertheless, we recognize our industry evolves quickly, and we must pay vigilant attention to new trends in the market.

Result

Over the past 18 months, Matomy took decisive action to shift activity away from desktop display advertising and toward Video, Mobile and Native-based advertising, which generate higher quality and more sustainable long-term revenues with enhanced user engagement. This supports the company's ability to replace, in a controlled fashion, the continued industry-wide decline in revenues from desktop display activity. As a result, the revenues Matomy generated from aggregate programmatic advertising activity across all media channels increased 30%, and accounted for approximately 79% of Matomy's 2016 revenues. (2015: 60%)

For 2016, we reported a 2% increase in revenue to $276.6 million on a GAAP basis (FY2015: $271.0 million), driven primarily by our identified strategic growth areas of mobile, video and domain monetisation. Adjusted EBITDA decreased by 34%, primarily due to additional investments in research and development activities, mainly on Mobfox and Optimatic, as well as to strengthen Matomy's sales force in light of the new technologies, shifting geographical focus and investment around our APAC expansion.

Geographically, Matomy is seeing the strongest growth in the US, which is already Matomy's largest market, with revenue there increasing 10.1% ($16.4 million) to $180.0 million (FY2015: $163.6 million). This was driven by our increased focus on the US market, due to the ongoing industry-wide shift towards real-time bidding and programmatic advertising, as well as increased video advertiser demand.

Revenues from Asia climbed 56% ($6.4 million) to $17.9 million for 2016 as we initiated our expansion into Asia. The first stage indicates very encouraging preliminary results. This is a market that we believe holds great promise and we are continuing to direct resources toward further increasing our presence there in the near future.

Matomy's video activity continued to contribute the largest portion of the group's overall global revenue, at 40%.

The Mobile in-app (Mobfox) segment experienced the largest percentage revenue growth in 2016, rising 104% to $36.6 million (2015: $17.9 million). This increase was primarily driven by enhanced technological developments and the successful launch of new features.

The group's domain monetisation business also saw significant growth, increasing by $9 million, or 17%, to $63.6 million. This increase was partially driven by publisher growth and the acquisition of the NameDrive domain parking business, as well as the introduction of new ad types to Tonic (formerly called DNTX), our DSP, SSP and self-service ad network for desktop and mobile traffic sources.

Research and development expenses increased by $4.7 million, or 60%, to $12.6 million (FY2015: $7.9 million). This reflects both the consolidation of Optimatic for a full year, which added $1.4 million to R&D expenses, and additional investment in programmatic proprietary technologies.

Sales and marketing expenses increased by $4.4 million, or 17%, to $30.6 million (FY2015: $26.2 million).

General and administrative expenses decreased by $1.2 million, or 9.9%, to $14.9 million (FY2015: $16.1 million).

Outlook

The Company is entering 2017 with its mobile, programmatic, video and domain monetisation offerings, based on its own proprietary technologies, continuing to grow.

The business continues to diversify geographically, in particular following the initial successful entry and continued expansion into APAC.

We invest consistently in new product innovation in order to strengthen our capabilities. Our solutions continue to evolve as we remain committed to providing our customers and media partners with our unique solution supported by high levels of service understanding of the market.

These actions reflect the strategic decision of the company to shift focus away from the declining display segment and focus on its core growth areas of mobile and video programmatic-based activities. As a result, the Board remains confident that its actions will lead to continued growth and improved business focus for full year 2017.

Trading for the beginning of 2017 has been encouraging, and the Company currently anticipates an improved trading outcome compared with its previous expectations.

On behalf of our Board of Directors and the entire management team, I want to thank our customers, media partners, employees and shareholders for their continued confidence and support during this exciting period in Matomy's evolution.

OFER DRUKER
Chief Executive Officer
30 April 2017

Strategy for Growth

Matomy is making significant progress towards realizing its growth objectives as a leading provider of programmatic mobile and video advertising. Our strategy for 2017 will lead us further towards this goal.

Continue to focus business and development efforts around programmatic mobile and video advertising capabilities.

2016 proved that global advertising spending continues to move decisively towards programmatic delivery, with the highest growth expected for mobile and video advertising. Through its acquisitions of Mobfox for mobile and Optimatic for video, Matomy is well placed to benefit from this growth. Matomy will invest in both building the business capabilities and enhancing proprietary technology in support of the expected growth of programmatic mobile and video advertising.

Invest in developing direct and indirect data analysis and management capabilities to support our offering through Mobfox and Optimatic.

Data analysis and management have become indispensable in the ongoing effort to improve the effectiveness of advertising, and are the primary building blocks of programmatic advertising. Matomy will expand development of its proprietary data management platform (DMP) to improve targeting, analytics and ROI of advertising campaigns. Matomy will also seek to partner with third-party data providers to increase the value to clients of advertising with Matomy.

Continue to strengthen our presence in the USA Advertising market.

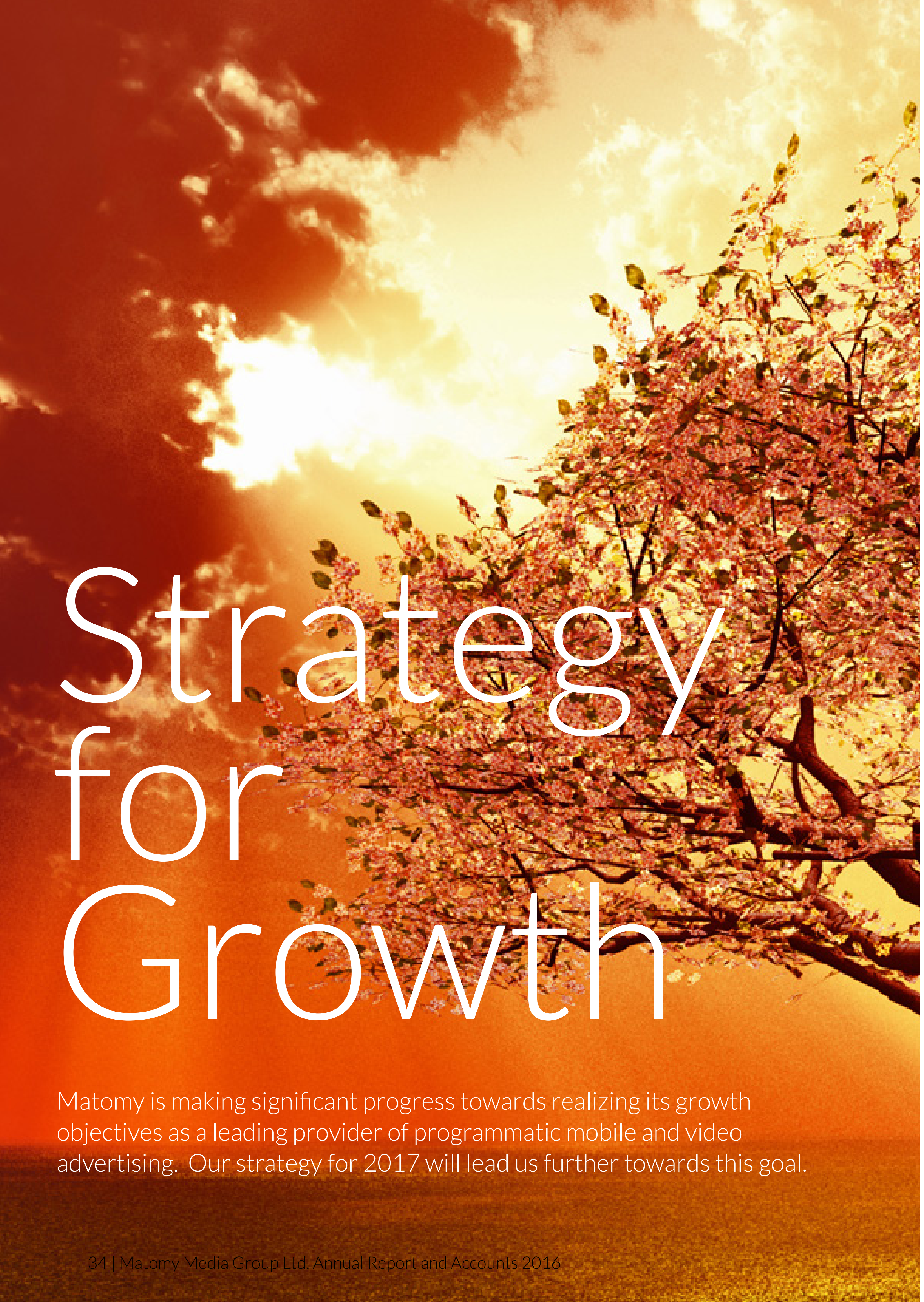
USA remains a region of tremendous opportunity for Matomy. The company will continue to expand its presence in USA to more effectively acquire and service customers in this region.

Following the successful entry into China and South Korea, accelerate APAC expansion strategy with a focus on mobile activity.

Asia remains a region with exceptionally strong growth in mobile advertising owing to the mobile-first evolution of consumer behavior. Matomy will accelerate expansion in Asia by building strong local teams with unique mobile offerings for these markets.

Advance with our Strategic Review, as announced on 18 October 2016

Matomy is conducting a strategic review with the intention of maximizing shareholder value.



Strategy for Growth

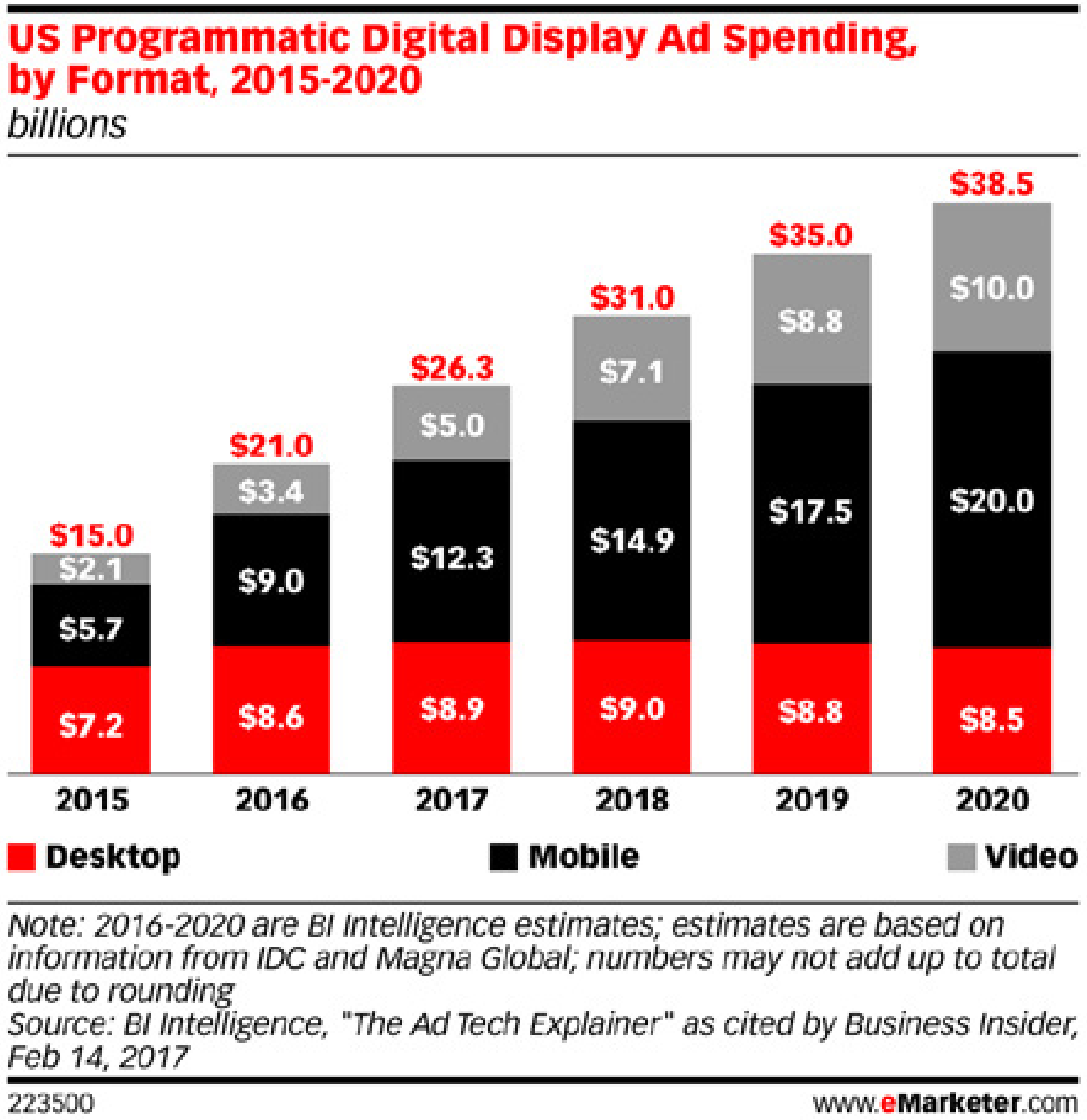
Matomy is making significant progress towards realizing its growth objectives as a leading provider of programmatic mobile and video advertising. Our strategy for 2017 will lead us further towards this goal.

We will continue to focus business and development efforts around programmatic mobile and video advertising capabilities.

Programmatic technology continues to reshape the way digital media is bought and sold. It automates time-consuming tasks, removes overall cost from transactions, supports monetization of a broader spectrum of impressions and delivers unprecedented efficiency to advertisers' media investments. Now in its 10th year of development, programmatic accounts for

41% of global advertising spend and is expected to increase to 57% by 2020.

Looking deeper within programmatic advertising trends, one finds considerable variation in growth rates depending on media channel and format of delivery. Of these, the most important trend from Matomy's perspective is the steady advance of mobile advertising compared with desktop, and the quickening pace of video advertising. According to IDC and Magna Global mobile display ad spend is expected to more than double between 2016 and 2020 from $9.0 to $20.0 billion while video ad spend is expected to grow from $3.4 to $10 billion of this timeframe. The research also confirms that growth of desktop ad spending has mostly peaked with 3.5% growth expected from 2016 to 2017 , and a decline in desktop ad spending beginning in 2019.



While these growth expectations, including the relative decline in the growth of desktop display, confirm the direction taken by Matomy over the past several years, they also point to the opportunity ahead. Matomy spent 2016 building on strong foundations of mobile and video advertising established by the acquisitions of Mobfox and Optimatic. The launch of several new products, including myDSP and data-driven mobile advertising agency, mtmy, provide tangible examples of the company's decision to focus resources on product development and also provide strong platforms for growth in 2017 and beyond.

We will develop direct and indirect data capabilities to support the Mobfox, myDSP, mtmy and Optimatic offerings.

Data is the fuel that drives programmatic advertising, and Matomy continues to invest in capabilities and relationships that bring a distinct advantage and media partners to advertisers who work with Matomy. The company will continue development of its proprietary data management platform (DMP) technology in order to target valuable audiences, gain insights from advertising campaigns and enable real-time optimization of campaigns.

Matomy's DMP incorporates data from advertising and app-specific user behavior across multiple channels to maximize the ROI of media purchased programmatically. The DMP is now a central resource utilized across Matomy media channels and will be expanded further to add value to all Matomy campaigns.

Matomy will also continue to partner with data providers to ensure that campaigns are meeting the expectations of advertisers. Partnerships like those announced in 2016, which provide measures of viewability across mobile and video inventory, serve as examples of how Matomy will utilize data to increase the value of advertising.

We will strengthen our presence in the US advertising market.

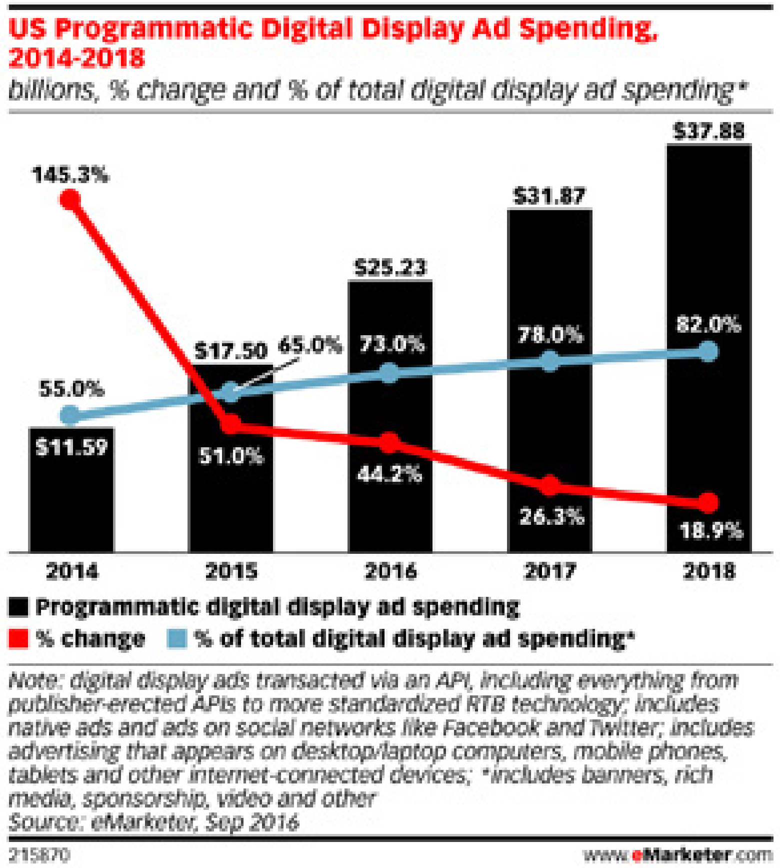
With over 100 employees in New York, California and Florida, Matomy's growing presence in the United States is expected to accrue many benefits over the coming years. Not only is the United States the largest potential market for Matomy's products and services, but it also represents the forefront of digital advertising and the address for the world's largest brands determining the future of advertising.

The US remains the largest programmatic ad market in the world by a significant margin, worth $24 billion in 2016 and accounting for 62% of total global programmatic ad spend.

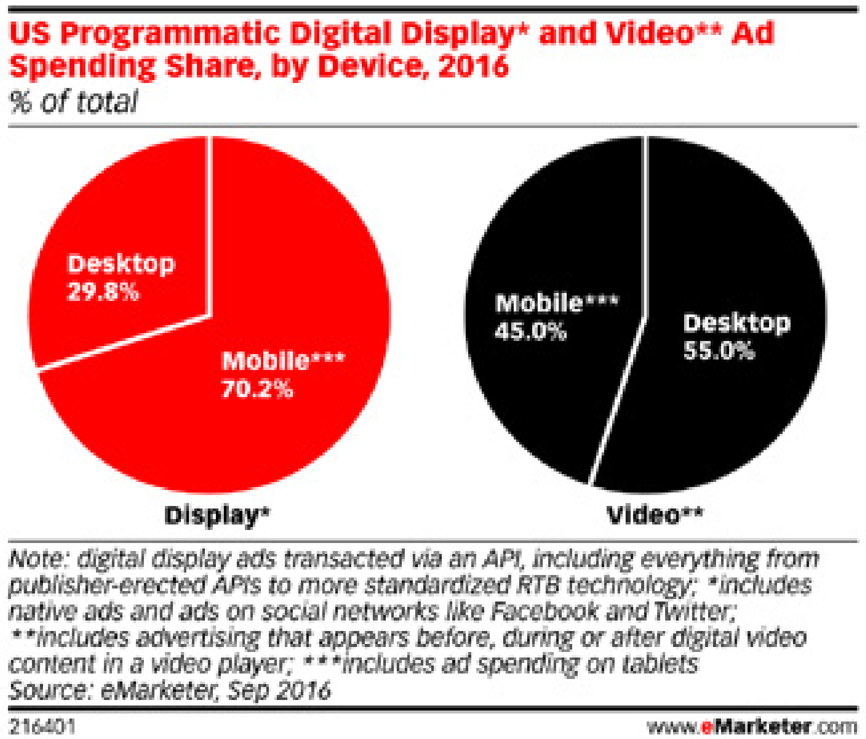
Programmatic this year will represent 78% of all display ad spending in the US. Programmatic ad spending in the US is exceeding projections and will continue to grow at double-digit rates for the next several years. In 2017, programmatic display ad spending will reach $32 billion, according to eMarketer's latest forecast, several billion more than previously projected.

The US remains the largest programmatic ad market in the world by a significant margin, worth $24 billion in 2016 and accounting for 62% of total global programmatic ad spend.

source; eMareter,Sep, 2016



The US is also the market that aligns most closely with the direction Matomy has taken over the past few years in developing industry-leading capabilities for programmatic mobile and video advertising. In 2017 more than 75% of programmatic ad spending is expected to be mobile, and video will continue to grow faster on mobile compared with desktop.



