Data Driven

Advertising Platforms

2017 Annual Report and Accounts

matomy

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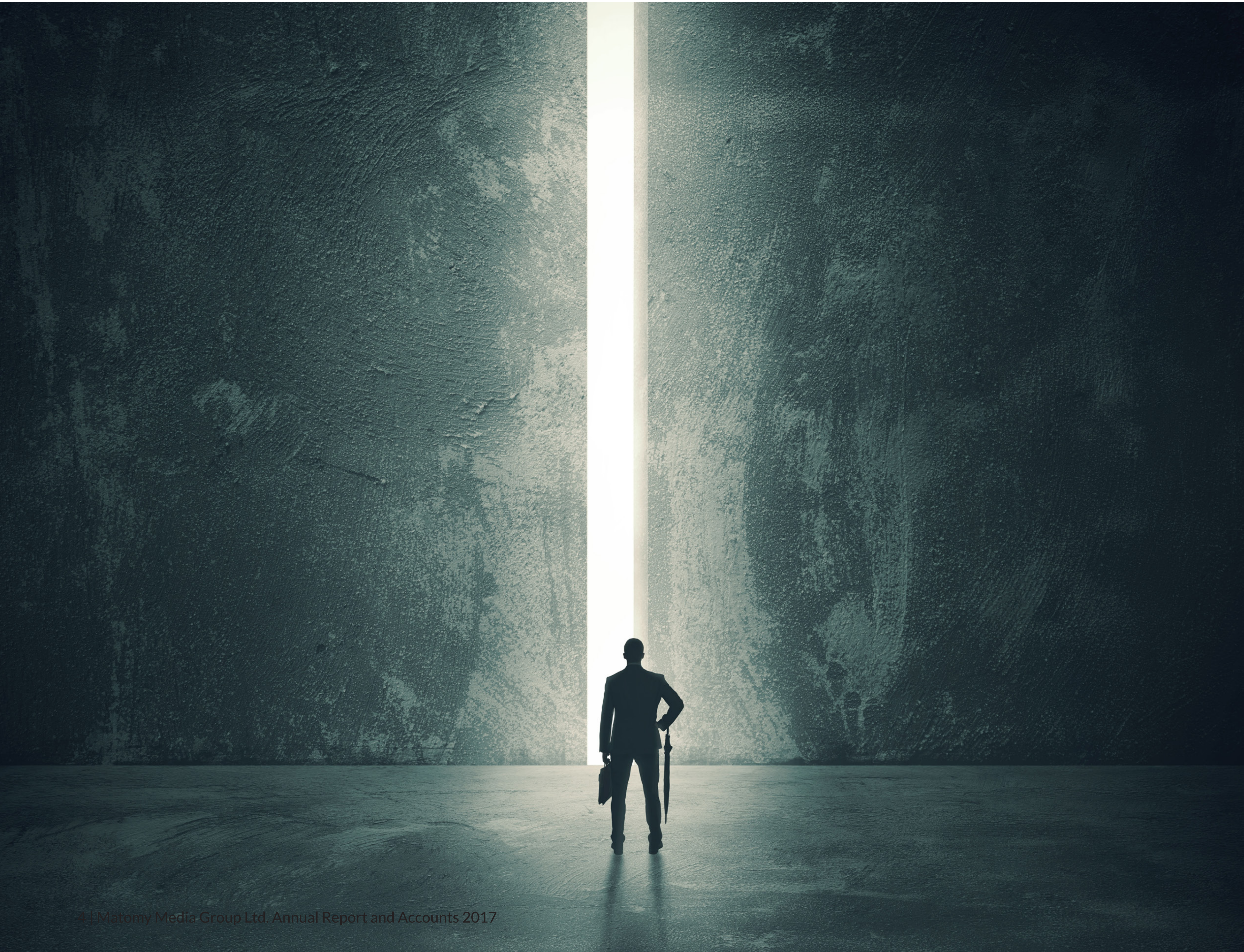
About Matomy

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is a global technology company with a portfolio of superior, data-driven advertising platforms including Mobfox, myDSP, Team Internet, Optimatic and WhiteDelivery.

By providing customized programmatic and performance solutions supported by unique data analytics and optimization technology, Matomy empowers advertising and media partners to best meet their evolving growth-driven goals. Founded in 2007 with headquarters in Tel Aviv and offices in the US, UK, Austria, Germany and China, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges. Learn more about Matomy at investors.matomy.com

1 Overview



2017 Operational & Business Highlights

In May 2017, Matomy announced a new strategic focus on core activities - Team Internet (domain monetisation) and Mobfox (programmatic in-app advertising) resulting in higher revenue stability, gross margins and profitability. The Company exited non-core activities and significantly reduced the corporate team and operational overhead.

Team Internet Revenue
$105.4M
+66%
FY2016: $63.3M

Mobfox Revenue
$50.6M
+20%
FY2016: $42.1M

Team Internet EBIDTA
$24.5M
+65%
FY2016: $14.8M

Mobfox Adjusted Gross Margin
27.8%
+12%
FY2016: 24.8%

Performance by Matomy
SOLD
July 2017

Matomy Revenue
$245.1M
(11.4%)
FY2016: $276.6M

mtmy Mobile Performance Agency
SOLD
July 2017

Matomy EBIDTA
$20.7M
+16%
FY2016: $17.7M

Matomy Media Group Ltd. Annual Report and Accounts 2017

Matomy Overview

Matomy is a global leader in data driven advertising platforms. 2017 was a year of transition, as Matomy focused on core activities, exited certain non-core activities, and reduced operational costs. The core activities of programmatic mobile advertising and domain monetisation have grown nicely in 2017, and the Company is poised to enjoy the full effects of the new focus in the year ahead. The Board and Management are confident that the core activities will continue to grow and raise revenues through 2018 and beyond.

Matomy's Core Activities Around The World

Matomy is staying close to those international markets where growth opportunities remain highest. The company's presence in the United States, Europe and China continues to yield significant benefits in terms of new customers, broader partnerships and greater integration into the advertising ecosystem. The following table sets out Matomy's revenues by geographical region only for the core activities.

$ millions	2017	2016	Change
USA	110	74.5	47.7%
Europe	25.2	21.4	17.8%
Asia	9.7	5.7	70.2%
Other	11.1	3.8	192.1%
Total	156	105.4	48.0%

USA

Revenues generated in the US market increased by $35.5 million, or 47.7%, to $110.0 million for the year ended 31 December 2017 from $74.5 million last year, due to continued growth focused particularly in the mobile and programmatic based activities, which are strongly centered on the US market.

Europe

Revenues generated in the European market increased by $3.8 million, or 17.8%, to $25.2 million for the year ended 31 December 2017 from $21.4 million last year, demonstrating the strength of the domain monetisation activity throughout Europe. Increasing regulations around privacy and digital advertising within Europe may have a negative impact on the Group's ability to maintain this rate of growth in 2018.

Asia

Revenues generated in Asian markets increased by $4.0 million, or 70.2%, to $9.7 million for the year ended 31 December 2017 from $5.7 million in 2016, demonstrating the penetration of the mobile programmatic activity primarily in China.

Leading the Domain Monetisation Market

Domain monetisation revenues increased by $42.1 million, or 66%, to $105.4 million for the year ended 31 December 2017 from $63.3 million last year. The proprietary ad delivery engines serve semantically relevant ads to approximately 2 billion monthly visitors across about 145 million websites, generating more than 100 million paid clicks per month. Team Internet's growth, which is consistent over the years, is mainly attributable to its leading technology across its various platforms. The technology yields enhanced performance in comparison to peers and has led to increased recruitment of new clients and higher market share.

*Selected Team Internet (Domain Monetisation) Financial Data in thousands U.S. dollars

	Year ended 31 December		
	2017	2016	Change
Revenues	105.4	63.3	66.5%
Adjusted gross profit*	30.3	19.3	57%
Adjusted gross margin*	28.8%	30.5%	-5.7%
Adjusted EBITDA**	24.5	14.8	65.5%

Preferred Partner for Programmatic In-app Advertising

Programmatic mobile in-app (Mobfox) revenues increased by $8.5 million, or 20% to $50.6 million for the year ended 31 December 2017 from $42.1 million last year.

The mobile in-app activity includes platforms for the selling (supply) and buying (demand) of advertising media, as well as a data management platform and advertising exchange. This rise in profit was driven by strong growth in the recruitment and retention of new media sources and buyers with a low churn rate, as well as improvements to Mobfox's auction mechanism and introduction of new platform features that raised competitive advantage.

The Mobfox activity leverages anonymized user data for improved audience targeting, thereby enhancing advertising ROI for demand partners, and improving monetisation for supply partners, thus enhancing the revenue stream. We also saw compelling growth in the in-app video activity, the fastest growing advertising format on the Mobfox platform. As part of Mobfox's enhanced business offering, Mobfox decided to turn away partners with lower quality traffic, so in fact this increase is even more significant and is based on more sustainable revenues.

Selected Mobfox (Programmatic Mobile Advertising) Financial Data

	Year ended 31 December		
	2017	2016	Change
Revenues	50.6	42.1	20.1%
Adjusted gross profit*	14.0	10.4	34.4%
Adjusted gross margin*	27.8%	24.8%	12.1%
Adjusted EBITDA**	1.8	2.0	-10%

Email and Video Activity in Volatile Markets

Email media channel revenues decreased by $11.3 million, or 48%, to $12.2 million for the year ended 31 December 2017 from $23.5 million last year. This decrease was mainly attributableto the temporary inability to complete certain email delivery processes, following the introduction of new compliance tools by certain Internet service providers (ISPs). In addition, the consolidation and merger of external infrastructures through which emails are delivered also impacted the ability to deliver emails at full capacity.

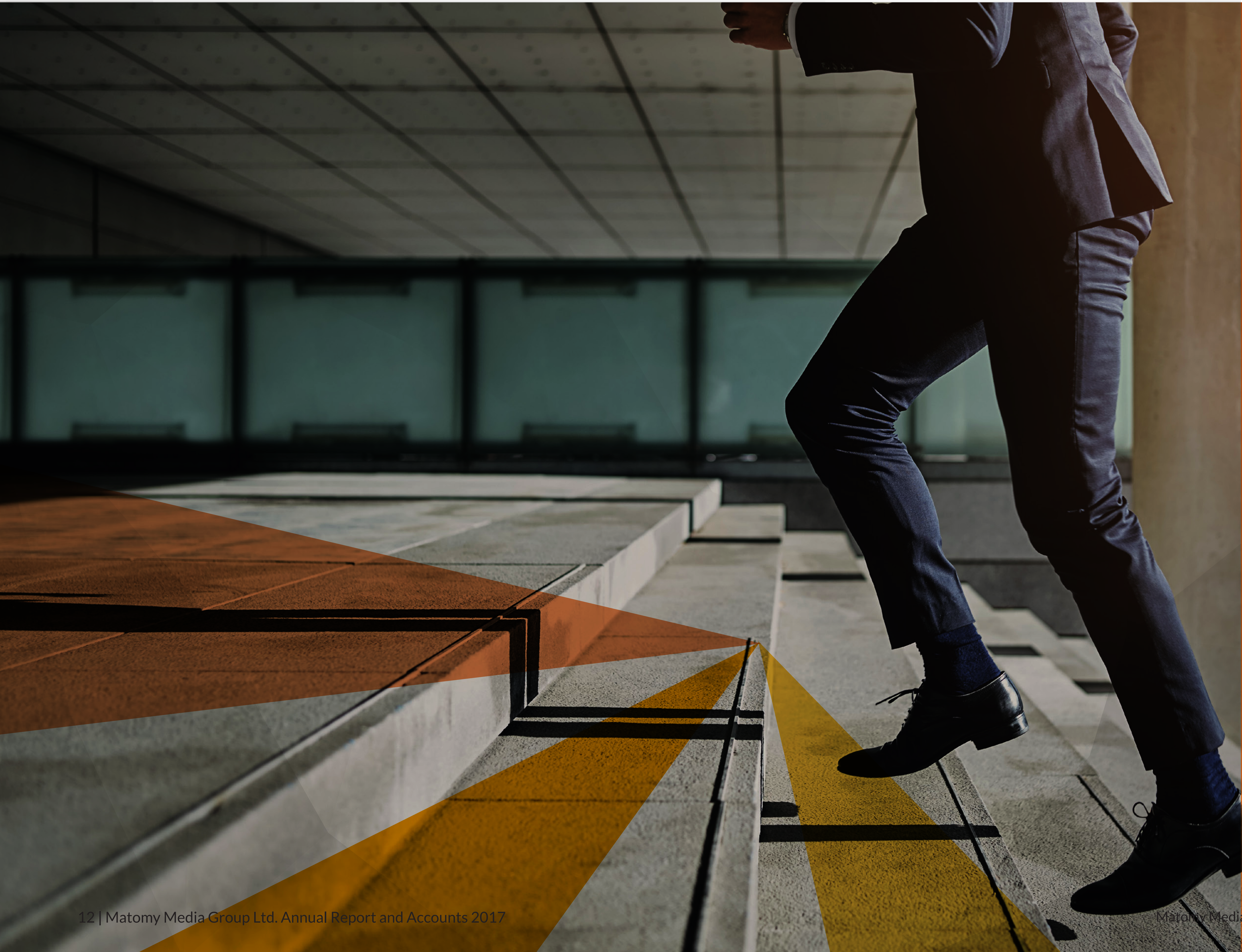
Video media channel revenues decreased by $50.0 million, or 47%, to $55.4 million for the year ended 31 December 2017 from $105.4 million in last year. Industry changes reduced the quantity and value of available video advertising inventory from sellers, while enforcing stricter quality requirements by video advertisers. As a result, scale and margins decreased across the video industry.

In 2018, the Board instructed the Company to carefully review and provide a plan regarding the remaining non-core activities per their contribution to the Company's value-creation strategy. The plan may include divestment, reduction and/or closure. The Company is in final stages of establishing its findings.

Exited Activities

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

2 Strategic Report



Introduction to Strategic Report

LIAM GALIN
President & Chief Executive Officer

In 2017, we implemented a carefully designed strategic plan to increase company profitability and grow Matomy's market influence in the adtech space. In an environment of flux, Matomy maintains a tight hold on industry developments and takes advantage of market opportunities. Today, we are a strong, tight operation with clear vision and definitive action. We are dedicated to technical superiority in our product, transparency in our business dealings and delivering flawless experience for our users. The Matomy Media Group nurtures its brands and provides each with the tools to aspire to excellence and to achieve success in their respective markets. This past year was about transformation: about refining who we are for enhanced results. 2018 will be about gathering that force to inform our activity and craft our larger future.

Chairman's Statement

HAREL BEIT-ON
Non-Executive Chairman

2017 was a year of meeting challenges, of change and renewal at Matomy. This year's strategic report reflects results of a well-implemented strategic plan, developed with great attention to the evolving market and our company performance.

Serving as the supplier of choice for both publishers and advertisers is our touchstone and also our motivation as we continue to build the company's future. The Board and Senior Management announced a strategic plan in May and adherence to it has proven fruitful.

Adtech is a constantly evolving field and to excel, we need suitable leadership at the helm. We thank Ofer Druker for his ten years of excellent stewardship of the company. As a pioneer in this industry, his savvy leadership transformed us into a public company with a recognized market presence. When Ofer stepped down during the year, our own Sagi Niri, a finance and strategy expert with senior management experience as Matomy's COO/ CFO, took over the position. Under his leadership, the senior management team crafted the strategic plan we are currently following and helped initiate its implementation. In early January of 2018, Sagi was replaced with Liam Galin, a seasoned tech CEO who will grow the brands under our stewardship to competitive advantage and growth through groundbreaking technology, excellent service and know-how. We thank Sagi and Ofer for their years of dedicated leadership as we welcome Liam onto our team.

Our current strategic plan is a response to the vagaries of the adtech market. While public mistrust in this industry due to fraud and foul play has negatively affected performance and share price, we are committed to bolstering the company to a successful future and to maintaining our position as an industry pioneer. Our plan consists of several prongs: reduce operating expenses, consolidate the company around core competencies, maintain activities in non-core activities with promise and abandon side activities that have exhibited low performance and have little future prospects for profitability. At the same time, we are committed to transparency and safety, excellent customer care and investment in and development of our data capabilities.

In response to market trends, we focused our core activities on mobile and domain programmatic advertising, abandoning activities that no longer served our clients' needs. To this end, as of July 2017, we divested ourselves of our performance advertising activities, as well as mtmy, the advertising agency that served these platforms.

We united Mobfox and MyDSP to better serve the mobile programmatic advertising market. Mobfox and Team Internet in the domain arena are both leading brands in their fields, which we will further differentiate with superior technical offerings and service. We continue to invest in development as an important element of our company growth and success.

Through the implementation of our strategic plan, Matomy has transformed into a focused operation, managing several independent and strong brands that inform each other and can work together if and when needed. This transformation has allowed us to successfully streamline our corporate team - and is, we believe, a natural and encouraging mark of corporate maturity.

Two of the biggest markets for programmatic advertising are in the US and Asia, both markets where we are active. Our sales teams in the US have succeeded in increasing our footprint on the continent and we are continuing to make inroads here. We have a team onsite in China, who have successfully penetrated the Chinese market. Our senior management team is committed to further developing our US and Chinese partner and client portfolio. With the impending regulatory environment in Europe with regard to data usage, these markets that are not affected are an optimum choice for us.

Today, our key strategic direction is in further consolidating our core activities and enhancing our technological leadership in the field. A key component of this is our further development of our data capabilities. Meanwhile we remain fully aware of the risks and uncertainties facing our company both on the international market and in terms of regulatory changes. Data, when deployed efficiently, raises the effectiveness of advertising and it will therefore remain an important element in our toolbox as we strive to add value to our stakeholders.