In addition to providing direct access to the market with the largest expected programmatic advertising spend, the strategic benefits of increasing Matomy's footprint in USA are numerous. They include the ability to more easily form technology, data and revenue-based partnerships as well as the opportunity for product teams to learn from the needs of leading global brands and agencies. Matomy looks forward to expanding our presence across USA.

Following the successful entry into China and South Korea, we plan to accelerate our APAC expansion strategy with a focus on mobile activity.

Unlike the US many of the markets in Asia developed as mobile-first meaning, that the percentage of desktop devices has always been very small compared with mobile. This is largely true for the markets of China and South Korea where Matomy has an established presence and intends to expand in 2017.

For Matomy markets in APAC offer profound opportunity given the company's natural strengths in mobile advertising. China, for example, exhibited mobile advertising spend of $26.149 billion in 2016 according to eMarketer research from March 2017. The same research projects for China to grow at 38.5% to $36.216 billion in 2017 and grow 67% to $69.954 billion by 2020. South Korea is growing by similar percentages (albeit from a smaller base), with expectations of $2.265 billion in 2017 and $3.352 billion in 2020.

Mobile Ad Spending Worldwide, by Country, 2016-2021
millions

	2016	2017	2018	2019	2020	2021
US*	$46,701	$58,376	$70,051	$82,310	$93,010	$102,311
China**	$26,149	$36,216	$45,058	$60,409	$69,954	$78,908
UK*	$7,293	$9,295	$11,454	$13,267	$14,952	$16,447
Japan	$5,087	$6,613	$8,266	$9,258	$10,369	$11,146
Germany	$2,555	$3,500	$4,375	$4,813	$5,198	$5,572
Australia	$2,502	$3,427	$4,318	$4,966	$5,313	$5,685
Canada*	$2,017	$2,824	$3,841	$4,686	$5,248	$5,773
South Korea	$1,888	$2,265	$2,673	$3,048	$3,352	$3,671

Additional opportunities accrue to Matomy from having a strong presence in both USA and Asia. One example of this is the need for mobile app and game developers in USA to acquire new users for their products in the fast growing markets of Asia. Similarly, a large base of Asian mobile developers are looking to monetize their apps and games via advertising for companies that may be located in USA. Matomy's mobile programmatic advertising capabilities provide a compelling opportunity to enable developers in both regions to achieve their performance-based goals.

We will advance with our Strategic Review, as announced on 18 October 2016.

On October 18, 2016 Matomy announced that the company is conducting a strategic review with the intention of maximizing shareholder value. The company will continue the review until the Board approves a specific action or otherwise concludes its review.

Business and financial review

Revenues on a GAAP basis in 2016 increased by $5.6 million, or 2.1%, to $276.6 million, with a continued shift in the revenue mix towards Matomy's growth engines of programmatic video and mobile.

Income statement

2016 saw Matomy continue its successful transition in the direction of programmatic mobile and video advertising. Anticipating the evolution of advertising towards mobile and video and away from desktop display, Matomy delivered several key initiatives to cement our leadership position serving the needs of advertisers and publishers and positioning the company for a strong 2017. For 2016, we reported a 2% increase in revenue to $276.6 million (FY2015: $271.0 million), driven primarily by our identified strategic growth areas of mobile, video and domain monetisation. Adjusted EBITDA decreased by 34%, primarily due to additional investments in research and development activities, mainly for Mobfox and Optimatic, as well as to strengthen Matomy's sales force in light of the new technologies, shifting geographical focus and investment in support of our APAC expansion.

Geographically, Matomy is seeing the strongest growth in the US, Matomy's largest market, with revenue in that region increasing 10.1% ($16.4 million) to $180.0 million (FY2015: $163.6 million). This was driven by our increased focus on the US market, due to the ongoing industry-wide shift towards real-time bidding and programmatic advertising, as well as increased video advertiser demand.

Revenues from Asia climbed 56% ($6.4 million) to $17.9 million for 2016 as we initiated our expansion into Asia. The first stage indicates very encouraging preliminary results. Asia is a market that we believe holds great promise, and we continue to direct resources to increase our presence there in the near future.

Matomy's video activity continued to contribute the largest portion of the group's overall global revenue, at 40%. The Mobile in app (Mobfox) segment experienced the largest percentage revenue growth in 2016, rising 104% to $36.6 million (2015: $17.9 million). This increase was primarily driven by enhanced technological developments and the successful launch of new features. The group's domain monetisation also saw significant growth, increasing by $9 million, or 17%, to $63.6 million. This increase was partially driven by publisher growth and the acquisition of the NameDrive domain parking business, as well as the introduction of new ad types to Tonic (formerly called DNTX), our DSP, SSP and self-service ad network for desktop and mobile traffic sources.

Income statement

(US dollars in thousands, except earnings per share data)

	Year ended 31 December 2016	Year ended 31 December 2015
Revenues	$ 276,631	$ 270,976
Cost of revenues	219,781	208,696
Gross profit	56,850	62,280
Operating expenses		
Research and development	12,624	7,871
Selling and marketing	30,630	26,210
General and administrative	14,882	16,083
Total operating expenses	58,136	50,164
Operating (loss) income	(1,286)	12,116
Financial expenses, net	2,057	2,179
Income (loss) before taxes on income	(3,343)	9,937
Taxes on income	4,689	2,681
Income (loss) before equity losses of affiliated companies	(8,032)	7,256
Equity losses of affiliated companies	73	24
Net (loss) income	(8,105)	7,232
Revaluation of redeemable non-controlling interest	(3,141)	(76)
Net income attributable to redeemable non-controlling interests	(487)	(545)
Net loss attributable to other non-controlling interests	-	2
Net (loss) income attributable to Matomy Media Group Ltd.	$ (11,733)	$ 6,613
Basic and diluted (loss) earnings per ordinary share	$ (0.13)	$ 0.07

Cost of revenues

$ millions, except as otherwise indicated	2016	2015
Direct media costs	198.3	194.5
Other cost of revenues	21.5	14.2
Cost of revenues	219.8	208.7
Gross margin (%)	20.6%	23.0%
Adjusted gross margin (non-GAAP) (%)	28.3%	28.2%

Cost of revenues increased by $11.1 million, or 5.3%, to $219.8 million (79% of total revenues) for 2016 from $208.7 million (77% of total revenues) the year prior.

Matomy's cost of revenues primarily consists of direct media costs, and therefore the majority of the increase in cost of revenues in 2016 was driven by revenue growth, with adjusted gross margin remaining stable.

Cost of revenues also reflected an increase in allocated costs, in particular amortisation of technology assets from the 2015 acquisitions of MobFox and Optimatic, which added $2.5 million to cost of revenues in 2016, and around $4.9 million in additional server costs due to the consolidation of Optimatic for a full year (adding $2.8 million) and an increase in the traffic on Mobfox's servers. These factors together led to a decrease in gross margin.

Operating expenses

$ millions	2016	2015
Research and development	12.6	7.9
Sales and marketing	30.6	26.2
General and administrative	14.9	16.1
Total operating expenses	58.1	50.2
Total operating expenses as a percentage of revenues	21%	19%

Operating expenses increased by $7.9 million or 16%, to $58.1 million for 2016 (FY2015: $50.2 million). Operating expenses as a percentage of revenues increased 2% to 21% for 2016 (FY2015: 19%) resulting in an operating margin of (0.5%) (2015: 4.5%).

Operating expenses increased primarily as a result of the strategic investment plan announced in July 2016, which authorised $3.3 million of additional expenditure to be invested in research and development activities, as well as to strengthen Matomy's sales force in light of the new technologies and shifting geographical focus.

Research and development expenses increased by $4.7 million, or 60%, to $12.6 million (FY2015: $7.9 million). This reflects both the consolidation of Optimatic for a full year, which added $1.4 million to R&D expenses, and additional investment in proprietary programmatic technologies leading to increased R&D headcount in 2016 compared to 2015, as Matomy evolves into a more technologically focused company.

Sales and marketing expenses increased by $4.4 million, or 17%, to $30.6 million (FY2015: $26.2 million). This increase includes the effect of customer relationship amortisation costs, which increased by $1.1 million in 2016 compared to 2015, due to the first full year of amortisation of the 2015 acquisitions. In addition, Matomy invested considerable resources in both sales and marketing, under the strategic investment plan referred to above, in particular by establishing and strengthening Matomy's presence in Asian markets through its new Chinese and Korean offices.

General and administrative expenses decreased by $1.2 million, or 9.9%, to $14.9 million (FY2015: $16.1 million). While $2.2 million expenses were added by the 2015 acquisitions, these were fully offset by continued efficiencies as well as adjustments to future liabilities in the sum of approximately $0.8 million, which impacted on G&A expenses.

Financial expenses

Financial expenses, net, decreased by $0.1 million to $2.1 million for 2016 (FY2015: $2.2 million). Financial expenses related to adjustments to accretion of earnout payments increased year on year by $0.6 million, while expenses from foreign exchange rate fluctuations, net of hedging transactions, decreased by $0.8 million due to more stable exchange rates during 2016.

Taxes on income

Taxes on income increased by $2.0 million to $4.7 million for 2016 (FY2015: $2.7 million).

Matomy is subject to corporate tax on its income, principally in Israel, the United States and Germany, as well as other jurisdictions in which Matomy has operations. Matomy's effective corporate tax rate was -140% (minus 140 percent) for 2016, and 27% for 2015.

Matomy's effective corporate tax rate was lower in 2016 compared to 2015 primarily due to valuation allowance totalling $4.2 million recorded on carry-forward losses in both the parent company and few of its subsidiaries.

The Israeli statutory corporate tax rate was 25% in 2016 and 26.5% in 2015. Excluding the effect of the valuation allowance, Matomy's effective corporate tax rate on its taxable profits is higher than the Israeli statutory corporate tax rate because most earnings were generated in US and German jurisdiction, where higher tax rates apply.

In 2016, Matomy's US operations had taxable income resulting in a liability for both federal and state tax.

Team Internet is subject to German corporate and trade taxes. The effective tax rate of Team Internet on a standalone basis was 31% in 2016 (32% in 2015).

Amortisation of intangible assets

Amortisation expenses amounted to $15.2 million for 2016, an increase of $3.8 million from amortisation expenses of $11.4 million for 2015. This increase was primarily due to the first full year of amortisation of the intangible assets acquired during 2015.

Net income / (loss)

Net income / (loss) decreased by $15.3 million to a $8.1 million net loss for 2016 (FY2015: $7.2 million net income), primarily due to the significantly increased amortisation costs, share-based compensation expenses and tax effects as described above.

Net income / (loss) attributable to Matomy Media Group shareholders was $3.6 million lower than group net income / (loss) (FY2015: $0.6 million lower). This difference was primarily due to improved performance and revenues of Team Internet, resulting in an increased redeemable non-controlling interest on account of the put options of the minority shareholder.

Revaluation of redeemable non-controlling interests

As of 31 December 2016, Matomy's $37.5 million in redeemable non controlling interests consisted of:

- $36.8 million relating to Team Internet;
- $0.6 million relating to Matomy Social; and
- $0.1 million relating to Avenlo.

Of the above amount, $13.8 million relating to Team Internet is presented in current liabilities on account of the consideration for the put option which were paid during the first half of 2017.

Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value.

Exceptional items

Matomy views the following items, which were recorded in profit and loss, as exceptional as they are material to the financial statements and non-recurring and therefore were excluded from non-GAAP measures.

- One-time adjustments to M&A related earnout liabilities

- Impairments to intangible assets
- Transaction costs associated with M&A activity in 2015

Liquidity and cash flows

The following table sets out selected cash flow information for Matomy for 2016 and 2015.

$ millions	2016	2015
Net cash provided by (used in) operating activities	(0.2)	18.7
Net cash used in investing activities	(6.9)	(29.5)
Net cash provided by (used in) financing activities	1.5	(9.9)
Effect of exchange rate differences on cash	-*	-*
Increase (decrease) in cash and cash equivalents	(5.6)	(20.7)
Cash and cash equivalents at beginning of period	27.3	48.0
Cash and cash equivalents at end of period	21.7	27.3

* Represents amounts less than $0.1 million.

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

Matomy's net cash used in / provided by operating activities decreased by $18.9 million to a $0.2 million outflow for 2015 (FY2015: $18.7 million inflow).

In 2016, net cash provided by operating activities consisted of a net loss of $8.1 million and $9.6 million relating to net changes in working capital, offset by $17.5 million relating to non cash expenses. Non cash expenses were primarily depreciation and amortisation of $16.5 million, significantly higher than prior years due to amortisation related to the 2015 acquisitions, stock based compensation expense of $1.9 million, less decreases in deferred tax assets of $1.0 million.

For 2015, Matomy's net cash provided by operating activities consisted of $7.2 million in net income and $11.3 million relating to non cash expenses, and $0.2 million relating to net changes in working capital. Non cash expenses were primarily depreciation and amortisation of $12.6 million, significantly higher than prior years due to amortisation related to the 2014 and 2015 acquisitions, stock based compensation expense of $0.9 million, less decreases in deferred taxes of $2.2 million.

Net changes in working capital in 2016 were mainly driven by a decrease of $3.3 million in trade receivables, offset by the effects of increases in assets including domains held for sale ($4.2 million) and other receivables ($1.7 million), as well as decreases in liabilities including trade payables ($5.2 million). The remaining amount consisted of smaller movements in various other assets and liabilities.

The decrease in trade receivables was primarily due to the erosion of revenues generated from display activity and the transition to mobile and video programmatic based revenues, which are generally more sustainable higher quality revenues, resulting in a decrease in the trade receivables of around $3.8 million in comparison to the same period in 2015, partially offset by the successful penetration into APAC, which has longer payment approvals processes than other regions where Matomy operates.

The increase in domains held for sale reflects the growth of the domain monetisation activity and, as a result, an increased investment in the purchase of domains.

The decrease in trade payables was primarily driven by a change in the payment terms of some publishers, mainly in connection with video activity, which was made in order to help maintain Matomy's leading position and ensure that it stays competitive and attractive to publishers.

(B) Net cash used in investing activities

Net cash used in investing activities decreased by $22.6 million to $6.9 million for 2016 (FY2015: $29.5 million). In 2016, net cash used in investing activities primarily included a $5.1 million capitalised investment in R&D and $1.6 million investment in property and equipment.

For 2015, net cash used in investing activities included a $17.9 million investment in Optimatic, a $5.6 million investment in Avenlo, $2.7 million paid to acquire an advertiser list, and a $3.3 million investment in property and equipment including capitalised R&D costs.

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

Net cash provided by / used in financing activities increased by $11.4 million to a $1.5 million inflow for 2016 (FY2015: $9.9 million outflow).

In 2016, net cash provided by / used in financing activities related primarily to a $2.0 million net increase in outstanding term loans and overdrafts and $2.4 million of proceeds from option exercises during the year, less $3.0 million total payments to non-controlling interests and earnout payments.

For 2015, net cash provided by / used in financing activities related primarily to a $5.3 million net decrease in outstanding term loans, $5.8 million total payments to non-controlling interests and earnout payments, less $1.2 million of proceeds from option exercises during the year.

As of 31 December 2016, Matomy had $13.5 million in term loans. Of those, $6.9 million are due within one year.

Goodwill

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

Matomy's goodwill was created mainly through acquisitions made between 2013 and 2015.

Matomy has two reporting units and performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine whether the net book value of each reporting unit exceeds its estimated fair value. During 2015 and 2016, no impairment losses were identified.

Segments

Our chief operating decision-maker is our Chief Executive Officer. On a monthly basis, the CEO reviews revenue and adjusted EBITDA at Group level, as well as revenue at the level of media channels, for the purposes of allocating resources and evaluating financial performance.

As a result, Matomy operates in a single reportable segment as a provider of marketing services.

Acquisitions

On 13 November 2015, Matomy completed the acquisition of 100% of the issued and outstanding shares of Optimatic Media Inc. ('Optimatic') for a total consideration of $33.6 million, as estimated at closing (including contingent consideration). Optimatic is a leading programmatic technological video platform company that enables top-tier publishers to manage their inventory programmatically and a full suite of digital video Supply Side Platform capabilities. Optimatic developed a unique proprietary video platform and is considered a leader in the video space.

On 15 April 2015, Matomy completed the acquisition of 70% of the issued and outstanding shares of a newly formed company, Avenlo Media Group Inc. ('Avenlo') that purchased the principal business activity and operations of Maven Marketing Group Inc., for a total consideration of $22.9 million, as estimated at closing (including contingent consideration). On 8 March 2016, Matomy signed an amendment to the purchase agreement, revising the total consideration to $10.8 million as estimated at that date (including contingent consideration). Avenlo is a performance email marketing and ad targeting company, incorporated in Canada.

The payment to the minority shareholder in Team Internet was made after the balance sheet date, following the exercise by the minority shareholder in Team Internet of the first of three options it holds, resulting in Matomy acquiring an additional 10% of the issued and outstanding shares of Team Internet AG ('Team Internet') for a consideration of $10.4 million.

Earnings per share

Matomy's basic earnings (loss) per share decreased by $0.20, or 286%, to a loss per share of $0.13 for 2016 (FY2015: $0.07 EPS). This change was influenced primarily by the decrease in after-tax profit, for the reasons noted above. In addition, there was a 2% increase in the weighted average number of outstanding shares, mainly due to exercise of share-based incentives in 2016.

Treasury shares

As of 31 December 2016, Matomy had a total of 10,970,111 treasury shares, of which 1,211,237 shares were held by Team Internet. Team Internet's minority shareholder is entitled to 80% share from gains derived from these shares, which is classified as a redeemable non-controlling interest.

Financial Obligations and Covenants

Matomy's financial obligations and commitments as at 31 December 2016 were as follows:

$ million	Due within 1 year	Due >1 year	Total
Bank loans	6.9	6.6	13.5
Operating lease obligations	2.4	5.5	7.9
Total	9.3	12.1	21.4

In June 2014, Matomy entered into a $21.6 million term loan agreement with an Israeli bank. In relation to this loan, Matomy is required to comply with certain covenants, as defined in the loan agreement and its amendments. As of 31 December 2016, Matomy was in full compliance with the financial covenants.

Matomy also has access to a line of credit from the same bank for total available credit of up to $13.0 million of which $6 million is secured. As of 31 December 2016, it had utilised $2.4 million of the line of credit. This line of credit is unsecured and available to the Company based on meeting certain accounts receivable conditions.

The line of credit and loans are secured by way of: (i) a fixed charge over Matomy's unpaid equity; (ii) a floating charge over certain of its assets of Matomy and (iii) mutual guarantees between the Israeli companies in the group.

In September 2016, Matomy entered into a $4.0 million term loan agreement with a U.S. bank. As security, Matomy US and its subsidiary have granted a first priority lien on and security interest in all of the assets of Matomy US, and provided cross-guaranties. Matomy US and its subsidiary are required to comply with certain covenants, as defined in the term loan and line of credit agreement and its amendments. As of 31 December 2016, the Company was in full compliance with the financial covenants.

Matomy's subsidiary Team Internet has entered into two further loan agreements with German banks, for $1.3 million [2015] and $3.0 million [2016].

Financial reporting

This financial information has been prepared under US GAAP principles and in accordance with Matomy's accounting policies. There have been no material changes to Matomy's accounting policies during 2016.

Going concern

The Directors confirm that, after making an assessment, they have reasonable expectation that the group has adequate resources to meet its obligations for the foreseeable future.

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 as set out in detail in the section entitled 'Risk Factors' of the Group's IPO prospectus (the 'Prospectus') dated 9 July 2014 and updated from time to time. These include, inter alia, the following:

- Certain internet and technology companies may intentionally or unintentionally adversely affect Matomy's operations, mainly due to announced or unannounced changes and restrictions by such companies.
- The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards, including with respect to fraud, transparency, privacy and data protection, viewability and overall ad quality.
- Matomy's ability to achieve strategic objectives depends on how we react to competitive forces. Matomy faces competition in each of our businesses. Matomy seeks to differentiate its products and services, however many of them are competing with some of the most prevalent digital platforms. Accordingly, failure to achieve these objectives could result in a material adverse effect on Matomy's earnings, cash flows and financial condition.
- Certain elements of Matomy's business may depend on its ability to collect and use data to deliver and optimize the delivery of digital advertisements, and to disclose data relating to the performance of advertisements. Any limitations imposed on Matomy's right and ability to collect, use or disclose this data could diminish the value of its operations.
- The digital advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition.
- Matomy is dependent on relationships with certain third parties with significant market positions.
- Matomy manages its businesses to deliver strong cash flows to fund operations for profitable growth, however Matomy is exposed to liquidity risks and failure to generate the required level of cash could have a material adverse effect on Matomy's funding level of future liabilities, and could also increase balance sheet liabilities.
- Matomy relies on the continued compatibility of the Matomy Performance Platform with third-party operating systems, software and content distribution channels, as well as newly-acquired systems. Part of Matomy's solutions rely on third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict Matomy's ability to use these developments.
- Matomy may be subject to third-party claims brought against it. Matomy operates in various jurisdictions and

is subject to government regulations concerning its employees, including wage-hour laws and taxes.

- A key part of Matomy's growth strategy relates to acquisitions and the ability to effectively integrate and manage them.
- Matomy is an Israeli-domiciled company having its shares admitted to trading on the High Growth Segment of the London Stock Exchange plc's Main Market and on the Tel Aviv Stock Exchange. As such the rights and obligations of shareholders are governed by Israeli law and differ in some respects from English law and share trading is subject to certain settlement mechanics between the UK and Israel.
- Changes in tax laws affecting us and other market participants could have a material adverse effect on Matomy's business.
- Matomy's technology development efforts may be inefficient or ineffective, which may impair Matomy's ability to attract buyers and sellers.

Forward-looking statements

Certain statements in this full-year report are forward looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will be fulfilled. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Directors' responsibility

The Directors confirm that to the best of their knowledge the condensed 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 of the undertakings included in the consolidation as a whole as required by DTR 4.1.

Ofer Druker
Chief Executive Officer

Sagi Niri
Chief Operating Officer

Principal Risks and Uncertainties

The tables below summarise, in the opinion of the Board, the principal material financial and operational risks to Matomy and how it seeks to mitigate those risks in the day-to-day running of the business.

Matomy utilises a formal risk identification and management process designed to ensure that it properly identifies, peritonitises, evaluate and mitigates.

Together, Matomy's Audit Committee and Board have joint responsibility for Matomy's risk management process and review its effectiveness annually.

On a day-to-day basis, the Senior Management team is responsible for providing leadership in the management of risk and ensuring that it is integrated as appropriate into Matomy's business processes and activities.

In common with other organisations, Matomy is affected by a number of risks, not all of which are within its control. Some risks, such as those around digital media and technologies, are likely to affect the performance of digital advertising businesses generally, whilst others are particular to Matomy's operations.

Macro Risks

Risk area	Potential impact	Mitigation
Dependency on Internet and technology companies; macro-business dynamics and user behaviour	Certain Internet and technology companies that operate platforms and systems on which Matomy relies to execute its customers' digital marketing campaigns may make changes to their policies or systems that have an intentional or unintentional adverse effect on Matomy's operations. Because of their significant market positions, any such changes may materially disrupt Matomy's ability to deliver targeted ads and record performance metrics on certain media channels or operate in certain industry verticals, thus causing Matomy to lose significant revenues and be materially limited in the amount of data it is able to collect and use and, consequently, negatively affect its overall customer offering. Additionally, continual changes to how consumers engage and interact with digital advertising, particularly on mobile and tablet devices, may require Matomy to continually adjust its business model to adequately support its customers' digital and performance-based advertising goals in line with consumers' media consumption habits.	Matomy constantly monitors changes in technologies, user behaviour and technological trends which could affect (positively or negatively) the sustainability, usability and economic viability of its products and services. It actively deploys available product, development and other resources to minimize any adverse effect that may result. Matomy also continues to invest in enhancing its proprietary technology platforms, as well as in technologies support business intelligence, programmatic media buying, to reduce its dependency on third-party technologies and platforms.

Macro Risks

Risk area	Potential effect	Mitigation
Regulatory change and the costs of compliance	The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards, ,including with respect to fraud, transparency, viewability and overall ad quality. Legal requirements and industry standards may adversely affect Matomy's current operations and/or require Matomy to make changes to the way in which it operates. The regulations, legal requirements and industry standards vary by jurisdiction of operation, and are subject to continuous change, and compliance with such regulations and other legal requirements may be burdensome and costly.	Matomy actively monitors laws and regulations applicable to it and its customers, especially as it expands into new territories. Matomy invests in ensuring compliance throughout all of its operations and continues to implement appropriate compliance programmers. As Matomy's businesses expand, the costs of compliance may grow; however, those costs are kept in close check by a prudent, proportionate risk-based approach to compliance.

Macro Risks

Risk area	Potential impact	Mitigation
Ongoing fragmentation and subsequent consolidation within the digital advertising market	The digital advertising market is rapidly evolving, complex and fragmented, and is currently experiencing consolidation, resulting in increasing competition. Existing and potential competitors may have significantly more financial, technical, marketing and other resources than Matomy has, be able to devote greater resources to the development, promotion, sale and support of their products and services, have more extensive customer and digital media source relationships than Matomy has, and may have longer operating histories and greater name recognition than Matomy has. As a result, these current and potential competitors may be better able to respond quickly to new technologies, develop deeper customer relationships or offer services at lower prices. This, in turn, may affect Matomy's ability to retain existing customers, attract new customers, obtain competitive pricing from its digital media sources or increase its sales and marketing budget.	Matomy continually evaluates the state of the digital advertising market and makes appropriate and proportionate adjustments to its business model, products and services to align the Group's business with the ongoing needs of its customers and media partners. Matomy's staff continually scans the digital advertising market for potential M&A and partnership opportunities, in addition to its Senior Management serving in a similar capacity within their respective areas of operation and expertise.
Macro-economics vs. revenue and geographic diversity	Matomy's revenue streams are dependent on the overall macro-economic environment at both global and national levels. These could affect the appetite of its business customers to use the Group's products/services. Adverse economic headwinds in the key business sectors in which Matomy's business customers operate could also affect the Group's results.	Although macro-economic trends are out of Management's control, at the heart of Matomy's growth strategy is the diversification and geographic expansion of its revenues (as delivered through both M&A activity and continued growth of its organic businesses). Management considers that this revenue and geographic diversity insulates Matomy against all but extreme economic circumstances (as demonstrated by the Group's continued growth during recent years).

Macro Risks

Risk area	Potential impact	Mitigation
Geopolitical, economic and other risks relating to Matomy's domicile and operations in Israel	Matomy is incorporated under Israeli law, and its principal executive offices are located in Israel. In addition, political, economic and military conditions in Israel directly and indirectly affect Matomy's business. Matomy's commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East.	Although geopolitical, economic and military factors relating to Matomy's domicile and operations in Israel are out of Management's control, the Group closely monitors the ongoing security situation in the Middle East, both to ensure the safety of its employees and partners, and to ensure the continuity of its operations. The Group has made significant progress in recent years in diversifying its business operations and has established particularly strong regional bases of operation in USA and Europe. In addition, less than 1% of the Group's global revenues come from Israeli-based companies or media partners; therefore, it is unlikely that any adverse security or geopolitical situation within Israel would have a materially adverse effect on the Group's long-term financial or operational stability.

Group Risks

Risk area	Potential impact	Mitigation
Matomy's business	**M&A:** Matomy continues to pursue opportunities to expand both its geographic reach and capabilities through mergers and acquisitions. This activity may not be successful, and the Group may not achieve technical and/or other synergies as quickly as it anticipates.	Matomy is accumulating significant M&A experience in the sector in which it operates and continues to make valuable resources available to the team responsible for M&A to ensure that opportunities are explored and evaluated appropriately. In addition, Matomy has established a robust due diligence process, ensuring both Senior Management and the Board have appropriate levels of information regarding M&A targets to make an informed and prudent decision regarding any M&A activity.
Matomy's business	**Privacy and data protection:** International regulatory bodies are increasingly focusing on online privacy matters and, in particular, on online activities that use cookies and other online tools to track users. Additionally, many governments worldwide are taking a closer examination of companies' data collection, protection and storage procedures. If Matomy does not adequately protect and manage data it may be exposed the risk of non-compliance with applicable laws.	Matomy continues to invest in legal and compliance resources in all the jurisdictions relevant to its business. Management regularly assess the legal and regulatory requirements of the Group and adjusts the level of resources as necessary.

Group Risks

Risk area	Potential impact	Mitigation
Matomy's business	**Legal risks associated with customers' and media suppliers' activities:** Matomy may be exposed to claims brought by third parties against it, its customers or its digital media sources. Such claims may allege, for example, that the digital media on which its customers' marketing and advertising campaigns appear, or the content contained in such campaigns, infringes, and/or helps to facilitate the infringement of, the IP or other rights of third parties, are false, deceptive, misleading or offensive, or that its customers' products are defective or harmful.	Given the size of Matomy's performance advertising network, it is impossible to police the content, intellectual property or other digital media rights of every digital media source that is part of the Group's performance advertising network. However, Matomy has a robust internal policy relating to dealing with claims brought by third parties against it, its customers or its digital media sources. Matomy continues to invest in legal and compliance resources in all the jurisdictions relevant to its business to ensure that it acts in accordance with applicable legal standards.
Matomy's business	**Products and media channels diversity:** Constant technological and user behaviour changes necessitate that Matomy engages in continuous and sometimes rapid product development, as well as expansion into new digital media channels, in line with changes in consumers' digital media consumption habits.	Matomy continues to invest in developing its internal media channel capabilities, products, services and technologies to diversify the Group's business activities.

Group Risks

Risk area	Potential impact	Mitigation
Matomy's technology and operations	**Reliance on key technologies and operations, integrations and development:** Matomy's business is naturally reliant on its technology and operational functions to support and develop its platforms, systems and infrastructure to meet the needs of the Group's businesses. At any given time Matomy Undertakes a number of strategically significant development activities, and failure or delay in delivering them could have an adverse effect on the Group's results or prospects. Some of these activities are complex, cutting-edge and require substantial innovation. Matomy is also working continuously to integrate its multiple organic and acquired platforms, technologies and operations so to derive maximum value and efficiency from its assets. Some of these integrations are operationally and technologically complex and all change is inevitably accompanied by risk; if not executed successfully or on time scales anticipated, Matomy may fail to realise the full potential value of, and synergies between, its constituent parts and this may affect its economic performance. Matomy is also highly conscious of the risks associated with changes in the availability of, or support for, key third-party technologies and services that are critical to the Group's operations, particularly the effectiveness of the Matomy Performance Platform; the need to give continuous focus to ensuring that it has adequate disaster recovery plans and facilities; appropriate security technology and associated policies; and the capabilities necessary to support its technological operations and sufficient and experienced personnel capable of managing the risks associated with running (whilst integrating) multiple technical platforms. Failure of or defects in any one or more of these aspects of Matomy's operations could affect continuity of those operations and the Group's results.	Matomy devotes significant management time and resources to the identification and mitigation of risks relating to its technology and operations which are key to its businesses. It has significant experience in these matters and Management regard the technological and operational risks faced by the Group as being in line with expectations in the context of a fast-growing and acquisitive business.

Group Risks

Risk area	Potential impact	Mitigation
Matomy's financial affairs and its people	**Exchange risk:** A significant portion of Matomy's revenues and costs are in dollars and euros, and the Group is increasingly exposed to trading in other currencies. Matomy could be exposed to adverse movements in the currencies in which it trades.	Management prepare cash flow forecasts by currency and by applying the Board-approved hedging policy to Matomy's cash flow. Management will continue to carefully monitor the Group's cash flow and consider alternative arrangements if there is a material unhedged exposure.
	Tax: Adverse changes in taxation could affect Matomy's results and the Group could be exposed to a variety of tax risks in various countries.	Management work closely with external tax advisers on an ongoing basis to mitigate tax risks.
	Organisational change: As Matomy continues to expand and mature it will engage in sometimes substantial organisational change to ensure that its people structure and resources are appropriate for its needs. Organisational change programmes carry an inherent degree of risk. Matomy may not always be able to effect change as rapidly or in the manner it anticipates. Delays or unexpected changes to change programmes may affect the Group's operations and its results.	Matomy has a robust and highly competent global Human Resources function that works closely with Senior Management to ensure any and all organisational change programmes are initiated and managed properly to support and help grow the business. At the instruction of the Remuneration and Audit Committees, Matomy is also putted in place succession and retention plans for its management.

Group Risks

Risk area	Potential impact	Mitigation
Investment in new areas and/or significant acquisitions	Significant investments in new products, services, capabilities and/or geographies may fail to generate a return. Failure to generate anticipated revenue growth, synergies and/or cost savings from significant acquisitions could lead to significant goodwill and intangible asset impairments.	Investments in new areas typically leverage existing expertise and experience built up over many years. Capital requirements are relatively low and investment is managed in stages such that it is not finally committed until there is good visibility of a return. Significant acquisitions are approved by the Board following pre-acquisition due diligence. Post-acquisition performance of significant acquisitions is closely monitored to ensure corrective action can be taken in the event of deviations from expected performance.
Credit risk associated with payments made to digital media sources	Matomy cultivates long-term relationships of trust with its digital media sources, including by committing to pay them for all bona fide transactions, regardless of when and whether Matomy is paid by its customers. However, Matomy's customers typically only pay at the end of an agreed payment cycle according to the agreed payment terms, and contingent on Matomy delivering specific, agreed upon results. Even if Matomy is not paid by one of its customers it must pay its digital media sources from its operating cash flow.	Matomy continually works with its digital media sources and customers to mitigate risks between incoming payments from customers for its services and outgoing payments to media sources. The Group continues to generate positive cash flow from its operations, thereby mitigating its credit risk from payments made to its digital media sources.

Corporate and Social Responsibility

Matomy continues to build upon its long history of giving back to the communities in which it operates, whilst ensuring it provides enriching and positive experiences to its employees and key shareholders.

The Board considers that the management of safety, health, environment, social and ethical matters forms a key element of effective corporate governance which in turn supports the strategy, long-term performance and sustainability of the business. Matomy's Chief Executive Officer and Chief Financial Officer are jointly responsible for overall responsibility for sustainability within the Group.

Communities and charities

Matomy has had a proactive communities and charities initiative since its foundation. This activity continues to grow and evolve, particularly now that the Group has operations in several countries.

For the year, Matomy contributed approximately $45,000, in aggregate, to charities in the countries in which it operates.

Throughout 2016, Matomy offices around the world partnered with a number of charities. At Matomy's global headquarters in Tel Aviv, the Group partnered with local charity Different Lessons. Matomy employees volunteered to teach special classes of various subjects to help prepare high school students enrolled in the Different Lessons program for the economic realities they will face when they graduate from high school.

Matomy's community relations activities are managed by each of its branch offices, with oversight for community relations residing within the Group's global headquarters in Israel. Each month, volunteer groups of employees in each branch office meet to review requests and opportunities for Matomy's participation in various community relations and charitable activities that the Group can help support. By allowing its branch offices to coordinate specific community relations and charitable activities within their home markets, Matomy is better able to harness the energy and enthusiasm of its employees to benefit the communities in which it operates.

1 & 2 | Matomy volunteers worked with local charities in Israel having sports and fun day.

3 | School Children: Matomy volunteers teaching high school students extracurricular lessons.

4 | Good Deeds Day.

5 | Matomy volunteers works in immigrate daycares

6 | Food distribution.

1

2

3

4

5

6

Environment
Each of Matomy's branch offices has established environmental plans that help minimize Matomy's environmental footprint. This plan is managed by the office administrator and/or Managing Director/Senior Manager of each branch office, along with a volunteer group of employees who meet regularly and whose aim is to reduce energy and raw material usage throughout Matomy's worldwide operations to support environmental and financial performance.

Matomy implemented a number of initiatives in 2016 to support this aim, including:

- paper, plastics and aluminium recycling in all offices;
- bottle redemption service whereby Matomy donates funds received from bottle tax refund to local charities;
- installation of LED lighting at the Group's Tel Aviv office; and
- automated timing and turn-off of all air conditioning units at the Group's Tel Aviv and New York offices to help minimise its electricity use.

Greenhouse gas emissions
This section includes our mandatory reporting of greenhouse gas emissions. The methodology used to calculate our emissions is based on the GHG Protocol Corporate Standard. Emissions reported correspond with our financial year. Matomy leases all of its office space and data centres; therefore, only emissions from those properties for which Matomy is responsible for are included in this report. Emissions are predominantly from gas combustion and electricity used at our offices and data centres.

In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used revenue as our intensity ratio as this is a relevant indication of our growth and is aligned with our business strategy.

Greenhouse gas emissions data
For period from January 2016 to 31 December 2016

Emissions from:	Tonnes of CO2e
Combustion of fuel and operation of facilities	20.2
Electricity, heat, steam and cooling purchased for own use	615
Company's chosen intensity measurement: tonnes of CO2e per $m revenue	2.68

Employees

Employee communications and involvement
Matomy actively encourages employee involvement and consultation and places considerable emphasis on keeping its employees informed of the Group's activities via formal business performance updates, regular update briefings, regular team meetings, and the circulation to employees of relevant information including corporate announcements. This also helps to achieve a common awareness amongst employees of the financial and economic factors affecting the performance of the Group.

Matomy has an established employee forum through which nominated representatives ensure that employees' views are taken into account regarding issues that are likely to affect them. A robust employee engagement survey process is also in place to ensure that employees are given a voice in the organisation and that the Group can take action based on employee feedback.

Additionally, Matomy has Human Resources representatives in many of its worldwide offices, including a central HR team at its global headquarters in Israel. This group of HR employees works collaboratively to ensure that Matomy's employment, health and safety policies are both uniform and standard whilst also meeting the regulatory and legal requirements for each government jurisdiction in which a specific branch office operates.

Equal opportunities and human rights
Matomy's policy is always to ensure that all persons are treated fairly irrespective of their age, race (including colour, nationality, ethnic or national origins), sexual orientation, disability, gender including gender reassignment, religious beliefs or political opinion, marital and physical or mental health status or any other factors including pregnancy and maternity. The Group endeavours to provide those who have physical or mental disabilities with equal opportunities in the application and recruitment process, and specific assistance and arrangements (including training, career development and promotion arrangements) to enable them to work for us wherever and whenever this is reasonably practicable.

Matomy recognises the value of having a diverse workplace, particularly with respect to gender diversity. Approximately 60% of the Group's employees are male and 40% female. Within Matomy's Senior Management team, approximately 50% of the team are male and 50% female.

Health and safety
Matomy is committed to providing a consistently safe and effective working environment for all staff, including contractors, customers and members of the public. In doing so it will, as a minimum, comply with local health and safety legislation, but will exceed those requirements should it be appropriate to do so.

Matomy recognises the importance of health and safety and the positive benefits to the Group. Matomy has a health and safety policy which is communicated to all employees through a health and safety handbook, which is regularly reviewed and updated.

Overall, Group health and safety is the responsibility of the Chief Financial Officer. Each member of Matomy's Senior Management team is responsible for giving appropriate consideration to the health and safety implications arising out of decisions or proposals made within the remit of their respective areas of corporate responsibility. For subsidiary companies, health and safety is the responsibility of the Managing Directors and/or branch office Senior Managers who will establish appropriate and effective systems and arrangements to ensure compliance and to achieve the corporate objectives.

All employees are expected to exercise personal responsibility in preventing injury to themselves and others and to cooperate with Management in complying with health and safety legislation.

Supporting students
As a global digital performance-based advertising company, much of Matomy's success relies on cultivating a strong group of up-and-coming junior employees who are well trained in the skills necessary to thrive in the digital advertising industry. In order to build links between Matomy and local schools and universities, work experience and placements are offered to a number of students. In doing so, Matomy strives to make work placements positive, challenging and relevant to participants' current studies and their future job prospects. Students who participate in Matomy's work experiences and placements programme are often hired back as full-time employees upon completion of their studies.

Business ethics
Matomy has formal ethics and anti-bribery policies which incorporate the Group's key principles and standards governing business conduct towards its key stakeholder groups. Matomy believes it should treat all of these groups with honesty and integrity.

3 Corporate Governance

The Board has delegated certain responsibilities to committees

Audit Committee	Remuneration Committee	Nomination Committee	Executive Directors	Company Secretary
Nadav Zohar (Chairman)	Harel Locker (Chairman)	Rupert Howell (Chairman)	Ofer Druker	Ido Barash
Harel Beit-On	Nadav Zohar	Nadav Zohar	Sagi Niri	
Natalie Schwarz	Nathalie Schwarz	Ofer Druker		
Harel Locker	(2 Non-Executive Directors + Chairman)	(1 Non-Executive Director + Chairman + CEO)		
(3 Non-Executive Directors + Chairman)				

Senior Management Team

Chief Technology Officer	SVP Finance	Chief Operational Officer
General Counsel	CEO, Team Internet	
EVP Media	CEO, Optimatic	

Board of Directors

Our business is managed by our Board of Directors. Biographical details of the Directors and Senior Management as at 30 April 2016 are as follows.