Our board and management team have worked diligently this year and made some difficult and astute choices, and our focused positioning has borne fruit, as is reflected in the bottom line. I am pleased to represent our work to you here.

HAREL BEIT-ON
Non-Executive Chairman
30 April 2018

CEO's Statement

LIAM GALIN
President & Chief Executive Officer

In 2017 we focused at Matomy on re-defining and enhancing our competitive advantages within a changing media landscape.

Although I arrived for the tail end of the current company transformation and focus, it is my privilege to present the results of the strategies that were put into place, while also introducing our plans for steering Matomy into the future, as we serve publishers and advertisers with excellence.

In May 2017, we defined a new strategic direction for the company following a successful review designed to increase shareholder profit. Identifying programmatic advertising as the overwhelming choice of both advertisers and publishers for delivering advertising, we defined our core activities as domain monetisation and mobile advertising, making a decision to concentrate on these areas. To further this effort, we sold off some of our non-core and less profitable activities such as our performance advertising activity, as well as mtmy, our advertising agency. We also undertook to purchase the remaining shares of Team Internet, our domain monetisation platform, and financed this acquisition in part by a successful bond offering which raised $30 million in early 2018.

We concurrently streamlined our operating costs in an effort to achieve greater operational excellence, and to reflect the new realities of the company. Corporate teams of Finance, Human Resources, Administration and Marketing were reduced, and the new lean teams that emerged were optimized for quality. In addition to the staff that were "acquired" along with the sale of the exited activities, the tech teams that had supported them were redundant and therefore let go. In all, our original staff of 422 was reduced by 36% to about 273 people by the end of the year.

Concentrating on Programmatic

With forecasts predicting that well over 70% of advertising would be sold programmatically, it was clear to us that our primary objective was strengthening these services. Our prior acquisition of MobFox and creation of myDSP positioned us perfectly to grab hold of this opportunity. We positioned MyDSP as a platform from Mobfox, solidifying the offering and Mobfox brand. We strengthened domain monetisation and in-app advertising as our core activities by focusing on technological excellence.

We position ourselves as top tier providers who offer innovation and a better user experience. To support this, we continue to invest in R&D and indeed, 45% of our employees are R&D staff. Data fuels many of our features and services, so we continue to develop our capabilities in this arena. By growing our proprietary tools in AI and data management, we are able to improve the features we offer and better serve publishers and advertisers alike.

Our achievements this year include significantly deepening our ability to segment audiences, an important feature that differentiates us from our competition.

This year, we rolled out the ability to segment audiences by gender at scale, while also integrating platforms that enable using data for further segmentation and targeting audiences. One of the most inventive features introduced this year is the audience analytics on the publishers' dashboard. It is a unique and important feature, raising the value and benefit of selling and buying advertising for both advertisers and publishers. Significantly, we also inaugurated a private marketplace (PMP) to enhance our partners' buying capabilities through targeted segmentation at scale. Mobfox is now connected to over 175 demand side platforms in addition to myDSP and is used by over 40,000 apps across iOS and Android.
In parallel, myDSP is connected to eight industry-leading supply side platforms in addition to Mobfox.

Among our added value services this year, is the direct connection with Factual and Adsquare. Through these partnerships, we are able to provide more effective geo-targeting which is invaluable to advertisers in their ability to generate results from their campaigns. This is yet another feature that gives our partners access to tools that can significantly improve their results.

Another area of focus this year was transparency. With the industry plagued by ad fraud, which harms and steals from both advertisers and publishers, we made a very bold decision to engage only with high-quality partners.

This measure, which limited some of our potential revenue in the short term, has reinforced our company as trustworthy and as a company that fights ad fraud. This is a long-term investment, as evidenced by the fact that the industry has been plagued by lack of trust, resulting in an unstable year for many, while Mobfox revenues grew nicely.

Our Results

The year-end results for 2017 have indicated promise for the strategic direction we introduced in May. Team Internet, representing our domain monetisation interests marked a 66% growth in revenue, while Mobfox, our programmatic mobile in-app advertising arm, exhibited revenue growth of 20%. On a company-wide level, our EBITDA rose 16% this year. However, when excluding exited activities on a pro-forma non GAAP basis, the results rise even higher to 29%. We are encouraged by these numbers that add a vote of confidence to our direction.

A Look to the Future

Looking to the future, we intend to fortify our mobile in-app programmatic capabilities, by continuing to invest in technical innovations and by delivering superior customer service. We are dedicated to our positioning as a top tier provider that affords our partners and clients the tools they need to succeed at a minimum of time investment or difficulty, in a safe and trustworthy environment.

We also are investing in growing our data management capabilities, which will inform the services we are able to provide. Today, with partners in place, we are in an excellent position to harness the power of data for the benefit of our clients and partners, enabling them to achieve better segmentation and reach more accurate audiences, without sacrificing end-user privacy and security.

To keep pace with the sometimes-vast changes that take place at great speed, we invest carefully at Matomy in technology and R&D to ensure product excellence and are dedicated to providing features and services that help advertisers and publishers reach and exceed their goals. We maintain a nimble, forward-thinking executive team and we take bold strides to succeed. We are excited about this year and continue to serve our partners and shareholders with passion.

LIAM GALIN

President & Chief Executive Officer

30 April 2018

Vision & Growth Strategy

Following the successful initial results of our new strategic focus, we have a clear direction moving forward and are perfectly poised for continued growth.

Matomy is a premiere advertising technology firm, with holdings in critical industry areas of operation: programmatic mobile in-app advertising and domain monetisation, as well as email marketing and video advertising. We continue to develop vital tools and excellent value for both publishers and advertisers, solidifying our position as a top tier partner of choice.

Direct navigation traffic which fuels domain monetisation has an estimated market size of US $1 billion per year, with a conversion-to-sale rate that is more than double than other options. Likewise, mobile traffic is growing steadily: according to Stone Temple, 55.79% of traffic comes from mobile, outstripping desktop access. As more than 85% of that mobile time is spent using apps (as per eMarketer), in app marketing is a huge market to explore. One worth $16 billion, to quote KPCB. We intend to take full advantage of these great opportunities with a strategic plan that is both detailed and focused.

Technical Superiority

Superlative tools is what will differentiate our offering to our publishers and advertisers. Matomy brands are known for value and advanced features and we will continue to bring cutting edge features to market.

Programmatic Platforms

Programmatic advertising is efficient, cost-effective - and gets the advertiser in front of the right audience. The technology serves publishers desiring sophisticated means for taking full advantage of their assets and increasing revenue. With improved ability to segment audiences, advertisers justify increased ad spend, and with rules-based algorithms, publishers can reap premium prices for top content. According to Adweek, 96% of marketers are using programmatic platforms to purchase display ads. Matomy is at the forefront of programmatic advertising with state-of-the-art developments and trustworthy environments.

Mobile In-App Advertising

In-app mobile advertising is the fastest growing sector in mobile marketing according to BI Intelligence and estimated to grow to $7 billion by 2020. Mobfox is primed to provide excellent service to this market with powerful data tools and cutting edge features.

Domain Monetisation

Team Internet serves the growing domain monetisation market and is one of the strongest players in this field.

Data Prowess

We continue to grow our capabilities in actionable, direct and indirect data analysis and management to support our offering. With new partnerships and improved algorithms, we offer a rich and competitive service.

US Market Growth

With a local team in the United States, we continue to focus on this promising market which consistently leads in terms of ad spend.

Asian Market Growth

A mobile-first culture, Asia is a natural market for our services. We have exhibited growth in that market and have undertaken plans for expansion.

Transparency

Online fraud has become one of the most serious threats our industry currently faces. Matomy is actively addressing this situation and helping partners take back control.

Product Improvements Drive Increased Use of Programmatic Advertising

With 5,000 advertising technology companies crowding the market, becoming a market leader and maintaining this position requires effort and investment. This past year, we rolled out product improvements such as greater segmentation abilities and more integrations with third party providers, which have fueled our current improved business results. With a focus on R&D, we continue to develop technical tools that will maintain our brands and their products as market leaders. Currently developing improved data capabilities, self-learning algorithms and more, we look forward to creating the next big idea.

Matomy is strengthening our core competencies in programmatic in order to continue to deepen the services available.

To this end, we insist upon technological excellence and innovation as well as putting a strong accent on service.

We Are Strengthening Core Activities and Data Capabilities

Market researchers suggest that by the end of 2019, four out of every five advertising dollars, or 83.6%, will be spent on programmatic advertising, for a total of $45.72 billion dollars. We will maintain focus in this direction, as designated by our May 2017 strategy announcement.

Direct and indirect data analysis and management is the backbone of programmatic platforms. Strong data capabilities drive increased results with improved segmentation. Since the regulatory environment regarding data evolves rapidly, we are committed to remaining in compliance as we improve our data capabilities in order to best serve our partners.

Our core areas of operation of domain monetisation and mobile in-app advertising are both data driven, and served by the data offering we develop.