Name	Rupert Howell	Harel Beit-On
Title	Non-Executive Chairman	Deputy Chairman & Non-Executive Director
Biography	Rupert Howell, was appointed to act as Deputy Chairman and Senior Independent Director of Matomy in March 2014. He is currently Group Development Director of Trinity Mirror plc, the UK's biggest newspaper group and non-executive Chairman of the Hey Human/Brave/Closer Group, an independent UK marketing agency. Previously, he was the Managing Director of the Broadcast and Online division at ITV plc from 2007 to 2010. Prior to joining ITV plc he held a number of roles at McCann Erickson from 2003 to 2007, including President of EMEA, Chairman of the UK & Ireland Group and Regional Director of EMEA Operations. He was a co-founder of Howell Henry Chaldecott Lury, a UK-based advertising agency, it was acquired by Chime Communications plc, where he was Chief Executive Officer from 1997 to 2002. He was President of the European Association of Communications Agencies from 2006 to 2007. He holds a BSc in Management Sciences from Warwick University.	Harel Beit-On, was appointed to act as a Non-executive Director of Matomy in July 2010. He is a cofounder of the Viola Group, an Israeli technology orientated private equity investment group and a shareholder of Matomy. He is currently Chairman of the TASE- listed B. Gaon Holdings Ltd, an holding company focused on the Water & Ag-Tech markets, and serves as an active board member of a number of portfolio companies of the Viola Group. Previously, he held a number of roles, including Chief Executive Officer, President and Chairman, at the previously NASDAQ-listed Tecnomatix, a leading software provider, from 1985 to 2005 before it was acquired by UGS. He was also Chairman of the previouslyNASDAQ listed ECtel, a provider of Integrated Revenue Management solutions, from 2004 to 2006. He holds a BA in Economics from the Hebrew University and an MBA from the Massachusetts Institute of Technology.
Year Appointed	2014	2010
Committee Membership(s)	• Nomination Committee (Chairman)	• Audit Committee Hareal was appointed Non-executive
External Appointments	Rupert is Group Development Director of Trinity Mirror plc and Non-Executive Chairman of Hey Human/Brave Group	Harel is chairman of Lumenis and serves as an active board member of a number of portfolio companies of the Viola Group.
Recent Developments	Mr. Rupert Howell, non-executive Chairman, was not stand for re-election as a director at Matomy's annual general meeting held on 10 January 2017, he ceased to be a director of the Company on 10 January 2017	Hareal was appointed Non-executive Chairman by the Board in January 2017

Continued Board of Directors

Name: Ofer Druker

Title: Chief Executive Officer

Biography: Ofer Druker, is the co-founder of Matomy and currently serves as Chief Executive Officer. Previously, he was Chief Executive Officer at Xtend Media, which he co-founded in 2006. Xtend Media was acquired by Matomy in 2008. Previously, he was President of Soho Digital International, a subsidiary of Direct Revenues from 2005 to 2006, and President of International Sales at Cydoor Desktop Media, an Israeli company from 1998 to 2005. He was also co-founder of both Soho Digital International and Cydoor Desktop Media. He holds a BA in Middle East and African Studies from Tel Aviv University.

Year Appointed: 2007

Committee Membership(s): Nomination Committee

External Appointments: None

Recent Developments: Effective 13 April 2017, Ofer Druker resigned as Chief Executive Officer ("CEO"), and the Board appointed Sagi Niri to this role. Mr Druker has agreed to provide ongoing strategic and business development advice and assistance for a period of at least one year, allowing a smooth and orderly handover of the CEO responsibilities.

Name: Sagi Niri

Title: Chief Financial Officer / Chief Operational Officer

Biography: Sagi Niri joined Matomy in 2008. Prior to joining Matomy he was Chief Controller at McCann Erickson Israel Group from 2000 to 2008 and a manager at Deloitte Israel. He holds a BA in Corporate Finance from the College of Management—Academic Studies and an MBA in Finance from Manchester University. He has been a member of the Institute of Certified Public Accountants in Israel since 2000.

Year Appointed: 2008

Name: Harel Locker

Title: Independent Non-Executive Director

Biography: Harel Locker, was appointed to act as a Independent Non-executive Director of Matomy in April 2016.

Mr Locker recently served as the Director General of the Israeli Prime Minister's Office and head of Prime Minister Benjamin Netanyahu's economic headquarters. Prior to joining the Prime Minister's Office, Mr Locker practiced law in prominent Tel-Aviv and Wall Street commercial law firms as an associate and partner. Mr Locker earned an LL.B. from Tel-Aviv University's School of Law (1994), a B.A. degree in accounting from Tel-Aviv University Business School (1994) and an LL.M. (with distinction) in taxation from Georgetown University Law School, Washington DC (2001).

Year Appointed: 2007

Committee Membership(s): Audit Committee, Remuneration Committee

Continued Board of Directors

Name: Nadav Zohar

Title: Independent Non-Executive Director

Biography: Nadav Zohar was appointed as an independent Non-executive Director of Matomy in March 2014. He is a Global head of Corporate Development at Gett. Previously, Nadav was Senior Consultant of Impact Equity Corporation, Chairman of Soluto and also held a number of senior management roles at Morgan Stanley and Lehman Brothers. Nadav holds an MSc in Finance from the London Business School and an LLB from the University of Reading.

Year Appointed: 2014

Committee Membership(s):
- Audit Committee
- Remuneration Committee
- Nomination Committee

External Appointments: Nadav serves on several boards of portfolio growth media and technology companies managed by Impact Equity Corporation.

Name: Nathalie Schwarz

Title: Independent Non-Executive Director

Biography: Nathalie Schwarz was appointed as a Non-executive Director of Matomy in March 2014. She is currently a non-executive director of the Main Market-listed Wilmington Group plc, a provider of information, compliance and education services for professional markets in the United Kingdom and internationally and served in the past as a non-executive director of Photon Kathaas plc, a Singaporean company specialising in the production and distribution of Indian films. Previously, she was Commercial and Corporate Development Director at Channel 4 Television Corporation from 2005 to 2011 and non-executive director of Amiad Water Filtration Systems Ltd.
She holds an LLB (Hons) from the University of Manchester.

Year Appointed: 2014

Committee Membership(s):
- Audit Committee
- Remuneration Committee

External Appointments: Nathalie is Non-Executive Director of Wilmington Group plc and Photon Kathaas plc.

Recent Developments: Nathalie Schwarz, Non-Executive Director, notified the Board that she will not stand for re-election as directors of the Company at the AGM and ceased to be a director of the Company on 5 December 2016.

Name: Rishad Tobaccowala

Title: Independent Non-Executive Director

Biography: Rishad Tobaccowala, was appointed to act as a Non-executive Director of Matomy in February 2014. He is Chief Strategist and member of the Directoire+ of Publicis Groupe, the world's third-largest communication firm, where he helps drive a business and marketing transformation agenda. Tobaccowala was most recently the Chairman of DigitasLBi and of Razorfish, two global firms owned by the Publicis Groupe focused on marketing and business transformation. Rishad was also the Chief Strategy and Innovation officer of VivaKi, a global leader in digital advertising solutions. Over his 34-year career in marketing, Tobaccowala and has worked, helped grow, founded/co-founded or incubated a variety of companies including Leo Burnett, Starcom, SMG Next, Starcom IP, Giant Step, Play, and Denuo.

Year Appointed: 2015

External Appointments: Rishad is Chairman of The Tobaccowala Foundation and board member of the Wharton Future of Advertising Project.

Recent Developments: Mr. Rishad Tobaccowala was appointed o the role of Deputy Chairman with effect on 17 January 2017.

Continued Board of Directors

		
Name	**Mr Amir Efrati**	**Mr Nir Tarlovsky**
Title	Non-Executive Director	Non-Executive Director
Biography	Mr. Amir Efrati was appointed to act as a Non-executive Director of Matomy in November 2016. He is the Managing Partner and Portfolio Manager of Brosh Capital and Exodus Capital. Mr. Efrati brings to the role over 20 years of business experience. Previously, he was the Managing Partner of the Dragon Variation Fund. Before that, he was a Portfolio Manager at JCK Partners and Elm Ridge Capital in NYC, as well as an investment banker at Morgan Stanley. Mr. Efrati has an MBA (honors) from Columbia Business School and a BA (honors) in Economics from Tel Aviv University.	Mr. Nir Tarlovsky was appointed to act as a Non-executive Director of Matomy in November 2016. He is currently Co-Founder at thetime, a leading early-stage investor in Israeli in the digital space. Mr. Tarlovsky has been an entrepreneur and angel investor for the past 20 years, operating the leading incubator in Israel and firstime ventures, a post-seed / pre-A $60mm fund. He is a shareholder and board member of numerous technology companies, including Pixellot, Playbuzz and Kidbox.com. He was one of the early investors in the Company and was a member of its board of directors. Previously, he was the EVP Business Development at Churchill Ventures, Lead Investor at Nielsen BuzzMetrics and Co-Founder and EVP Business Development at RSL Communications. Mr. Tarlovsky has a BA and MA, Economics (*summa cum laude*) in Economics from Tel Aviv University.
Year Appointed	2016	2016
Committee Membership(s)	Remuneration Committee with effect on 17 January 2017	Audit Committee with effect on 17 January 2017
External Appointments	Managing Partner and Portfolio Manager of Brosh Capital and Exodus Capital	Co-Founder at thetime

Directors' Report

The Directors present their report and the Group Financial Statements of Results and dividends for Matomy Media Group Ltd. ("Matomy" or the "Group") for the financial year ended 31 December 2016.

IDO BARASH
Company Secretary

Principal activities

Matomy was incorporated in Israel as a private limited liability company. Its registered office is situated in Israel and its register 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").

The principal activity of the Group is digital performance-based advertising. Matomy is the holding company of the Group. Its principal subsidiary undertakings are: Matomy Media Ltd. (100% ownership); Matomy USA Inc. (100%); Avenlo Inc. (70%); Matomy Social Ltd. (80%); Team Internet AG (80%) and Optimatic Inc. (100%).

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 22 to 65. 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 80 to 91. The Corporate Governance Report and the Audit Committee Report form part of this Directors' Report and are incorporated into it by reference.

Results and dividends

Matomy's audited Financial Statements for 2016 are set out on pages 108 to 151. Revenue during 2016 amounted to $276.6 million (2015: $271.0 million).

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

Post-balance sheet events

There have been no balance sheet events after 31 December 2016 that either require adjustment to the Financial Statements or are important in the understanding of Matomy's current position.

Share capital

As at 31 December 2016, 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 94,576,458 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 and Transparency Rules:

Shareholder	Number of ordinary shares/voting rights notified	Percentage of ordinary share capital/voting rights notified
Publicis Groupe B.V.	22,326,246	23.86%
Ilan Shiloah	11,117,555	11.88%
Viola A.V Adsmarket L.P	9,028,245	9.65%

At the Annual General Meeting of the Shareholders of Matomy held on 10 January 2017, Shareholders authorised the Directors, amongst other things, to allot and issue the following:

- up to an aggregate nominal amount equal to one-third of the Company's issued share capital in existence as of the date of the 2016 AGM
- up to an aggregate nominal amount equal to two-thirds of the Company's issued share capital as of the date of the 2017 AGM (such amount to be reduced by the aggregate nominal amount of any securities issued under the preceding sub-paragraph)

This authority expires at the conclusion of the Company's next AGM or the date that is 15 months after the date of such resolutions and the conclusion of Matomy's next AGM, save that Matomy may before such expiry seek board approval to extend the term of the authority. At the forthcoming AGM, the Directors of Matomy intend to seek authority to extend this authorisation.

Interests in own shares

As at 31 December 2016, (i) 65,625 Ordinary Shares were held by Matomy; (ii) 9,693,250 Ordinary Shares were held by Matomy Media Ltd., a wholly-owned subsidiary of Matomy; and (iii) 1,211,236 Ordinary Shares were held by Team Internet AG, a principal subsidiary of Matomy (collectively, the "Dormant Shares"). In accordance with the Israeli Companies Law, the Dormant Shares are classified as dormant shares with no voting rights for so long as they are held by Matomy or any of its subsidiaries.

Research and development

Innovation is important to the future success of Matomy and to the delivery of long-term value to shareholders. Matomy's research and development expenses consist primarily of personnel costs attributable to certain members of the technology team, third-party IT services associated with the ongoing development of Matomy's technology, in particular the Matomy Performance Platform, and, to a lesser extent, the allocation of other attributable personnel and associated costs, including share-based compensation, as well as depreciation and amortisation. The Group uses technology platforms to develop new products and services, and to improve and extend the functionality and scope of the Group's operations.

Going concern

The Directors confirm that, after making an assessment, they have reasonable expectation that the Group has adequate resources to meet its obligations for the foreseeable future. Accordingly, the Financial Statements have been prepared on a going-concern basis.

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 organisational structure of the Group and its wage policy; and shall be responsible for preparing financial reports and certifying them. Matomy has established properly constituted Audit, Remuneration and Nomination Committees of the Board (in accordance with the Israeli Companies Law), which have formally delegated duties and responsibilities.

The Israeli Companies Law requires Matomy to appoint at least two External Directors. The Israeli Companies Law also requires the Board to determine the minimum number of board members who are required to possess accounting and financial expertise; one of such persons must be an External Director. In determining the number of board members required to have such expertise, the Board must consider, amongst other things, the type and size of the business and the scope and complexity of its operations.

As at the date of this report, the Board has eight members: the Non-Executive Chairman (Harel Beit-On); two Executive Directors (Chief Executive Officer Ofer Druker and Chief Operational Officer/ Chief Financial Officer Sagi Niri); and four Non-Executive Directors (Harel Locker, Amir Efrati, Nir Tarlovsky, Rishad Tobaccowala and Nadav Zohar). Matomy's external directors [as required by Israeli Companies Law] are Nadav Zohar and Harel Locker. See "Corporate Governance—Board of Directors—Recent Developments" for more information about the Board. The biographical details of each of the current Directors are set out on pages 69 to 72, and details of their membership of the Board's committees are set out elsewhere in this report.

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

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

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

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

The Board has a formal schedule of matters reserved to it for decision and approval that include, but are not limited to:
• the Group's business strategy;
• annual budget and operating plans;
• major capital expenditure and acquisitions;
• the systems of corporate governance, internal controls and risk management;
• the approval of the interim and annual financial statements and interim management statements; and
• any interim dividend and the recommendation of any final dividend.

Audit Committee

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

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

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

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

Nomination Committee

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

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

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

Remuneration Committee

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

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

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

Directors' remuneration
The Remuneration Committee, on behalf of the Board, has adopted a policy that aims to attract and retain the Directors needed to run Matomy successfully. Details of the Directors' remuneration are set out on pages 92 and 105 to 106 of 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. Except for: (i) the warrants granted to Viola A.V Adsmarket L.P and its affiliated entities to purchase up to 1,239,735 Ordinary Shares in aggregate between them at an exercise price of $1.11 per share; No Director has any other interest in any shares or loan stock of the Group. There were no transactions with Directors of the Group and related party transactions in 2016. During that year, no Director had any material interest in any contract of significance to the Group's business.

Directors' share interests
Directors' holdings in the shares of Matomy as at 31 December 2016 are shown on page 81.

Directors' insurance and indemnities
Matomy maintains Directors' and officers' liability insurance that provides appropriate cover for legal action brought against its Directors.

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 and Transparency Rules (DTR 4.1.8R).

Internal controls
The Corporate Governance Report and Audit Committee Report on pages 84 to 91 includes the Board's assessment of Matomy's system of internal controls.

Employees
Matomy places considerable value on the involvement of its employees and uses a number of ways to engage with employees on matters that affect them and the performance of the Group. These include frequent business performance updates by members of the Senior Management team for all employees, regular update briefings for all employees, regular team meetings, and the circulation to employees of results announcements and other corporate announcements. This also helps to achieve a common awareness amongst employees of the financial and economic factors affecting Matomy's performance.

Matomy utilises several anonymous internal forums through which employees can express issues and views that are likely to affect them and their colleagues. A robust employee engagement survey process is also in place to ensure that employees have a voice in the organisation and that Matomy can take appropriate action based on employee feedback.

Equal opportunities
Matomy is committed to providing equality of opportunity to all employees without discrimination. The Group applies fair and equitable employment policies that seek to promote entry into and progression within Matomy. Appointments are determined solely by application of job criteria, personal ability, behaviour and competency.

Disabled persons
Disabled persons have equal opportunities when applying for vacancies, with due regard to their skills and abilities. Procedures ensure that disabled employees are fairly treated in respect of training and career development. For those employees becoming disabled during the course of their employment, Matomy is supportive so as to provide an opportunity for them to remain with the Group, wherever reasonably practicable.

In the opinion of the Directors, all employee policies are deemed to be effective and in accordance with their intended aims.

Borrowings
In June 2014, Matomy entered into a $21.6 million term loan agreement with an Israeli bank. In relation to this loan, Matomy is required to comply with certain covenants, as defined in the loan agreement and its amendments. As of 31 December 2016, Matomy was in full compliance with the financial covenants.

Matomy also has access to a line of credit from the same bank for total borrowings of up to $13.0 million, of which $6 million is secured. As of 31 December 2016, it had utilised $2.4 million of the line of credit. This line of credit is unsecured and available to the Company based on meeting certain accounts receivable conditions.

The line of credit and loans are secured by way of: (i) a fixed charge over Matomy's unpaid equity; (ii) a floating charge over certain of its assets and (iii) mutual guarantees between the Israeli companies in the group.

In September 2016, Matomy entered into a $4.0 million term loan agreement with a U.S. bank. As security, Matomy US and its subsidiary have granted a first priority lien on and security interest in all of the assets of Matomy US, and provided cross guaranties. Matomy US and its subsidiary are required to comply with certain covenants, as defined in the term loan and line of credit agreement and its amendments. As of 31 December 2016, the Company was in full compliance with the financial covenants.

Matomy's subsidiary Team Internet has entered into two further loan agreements with German banks, for $1.3 million and $3.0 million, respectively.

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.

Political donations
During 2016, Matomy did not make any political donations (FY2015: $nil).

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

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

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

The Group's auditor is Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global). A resolution to re-appoint Kost Forer Gabbay & Kasierer as auditor to Matomy was approved in the Annual General Meeting [Jan 2017] .

Annual general meeting
As at the publication of this report, no date has been set for Matomy's [2018] AGM. Upon confirmation of such date, Matomy will issue a formal notice to all Shareholders informing them of the scheduled date.

By order of the Board:
IDO BARASH
Company Secretary
30 April 2017

Corporate Governance Report

IDO BARASH
Company Secretary

The Board is committed to the highest standards of corporate governance, which it considers to be central to the effective management of the business and to maintaining the confidence of investors. Matomy complies with all applicable laws and endeavors to observe the customs and culture in the countries in which it operates and does business.
To this end, Matomy expects all Directors and employees to strive to achieve the highest standards and to act with respect and integrity. The Board monitors and keeps under review the Group's corporate governance framework. In accordance with the Listing Rules of the UK Listing Authority, Matomy confirms that since its admission to the High Growth Segment of the London Stock Exchange on 8 July 2014 (the "Admission"), it has complied with the relevant provisions set out in Section 1 of the UK Corporate Governance Code 2012 (the "Code") to the extent applicable to it, and the Israeli Companies Law, 5799-1999 (the "Israeli Companies Law"). Furthermore, following Matomy's commencement of trading on the Tel-Aviv Stock Exchange (the "TASE") on 16 February 2016, Matomy complies with the applicable provisions relating to its trading onTASE.
This report, together with the Remuneration Committee Report on pages 92 to 93, provides details of how Matomy has applied the principles and complies with its legal obligations.

The Board
The Board is collectively responsible for promoting Matomy's success. The Board provides leadership for the Group and concentrates its efforts on strategy, performance, governance and internal control. As at the date of this report, the Board has eight members: the Non-Executive Chairman (Harel Beit-On); one Executive Director (Chief Executive Officer Sagi Niri); and five Non-Executive Directors (Ofer Druker, Harel Locker, Amir Efrati, Nir Tarlovsky, Rishad Tobaccowala and Nadav Zohar).

Mr. Harel Beit-On succeeded Mr. Howell as Chairman with effect on 17 January 2017. Mr. Rishad Tobaccowala assumed the role of Deputy Chairman with effect on 17 January 2017. The biographical details of each of the current Directors are set out on pages 69 to 72, and details of their membership of the Board's committees are set out below. See "Corporate Governance—Board of Directors—Recent Developments." 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;
- any interim dividend and the recommendation of any final dividend.

The Board and Audit Committee held four quarterly scheduled meetings in 2016. 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. All Directors participated in discussions relating to Matomy's strategy, financial and trading performance and risk management.

The Board considers it met sufficiently often to enable the Directors to discharge their duties effectively. The table below gives details of Directors' attendance at Board and committee meetings in 2016:

	Board	Audit Committee	Nomination Committee Committee[5]	Remuneration Committee[5]
Rupert Howell(1)	4/4	-	-	-
Harel Beit On	3/4	3/4	-	-
Amir Efrati (2) as of appointment)	1/1	-	-	-
Nir Tarlovsky(2 as of appointment)	1/1	-	-	-
Natalie Schwarz(3)	4/4	4/4	1/1	2/2
Nadav Zohar	4/4	4/4	1/1	2/2
Rishad Tobaccowala	2/4	-	-	2/2
Ofer Drucker	4/4	-	-	2/2
Sagi Niri	4/4	-	-	
Harel Locker as of appointment)(4)	3/4	2/2	1/1	-

1. Mr. Rupert Howell, non-executive Chairman, did not stand for re-election as a director at Matomy's annual general meeting held on 10 January
2. Mr. Amir Efrati and Mr. Nir Tarlovsky joined Matomy's Board of Directors in November 2016.
3. Nathalie Schwarz ceased to be a director of the Company on 5 December 2016.
4. Mr. Harel Locker joined Matomy's Board of Directors on 23 March 2016.
5. Nomination Committee and Remuneration committee statistics reflect both routine and ad hoc meetings.
6. Includes attendance by proxy.

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

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

Rupert Howell served as Chairman throughout 2016. [As of 17 January 2017, Mr. Harel Beit-On succeeded Mr. Howell as Chairman, and

Mr. Rishad Tobaccowala assumed the role of Deputy Chairman.] The Non-Executive Chairman is responsible for leading the Board and its effectiveness.

As of the date of this report, Sagi Niri is Chief Executive Officer, and is responsible for the execution of strategy and the day-to-day management and operations of the Group. The division of roles and responsibilities between the Non-Executive Chairman and the Chief Executive Officer and Chief Financial Officer are set out in writing and agreed by the Board. At the invitation of the Chairman of the Remuneration Committee, the Chief Executive Officer, Chief Finance Officer, SVP Finance and Company Secretary 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. The Company Secretary also acts as secretary to the Committees.

Board balance and independence

In accordance with recommendations of the relevant sections of the UK Corporate Governance Code applicable to smaller companies and the Israeli Companies Law, Matomy's Board includes two non-Executive Directors whom the Board determines to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement.

Matomy regards all of the Non-Executive Directors to be independent for purposes of the UK Corporate Governance Code, on appointment.

The Directors consider that the Board has an appropriate balance of skills and experience by virtue of the Directors' varied backgrounds (see biographical details on pages 69 to 72).

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. At the January 2017 AGM, each of Mr. Harel Beit-On, Mr. Rishad Tobaccowala, Mr. Nir Tarlovsky ,Mr Amir Efrati, and Mr. Sagi Niri were reappointed as members of the Board of Directors with their appointment to remain in effect until the next AGM.

At an extraordinary general meeting held on 04 November 2016, Matomy's shareholders decided to increase the number of Directors from eight to ten, and appointed Mr Amir Efrati and Mr Nir Tarlovsky to the board.

See "Corporate Governance—Board of Directors—Recent Developments."

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 worldwide operations is regularly updated by arranging presentations from Senior Management throughout the Group.

The Non-Executive Chairman and Executive Directors consult with each Non-Executive Director to ensure they are all able to allocate sufficient time to the Group to discharge their responsibilities.

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

Directors are also supplied with a monthly financial report and receive ongoing updates from the Chief Executive Officer, 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 monthly telephone Board update calls. All Directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary are matters reserved for the Board as a whole. Directors may obtain, in the furtherance of their duties, independent professional advice, if necessary, at the Group's expense. In addition, all Directors have direct access to the advice and services of the Company Secretary.

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. The Board engages in continuous self-assessment and analysis of its effectiveness.

Board committees

The Board is supported by several committees, including the following principal committees: Audit Committee, Remuneration Committee and Nomination Committee. All the Independent Non-Executive Directors are members of each of the principal committees of the Board. Details of the work of the Audit and Remuneration Committees during the year are given in the reports of those Committees on pages 80 to 91. Information pertaining to the work of the Nomination Committee during the year can be found on pages 92 to 93.

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

Audit	Remuneration	Nomination
Mr Zohar (Chair)	Mr Locker (Chair)	Mr Howell (Chair) (1)
Mr Locker	Mr Zohar	Mr Zohar
Ms Schwarz	Ms Schwarz	Mr Drucker
Mr Beit-On		

The terms of reference of each of the principal committees are available on request by writing to the Company Secretary at the Group's 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

(1) Mr. Rupert Howell did not stand for re-election as a director at Matomy's January 2017 EGM and ceased to be a director of the Company on 10 January 2017. Nathalie Schwarz did not stand for re-election as director of the Company at the January EGM and ceased to be a director of the Company on 5 December 2016.
Mr. Harel Beit-On was appointed by Matomy's board to succeed Mr. Howell as Chairman with effect on 17 January 2017.

Audit Committee Report

NADAV ZOHAR
Chairman of the Audit Committee

Audit Committee

The Audit Committee comprises four Independent Non-Executive Directors. The table below gives details of Directors' attendance at Audit Committee meetings in 2016.

Audit Committee	
Nadav Zohar	4/4
Nathalie Schwarz (1)	4/4
Harel Beit- On (2)	3/4
Harel Locker	3/4
Nir Tarlovsky	

Includes participation by proxy

Ms Schwarz ceased to be a director of the Company on 5 December 2016. [See "Recent Developments."]

Following Mr Beit-On's appointment on January 19, 2017 as Chairman of the Company, Mr Tarlovsky replaced Mr Beit-On as a member of the Audit Committee.

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.

Nadav Zohar satisfies the requirements to serve as Chairman of the Audit Committee (see biographical details on pages 69 to 72).

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.

External auditor

Matomy's external auditor, Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global), attends various meetings of the Audit Committee.

Operation of the Audit Committee

The Audit Committee met four scheduled times in 2016. The attendance record of Committee members is recorded in the table above. At the invitation of the Chairman of the Audit Committee, the Chief Executive Officer, the Chief Financial Officer, the Chairman of the Board and the Group's external auditors regularly attend meetings.

Financial statements and significant accounting matters

The Audit Committee was presented by the Group's Management with updates of Matomy's current internal control procedures and risk management systems. The Audit Committee is satisfied that the current arrangements and Matomy's internal controls and risk management systems are appropriate. The Audit Committee considers that the Group continued to make good progress with respect to the issues considered during the year, resulting in better processes, understanding and awareness combined with a greater engagement across the business. The debate on risk, risk tolerance and risk appetite will continue to be a focus for the Board and the Committee during 2017 and beyond.

Corporate governance

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

External auditor

Matomy's external auditor, Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global), attends various meetings of the Audit Committee.

It is the responsibility of the Audit Committee to provide oversight of the external audit process and assess the effectiveness, objectivity and independence of the external auditor.

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

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter for the forthcoming year;
- the external auditor's overall work

plan for the forthcoming year;
- the external auditor's fee proposal;
- the major issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements and estimates;
- the levels of errors identified during the audit; and
- recommendations made by the external auditor in their management letters and the adequacy of management's response.
- The Audit Committee reviewed the independence of the auditor having regards to:
- a report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest; and
- the extent and nature of non-audit services provided by the external auditor.

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

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

During the year under review, Matomy's external auditor, Kost Forer Gabbay & Kasierer, performed a variety of non-audit services. A significant proportion of non-audit services related to the following:
- reviewing Matomy's half-year reporting;
- the provision of tax compliance services in relation to both direct and indirect taxation;
- the provision of regulatory advice in relation to documentation and control.

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 and regulatory advice and anticipates that this will continue for the foreseeable future .

The provision of tax advisory services, due diligence and regulatory advice is permitted with the Audit Committee's prior approval in line with the approval limits set out above. The provision of internal audit services, valuation work and any other activity that could result in the external auditor reviewing and relying on its own work and conclusions is prohibited. Kost Forer Gabbay & Kasierer was not engaged during the year to provide any services which would have given rise to a conflict of interest.

The Audit Committee considers the effectiveness of the external audit process on an annual basis, reporting its findings to the Board as part of its recommendation. This process is completed

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

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

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

The Committee continues to remain satisfied with the work of Kost Forer Gabbay & Kasierer and that it continues to remain independent and objective. The Committee has therefore recommended to the Board that a resolution is put to shareholders recommending its reappointment together with their terms of engagement and remuneration at the 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' Responsibilities Statement, 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.

The Board recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as information required to be presented by law. At the request of the Board, the Audit Committee considered whether the 2016 Annual Report is fair, balanced and understandable, and whether it provided the necessary information for shareholders to assess Matomy's performance, business model and strategy. The Audit Committee is satisfied that, taken as a whole, the Annual Report is indeed fair, balanced and understandable.

Internal controls

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

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process is regularly reviewed by the Audit Committee which reports its findings for consideration by the Board.

The key procedures operating within Matomy were as follows:
- during the year under review, the Audit Committe met to evaluate risk and consider the appropriateness of Matomy's risk assessment systems and internal control policies;
- Matomy maintains a risk register which cover the strategic and operational business risks. This register is updated on an ongoing basis, and is presented to the Audit Committee no less often than a quarterly basis;
- The senior executives of Matomy report to the Executive Directors on a regular basis regarding ongoing financial and operational progress within the respective business units and functions they manage;
- the 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 established policies and procedures designed to ensure adequate levels of customer credit controls;

- Matomy has a comprehensive system of budgetary and reforecasting control, focused on monthly performance reporting which is at an appropriate detailed level. A summary supported by commentary and performance measures is presented to the Board each month.

The performance measures are subject to review to ensure that they provide relevant and reliable indications of business performance;

- Matomy has established procedures for the delegation of authority;
- Matomy's business units operate within a framework of policies and procedures which are maintained online, and cover key issues such as inside training, conflicts and ethics; and
- 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 applicable to the Group, the main feature of which is a structured system of review and approval by Management and the Board.

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Internal auditor

The Israeli Companies Law requires the Board to appoint an internal auditor who is recommended by the Audit Committee. An internal auditor may not be:

- a person (or a relative of a person) who holds 5% or more of Matomy's outstanding Ordinary Shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of Matomy;
- an office holder or Director of Matomy or a relative thereof; or
- a member of Matomy's independent accounting firm, or anyone on its behalf:

Audit Committee effectiveness

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

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

NADAV ZOHAR

Chairman of the Audit Committee

30 April 2017

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 2016 the internal auditor examined the Cash Management and Administrative and General Expenses and no material findings were found.

Remuneration Committee

The Remuneration Committee comprises three Independent Non-Executive Directors. The Remuneration Committee convened [three] times during 2016, and reviewed and recommended to the Board regarding the Remuneration Policy, and compensation terms of senior office holders.terms of senior office holders.

Remuneration Committee	
Harel Locker (Chair)	2/2
Nadav Zohar	2/2
Amir Efrati	
Nathalie Schwarz	2/2

Ms Schwarz ceased to be a director of the Company on 5 December 2016 and Mr Efrati was appointed instead

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.

The Board considers that Matomy complies with the requirements of the Israeli Companies Law and the applicable recommendations of the UK Corporate Governance Code with regard to the composition of the Remuneration Committee.

Senior Executives and Director Remuneration in 2016

The table below summarises the Directors' remuneration as approved by the shareholders (all figures in US dollars):

Director	Base Fee	Audit	Remuneration	Nomination	Deputy Chairman	Total
Nathalie Schwarz	40,000	4,000	4,000	-	-	48,000
Nadav Zohar	40,000	4,000	10,000	1,500		55,500
Rupert Howell	40,000	-	-	3,000	35,000	78,000

Information regarding Senior Executives Remuneration

Name	Base Salary	Employer Cost	Variable Compensation + Equity-Based Compensation	(employer cost + Variable compensation)
Ofer Druker	$ 1,012,768	$ 1,053,328	$184,731	$1,238,059
Sagi Niri	$ 299,356	$ 411,580	$303,928	$621,562
Gil Klein	$162,056	$ 349,997	$ 390,486	$ 596,694
Ido Pollak	$ 245,150	$ 448,865	$304,269	$569,773
Omry Wienberg	$ 240,000	$ 373,530	$185,323	$ 441,252

(1) All current employees listed in the table are full-time employees..
(2) 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, 2016.
(3) Amounts reported in the column titled "Total Cost" include benefits and perquisites or on account of such benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to each executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances, convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.
(4) 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 31 December, 2016 together with the expense recorded on account of equity based compensation in our financial statements for the year ended December 31, 2016.

Adoption of remuneration policy

At the Extraordinary General Meeting (the "EGM") held on 04 November 2016 and as required by the Israeli Companies Law, 5759-1999 and any regulations promulgated thereunder (the "Israeli Companies Law") the shareholders approved the adoption of the Remuneration Policy with respect to the terms of office and employment of the Company's "office holders" (as such term is defined in the Israeli Companies Law). A detailed review is included below.

Nomination committee

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

During 2016, the Nomination Committee provided its recommendations relating to the and the appointment of senior VP level executives.

Nomination Committee	
Rupert Howell (chair)	2/2
Nadav Zohar	2/2
Ofer Druker	2/2

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

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

Corporate responsibility

Details of Matomy's approach to Corporate Responsibility are set out on pages 62 to 65.

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. In addition, the Chief Executive Officer and Chief Financial Officer/Chief Operational Officer jointly give presentations to institutional shareholders and analysts immediately following the release of the preliminary/final and interim results. These presentations are made available on the Matomy website, www.matomy.com.
The Non-Executive Directors are available to meet with major shareholders.

Annual general meeting

[Voting at the 2017 Annual General Meeting were by way of poll. The results of the voting at the Annual General Meeting were announced and details of the votes are available to view on the Matomy website, www.matomy.com.]

Remuneration Policy for Executive Directors and Senior Managers

This section of the report sets out the remuneration policy for Executive Directors and Senior Managers, which shareholders approved at the EGM held on 04 November 2016. 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.

The Remuneration Policy is adopted for a three-year period commencing as at the date of its adoption by the Shareholders (or by the Board of Directors in case each of the Remuneration Committee and the Board of Directors elects to exercise the power granted to it by the Israeli Companies Law to overrule the Shareholders resolution, in accordance with the terms stated therein).

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

Policy overview

Matomy aims to provide a remuneration structure that is aligned with shareholder interests and, as such, is competitive in the marketplace to attract, retain and motivate Executive Directors and Senior Managers of high caliber to deliver continued growth of the business.
The Group's policy is that performance-related components should form a significant portion of the overall remuneration package, with maximum total rewards being earned through the achievement of challenging performance targets based on measures that reflect the best interests of shareholders.

Consideration of shareholder views

The Remuneration Committee will consider shareholder feedback received in relation to the AGM each year at its next meeting following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, will then be considered as part of the Group's annual review of remuneration policy. In addition, the

Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be made to the remuneration policy.

Consideration of employment conditions elsewhere in the Group

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

Policy for Executive Directors and Senior Executives

Pursuant to the Israeli Companies Law amended by Amendment 20, 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.

Furthermore, pursuant to Matomy's Remuneration Committee terms of reference (the "TOR"), the Policy (as defined herein) must include also the following principles: (i) a significant proportion of a Senior Executive's remuneration should be structured so as to link rewards to individual performance and performance of Matomy; (ii) the link between variable compensation and long-term performance and measurable criteria; (iii) the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation; (iv) the conditions under which a Director or a Senior Executive would be required to repay variable compensation paid to him or her if it were later shown that the data upon which such variable compensation was based were inaccurate and were required to be restated in the Company's financial statements; (v) the minimum holding or vesting period for variable, equity-based compensation whilst referring to appropriate a long-term perspective based incentives; and (vi) maximum limits for severance compensation.

The employment terms of all new Senior Executives (as defined below), as well as any amendments to existing employment terms of any Senior Executives, will be determined in accordance with this Policy. We intend, in the framework of the periodic review of employment agreements that is required by law and under this Policy or the TOR, to consider, among other considerations (that are detailed below), any required adjustments of the terms of employment to the Policy, if any, taking into consideration the contribution of such Senior Executive to our performance, the growth of our business and the best interests of Matomy.

The adoption of this Policy does not confer rights to Senior Executives to any of remuneration's components set forth herein. Senior Executives will only be entitled to the remuneration components that will be specified in his or her applicable employment agreement and/or the mandatory requirements of any applicable law.
All capitalised terms not otherwise defined herein shall have the meaning ascribed to them in the Israeli Companies Law and the regulations promulgated thereunder.

Compensation philosophy and objectives

We believe 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. We also seek to ensure that we maintain our 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 our peer companies and the broader marketplace from which we recruit and compete for talent. In light of the above, we have established the following remuneration objectives for the Company's executives (the Chief Executive Officer, Chief Financial Officer /Chef Operational Officer, Senior Vice Presidents, and all other managers directly subordinated to the CEO, whether they are employed by Matomy; all shall be referred to herein as the "Senior Executives"), as indicators of our overall remuneration philosophy:

- Remuneration should be related to performance. We believe that part of the remuneration paid to the Senior Executives should be aligned with the performance of Matomy on both a short- and long-term basis, with a portion of a Senior Executive's potential annual performance-based incentive remuneration and long-term equity-based remuneration at risk if Group and individual performance objectives are not achieved.
- Remuneration should serve to encourage Senior Executives to remain with Matomy. The Policy's components are designed to retain talented executives. We believe that continuity of employment is critical to achieving Matomy's strategic objectives and building Shareholder value. A significant element of the Policy, therefore, is long-term equity based incentive remuneration awards that vest on a rolling basis over periods of several years. As part of the retention objective, we believe that remuneration should include a meaningful stock component to further align the interests of Senior Executives with the interests of the Shareholders. In addition, since a competitive Policy is essential to our ability to attract and retain highly skilled professionals executive officers, Matomy will seek to establish a remuneration program that is competitive with the remuneration program paid to executive officers in equivalent companies (as defined below).
- Remuneration should be reasonable for our business, our locations and our long-term, multi-year approach to achieving sustainable growth. We believe that an appropriate remuneration package will attract executives and motivate them to achieve Matomy's annual and long-term strategic objectives. At the same time, we believe that remuneration should be set at reasonable and fiscally responsible levels.
- Remuneration should be managed to encourage initiative innovation and appropriate levels of risk. We believe incentive remuneration should be structured to discourage assumption of excessive short-term risk without constraining reasonable risk-taking. To achieve this objective, we believe that the success of Matomy over time will be more effectively assured by connecting a portion of the incentive remuneration to longer-term Group performance.

General process for setting remuneration

The Remuneration Committee shall first determine the appropriate level of total remuneration for each position held by a Senior Executive, then determines the appropriate allocation among annual base cash remuneration, annual performance-based cash incentive remuneration (cash bonus) and long-term stock incentive remuneration, based upon following consideration in determining the total remuneration, the Remuneration Committee shall take into account

(i) the education, professional experience and achievements of the applicable Senior Executive;

(ii) the applicable Senior Executive's position at Matomy, scope of responsibilities, his contribution to the Company, the circumstances of his recruitment and the terms of prior employment agreements with the Company (if any);

(iii) the financial conditions of the Company, the global scope of its business (having world-wide substantial subsidiaries), the complexity of the Company's business and the fact that Matomy's shares are traded on the London Stock Exchange; and the Tel Aviv Stock Exchange.

(iv) comparison of the terms of employment of the applicable Senior Executive to the terms of employment of other executives at Matomy, as well as to terms of employment of senior executives in the same position in equivalent companies (similar industry, similar revenues, similar market value,
similar scope of activities and/or similar number of employees) in each of the relevant jurisdictions in which they are employed, to the extent relevant and

(v) the ratio between the total remuneration of the applicable Senior Executive and the salary of all other employees of Matomy and its subsidiaries, especially the ratio between the total remuneration and the median and average salary of all such employees.