Matomy has carved a name for itself as a leader in the domain monetisation arena. And for good reason: our Team Internet is driven by industry leading technology and a team with unparalleled domain experience. The company includes two brands which work seamlessly together to provide a complete offering: Parking Crew is a domain parking platform which integrates with many third party applications. Tonic, the second platform, is a traffic marketplace that allows users to monetize traffic and target audiences with a variety of ad types.

In-app advertising is an extremely powerful tool that increases engagement among consumers and drives both sales and advertising revenue streams. According to Localytics, push notifications lead to an up to 88% increase in user engagement and relevant messages trigger four times more conversions. Understanding the power of this tool, we intend to focus on giving both app publishers and advertisers more opportunity to engage their users.

We Will Offer a Trustworthy Environment

One of the most important things we offer our partners and clients is reputable results. While programmatic advertising provides unparalleled opportunities for publishers and advertisers, these platforms have also been susceptible to fraud. eMarketer predicts that advertisers will place even more emphasis on brand safety and quality when choosing advertising technology platforms.

Our response to this is to take control by investing in internal and external controls and dedicating ourselves to transparency and quality partners. This year, we will increase our capabilities in fraud prevention and detection.

We Will Increase Our US Activity

As the country with the highest mobile spend in the world, as well as the largest programmatic ad market by far, the US is a natural choice for Matomy's expanded efforts and on site presence. eMarketer predicts that by 2019, four out of five dollars for digital display advertising will flow through programmatic means. And more than 80% of those ads will go to mobile - rather than desktop. Our current team in the US offers a constructive bridge to the local market that enables us to learn more about the needs of brands and other important developments. Reinforcing our activities in the US, specifically for programmatic mobile advertising activity, will help us in deepen our ties to this critical market and engaging with our potential audience.

We Will Develop Our Ties to the APAC Market

Our local Chinese team has been instrumental in creating a presence in Asia. With a 96% penetration rate of mobile usage as of 2016, China is a land of opportunity for our services. China is second only to the US in terms of ad spend, yet the numbers are expanding exponentially at a rate greater than anywhere else in the world. China was projected to spend over $31 billion in 2017, with that number rising to over $40 billion by the end of 2018, which is an increase of 29.7% . The US ad spend increased 16% during the same period. We intend to continue to take advantage of these opportunities and continue to develop our presence in China and Asia during the coming year.

Continue with Strategic Focus from May

2017 has been a year of transition. We are proud of our nimble response to market behavior and will continue to react powerfully when needed. We are continuing with our razor-sharp focus in our core areas of operation into 2018 and look forward to promising results.

Business & Financial Review

The Company announced on May 8, 2017 a new strategic focus on core activities — Team Internet (domain monetisation) and Mobfox (programmatic in-app advertising) — resulting in higher revenue stability, gross margins and profitability. As a result, Matomy's adjusted EBITDA increased by 16% to $20.7 million (FY2016: $17.7 million) and excluding the exited activities, on a pro-forma basis, adjusted EBITDA rose 29%, resulting in increased of cash generation.

More business and financial highlights include:

- Team Internet revenue increased 66% to $105.4 million (FY2016: $63.3 million) and Adjusted EBITDA increased 65% to $24.5 million (FY2016: $14.8 million).
- Mobfox revenue increased by 20% to $50.6 million (FY2016: $42.1 million) and Adjusted Gross Margin increased by 12% to 27.8% (FY2016: 24.8%). Adjusted EBITDA decreased following significant investment in R&D and infrastructure to support the growth of this activity.
- Matomy reduced the corporate team and significantly decreased operational overhead.
- R&D and technical employees now amount to about 45% of the staff overall, reflecting the Company's focus on proprietary technology and product development.
- The Company sold the non-core activities "Performance from Matomy" and "mtmy" in July 2017. As such, full 2017 results still represent these activities for the first six months.
- The Company announced the issuance of convertible bonds on 28 December 2017, which was successfully completed in February 2018 and raised approximately $30 million in part to fund the acquisition of the remaining ownership percentage of Team Internet.

Income statement

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

	2017	2016
Revenues	$ 245,056	$ 276,631
Cost of revenues	191,375	219,715
Gross profit	53,681	56,916
Operating expenses		
Research and development	10,980	9,297
Selling and marketing	25,804	31,121
General and administrative	13,883	18,209
Impairment, net of change in fair value of contingent consideration	17,181	(425)
Restructuring costs	924	-
Gain from sale of activity	(913)	-
Total operating expenses	67,859	58,202
Operating loss	(14,178)	(1,286)
Financial expenses, net	2,536	2,057
Loss before taxes on income	(16,714)	(3,343)
Taxes on income (benefit)	(2,145)	4,689
Loss before equity losses of affiliated companies	(14,569)	(8,032)
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	135	(73)
Net loss	(14,434)	(8,105)
Net income attributable to redeemable non-controlling interests in subsidiaries	(1,466)	(487)
Net income attributable to other non-controlling interests in subsidiary	(23)	-
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	$ (15,923)	$ (8,592)
Basic and diluted loss per ordinary share	$ (0.35)	$ (0.13)

Revenue

During 2017, revenues of the core activities increased by $50.6 million, or 48%, to $156 million (FY2016: $105.4 million), and provide the best indication for Matomy's continued growth.

On a Group level, revenues in 2017 decreased by $31.5 million, or 11.4%, to $245.1 million (FY2016: $276.6 million), however this number includes the declining revenues of the exited activities for the first half of 2017 and as noted above, this does not provide a true picture of Matomy's activities as of December 31, 2017. Excluding revenues from the exited activities, which are not included in the reported results following the sale, revenues decreased by 4.6%, as a result of lower scale of the remaining non-core activities.

Cost of revenues

$ millions, except as otherwise indicated	2017	2016
Media costs	168.0	198.3
Other cost of revenues	23.4	21.4
Cost of revenues	191.4	219.7
Gross margin (%)	21.9%	20.6%
Adjusted gross margin (non-GAAP) (%)	31.5%	28.3%

Cost of revenue for the Group decreased by $28.3 million, or 12.9%, to $191.4 million (78.1% of total revenues) for the year ended 31 December 2017 from $219.7 million (79.4% of total revenues) last year.

Other cost of revenue, which includes allocated costs, server expenses and amortisation of capitalised R&D and intangible assets, increased in part from higher server expenses on the fast growing mobile and domain monetisation activities.

Gross margin rose by 1.3% primarily as a result of the overall drop in cost of revenue.

Adjusted gross margin, which reflects media costs only, increased by 11.2%. This change was driven by significant improvements in margins and scale in core activities. In addition, exiting activities which had low margins and high operational costs also contributed to the improved margins.

Operating expenses

$ millions	2017	2016
Research and development	11.0	9.3
Sales and marketing	25.8	31.1
General and administrative	13.9	18.2
Total operating expenses	50.7	58.6
Total operating expenses as a percentage of revenues	20.7%	21.2%

Operating expenses decreased by $7.9 million, or 13.5%, to $50.7 million (FY2016: $58.6 million). Operating expenses as a percentage of revenues were 20.7% (FY2016: 21.2%).

The decrease in operating expenses is mainly attributable to the sale of exited activities and the new focus adopted during 2017 following this sale, including a reduced and more efficient corporate team. These actions led to substantially lower general, administrative, sales and marketing costs of $9.6 million in aggregate. The decrease in operating expenses was partially offset by increased R&D expenses of $1.7 million.

Research and development expenses increased by $1.7 million, or 18.1%, to $11.0 million (FY2016: $9.3 million), following continued investment to strengthen our proprietary technological offerings within the core activities, as well as reduction in capitalization of expenses.

Sales and marketing expenses decreased by 17.1% to $25.8 million (FY2016: $31.1 million). This decrease is mainly a result of the new focused strategy implemented in 2017 and a decreased amortisation expenses recorded in sales and marketing (reduced in 2017 by $1.9 million).

General and administrative expenses decreased 23.8% to $13.9 million (FY2016: $18.2 million), due to continued success in introducing efficiencies at the corporate level, and the streamlining and reduction of overhead costs. This trend is aligned with the Company's strategic focus announced in May 2017 and is expected to continue to show through 2018.

Financial expenses

Net financial expenses increased by $0.4 million to $2.5 million for the year ended 31 December 2017 (FY2016: $2.1 million). The increase is primarily due to an increase in interest payments on credit facilities and foreign exchange rate fluctuations.

Taxes on income

Taxes on income shifted to $2.1 million benefit for the year ended 31 December 2017 (12.8% of loss before taxes), compared to $4.7 million expense in FY2016 (-140.3%).

Matomy's effective corporate tax rate of 12.8% in 2017 is mainly due to (1) reversal of deferred tax liability resulted from impairment of intangible assets, and (2) income from changes in fair value of contingent payment obligation related to acquisitions which are non-dedictable for tax purposes, off-set by (1) tax rate of 33% on Team Internet profit, and (2) record of full valuation allowances on current year and carry forward losses in the parent company and most of its subsidiaries.

Matomy's effective corporate tax rate in 2016 was negative 140.3% primarily due to valuation allowance totalling $4.3 million recorded on carry forward losses in both the parent company and several of its subsidiaries.

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

Amortisation of intangible assets

Amortisation expenses amounted to $10.6 million for the year ended 31 December 2017, a decrease of $3.4 million from amortisation expenses of $14.0 million for the same period last year, primarily due to intangible assets that were already fully amortized in prior years, as well as impairment charge on non-core intangible assets recorded in H1 2017.

Net income / (loss)

Net loss increased by $6.3 million to a $14.4 million net loss for the year ended 31 December 2017 (FY2016: $8.1 million net loss), primarily due to the strategic changes in 2017, which led to an increase in "Exceptional items" as detailed below.

Net loss attributable to Matomy Media Group shareholders was $1.5 million lower than Group net loss (FY2016: $0.5 million lower). This difference was primarily due to improved performance and revenues of Team Internet, resulting in an increased net income attributed to redeemable non-controlling interest on account of the put options held by Team Internet's minority shareholder.

Exceptional items

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

- Impairments of intangible assets, goodwill and capitalised R&D amounting to $14.3 million in H1 and $12.9 million in H2, in total for the full year $27.2 million, as detailed herein below.
- Earnout adjustments income of $5.5 million in H1 and $4.5 million in H2, in total for the full year $10.0 million, as detailed herein below.
- Gain from sale of an activity of $0.9 million in 2017.
- Costs relating to the exited activities amounting to $0.9 million in 2017.
- Tax effect of exceptional items amounting to ($6.3M) million in 2017.

The impairment charges were attributed mostly to intangible assets and goodwill related to the non-core activity, primarily due to consolidation of certain business units, and adjustments to current market terms including adequacy of revenues generated by the relevant technological platforms.

These changes in the activity of the non-core assets also led the Company to reevaluate the contingent liability related to acquisitions. This resulted in a downward adjustment to the payment due on account of future earnouts mainly in connection with Optimatic, and the Company recorded an income of $10 million in 2017.

$ millions	2017	2016
Net cash provided by / used in operating activities	17.5	(0.2)
Net cash provided by / used in investing activities	2.2	(6.9)
Net cash provided by / used in financing activities	(12.6)	1.5
Increase / decrease in cash and cash equivalents	7.1	(5.6)
Cash and cash equivalents at beginning of period	21.7	27.3
Cash and cash equivalents at end of period	28.8	21.7

* Represents amounts less than $ 0.1 million.

Liquidity and cash flows

The following table sets out selected cash flow information for the Group for the years ended 31 December 2017 and 2016

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

Matomy's net cash provided by / used in operating activities increased by $17.7 million to a $17.5 million inflow for the year ended 31 December 2017 (FY2016: $0.2 million outflow). In 2017, net cash provided by operating activities consisted of a net loss of $14.4 million offset by $6.5 million relating to net changes in working capital, and $25.4 million relating to non-cash expenses. Non-cash expenses were primarily impairment of intangible assets, capitalized R&D and goodwill of $27.1 million, depreciation and amortisation of $14.4 million and stock based compensation expense of $1.4 million, off-set by earnout adjustments income of $10.0 million and decrease in deferred tax assets of $7.8 million.

In comparison, for the year ended 31 December 2016, Matomy's net cash provided by operating activities consisted of $8.1 million in net loss and $9.6 million relating to net changes in working capital, off-set by $17.5 million relating to non-cash expenses. Non cash expenses were primarily depreciation and amortisation of $16.5 million, non-cash stock based compensation expense of $1.9 million, less decreases in deferred taxes of $1.0 million.

Net changes in working capital in 2017 were mainly driven by a decrease of $22.0 million in trade receivables, offset by the effects of decrease in trade payables ($14.8 million). The decrease in both trade receivables and trade payables was mainly attributable to the sale of the exited activity and lower scale of activities in the remaining non-core activities.

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

Net cash provided by / used in investing activities increased by $9.1 million to $2.2 million inflow for the year ended 31 December 2017 (FY2016: $6.9 million outflow). In 2017, net cash provided by investing activities primarily included a $5.6 million from sale of non-core activites, $1.8 million from sale of investment in affiliated company, off-set by $3.9 million capitalised investment in R&D and $1.0 million investment in domains.

For the year ended 31 December 2016, net cash used in investing activities included a $5.1 million capitalised investment in R&D and a $1.6 million investment in property and equipment.

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

Net cash used in / provided by financing activities decreased by $14.1 million to a $12.6 million outflow for the year ended 31 December 2017 (FY2016: $1.5 million inflow).

In 2017, net cash used in financing activities related primarily to a $17.7 total payments to non-controlling interests and earnout payments, less $4.6 million net increase in outstanding term loans and utilization of credit lines and $0.5 million of proceeds from the exercise of stock based compensation during the year.

In 2016, net cash provided by 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.

As of 31 December 2017, Matomy had $8.1 million in term loans. Of those, $5.1 million are due within one year. Matomy also has a revolving credit line of $12.7 million.

Notes to financial statments

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired.
Matomy's goodwill was created mainly through the 2013, 2014 and 2015 acquisitions.
Matomy has three reporting units: Domain Monetisation, Mobile ("Mobfox"), and non-core activities. The Company performs an annual impairment test during the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine whether the net book value of each reporting unit exceeds its estimated fair value. The Company recorded goodwill impairment loss of $9.0 million during the year 2017 is attributable to the non-core reporting unit. During the year ended 31 December 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 purpose of allocating resources and evaluating financial performance.
As a result, Matomy operates in a single reportable segment as a provider of digital advertising services.

Liability to non-controlling interests

During the fourth quarter of 2016, the non-controlling interest of Team Internet ("Minority Holder"), exercised their put option and sold 10% of Team Internet to the Company. The payment of $10.4 million was made in January 2017. Following the exercise of the put option, the Company holds 80% of Team Internet shares.
On 28 December 2017, Matomy entered into an agreement with the Minority Holder relating to the exercise of the second and third sale exit option. The total consideration for the second sale exit was due no later than 15 March 2018 and has been completed. The consideration for the third sale exit option is due no later than 30 November 2018 according to the formula set out in the Team Internet Framework Agreement, with additional 10% premium. The parties also agreed that the Minority Holder will be entitled to an additional consideration of 8% of the net earnings of Team Internet during the period beginning on 1 September 2018 and ending on 31 December 2018 and in the subsequent financial year beginning on 1 January and ending on 31 December 2019. In addition, a one-off bonus of $1.0 million will be paid to the Minority Holder for the extension of the cooperation between Team Internet and its unrelated search engine provider beyond 31 July 2019. As of 31 December 2017 the Company recorded a liability of $41.5 million for the expected consideration based on fair value according to its best estimates. As of 31 December 2017 the Company believes that it is premature to estimate the expected payment for the search engine renewal bonus, and therefore no provision was recorded.
During H1 Matomy recorded an accretion of redeemable non controlling interest of $7.9 million in H1 and $9.2 million in H2, in total for the full year 2017 of $17.1 million.

Sale of exited activities

In 2017 the Company entered into an agreement for the sale of its intangible assets and transfer of all employees related to its exited activities, for a total consideration of up to $10.9 million, comprised of $5.6 million in cash and a contingent consideration up to $5.2 million based on future business performance.

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

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

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

Loss per share

Matomy's basic loss per share increased by $0.22, or 169%, to a loss per share of $0.35 for the year ended 31 December 2017 (FY2016: $0.13 loss per share). This change was influenced primarily by the decrease in after-tax profit, for the reasons noted above. In addition, there was a 2.8% increase in the weighted average number of outstanding shares mainly due to exercise of share-based incentives in 2017.

Treasury shares

As of 31 December 2017, Matomy has a total of 10,970,111 treasury shares, of which, 1,211,236 shares are held by Team Internet. As of December 31, 2017 Team Internet's Minority Holder is entitled to an 80% share of the gains derived from these shares, which Matomy classifies as a liability to non-controlling interest.

Financial Obligations and Covenants

Matomy's financial obligations and commitments as at 31 December 2017 were as follows:

$ million	Due within 1 year	Due >1 year	Total
Bank loans	5.1	3.0	8.1
Operating lease obligations, net of sublease rental	1.3	2.1	3.4
Total	6.4	5.1	11.5

Details of these obligations may be found in note 8 and 9 in the financial statements.

Financial reporting

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

The Company changed its accounting policy regarding the presentation of the adjustment to the net income attributable to it as a result of accretion of redeemable non-controlling interest. For further information please refer to note 2 of the 2017 Financial Statements.

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.