The total remuneration of Senior Executives shall be reviewed annually, taking into account these Considerations and focusing mainly on the applicable Senior Executive's contribution, performance, Matomy's business and financial status, Matomy's budget and other applicable market conditions.

A change of up to 10% in the total remuneration of any Senior Executive (other than the CEO) shall be deemed immaterial and shall only require the approval of the Remuneration Committee.

A change of up to 10% in the total remuneration of the CEO shall require the approval of both the Remuneration Committee and the Board of Directors.

Any change in the total remuneration of any Senior Executive (including the CEO) which is greater than 10% shall be subject to receipt of all the required approvals and consents in accordance with applicable law.

Elements of remuneration

The remuneration of Senior Executives consists of all or part of the following:
(i) annual base cash remuneration, (ii) annual performance-based cash incentive remuneration, (iii) long-term equity-based (shares) remuneration; (iv) other executive benefits; and (v) retirement and termination of service or employment arrangements.

The targeted ratio between the fixed elements of remuneration (Base Salary and other executive benefits) and the variable elements of remuneration (Bonus and long-term equity-based remuneration) shall be as follows*:

	CEO	Senior Executives (excluding the CEO)
Annual Base Salary	100%	100%
Other fixed benefits	30%-40%	30%-40%
Annual Bonus	up to 75%	up to 50%
Equity (per vesting annum)**	up to 3%	up to 1.5%

* The percentages above, except equity, reflect ratios compared to the annual Base Salary.
** Commencing as at July 2014 and reflect the percentage out of the issued share capital.

Details of each element of Compensation follows:

Annual base cash remuneration

The Senior Executives' base salary (the "Base Salary") is a fixed, cash component of overall remuneration, which is reviewed and may be adjusted periodically based on a variety of factors, including Executive performance, Company performance, general economic conditions and the subjective business judgement and general business experience of the members of the Remuneration Committee, always taking into account the Remuneration Considerations.

Base Salary ranges are designed to account for varying responsibilities, experience and performance levels. The Base Salary shall not exceed the maximum threshold for annual Base Salary:

(i) for Senior Executives (excluding the CEO) – 1,500,000 NIS; and (ii) for the CEO- 1,800,000 NIS when resident in Israel and up to US$1,150,000 in the event of relocation (to North America or Europe) as this Base Salary includes compensation for living and education costs associated with family relocation.

Any annual increase up to 5% in the Base Salary of the CEO or CFO which is linked to an increase in Matomy's EBITDA and its subsidiaries on a linear basis for the relevant year shall only require the approval of the Remuneration Committee .

Annual performance-based Incentive cash remuneration

Matomy's annual performance-based incentive cash remuneration (the "Bonus") program is designed to tie Executive remuneration to the Group's performance and to encourage Senior Executives to remain with Matomy. The Bonus program for certain Senior Executives is based on the achievement of financial and/or personal thresholds. Such thresholds may be measurable financial or personal thresholds. The Remuneration Committee and the Board of Directors, as applicable pursuant to this Policy, shall set and designate the maximum permitted thresholds for a Bonus, subject to the approvals required under the Israeli Companies Law. The CEO shall be authorised to determine the annual criteria for payment of any Bonus which falls within the approved permitted thresholds to all Senior Executives (other than the CEO and the Directors), and the annual criteria for payment of the Bonus to the CEO shall be determined by the Remuneration Committee, all in accordance with the provisions of the Policy.

Unless expressly approved otherwise, the Bonus shall not be deemed as part of the salary for all purposes including social benefit and severance payments.

The criteria on which the annual Bonus are based shall be calculated as follows:

(i) **Company performance measures** — Revenues and/or EBITDA, measured against the targets of the annual budget, as approved by the Board of Directors, and/or work plan and/or analyst consensus of Matomy for the relevant year. The weight of Company Performance will constitute at least: (a) for the CEO and CFO/COO – 55% of the total Bonus; and (b) for the other Senior Executives – 70% of the total Bonus.

(ii) **Personal performance measures** — The criteria shall be determined individually when such personal criteria are set. A list of personal Qualitative Goals is attached as Exhibit I hereto (the "Qualitative Goals"). The weight of Personal Performance will constitute up to: (a) for the CEO and CFO/COO – 45% of the total Bonus; (b) for the other Senior Executives – 30% of the total Bonus.

With respect to measurable financial criteria the threshold for the payment of the annual Bonus will be set based on achievement of a certain percentage of one or more of the Company Performance measures. In addition, the Board of Directors may, in its sole discretion, upon the recommendation of the Remuneration Committee, change the amount of the Bonus (increase or decrease), which changes may not be based on measurable criteria, taking into account, inter-alia, such Senior Executive contribution to Matomy's performance, as well as other events that affected the Group's financial and operational performance (such as the effect of exchange rate). However, such changes to the Bonus shall be immaterial (up to 10%) in comparison to the value of the variable (performance based) components of the remuneration of such Senior Executive. If Matomy restates any of the financial data that was used in calculating any Bonus (other than restatement required due to changes in financial reporting standards), then the applicable Bonus shall be recalculated using such restated data (the "Restated Bonus"). The balance between the original Bonus and the Restated Bonus, if any (the "Balance") will be repaid to Matomy by deducting such Balance from the first amounts payable to such Senior Executive as Bonus immediately after the completion of such restatement. To the extent that no Bonus will be payable to such Senior Executive in that year then the Balance shall be deducted from the Bonus payable in the next year.
Notwithstanding the above, if (i) the Senior Executive's employment relationship with Matomy terminates before the Balance is fully repaid to Matomy, than the Balance shall be deducted from all amounts due and payable to such Senior Executive in connection with such termination (subject to the limitations of any applicable law); and (ii) the Balance is not repaid in full to Matomy during the two (2) consecutive years following the restatement, the Senior Executive shall repay the Balance, or the unpaid portion thereof (as applicable) pursuant to the terms that shall be determined by the Board of Directors, based on recommendation of the Remuneration Committee.

In the event of termination of employment during the calendar year the amount of the Bonus shall be calculated and adjusted for the entire year in accordance with the provisions of this policy, and thereafter shall be prorated in accordance with the actual days of employment of the Senior Executive by the Company during the applicable year (calculated based on 365 days in a year) and paid to the Senior Executive in full together with first salary that will be paid following the approval by the Board of Directors of the Financial Statement of such applicable year.

Long-term equity-based incentive remuneration

We believe that equity-based incentives tied to share ownership by Senior Executives are the most important component of total remuneration. The equity-based incentives are intended to reward the Senior Executives for future performance, as reflected by the market price of Matomy's ordinary shares and/or other performance criteria, and are used to foster a long-term link between Senior Executives' interests and the interest of the Company and its Shareholders, as well as to attract, motivate and retain Senior Executives for the long term by: (i) providing Senior Executives with a meaningful interest in Matomy's share performance; (ii) linking equity-based remuneration to potential and sustained performance; and (iii) spreading benefits over time through the vesting period mechanism. The decision on equity-based incentives grant shall take into consideration each Senior Executive's position, scope of responsibilities as well as his or her past performance and contribution to Matomy.

Matomy may issue each Senior Executive options to purchase the Company's shares in accordance with the requirements of Section 102 of the Israeli Income Tax Ordinance [New Version], 5721-1961, as may be amended from time to time or any other applicable tax regimes, pursuant to which the Company has adopted Supplementary Sub Plans Matomy Media Group Ltd. 2012 Equity Benefit Plan, as amended (the "EBP"). Pursuant to the Company The EBP and/or any other Sub-Plans adopted for jurisdictions outside of Israel and/or any other long-term incentive Plan that the Company may adopt in the future, as shall be determined by the Remuneration Committee and the Board of Directors.

The value of the long-term equity-based incentive remuneration (at the date of grant) per vesting annum (on a linear basis), for each Senior Executive shall not exceed: (I) for the CEO – up to 3% of the issued share capital; (ii) for other Senior Executives – up to 1.5% of the issued share capital; (iii) for new Senior Executive (as described below) – up to 1.5% of the issued share capital. Notwithstanding the aforesaid, the Remuneration Committee and the Board of Directors (subject to any additional required approvals) may decide to deviate from the above caps for the purpose of a one-time grant of long-term equity based incentive remuneration in connection with the recruitment of a new Senior Executive.

In order to align Senior Executive and investors' interest for creation of long-term value, the long-term equity based incentive remuneration will include the following terms:

(i) the amount of options that may be granted shall be calculated in accordance with the ratio between the economic value (binomial/B&S) of such options and the total remuneration of the applicable Senior Executive in accordance with the ranges stated above;
(ii) the options shall vest in accordance with the terms of the EBP and may include provisions for acceleration of vesting in certain events, such as a merger, a consolidation, a sale of all or substantially all of our consolidated assets, the sale or other disposition of all or substantially all of our outstanding shares.Any amendment in the vesting schedules set out in the EBP with respect to Senior Executives, will be subject to receipt of the required approvals, including the Remuneration Committee and the Board;
(iii) the exercise price shall be determined by the Remuneration Committee, but in any event shall not be lower than fair market value as such terms is defined in the EBP; and

(i) subject to receipt of all the required approvals, the exercise of the options may be made by a cashless mechanism and the exercise price may be adjusted for dividend distribution.

We believe that having successive grants of options assists in achieving and maintaining the objectives of equity based remuneration. Therefore, within the framework of the annual review of the remuneration of each Senior Executive, the Remuneration Committee may, based on the Remuneration Consideration, issue additional options to each Senior Executive, the quantity of which shall be at the levels which will range from 2-5% of the Senior Executive's potential remuneration.

Other executive benefits

The Other Executive Benefits are used to provide certain benefits that are mandatory under the applicable law (ie, paid vacation, sick leave and pension plans), as well as to attract, motivate and retain highly skilled professionals as executive officers and enabling recruitment of Senior Executives from various locations and their relocation.
Each Senior Executive shall be entitled to receive from the company an executive-level car for work and personal use, including all costs and grossing up of the tax value. The use of the car shall be subject the Company's polices, including with respect to payment of the excess amount in the event of accidents and payment of traffic and parking fines.

The Company shall reimburse the business expenses (that are properly documented and approved in accordance with Matomy's internal policies) of its Senior Executives.
The Company may make available to the Senior Executive, at the Company's cost, a company car, a cellular phone, a laptop computer and internet connection and a business daily newspaper.
Each Senior Executive is entitled to receive between 18 to 30 paid vacation days for each 12 months of employment.

Matomy may contribute on behalf of the Senior Executive, as allowed by the applicable law, to all or part of the following funds: (i) manager's insurance program and/or pension programs with pension funds; (ii) work disability insurance; and (iii) education fund ("Keren Hishtalmut"). All the payments and allowances will be calculated with respect to the entire Base Salary.

The benefits described above shall not constitute part of the remuneration for any purpose including with respect to payments or calculations relating to severance payments, pension entitlements allocation to managers' insurance, education fund, redemption of vacation days, etc.

Retirement and termination of service or employment arrangements

Matomy may provide post-service or employments benefits, remuneration or protection to its Senior Executives (the "Retirement Benefits"). The Retirement Benefits are used to attract and retain highly skilled professional executive officers, as well as express recognition of Senior Executives' contribution to Matomy during their tenure with the Company.

The retirement/termination arrangements may include one or more of the following, as may be approved by the Remuneration Committee and the Board of Directors (unless the termination is in circumstances that negate the payment of a severance amount pursuant to the applicable law):

(i) **Advance notice of termination** — The advance notice shall be as follows (the "Advance Notice Period"): (i) up to a maximum of six (6) months for the CEO; and (ii) up to a maximum of four (4) months for the other Senior Executives. The Senior Executives shall be obligated to work during such period, but the Company may decide, at its sole discretion, to waive actual work during that period, in whole or in part.

(ii) **Adjustment payments** — A Senior Executive may be entitled to adjustment payments as follows: (i) up to a maximum of six (6) months for the CEO; and (ii) up to a maximum of four (4) months for the other Senior Executives, provided that any overlap between the Advance Notice Period during which the Senior Executive is not working will be accounted for the purpose of calculating the total adjustment payment and deducted therefrom. The adjustment payments will be based on the employment term of each Senior Executive with the Company.

The Retirement Benefits will be determined based on the circumstances of such retirement or termination, the terms of service or employment of the Senior Executive, his or her remuneration package during such period, market practice in the relevant geographic location, Matomy's performance during such period and the Senior Executive's contribution to Matomy achieving its goals and maximising its profits.

The Remuneration Committee and the Board of Directors may, at their discretion, determine not to provide some or any Retirement Benefits, in the event of termination for "cause", which will be as defined in the applicable arrangement with the Senior Executive. In addition, the Remuneration Committee and the Board of Directors may determine that any or all Retirement Benefits will be granted in consideration for and/or conditional upon or subject to the fulfillment of one or more conditions or undertakings by the Senior Executive (ie, confidentiality and/or non�compete obligations).

Compensation of Directors

The Company aims to attract and retain highly talented Non-Executive Directors with the appropriate educational background, qualifications, skills, expertise, prior professional experience and achievements, by offering them a competitive remuneration program.

Directors that are employees of Matomy or otherwise non-independent, ie, appointed by or representing a shareholder or a group of Shareholders of Matomy, shall not be entitled to any Directors' fees or other remuneration for their services as a Director, except for reimbursement of certain business expenses associated with service as a Director, such as payment of travel and lodging expenses when attending meetings of the Board of Directors outside their country of usual residence, subject to the prior approval of Matomy.
The External Directors and the Independent Directors shall be entitled to the fees and reimbursement of expenses

payable pursuant to the Israeli Companies Law and the regulations promulgated pursuant thereto (as may be updated from time to time). The fees payable to External Directors and the Independent Directors shall be based on the relative method as described in the regulations promulgated pursuant to the Israeli Companies Law.

The Directors shall not be entitled to Bonus or Equity-Based Incentive Remuneration with regard to their service as Directors.

D&O insurance; indemnification and release

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

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

Exhibit I

Qualitative goals — for the purposes of determining entitlement to annual bonus

- Implementation or completion of specified projects or processes;
- customer satisfaction;
- productivity;
- the formation of joint ventures;
- research or development collaborations, or the completion of other transactions;
- market share;
- completion of acquisitions of assets;
- acquisitions of businesses or companies;
- completion of divestitures and asset sales;
- greater geographic and product diversification;
- enhancing Matomy's succession planning and performance-driven culture by adding new talent in key roles;
- defending pending litigation matters and protecting Matomy's intellectual property;
- launching research and development initiatives;
- expansion of customer and strategic partner base;
- production performance;
- creation and advancement of technology;
- development and management of the employee base;
- maintenance of worldwide regulatory compliance;
- improving technical achievements;
- adherence to ethical standards; and
- risk management.

Directors' Responsibilities Statement

Directors' responsibilities statement 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 the 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.

Directors' responsibilities statement pursuant to Disclosure and Transparency Rule 4.1.12R

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

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

IDO BARASH

Company Secretary

4 Financial Statements

Independent auditor's report to the Board of Directors of Matomy Media Group Ltd.

We have audited the accompanying consolidated financial statements of Matomy Media Group Ltd. ("the Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2016 and 2015, and the related consolidated statements of income (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 2016 and 2015 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.

KOST FORER GABBAY & KASIERER
A Member of EY Global
24 March 2017
Tel Aviv, Israel

Consolidated balance sheets

(US dollars in thousands)

		2016		2015
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	21,671	$	27,271
Trade receivables, net		54,900		58,168
Domains held for sale		9,965		5,814
Other receivables and prepaid expenses		5,502		3,838
Total current assets		92,038		95,091
LONG-TERM ASSETS:				
Property and equipment, net		9,032		4,861
Other long-term assets		-		3,609
Deferred tax assets		1,957		2,017
Investment in affiliated companies		36,577		50,342
Other intangible assets, net		97,015		96,643
Goodwill		398		317
Total long-term assets		144,979		157,789
Total assets	$	237,017	$	252,880

Consolidated balance sheets

(US dollars in thousands)

		2016		2015
CURRENT LIABILITIES:				
Redeemable non-controlling interest	$	13,776	$	-
Short-term bank credit and current maturities of bank loans		8,960		6,382
Trade payables		43,982		49,165
Contingent payment obligation related to acquisitions		7,166		6,123
Employees and payroll accrual		4,386		3,870
Accrued expenses and other liabilities		5,531		7,823
Total current liabilities		83,801		73,363
LONG-TERM LIABILITIES:				
Deferred tax liabilities		11,148		15,597
Contingent payment obligation related to acquisitions		10,192		11,968
Bank loans, net of current maturities		6,661		7,357
Other liabilities		821		1,030
Total long-term liabilities		28,822		35,952
REDEEMABLE NON-CONTROLLING INTEREST		23,691		35,365
EQUITY:				
Matomy Media Group Ltd. shareholders' equity:				
Ordinary shares		247		240
Additional paid-in capital		101,066		96,837
Accumulated other comprehensive loss		(3,174)		(3,174)
Retained earnings		8,795		20,528
Treasury shares		(6,231)		(6,231)
Total equity		100,703		108,200
Total liabilities and equity	$	237,017	$	252,880

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

24 March 2017
Date of approval of the financial statements

Ofer Druker
Chief Executive Officer

Sagi Niri
Chief Financial Officer

Consolidated statements of income

(US dollars in thousands, except earnings per share data)

	2016	2015
Revenues	$ 276,631	$ 270,976
Cost of revenues	219,781	208,696
Gross profit	56,850	62,280
Operating expenses		
Research and development	12,624	7,871
Selling and marketing	30,630	26,210
General and administrative	14,882	16,083
Total operating expenses	58,136	50,164
Operating (loss) income	(1,286)	12,116
Financial expenses, net	2,057	2,179
Income (loss) before taxes on income	(3,343)	9,937
Taxes on income	4,689	2,681
Income (loss) before equity losses of affiliated companies	(8,032)	7,256
Equity losses of affiliated companies	73	24
Net (loss) income	(8,105)	7,232
Revaluation of redeemable non-controlling interest	(3,141)	(76)
Net income attributable to redeemable non-controlling interests	(487)	(545)
Net loss attributable to other non-controlling interests	-	2
Net (loss) income attributable to Matomy Media Group Ltd.	$ (11,733)	$ 6,613
Basic and diluted (loss) earnings per ordinary share	$ (0.13)	$ 0.07

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

Consolidated statements of changes in shareholders equity

(US dollars in thousands, except share data)

	Ordinary shares Number	Ordinary shares Amount	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non-controlling interests	Total equity
Balance as of 1 January 2015	90,290,596	$ 236	$ 93,977	$ (3,165)	$13,915	$(6,231)	$ 98,732	$ 711	$ 99,443
Stock-based compensation	-	-	850	-	-	-	850	-	850
Exercise of options	1,293,124	3	1,193	-	-	-	1,196	-	1,196
Issuance of shares for Avenlo's acquisition	298,670	1	871	-	-	-	872	-	872
Change in parent's ownership interest in subsidiary	-	-	(54)	-	-	-	(54)	(709)	(763)
Other comprehensive income	-	-	-	(9)	-	-	(9)	-	(9)
Net income	-	-	-	-	6,613	-	6,613	(2)	6,611
Balance as of 31 December 2015	91,882,390	240	96,837	(3,174)	20,528	(6,231)	108,200	-	108,200
Stock-based compensation	-	-	1,854	-	-	-	1,854	-	1,854
Exercise of options and vesting of restricted share units	2,694,068	7	2,375	-	-	-	2,382	-	2,382
Net loss	-	-	-	-	(11,733)	-	(11,733)	-	(11,733)
Balance as of 31 December 2016	94,576,458	$ 247	$101,066	$ (3,174)	$8,795	$(6,231)	$ 100,703	$ -	$100,703

Consolidated statements of cash flows

(US dollars in thousands)

	2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (8,105)	$ 7,232
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortisation	16,511	12,621
Stock-based compensation	1,854	850
Impairment of intangible assets	396	-
Deferred tax, net	(1,039)	(2,226)
Change in accrued interest and effect of foreign exchange differences on long term loans	(266)	(83)
Equity losses of affiliated companies, net	73	24
Decrease in trade receivables	3,268	4,985
Increase in domains held for sale	(4,151)	(3,786)
Increase (decrease) in other receivables and prepaid expenses	(1,664)	794
Decrease (increase) in other assets	(82)	11
Decrease in trade payables	(5,183)	(1,552)
Decrease in fair value of contingent payment obligation related to acquisitions	(821)	-
Accretion of contingent payment obligation related to acquisitions	712	122
Increase in employees and payroll accrual	516	619
Increase (decrease) in accrued expenses and other liabilities	(2,243)	(883)
Other	55	(4)
Net cash provided by (used in) operating activities	(169)	18,724

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

	2016	2015
Cash flows from investing activities:		
Purchase of property and equipment	(1,653)	(1,055)
Capitalization of research and development costs	(5,106)	(2,195)
Acquisition of technology and database	(158)	(164)
Acquisition of advertiser list	-	(2,666)
Acquisition of Avenlo Media Group	-	(5,570)
Acquisition of Optimatic Media, net of cash acquired	-	(17,896)
Repayment of loan from affiliate	-	88
Bank deposits	-	(58)
Net cash used in investing activities	$ (6,917)	$ (29,516)

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

Consolidated statements of cash flows

(US dollars in thousands)

	Year ended 31 December	
	2016	2015
Cash flows from financing activities:		
Short-term bank credit, net	$ 2,093	$ -
Receipt of bank loans	7,021	1,330
Repayment of bank loans	(6,966)	(6,625)
Expenses related to IPO	-	(139)
Additional payments related to previous acquisitions	(624)	(1,611)
Acquisition of redeemable and non-redeemable non-controlling interest	(565)	(1,328)
Dividend paid to redeemable non-controlling interest	(1,863)	(2,741)
Exercise of options	2,382	1,196
Net cash provided by (used in) financing activities	1,478	(9,918)
Effect of exchange rate differences on cash	8	(7)
Decrease in cash and cash equivalents	(5,600)	(20,717)
Cash and cash equivalents at beginning of period	27,271	47,988
Cash and cash equivalents at end of period	$21,671	$27,271

Supplemental disclosure of cash flow activities		
Cash paid during the year for:		
Income taxes, net	**$ 6,336**	**$ 5,162**
Interest paid	**$642**	**$667**

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

Notes to consolidated financial statements

(US dollars in thousands)

NOTE 1: GENERAL

a. Matomy Media Group Ltd together with its subsidiaries (collectively - "the Company") provides digital performance-based marketing services to customers which include primarily advertisers, advertising agencies, Apps developers, domain owners and other businesses around the world that promote or sell products and/or services to consumers through digital media, such as websites, mobile apps, video and social media networks. The Company offers its customers a solution for reaching and acquiring their target digital consumer audience across devices. Matomy Media Group Ltd. was incorporated in 2006. The Company's markets are located primarily in the United States and Europe.