LIAM GALIN
President & Chief Executive Officer

KEREN FARAG
Chief Financial Officer

Reconciliation of GAAP measures to non-GAAP measures

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

	Year ended 31 December	
	2017	2016
Revenues	245.1	276.6
Direct media costs	(168.0)	(198.3)
Adjusted gross profit	**77.1**	**78.3**
Adjusted gross margin (%)	31.5%	28.3%
Other cost of revenues	(23.4)	(21.4)
Gross profit	53.7	56.9

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

	Year ended 31 December	
	2017	2016
Net loss	(14.4)	(8.1)
Taxes on income (benefit)	(2.1)	4.7
Financial expenses, net	2.5	2.1
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	(0.1)	0.1
Depreciation and amortisation	14.4	16.5
Share-based compensation (cash and non-cash) expenses	3.2	2.4
Exceptional items	17.2	0
Adjusted EBITDA	20.7	17.7

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

	Year ended 31 December	
	2017	2016
$ million		
Net loss	(14.4)	(8.1)
Exceptional items, net of tax effect	10.9	0
Share-based compensation (cash and non-cash), net of tax effect	3.1	2.5
Adjusted net loss	(0.4)	(5.6)

Principal Risks & Uncertainties

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. The Directors took into consideration, among others, the fact that in February 2018, the Company completed a public offering in Israel of Convertible Bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately $29.9 million) issuing a total of 101,000 units of Bonds, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The principal of the Bonds, denominated in ILS, will be repaid in two equal annual instalments commencing on December 2020. The Bonds will be convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (December 21, 2021). The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion after 21 December 2021, subject to certain conditions.

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 are set out in detail in the section entitled "Risk Factors" of the Group's IPO prospectus (the "Prospectus") dated 9 July 2014 as updated below. These include, among other things, 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
- Matomy's revenue and operating results are highly dependent on the overall demandfor advertising. Factors that affect the amount of advertising spending, such as economic downturns, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business
- Seasonal fluctuations in digital advertising activity, which may historically have been less apparent due to our historical core activities and growth, could adversely affect our cash flows and operating results
- In order to meet our growth objectives, we will need to rely upon our ability to innovate, the continued adoption of our solution by buyers and sellers for higher value advertising inventory, the extension of the reach of our solution into evolving digital media, and growth into new geographic markets
- Matomy operates in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do
- The digital advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition
- In order to meet our growth objectives, we may need to rely on our ability to raise debt or utilize credit lines, which may not be sufficiently available to meet our ongoing financial needs
- Matomy is dependent on relationships with certain third parties with significant market positions
- Matomy relies on the continued compatibility of its technological platforms with third-party operating systems, software and content distribution channels, as well as newly-acquired systems.
- Matomy may be subject to third-party claims brought against it
- Matomy has historically derived the majority of its revenues from customers that use its solutions for display marketing campaigns which are now rapidly declining
- A key part of Matomy's strategy relates to acquisitions and the ability to effectively finance, integrate and manage them
- The digital advertising industry remains susceptible to fraud
- Matomy is an Israeli-domiciled company and, as such, the rights and obligations of shareholders are governed by Israeli law and differ in some respects from English law
- As a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results
- If Matomy fails to comply with the terms or covenants of its debt obligations, our financial position may be adversely affected

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

Macro Risks

Risk area	Potential impact	Mitigation
Dependency on Internet and technology companies; macrobusiness 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 such companies' significant market positions, any such changes may materially disrupt Matomy's ability to deliver targeted ads and record performance metrics on certain media channels or operate in certain industry verticals, thus causing Matomy to lose significant revenues and be materially limited in the amount of data it is able to collect and use and, consequently, negatively affect its overall customer offering. Additionally, continual changes to how consumers engage and interact with digital advertising, particularly on mobile and tablet devices, may require Matomy adequately support and continually adjust its business model to adequately support its customers' digital and performance-based advertising goals in line with consumers' media consumption habits.	Matomy constantly monitors changes in technologies, user 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 impact	Mitigation
Geopolitical, economic and other risks relating to Matomy's domicile and operations in Israel and its listing in the UK	Matomy is incorporated under Israeli law, and its principal executive offices are located in Israel. In addition, political, economic and military conditions in Israel directly and indirectly affect Matomy's business. Matomy's commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. In addition, as a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results.	Although geopolitical, economic and military factors relating to Matomy's domicile and operations in Israel and listing in the UK are out of Management's control, the Group closely monitors the ongoing security situation in the Middle East, both to ensure the safety of its employees and partners, and to ensure the continuity of its operations. 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, Europe and APAC. 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.

Macro Risks

Risk area	Potential impact	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 data collection, privacy, 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. In particular, the General Data Protection Regulation (GDPR), coming into application in the European Union (EU) on May 25, 2018, will apply to part our activities relating to products and services that we offer to EU users. The GDPR creates a range of new compliance obligations, which could cause us to change our business practices with respect to the EU, including a risk of being subject to financial penalties for noncompliance.	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. Matomy has been working with an external advisor and is in the final stages of completing its General Data Protection Regulation-related work as a data processor.

Macro Risks

Risk area	Potential impact	Mitigation
Macro-economics vs. revenue and geographic diversity	Matomy's revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns and seasonality, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business.	Matomy continually invests and makes huge efforts to provide best in class services and solutions in order to establish loyal and long lasting commercial relations with its advertisers and media sources.

Group Risks

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.

Group Risks

Risk area	Potential impact	Mitigation
Matomy revenue tends to be seasonal in nature	As Matomy transitions and becomes more focused on core activities of programmatic mobile, video and domain monetisation, Matomy's revenue tend to be seasonal in nature, with the third and fourth quarters of each calendar year historically representing the largest percentage of our total revenue for the year and the first quarter of each calendar year historically representing the lowest percentage of our total revenue for the year. This combination generally results in lower revenue and gross margins for us during the first quarter of each calendar year. Our operating cash flows could also fluctuate materially from period to period as a result of these seasonal fluctuations.	Matomy continually invests and makes huge efforts to provide best in class services and solutions in order to establish loyal and long lasting commercial relations with its advertisers and media sources.

Group Risks

Risk area	Potential impact	Mitigation
Failure to adapt and respond effectively to rapidly changing technology and client needs, our solutions may become less competitive or obsolete	To meet our growth objectives, we will need to rely upon our ability to innovate, the continued adoption of our solution by buyers and sellers for higher value advertising inventory, the extension of the reach of our solution into evolving digital media, and growth into new geographic markets.	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.

Group Risks

Risk area	Potential impact	Mitigation
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 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.

Group Risks

Risk area	Potential impact	Mitigation
Compliance with the terms or covenants of its debt obligations, our financial position may be adversely affected	Matomy's credit facility and debt instruments requires Matomy, to comply with various covenants that limit our ability to, among other things: (i) dispose of assets; (ii) complete mergers or acquisitions; (iii) incur indebtedness; (iv) encumber assets; and (v) pay dividends or make other distributions to holders of our share capital; These restrictions could inhibit Maotmy's ability to pursue our business strategies. If Matomy defaults, and such event of default is not cured or waived, the lenders could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross defaults under other debt instruments. Matomy's assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default. Matomy may incur additional indebtedness in the future. The debt instruments governing such indebtedness could contain provisions that are as, or more, restrictive than our existing debt instruments. If Matomy were unable to repay, refinance or restructure our indebtedness when payment is due, the lenders could proceed against the collateral granted to them to secure such indebtedness or force us into bankruptcy or liquidation.	Matomy devotes significant management time and resources to ensure ongoimg compliance with the terms or covenants of its debt obligations.

Group Risks

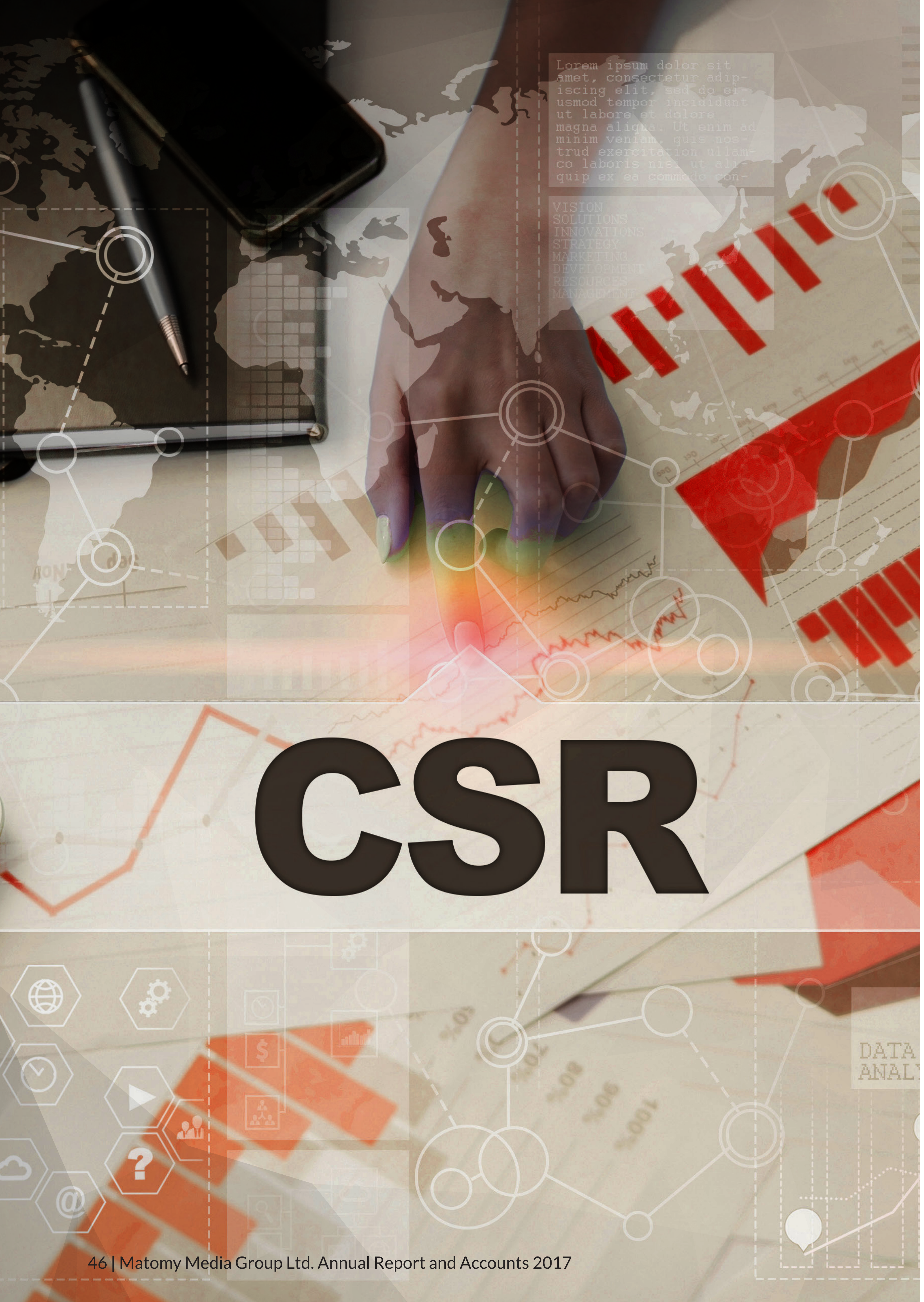
Risk area	Potential impact	Mitigation
Matomy may be subject to third-party claims brought against it	Matomy may be exposed to claims brought by third parties against it, its customers or its digital media sources. Such claims may allege, for example, that the digital media on which its customers' marketing and advertising campaigns appear, or the content contained in such campaigns, infringes, and/or helps to facilitate the infringement of, the IP or other rights of third parties, are false, deceptive, misleading or offensive, or that its customers' products are defective or harmful.	Matomy has a robust internal policies and procedures relating to dealing with claims brought by third parties against it, its customers or its digital media sources. 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.

Group Risks

Risk area	Potential impact	Mitigation
A key part of Matomy's strategy relates to acquisitions and the ability to effectively finance, integrate and manage them	As part of our business strategy, we have in the past acquired, and may in the future acquire, companies, technologies and solutions that we believe complement our business. Acquisitions involve numerous risks, any of which could harm our business, including: (i) difficulties in integrating the technologies, solutions, operations, existing contracts and personnel of a target company; (ii) difficulties in supporting and transitioning clients, if any, of a target company; (iii) diversion of financial and management resources from existing operations or alternative acquisition opportunities; (iv) failure to realize the anticipated benefits or synergies of a transaction;(v) failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company, technology, or solution, including issues related to intellectual property, solution quality or architecture, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer issues; (v) risks of entering new markets in which we have limited or no experience; (vi) potential loss of key employees, brand advertisers and publishers from either our current business or a target company's business; (vii) inability to generate sufficient revenue to offset acquisition costs; and (viii) possible write-offs or impairment charges relating to acquired businesses.	Matomy is accumulating significant M&A experience in the sector in which it operates and continues to make material 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.

Group Risks

Risk area	Potential impact	Mitigation
The digital advertising industry remains susceptible to fraud	Our business relies on effectively and efficiently delivering digital ad campaigns. We have in the past, and may in the future, be subject to fraudulent and malicious activities. It may be difficult to detect fraudulent or malicious activity because we do not own content and rely in part on our publisher partners for controls with respect to such activity. If fraudulent or other malicious activity is perpetrated by others, and we fail to detect or prevent it, the affected advertisers may experience or perceive a reduced return on their investment and our reputation may be harmed. High levels of fraudulent or malicious activity could lead to dissatisfaction with our solutions, refusals to pay, refund demands or withdrawal of future business. If we fail to detect fraud or other actions that reduce the performance of our video ad campaigns, we could lose the confidence of our advertisers or agencies, which could cause our business to suffer.	Matomy continually monitors and implements the leading tools for fraud detection combined with internal processes and procedures which are meant to mitigate the risks relating to undetected fraudulent activity.



Corporate 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, environmental, 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 in its offices around the world. Some of the registered charities supported in 2017 include:

- ADI - Association Duchenne Israel working for a cure for this common and fatal degenerative muscle disease;
- Kesher, dedicated to improving the quality of life for families of individuals with special needs;
- Shiur Acher, which promotes equality of opportunity and encourages public involvement in the educational system;
- Educating for Excellence, which strives to reduce social gaps and create equal opportunities for children with potential for excellence; and
- Jewish National Fund, working to preserve Israel's natural and cultural heritage.

Matomy's community relations activities are managed by each of its branch offces, with oversight for community relations residing within the Group's global headquarters in Israel. By allowing 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.

Environment

Each of Matomy's branch offices has established environmental plans that help minimize Matomy's environmental footprint, such as paper, plastics and aluminium recycling and bottle redemption service whereby Matomy donates funds received from bottle tax refund to local charities. This plan is managed by the office administrator and/or Senior Manager of each branch office, along with a volunteer group of employees.

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 2017 to 31 December 2017

Emissions from:	Tonnes of CO2e
Combustion of fuel and operation of facilities	17.9
Electricity, heat, steam and cooling purchased for own use	547.3
Company's chosen intensity measurement: tonnes of CO2e per $m revenue	2.38

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 briefngs, 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 fnancial 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.

Additionally, Matomy has Human Resources representatives in several 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.

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 technologoy company, much of Matomy's success relies on cultivating a strong group of ambitious junior employees who are well trained in the skills necessary to thrive in the advertising technology industry. 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	Company Secretary
Nadav Zohar (Chairman)	Harel Locker (Chairman)	Harel Beit-On (Chairman)	Ido Barash
Harel Locker	Nadav Zohar	Nadav Zohar	
Nir Tarlovsky	Amir Efrati	Sagi Niri	

Senior Management Team

- President & CEO
- Chief Financial Officer
- Managing Director, Mobfox
- CEO, Team Internet
- CEO, Optimatic
- VP Strategic Development & General Counsel

Board of Directors

Our business is managed by our Board of Directors. Biographical details of the Directors and Senior Management as of 30 April 2018 are as follows.

Name	HAREL BEIT-ON	RISHAD TOBACCOWALA
Title	Non-Executive Chairman	Deputy Chairman & Non-Executive Director
Biography	Harel Beit- is a co-founder 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 and agricultural technology sectors, 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 previously Nasdaq-listed Lumenis and previously Nasdaq-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.	Rishad Tobaccowala is Strategy & Growth Officer and member of the Directoire+ of Publicis Groupe, the world's third largest communications group. He was most recently the Chairman of DigitasLBi and of Razorfish, two global firms owned by Publicis Groupe focused on marketing and business transformation. Rishad was previously the Chief Strategy and Innovation officer of VivaKi, a global leader in digital advertising solutions. He has 35 years of experience in marketing and has worked, helped grow, founded/co-founded or incubated a variety of companies including Leo Burnett, Starcom, SMG Next, Starcom IP, Giant Step, Play, and Denuo. He is also Chairman of The Tobaccowala Foundation, which helps 10,000 people in India access better education and healthcare.
Year Appointed	2010	2015
Committee Membership(s)	Nomination Committee	
External Appointments	Harel is chairman of Lumenis and serves as an active board member of a number of portfolio companies of the Viola Group.	Rishad is Chairman of The Tobaccowala Foundation and board member of the Wharton Future of Advertising Project
Recent Developments	Harel was appointed Non-executive Chairman by the Board in January 2017	None

Continued Board of Directors

		
Name	**AMIR EFRATI**	**NIR TARLOVSKY**
Title	Non-Executive Director	Deputy Chairman & Non-Executive Director
Biography	Amir Efrati brings over 20 years of business experience to the role. He is the Managing Partner and Portfolio Manager of Brosh Capital and Exodus Capital. 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. He has an MBA (honors) from Columbia Business School and a BA (honors) in Economics from Tel Aviv University.	Nir Tarlovsky (51) was appointed to act as a Non-executive Director of Matomy in November 2016. He has been an entrepreneur and angel investor for the last 20 years. He is currently Co-Founder at thetime, a leading early stage investor in Israeli in the digital space. Operating the leading incubator in Israel and firstime ventures, a post-seed / pre-A $60mm fund. 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 Matomy 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. He has a BA and MA, Economics (summa cum laude) in Economics from Tel Aviv University.
Year Appointed	2016	2016
Committee Membership(s)	Remuneration Committee	Audit Committee
External Appointments	Managing Partner and Portfolio Manager of Brosh Capital and Exodus Capital	Co-Founder at thetime
Recent Developments	None	None