The Company's technological platforms provide its customers with access to a wide range of digital media channels, and enable to combine internal media capabilities, data analytics and advanced optimization technologies to ensure meeting the standards and requirements set by its customers. These capabilities also support improved targeting, user acquisition and revenue results for both advertisers and media partners.

The Company manages and optimises its customers' digital marketing campaigns and its media partners` inventory through proprietary technological platforms, maximising their accessibility to their target audience. These technologies also support and provide data analytics capabilities, business intelligence, programmatic media buying and Real-Time-Bidding (RTB) on mobile, video and web. The Company also provides a media management platform (SSP) and offers publishers end to end solution with hundreds of global demand partners.

The Company currently operates across several media channels, including mobile, video, domain monetisation and email. The domain monetisation activity is held in Team Internet, a 70% owned subsidiary, located in Germany (see Note 8).

Since July 2014 the Company is traded in the "London Stock Exchange". On 16 February 2016, the Company's shares commenced trading also on the Tel Aviv Stock Exchange ("TASE") in accordance with the Company's TASE Dual Listing Application pursuant to the Israeli Dual-Listing Law.

b. The Company adopted a contingency plan, which was approved by the Board, to be effected, in whole or in part, at its discretion, to provide alternative sources of liquidity to allow the Company to meet its cash obligations, all to the extent required. The Company and the Board believes that its existing capital resources and other future measures that may implemented, if so required, will be adequate to satisfy its expected liquidity requirements, including its available credit lines and loans obtained subsequent to 31 December 2016 (see note 17), in the foreseeable future.

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.

Redeemable non-controlling interests are classified as mezzanine equity, separate from permanent equity, on the consolidated balance sheets and measured at each reporting period at the higher of their redemption amount or the non-controlling interest book value, in accordance with the requirements of Accounting Standards Codification ("ASC") 810 "Consolidation" and ASC 480-10-S99-3A, "Distinguishing Liabilities from Equity".

b. Use of estimates:

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

On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable, fair values of financial instruments, intangible assets and goodwill, fair values of stock-based awards, deferred taxes and income tax uncertainties, and contingent liabilities, among others. Such estimates are based on historical experience and on various other assumptions that are believed 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 most of its subsidiaries operate.

A substantial portion of the revenues and expenses of the Company are generated in US dollars. In addition, financing activities including equity transactions and cash investments are made in US dollars, as well as the Company's forecasted budget, 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 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 2016 and 2015 were $ 1,704 and $ 3,191, respectively.

During the years ended 31 December 2016 and 2015 bad debt expenses were $ 1,794 and $ 1,384, respectively, and the write offs of balances included in allowances for doubtful accounts amounted of $ 2,806 and $ 790 in the years ended 31 December 2016 and 2015, respectively. During 2016 recoveries amounted to $ 475 of amounts previously included allowance for doubtful accounts.

f. Domains held for sale:

As part of its operating business, the Company holds domains portfolios available for sale, with an indefinite life. The domains portfolio is used to generate revenues. The domains are stated at cost, are not amortized and are subject to an annual impairment test. At the end of each reporting period domains write-down is measured as the difference between the cost of the domain and market based upon assumptions of revenue multiplier, and is charged to the cost of sales. During the year ended 31 December 2016 and 2015 no write-downs were recorded. Due to the fact that domains portfolio are highly tradeable and there is a general high level of demand and interest from prospective domains portfolio purchasers the domains portfolios are classified as a short term asset.

g. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation and amortisation. 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	10-15
Capitalized research and development costs	33
Leasehold improvements	Over the shorter of related lease period or the life of the improvement

h. Other intangible assets, net:

Other intangible assets are stated at cost, net of accumulated amortisation.

Other intangible assets consist of technology, customer relationships, database and trade name. Customer relationships and trade name are amortised over their estimated useful lives in proportion to the economic benefits realised. This accounting policy results in accelerated amortisation of such customer arrangements and trade name.

Technology and database are amortised over their estimated useful lives on a straight-line basis.

Amortisation is calculated using the following annual rates:

	Weighted average %
Technology	23
Customer relationships	19
Database	10
Trade name	20

For impairment of intangible assets, see also note 2k.

i. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the identifiable net tangible and intangible assets acquired. Under ASC 350, goodwill is not amortised, but rather is subject to an annual impairment test.

Following the acquisition of Team Internet, the Company operates in one operating segment, comprised of two reporting units – Matomy and Domain Monetisation. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine whether the net book value of a reporting unit exceeds its estimated fair value.

The Company did not recognise any impairment charges related to goodwill during 2016 and 2015.

j. Business combinations:

The Company accounts for business combinations in accordance with ASC 805, "Business Combinations" which requires allocating the purchase price of acquired companies to the identifiable tangible and intangible assets acquired and liabilities assumed and any non-controlling interest at fair value as of the acquisition date. ASC 805 also requires the estimation of fair value of potential contingent consideration at the acquisition date and restructuring and acquisition-related costs to be expensed as incurred.

k. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" and ASC 350, "Intangibles - Goodwill and other", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of long-lived assets, the Company makes judgments regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of assets or asset groups. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

For the year ended 31 December 2016, the Company recognized impairment of technology acquired in Avenlo acquisition, in the amount of $ 396, which is included in general and administrative expenses on the statements of income (operations). See also note 5c.

For the year ended 31 December 2015, no impairment loss was recorded.

l. Investments in affiliated companies:

Investments in companies in which the Company holds less than 20%, and does not have the ability to exercise significant influence over their operating and financial policies, are stated at cost. Investments in companies in which the Company holds more than 20% (and less than 50%) or has the ability to exercise significant influence over their operating and financial policies are measured using the equity method.

The Company's investments in affiliated companies are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. For the years ended 31 December 2016 and 2015, no impairment losses were recorded.

m. 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 2016 and 2015 were $ 1,311 and $ 1,406, respectively.

n. Employee benefit plan:

The Company's U.S. operations maintain a retirement plan (the "U.S. Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participants in the U.S. Plan may elect to defer a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. The Company matches 25% of each participant's contributions, up to 6% of employee deferral. There is also a vesting period for the employer match which is based on the employee date of hire and years of service. Contributions to the U.S. Plan are recorded during the year contributed as an expense in the consolidated statement of income (operations).

Total employer 401(k) contributions for the years ended 31 December 2016 and 2015 were $ 54 and $ 0, respectively.

o. Revenue recognition:

The Company provides smart marketing services through customized performance and programmatic solutions supported by internal media capabilities, big data analytics, and optimization technology, Matomy empowers advertising and media partners to meet their evolving growth-driven goals across several media channels, including mobile, video, domain monetisation and email, for multiple industry verticals, such as games and entertainment, healthcare and pharmaceuticals, finance and education, and on a wide variety of devices and operating systems.

The Company generates a large part of its revenues when its customers' ad campaigns achieve certain predefined measurable and validated results on a per-action basis such as cost-per-acquisition ("CPA"), cost-per-sale ("CPS"), cost-per-lead ("CPL"), cost-per-download ("CPD"), cost-per-view ("CPV"), cost-per-install ("CPI") and pay per call ("PPC"). The Company also generates revenues based on a metric that predefines a certain amount of ad views based on a cost per thousand advertising impressions ("CPM").

The Company recognises revenue when all four of the following criteria are met: persuasive evidence of an arrangement exists; service has been provided; customer fees are fixed or determinable; and collection is reasonably assured. Revenue arrangements are evidenced by executed terms and conditions as part of an insertion order, with an advertiser or an advertising agency.

The Company evaluates whether its revenues should be presented on a gross basis, which is the amount that a customer pays for the service, or on a net basis, which is the customer payment less amounts the Company pays to suppliers. In making that evaluation, the Company considers indicators such as whether the Company is the primary obligor in the arrangement and assumes risks and rewards as a principal or an agent, including the credit risk, whether the Company has latitude in establishing prices and selects its suppliers and whether it changes the products or performs part of the service.

The Company records deferred revenues for unearned amounts received from customers for services that were not recognised as revenues. Deferred revenues amounted to $ 1,737 and $ 2,878 at 31 December 2016 and 2015, respectively, and are included within accrued expenses and other liabilities on the balance sheets.

p. Cost of revenues:

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

q. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company's items of other comprehensive income relate to foreign currency translation adjustments, which were immaterial for the years 2016 and 2015.

r. Research and development costs:

Research and development costs are charged to the statement of income (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.

s. Internally Developed Software:

The Company capitalizes certain internal software development costs, consisting of direct labor associated with creating the internally developed software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (costs are capitalized) and the post implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight line method over the estimated useful life of the software, generally 3 years, once it is ready for its intended use. The Company believes the straight line recognition method best approximates the manner in which the expected benefit will be derived. During 2016 and 2015, the Company capitalized software development costs, net of $ 5,106 and $ 2,195, respectively. Amortization expense for the related capitalized internally developed software in 2016 and 2015 totaled $ 1,179 and $ 233, respectively, and is included in cost of revenues in the accompanying consolidated statements of income (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. Capitalized software development costs of $ 6,058 and $ 2,149 are included in property and equipment in the consolidated balance sheets as of 31 December 2016 and 2015, respectively (see Note 4).

t. 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 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 value of the portion of the award that is ultimately expected to vest, is recognized as an expense over the requisite service periods in the Company's consolidated statement of income (operations). ASC 718 requires forfeitures to be estimated at the time of grant, and revised if necessary in subsequent periods, if actual forfeitures differ from those estimates.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the accelerated attribution method, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

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 fair value of its ordinary shares, the expected stock price volatility, expected option term, risk-free interest rates and expected dividend yield, which are estimated as follows:

- Volatility - the Company's ordinary shares had not been publicly traded for long enough to accurately evaluate volatility, and therefore the volatility assumption is based on the volatilities of other publicly-traded companies that are comparable to the Company, as in previous periods.
- Expected option term - the expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, which is the midpoint between the vesting date and the end of the contractual term of the option.
- Risk-free interest - the risk-free interest rate assumption is based on the yield from zero-coupon US government bonds appropriate for the expected term of the Company's employee stock options.
- Dividend yield - the Company estimates its dividend yield based on historical pattern, however the Company currently intends to invest funds in business development and not to distribute dividends.

The fair value of the Company's stock options granted to employees and directors for the years ended 31 December 2016 and 2015 was estimated using the following weighted average assumptions:

	Year ended 31 December	
	2016	2015
Volatility	43%	45%
Expected option term (in years)	6.3	6.3
Risk-free interest rate	1.3%	1.55%
Dividend yield	0%	0%

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

u. 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.

v. Concentrations of credit risks:

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

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

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

w. 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.

A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

x. Derivative instruments:

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and Hedging", which requires recognizing all derivatives on the balance sheet at fair value. If the derivatives meet the definition of a cash flow hedge and are so designated, depending on the nature of the hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative's change in fair value that are not designated as hedges are recognized in earnings immediately.

In order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the New Israeli Shekels ("NIS"), the Company started to hedge portions of its forecasted expenses denominated in NIS with options contracts. The Company does not speculate in these hedging instruments in order to profit from foreign currency exchanges, nor does it enter into trades for which there are no underlying exposures.

The options contracts were not designated as hedging instruments and therefore gains or losses resulting from the change of their fair value are recognized in "financial expenses, net". As of 31 December 2016 and 2015, the Company had derivative liability of $ 33 and $ 110, respectively, representing the fair value of outstanding options contracts. The Company measured the fair value of these contracts in accordance with ASC 820, "Fair Value Measurement and Disclosures", and they were classified as level 2. Net gain (loss) from hedging transactions recognized in financial expenses, net, during 2016 and 2015, was ($ 673) and $ 197, respectively.

The notional value of the Company's derivative instruments as of 31 December 2016 and 2015, amounted to $ 7,504 and $ 8,911, respectively. Notional values in USD are translated and calculated based on the spot rates for options. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company, however, they are used in the calculation of settlements under the contracts.

y. 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 excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, was 10,159,124 and 2,751,352 for the years ended 31 December 2016 and 2015, respectively.

z. 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.

aa. Reclassification:

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. The reclassification had no effect on previously reported net income (loss) or shareholders' equity.

ab. Recently issued accounting standards:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In July 2015, FASB deferred the effective date by one year to December 15, 2017 and permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued 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) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers.

The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

In 2014, the FASB issued ASU 15-2014, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of uncertainties about an entity's ability to continue as a Going Concern, which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The update is effective for annual period ending 15 December 2016.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The standard is effective for the Company for 2020. Early adoption is permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting. It also will allow an employer to make a policy election to account for forfeitures as they occur. The update is effective for fiscal years beginning after 15 December 2016, including interim periods within reporting period, with early adoption permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance will be effective for the Company 1 January 2018 and early adoption is permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

NOTE 3: ACQUISITIONS

a. Acquisition of Avenlo Inc.:

On 15 April 2015, the Company completed the acquisition of 70% of the issued and outstanding shares of a newly formed company, Avenlo Media Group Inc. ("Avenlo") that has purchased the principal business activity and operations of Maven Marketing Group Inc., for a total consideration of $ 22,860. On 8 March 2016, the Company signed an amendment to the purchase agreement, setting the total consideration on the amount of $ 10,790. As a result of the amendment, the Company reassessed the fair value of the purchased assets and the assumed liabilities within the measurement period as defined in ASC 805, and adjusted the fair values as of the acquisition date.

The purchase price of Avenlo's shares is composed as follows:

	Amount
Cash consideration	$ 5,570
Issuance of Company shares	872
Contingent consideration *)	2,859
Redeemable non-controlling interest **)	1,489
Total purchase price	$ 10,790

*) The contingent consideration will be paid upon achieving certain milestones of future savings, revenue momentum and EBITDA over a period of 4 years following the acquisition date.

As of 31 December 2016, the contingent consideration was estimated at $ 638 (as of 31 December 2015, the liability amounted to $ 1,347).

**) According to the agreement, Avenlo's shareholders have the right to individually transfer all of their remaining shareholding, (being 30% in aggregate) to the Company in three equal instalments of 10% every year starting 21 April 2017 ("the Put Options"). The Put Options' exercise prices are calculated based on Avenlo's EBITDA multiplied by a changing multiplier as defined in the agreement. In addition, The Company will have corresponding call options to the put options.

Avenlo is a leading performance email marketing and ad targeting company, and is incorporated under the laws of Canada. The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets of Avenlo acquired and the liabilities assumed. In performing the purchase price allocation, management has considered, inter alia, Avenlo's business model and its value drivers, its historical financial performance and estimates of future performance. The fair value of the intangible assets was assessed assuming a market participant acquirer utilising the income approach.

The following table summarises the fair values of the assets acquired as of the acquisition date:

Database	$ 5,451
Technology *)	2,119
Customer relationships	406
Goodwill	2,814
Total assets acquired	10,790

*) For impairment recorded in 2016, refer to note 5c.

The acquired customer relationships are amortised over their estimated useful lives in proportion to the economic benefits realised (3 year weighted-average useful life). The Database and the technology is amortised over its estimated useful life of 10 and 4 years, respectively, on a straight-line basis.

The results of Avenlo's operations have been included in the consolidated financial statements commencing 1 April 2015. Management estimates that the difference between the consolidation date and the acquisition date has an immaterial effect on its results of operations.

b. Acquisition of Optimatic Media:

On 13 November 2015, the Company acquired the entire share capital of Optimatic Media Inc. ("Optimatic") by way of a reverse triangular merger, pursuant to the terms and conditions of the Agreement and Plan of Merger dated 13 November 2015, for a total consideration of $ 33,571. Optimatic is a leading programmatic technological Video Platform company that enables top-tier publishers to manage their inventory programmatically and a full suite of digital video Supply Side Platform capabilities. Optimatic developed a unique proprietary video platform and is considered a leader in the video space. Optimatic is incorporated under the laws of USA.

The purchase price of Optimatic's shares is composed as follows:

	Amount
Cash consideration	$ 20,000
Contingent consideration *)	13,571
Total purchase price	$ 33,571

*) The contingent consideration is calculated based on Optimatic's expected EBITDA for the years 2016 to 2018. As of 31 December 2016 and 2015, the contingent consideration amounted to $ 13,421 and $ 13,571, respectively.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets of Optimatic acquired and the liabilities assumed. In performing the purchase price allocation, management has considered, inter alia, Optimatic's business model and its value drivers, its historical financial performance and estimates of future performance. The fair value of the intangible assets was assessed assuming a market participant acquirer utilising the income approach.

The following table summarises the fair values of the assets acquired and liabilities assumed as of the acquisition date:

Cash	$ 2,104
Deposits	124
Trade receivables	13,838
Other receivables and prepaid expenses	541
Property and equipment	7
Customer relationships	7,028
Trade name	3,468
Technology	13,490
Goodwill	18,735
Total assets acquired	59,335
Trade payables	(15,345)
Accrued expenses and other liabilities	(667)
Deferred tax liability	(9,752)
Total liabilities assumed	(25,764)
Net assets acquired	33,571

The acquired customer relationships and trade name are amortised over their estimated useful lives in proportion to the economic benefits realised (6 and 5 year weighted-average useful life, respectively). The Technology is amortised over its estimated useful life of 5 years, on a straight-line basis.

The results of Optimatic's operations have been included in the consolidated financial statements commencing 1 November 2015. Management estimates that the difference between the consolidation date and the acquisition date has an immaterial effect on its results of operations.

In 2016, during the measurement period, the Company completed the purchase price allocation, and updated the goodwill related to Optimatic acquisition in $ 372, and recorded the following adjustments:

Goodwill	$ 372
Customer relationships	457
Accrued expenses and other liabilities	(642)
Deferred tax liability	(187)
	-

Unaudited pro forma condensed results of operations:

The following represents the unaudited pro forma condensed results of operations for the year ended on 31 December 2015, assuming the acquisitions of Avenlo and Optimatic occurred on 1 January 2015. The pro forma information is not necessarily indicative of the results of operations that would have actually occurred had the acquisitions been consummated on this date, nor does it purport to represent the results of operations for future periods.

	Year ended 31 December 2015
	Unaudited
Revenues	$ 327,732
Net income attributable to Matomy Media Group Ltd.	$ 4,170
Basic net earnings per share	$ 0.05
Diluted net earnings per share	$ 0.04

NOTE 4: PROPERTY AND EQUIPMENT, NET

a. Cost:

	31 December	
	2016	2015
Computers and software	$ 2,895	$ 4,689
Office furniture and equipment	1,247	820
Electronic equipment	249	188
Capitalized research and development costs	7,488	2,382
Leasehold improvements	1,240	1,190
	13,119	9,269
Accumulated depreciation and amortization:		
Computers and software	1,624	3,147
Office furniture and equipment	358	284
Electronic equipment	126	112
Capitalized research and development costs	1,430	233
Leasehold improvements	549	632
	4,087	4,408
Property and equipment, net	$ 9,032	$ 4,861

b. Depreciation and amortization expense amounted to $ 2,527 and $ 1,442 for the years ended 31 December 2016 and 2015, respectively.

In 2016 and 2015, the Company wrote off property and equipment in the amount of $ 2,927 and $ 1,169, respectively, that were fully depreciated.

NOTE 5: OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets:

	31 December 2016	31 December 2015
Original amounts:		
Technology	$ 28,840	$ 28,715
Customer relationships *)	27,714	27,257
Database	5,572	5,539
Trade name	3,468	3,468
	65,594	64,979
Accumulated amortisation:		
Technology	12,960	6,369
Customer relationships	14,216	7,758
Database	979	415
Trade name	862	95
	29,017	14,637
Other intangible assets, net	$ 36,577	$ 50,342

*) The customer relationship was adjusted during the measurement period of Optimatic acquisition. See also note 3b.

b. Amortisation expense amounted to $ 13,984 and $ 11,179 for the years ended 31 December 2016 and 2015, respectively.

c. During the years ended 31 December 2016 and 2015 the Company recorded an impairment charges in the total amount of $ 396 and $ 0, respectively. The impairment charges were attributed to technology related to Avenlo acquisition. The Company updated its revenue forecast based on this technology, and revalued the fair value of the technology based on the future discounted cash flow and royalty savings in the upcoming years.

d. The estimated future amortisation expense of other intangible assets as of 31 December 2016 is as follows:

2017	$ 12,359
2018	9,603
2019	6,376
2020	4,981
2021 and after	3,258
	$ 36,577

NOTE 6: GOODWILL

Changes in goodwill for the years ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Goodwill at beginning of year	$ 96,643	$ 75,094
Acquisitions	-	21,549
Adjustment to goodwill during the measurement period *)	372	-
	$ 97,015	$ 96,643

*) See also note 3b.

NOTE 7: Fair value of financial instruments

The following table present liabilities measured at fair value on a recurring basis as of 31 December 2016 and 2015:

31 December 2016	Fair value measurements using input type: Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration in connection with acquisitions	$ -	$ -	$ 17,358	$ 17,358
Derivative liabilities	-	33	-	33
Total financial liabilities	$ -	$ 33	$ 17,358	$ 17,391

31 December 2015	Fair value measurements using input type: Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration in connection with acquisitions	$ -	$ -	$ 18,091	$ 18,091
Derivative liabilities	-	110	-	110
Total financial liabilities	$ -	$ 110	$ 18,091	$ 18,201

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 2016 and 31 December 2015:

	2016	2015
Total fair balance at the beginning of the year	18,091	3,050
Increase in contingent liability due to new acquisitions	-	16,430
Accretion of contingent liability related to acquisitions	712	122
Changes in fair value recognized in earnings *)	(821)	-
Payment of consideration during the period	(624)	(1,511)
Total fair value at the end of year	17,358	18,091

*) The Company updated its forecast related to Optimatic future results, and recorded a decrease in its contingent liability accordingly.

NOTE 8: REDEEMABLE NON-CONTROLLING INTEREST

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

	Year ended 31 December	
	2016	2015
Redeemable non-controlling interest at beginning of year	$ 35,365	$ 34,062
Increase in redeemable non-controlling interests due to new subsidiary	-	1,489
Decrease in redeemable non-controlling interests due to change in ownership in subsidiaries *)	(565)	(565)
Revaluation of redeemable non-controlling interest in subsidiaries	3,141	76
Net income attributable to redeemable non-controlling interests	487	545
Dividend declaration to non-controlling interests	(961)	(242)
Classification of redeemable non-controlling interest into current liabilities **)	(13,776)	-
	$ 23,691	$ 35,365

*) In November 2016 and October 2015, the non-controlling interest of Matomy Social exercised their put option, and sold 10% of Matomy Social to the Company. As of 31 December 2016 and 2015, the Company holds 90% and 80% of Matomy Social, respectively.

**) During the fourth quarter of 2016, the non-controlling interest of Team Internet exercised their put option and sold 10% of Team Internet to the Company. The payment was made after balance sheet date, and therefore the Company classified the respective amount from redeemable to current liabilities. Following the exercise of the put option, the Company holds 80% of Team Internet shares.

Out of the closing balance as of 31 December 2016, an amount of $ 12,072 is exercisable during the year 2017.

NOTE 9: BANK LOAN AND CREDIT LINE

a. On 16 June 2014, the Company signed a term 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 an initial interest of three months USD LIBOR plus 4.5%, which was reduced in January 2015 to USD LIBOR plus 3.5% to be paid together with the relevant portion of the principal. In relation to this loan, the Company is required to comply with certain covenants, as defined in the loan agreement and its amendments. In connection with the new loan obtained in January 2017 (see note 17), the covenants were amendment. As of 31 December 2016, the Company was in full compliance with the financial covenants.

b. As of December 31, 2016, the Company has line of credit with Israeli banks for total borrowings of up to $13,000 million, out of which, it utilized $ 2,409. The Company presented the bank credit, net of cash deposits in the amount of $ 2,093, at the same bank account.

The line of credit is unsecured and available to the Company based on meeting certain account receivable conditions. Interest rate of the credit line is USD LIBOR plus 3.25% as of 31 December 2016. The Company is in compliance with the agreed account receivable condition.

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

c. On 11 July 2013, Team Internet borrowed $ 547 (EUR 450 thousand) from a German bank pursuant to a loan agreement requiring repayment after two years (30 September 2015). The interest rate on the loan was 2.65% and is payable every three months commencing 30 September 2013. The loan was repaid in full on 30 September 2015.

d. On 20 August 2015, Team Internet signed a term loan agreement with a German bank in an amount of $ 1,297 (EUR 1,192 thousand). 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 an interest of 1.8% to be paid on a monthly basis, commencing 31 August 2015.

e. On 28 April 2016, Team Internet signed a loan agreement with a German bank in an amount of $ 3,021 (EUR 2,660 thousand). 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 an interest of 1.1% to be paid on a quarterly basis, commencing 30 June 2016.

f. On 28 September 2016, the Company's subsidiary in the US ("Matomy US") signed a loan agreement with a bank in the US in an amount of $ 4,000, and an unsecured line of credit in the amount of $ 1,000. The term loan agreement requires repayment of principal and interest every 3 months commencing 28 December 2016. The loan bears an initial interest of three months USD LIBOR plus 3.65% and the line of credit bears a monthly interest of LIBOR plus 3.25%. As of 31 December 2016 the credit line was unused.

As security, Matomy US and its subsidiary have granted a first priority lien on and security interest in all of the assets of Matomy US, and provided cross guarantees.

Matomy US and its subsidiary, Optimatic, are required to comply with certain covenants, as defined in the term loan and line of credit agreement and its amendments. As of 31 December 2016, the Company was in full compliance with the financial covenants.

g. As of 31 December 2016, the aggregate principal annual maturities according to the loan agreement are as follows:

2017 (current maturities)	$ 6,867
2018	3,794
2019	1,840
2020	747
2021	280
Total	$ 13,528

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company rents its facilities under operating lease agreements with an initial term expiring in 2021. Future minimum lease commitments under non-cancellable operating leases for the year ended 31 December 2016 were as follows:

2017	$ 2,403
2018	1,929
2019	1,723
2020	1,638
2021 and thereafter	186
	$ 7,879

Rent expenses for the years ended 31 December 2016 and 2015, were $ 2,337 and $ 2,105, respectively.

The Company has provided guarantees for rent expenses in the amount of $ 1,060.The Company leases its motor vehicles under cancellable operating lease agreements until July 2019. The minimum payment under these operating leases, upon cancellation of these lease agreements, was $ 16 as of 31 December 2016.

Lease expenses for motor vehicles for the years ended 31 December 2016 and 2015 were $ 133 and $ 106, respectively.

b. From time to time, the Company is party to ordinary and routine litigation incidental to its business. As of December 2016 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 2016			31 December 2015		
	Authorised	Issued	Outstanding	Authorised	Issued	Outstanding
	Number of shares					
Ordinary Shares *)	430,500,000	105,546,569	94,576,458	430,500,000	102,852,501	91,882,390

*) 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. Warrants to investors:

As of 31 December 2016, there are 1,239,735 fully vested outstanding warrants with exercise price of $ 1.11 which were granted to investors in the past, and are exercisable through August 2017.

c. Options issued to employees and directors:

Under the share plan as approved in 2012 options and Restricted Share Unit ("RSU") may be granted to employees, directors, officers and consultants of the Company. As of 31 December 2016, the Company reserved for issuance 36,275,287 Ordinary shares. 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. The 2012 plan is in accordance with section 102 to Israel's Income Tax Ordinance. In 2012, the Company adapted the US Sub-plan which set the grants and tax to employees in the US.

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

As of 31 December 2016, there were 998,534 options available for future grants under the plan.

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 2016	8,713,947	$ 1.44	4.4	2,821
Granted	1,838,281	$ 1.36		
Exercised	(2,349,068)	$ 1.02		
Forfeited	(793,315)	$ 2.28		
Outstanding at 31 December 2016	7,409,845	$ 1.46	5.1	1,480
Vested and expected to vest at 31 December 2016 *)	7,204,878	1.45	5.01	1,465
Exercisable at 31 December 2016	4,093,158	$ 1.34	2.23	1,261

*) The expected to vest options are the result of applying pre-vesting forfeiture rate assumptions to unvested options outstanding

As of 31 December 2016, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to $ 1,589.

The aggregate intrinsic value of the outstanding stock options at 31 December 2016 and 2015, represents the intrinsic value of 5,225,268 and 7,358,134 outstanding options that are in-the-money as of such dates. The remaining 2,189,577 and 1,350,813 outstanding options are out-of-the-money as of 31 December 2016 and 2015, and their intrinsic value was considered as zero.

Total intrinsic value of options exercised during the years ended 31 December 2016, and 2015 was $ 1,088 and $ 814, respectively

The weighted average grant date fair values of options granted for the years ended 31 December 2016 and 2015, were $ 1.08 and $ 0.85, respectively.

d. Options to non-employees:

The Company's outstanding options to non-employees as of 31 December 2016 were as follows:

Issuance date	Options for Ordinary shares	Exercise price per share	Options exercisable	Exercisable through
January 2010	32,044	0.21	32,044	December 2017

No stock-based compensation expense was recorded in respect of options granted to non-employees in the years ended 31 December 2016 and 2015.

In 2016 and 2015, 0 and 23,900 options to non-employees were exercised, respectively.

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

	Number of RSU's
Unvested at 1 January 2016	640,000
Granted	1,215,000
Vested	(345,000)
Forfeited	(37,500)
Unvested at 31 December 2016	1,472,500
RSU expected to vest after 31 December 2016	1,370,917

RSU expected to vest after 31 December 2016 reflect estimated forfeiture rate.

The weighted average grant date fair value per share for the year ended 31 December 2016 and 2015 was $ 1.35 and $ 1.54, respectively.

As of 31 December 2016, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to $ 1,225.

f. Treasury shares

As of 31 December 2016 and 2015, treasury shares amounted to 10,970,111 shares of which 1,211,236 shares are held by Team Internet.

NOTE 12: EARNINGS PER SHARE

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

	31 December 2016	31 December 2015
Basic and diluted net income (loss) attributable to Matomy Media Group Ltd.	$ (11,733)	$ 6,613
Weighted average ordinary shares outstanding (in thousands)	92,884	92,269
Dilutive effect:		
Employee stock options and RSUs (in thousands)	-	3,698
Diluted weighted average ordinary shares outstanding (in thousands)	92,884	95,967
Basic and diluted (loss) earnings per ordinary shares (in dollars)	$ (0.13)	$ 0.07

NOTE 13: TAXES ON INCOME

a. Israeli taxation:

1.Corporate tax rates in Israel:

The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from 1 January 2016.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from 1 January 2017 and to 23% effective from 1 January 2018.

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

The Company obtained a ruling from the Israeli tax authorities, under which, Matomy Media Group received a "Preferred Enterprise" status through 31 December, 2016, which provides certain benefits, including reduced tax rates. Income not eligible for Preferred Enterprise benefits is taxed at a regular rate. The tax rates applicable for preferred enterprise income are 16% in 2015 and thereafter.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Law and regulations published thereunder. Should the Company fail to meet such requirements in the future, income attributable to its Preferred Enterprise program could be subject to the statutory Israeli corporate tax rate and the Company could be required to refund a portion of the tax benefits already received, with respect to such programs. As of 31 December 2016, management believes that the Company is in compliance with all the conditions required by the Law. The Company is considering applying for a new ruling.

As of 31 December 2016, the Company had $ 5,819 of tax-exempt income attributable to its Privileged Enterprise program resulting from 2012. The Company does not intend to distribute any amounts of its undistributed tax-exempt income as dividends as it intends to reinvest its tax-exempt income within the Company. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Privileged Enterprise programs as the undistributed tax-exempt income is essentially permanent in duration. If such tax exempt income is distributed, it would be taxed at the reduced corporate tax rate applicable to such profits (25%) and an income tax liability of approximately $ 1,455 would be incurred as of 31 December 2016.

3. Carryforward operating tax losses of the Israeli parent total to $ 10,318 as of 31 December 2016 and may be used indefinitely.

b. Income taxes on non-Israeli subsidiaries:

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

Carryforward operating tax losses of its Canadian subsidiary total approximately $ 4,000 as of 31 December 2016 which can be carried forward and offset against taxable income up to 20 years, expiring between fiscal 2035 and fiscal 2036.

c. Deferred tax assets and liabilities:

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

	Year ended 31 December	
	2016	2015
Deferred tax assets:		
Carry forward losses	$ 2,799	$ 737
Research and development expenses	542	966
Allowance for doubtful debts	892	763
Intangible assets	1,003	844
Other	420	771
Deferred tax assets	5,656	4,081
Deferred tax liabilities:		
Intangible assets	$ 9,218	$ 2,861
Gain on achieving control	2,022	2,330
Deductible goodwill	1,207	804
Other	73	48
Deferred tax liabilities	12,520	16,043
Valuation allowance	(4,284)	(26)
Deferred tax liabilities, net	$ (11,148)	$(11,988)

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

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

	Year ended 31 December	
	2016	2015
Domestic	$ (6,859)	$ 4,979
Foreign	3,516	4,958
	$ (3,343)	$ 9,937

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

	Year ended 31 December	
	2016	2015
Current		
Domestic	$ 268	$ 1,078
Foreign	5,452	3,827
	5,720	4,905
Deferred		
Domestic	1,731	181
Foreign	(2,762)	(2,405)
	(1,031)	(2,224)
	$ 4,689	$ 2,681

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

	Year ended 31 December	
	2016	2015
Beginning balance	$ 139	$ 136
Increase related to tax positions taken during prior years	66	3
Increases related to tax positions taken during the current year	103	-
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(139)	
Ending balance	$ 169	$ 139

The entire amount of unrecognised tax benefits as of 31 December 2016, if recognised, would reduce the Company's annual effective tax rate.

As of 31 December 2016, the Company and its subsidiaries in Israel and in USA received final, or considered final, tax assessments through 2012.

Team Internet received final tax assessments through 2013.

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 2016 and 2015, 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 income (loss) in the period in which such determination is made.

g. Reconciliation of the theoretical tax expenses:

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 income (operations) is as follows:

	Year ended 31 December	
	2016	2015
Income before taxes as reported in the statements of income	$ (3,343)	$ 9,937
Statutory tax rate in Israel	25%	26.5%
	$ (836)	$ 2,633
Increase (decrease) in taxes resulting from:		
Effect of "Preferred Enterprise" status *)	729	(20)
Increase in valuation allowance	4,258	23
Tax adjustment in respect of different tax rate of foreign subsidiaries	493	(105)
Non-deductible expense	394	22
Effect of foreign exchange rate ***)	(55)	65
Decrease due to decrease of statutory tax rate	(308)	-
Others	14	63
	$ 4,689	$ 2,681
*) Basic earnings per share amounts of the benefit resulting from "Privileged Enterprise" or "Preferred Enterprise" status	$ -	$ **)
Diluted earnings per share amounts of the benefit resulting from "Preferred Enterprise" status	$ -	$ **)

**) Represents an amount lower than $ 0.01

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

NOTE 14: REPORTABLE SEGMENTS

a. Reportable segments:

The Company applies ASC 280, "Segment Reporting". While the Company has offerings in multiple media channels, the Company's business operates in one segment, and the Company's chief operating decision maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

b. Revenues from media channels:

Total revenues from external customers divided on the basis of the Company's media channels are as follows:

	Year ended 31December	
	2016	2015
Display and video *)	$ 137,288	$ 133,430
Domain monetisation	63,282	54,268
Email	27,510	34,382
Mobile	39,789	26,412
Social and search	7,529	18,990
Virtual currency	1,233	3,494
Total	$ 276,631	$ 270,976

*) Revenues from display and video are integrated to one media channel, since video ads appear before, during or after the display of video content and video is considered one of multiple formats of display.

c. Geographical information:

Revenues by geography are classified based on the location where the consumer completed the action that generated the relevant revenues. The following table sets out the Company's revenues from external customers and property and equipment, net by geography for the years ended 31 December 2016 and 2015:

1. Revenues from external customers:

	Year ended 31 December	
	2016	2015
United States	$ 180,048	$ 163,580
Europe	44,132	54,499
Asia	17,922	11,474
Israel	200	287
Other	34,329	41,123
	$ 276,631	$ 270,976

2. Property and equipment, net:

	Year ended 31 December	
	2016	2015
Israel	$ 5,665	$ 3,237
United states	1,908	556
Germany	1,335	737
Other	124	331
	$ 9,032	$ 4,861

d. In the year ended 31 December 2016, one customer contributed 20% of the Company's revenues, while no other customer contributed more than 10%.

In the year ended 31 December 2015, one customer contributed 19% of the Company's revenues, while no other customer contributed more than 10%.

NOTE 15:- FINANCIAL EXPENSES, NET

	Year ended 31 December	
	2016	2015
Financial income:		
Interest income	$ 45	$ 13
Foreign currency remeasurement, net	659	-
Hedging transactions	-	197
Other	32	-
	736	210
Financial expenses:		
Bank fees	(662)	(453)
Interest expense	(746)	(780)
Foreign currency remeasurement, net	-	(1,034)
Hedging transactions	(673)	-
Accretion of contingent payment obligation related to acquisitions	(712)	(122)
	(2,793)	(2,389)
	$ (2,057)	$ (2,179)

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 monetisation activity with the non-controlling interest of Team Internet.

Revenues from related parties amounted to $ 711 and $ 2,407 for the years ended 31 December 2016 and 2015, respectively. Cost of revenues to related parties amounted to $ 2,552 and $ 2,489 for the years ended 31 December 2016 and 2015, respectively.

Trade receivables from related parties amounted to $ 132 and $ 354 for the years ended 31 December 2016 and 2015, respectively. Trade payables to related parties amounted to $ 268 and $ 243 for the years ended 31 December 2016 and 2015, respectively.

NOTE 17: SUBSEQUENT EVENTS

On 3 January 2017, after the balance sheet date, 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 monthly payments, commencing 10 April 2017. The loan bears an annual initial interest of three months USD LIBOR plus 4.6%.

After the balance sheet date, the Company signed a secured line of credit in the amount of $ 5,000 with a bank in the USA. The line of credit bears an interest rate of LIBOR plus 3.25%, and an interest of 0.35% on the unused credit line.

During March 2017 the Company entered in a credit line facility agreement with its Israeli bank securing $ 6,000 out of the aggregate $13,000 credit facility, without any additional terms.

During March 2017 the Company updated its credit line facility agreement with the bank in the US, securing the $ 1,000 credit line. The line of credit bears an unused credit line interest rate of 0.35%.

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Company website

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