Continued Board of Directors

			
Name	**HAREL LOCKER**	**NADAV ZOHAR**	**SAGI NIRI**
Title	Independent Non-Executive Director	Independent Non-Executive Director	Executive Director
Biography	Mr Locker currently serves as the Chairman of the Board of Israel Aerospace Industries (IAI).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).	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.	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	2016	2014	2014
Committee Membership(s)	Audit Committee Remuneration Committee	Audit Committee Remuneration Committee Nomination Committee	Nomination Committee
External Appointments	Chairman of the Board of Israel Aerospace Industries (IAI).	Nadav serves on several boards of portfolio growth media and technology companies managed by Impact Equity Corporation.	None
Recent Developments	None	Effective 24 October 2017 Mr Zohar completed his three-year term of office of as a non-executive "External Director" under the Israeli Companies Law, 5759-199 and retired from the Board.	Effective 9 January 2018 announced his resignation as Chief Executive Officer to be succeeded by Mr. Liam Galin.

Continued Board of Directors

Name	**OFER DRUKER**
Title	Executive Director

Biography

Ofer Druker is a co-founder of Matomy and served as CEO for ten years. Previously, he was Chief Executive Officer at Xtend Media, which he cofounded 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)	None
External Appointments	None
Recent Developments	Effective 13 April 2017, Ofer Druker resigned as Chief Executive Officer ("CEO") and Executive Director, 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.

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 2017.

IDO BARASH
Company Secretary

Directors' Report

The Directors present their report and the Group Financial Statements of Matomy Media Group Ltd. ("Matomy" or the "Group") for the financial year ended 31 December 2017.

Matomy was incorporated in Israel as a private limited liability company. Its registered office is in Israel and its registered number is 513795427. The principal legislation under which Matomy operates is the Israeli Companies Law 5759-1999 (the "Israeli Companies Law" or the "Companies Law"). Matomy is a global technology company with a portfolio of superior, data-driven advertising platforms including MobFox, myDSP, Team Internet, Optimatic and WhiteDelivery. By providing customized programmatic and performance solutions supported by unique data analytics and optimization technology, Matomy empowers advertising and media partners to best meet their evolving growth-driven goals. Matomy is the holding company of the Group. Its principal subsidiary undertakings are: Matomy Media Ltd. (100% ownership); Matomy USA Inc. (100%); 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 14 to 49. 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 64 to 76. 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 2017 are set out on pages 94 to 133. Revenue during 2017 amounted to $245.1 million (2016: $276.6 million).

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

Post-balance sheet events

The material events after 31 December 2017 are: (i) The successful completion of the issuance of convertible bonds in February 2018 in which the Matomy raised approximately $30 million US dollars; and (ii) the appointment of Mr. Liam Galin as President & CEO of Matomy, to succeed Mr. Sagi Niri as Matomy's Chief Executive Officer on 9 January 2018.

Share capital

As at 31 December 2017, 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 97,535,023 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.

Shareholder	Number of ordinary shares/voting rights notified	Percentage of ordinary share capital/voting rights notified
Publicis Groupe B.V.	22,326,246	22.89%
Ilan Shiloah	11,117,555	11.40%
Viola A.V Adsmarket L.P	9,229,577	9.46%
Meitav and its affiliated entities	9,236,327	9.47%
Brosh Capital and its affiliated entities	6,499,866	6.66%

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 of Matomy, 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 2017, (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. On May 8, 2017 Matomy announced a new strategic focus on core activities - Team Internet (domain monetisation) and Mobfox (programmatic in-app advertising) resulting in higher revenue stability, gross margins and profitability. Following the announcement of this focus plan, Matomy made significant investment in research, development and infrastructure to support the growth of these core activities.

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. The Directors took into consideration, among others, the fact that in February 2018, the Company completed a public offering in Israel of Convertible Bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately $29.9 million) issuing a total of 101,000 units of Bonds, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The principal of the Bonds, denominated in ILS, will be repaid in two equal annual instalments commencing on December 2020. The Bonds will be convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (December 21, 2021). The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion after 21 December 2021, subject to certain conditions.

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

As at the date of this report, the Board has six members: the Non-Executive Chairman (Harel Beit-On); and five Non-Executive Directors (Sagi Niri, Harel Locker, Amir Efrati, Nir Tarlovsky and Rishad Tobaccowala). During 2017 Matomy's external directors (as required by Israeli Companies Law) are Nadav Zohar and Harel Locker. See "Recent Developments" for more information about the Board. The biographical details of each of the current Directors are set out on pages 53 and 58, 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 76 and 78 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; and (ii) the options to purchase up to 1,518,293 Ordinary Share at an exercise price of $1.11 per share granted to Ilan Shiloah [IS no longer a Director], 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 2017. 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 2017 are shown on page 59.

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 64 to76 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.

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 2017, Matomy did not make any political donations (FY2016: $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 will be proposed at the forthcoming Annual General Meeting.

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 2018

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 Segmnent 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 on TASE.

This report, together with the Remuneration Committee Report on pages 73 to 75, 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 six members: the Non-Executive Chairman (Harel Beit-On); and four Non-Executive Directors (Harel Locker, Amir Efrati, Nir Tarlovsky, Rishad Tobaccowala, Sagi Niri). See "Recent Developments."

Mr. Harel Beit-On succeeded Mr. Howell as Chairman with effect on 17 January 2017. See "Recent Developments."

Mr. Rishad Tobaccowala assumed the role of Deputy Chairman with effect on 17 January 2017.

See "Recent Developments." The biographical details of each of the current Directors are set out on pages 53 and 58, and details of their membership of the Board's committees are set out below.

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

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

The Board and Audit Committee held four quarterly scheduled meetings in 2017. 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 2017:

	Board	Audit Committee	Nomination Committee Committee	Remuneration Committee [4]
Harel Beit On	4/4		2/2	
Amir Efrati	4/4			2/2
Nir Tarlovsky	3/4	3/4		
Nadav Zohar [1]	3/4	3/4	2/2	1/2
Rishad Tobaccowala	4/4			
Ofer Druker [2]	2/4			
Sagi Niri [3]	4/4		2/2	
Harel Locker	3/4	3/4		2/2

[1] Mr. Nadav Zohar ceased to be a director of the Company on 24 October 2017 after completing his three-year term of office.
[2] Mr. Ofer Druker ceased to be a director of the Company on 30 May 2017.
[3] Mr. Sagi Niri effective 9 January 2018 announced his resignation as Chief Executive Officer to be succeeded by Mr. Liam Galin
[4] Nomination Committee and Remuneration committee statistics reflect both routine and ad hoc meetings
[5] Table participation 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.

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, Liam Galin is President & 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, other than [Harel Beit-On, Rishad Tobaccowala, Nir Tarlovsky and Amir Efrati.]

The Directors consider that the Board has an appropriate balance of skills and experience by virtue of the Directors' varied backgrounds (see biographical details on pages 53 to 58).

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. See "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 he or she is able to allocate sufficient time to the Group to discharge his or her 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 73 to 75. Information pertaining to the work of the Nomination Committee during the year can be found on pages 74 to 75.

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 Beit-On (Chair) (1)
Mr Locker	Mr Zohar	Mr Zohar
Mr. Tarlovsky	Mr Efrati	Mr Niri (2)

(1) Mr. Harel Beit-On was appointed by Matomy's board to succeed Mr. Howell as Chairman with effect on 17 January 2017.
(2) Mr. Sagi Niri effective 9 January 2018 announced his resignation as Chief Executive Officer to be succeeded by Mr. Liam Galin

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.

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 2017.

Audit Committee	
Nadav Zohar	3/4
Harel Locker	3/4
Nir Tarlovsky	3/4

*Effective 24 October 2017 Mr. Zohar completed his three-year term of office of as a non-executive "External Director" under the Israeli Companies Law, 5759-199 and retired from the Board.

Includes participation by proxy

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 53 to 58).

The duties of the Audit Committee include:

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

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

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

Operation of the Audit Committee

The Audit Committee met four scheduled times in 2017. 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, a member of Ernst & Young Global, tenure and the results of the detailed questionnaire when assessing its continued effectiveness, independence and re-appointment.

The Committee continues to remain satisfied with the work of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, 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 2017 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 ommentary 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.

Internal auditor

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

Audit Committee effectiveness

The Board, as part of its general review of its overall effectiveness, concluded that the Audit Committee was working effectively.
This report was approved by the Board and signed on its behalf by:

HAREL LOCKER
Interim Chairman of the Audit Committee
30 April 2018

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 2017 the internal auditor examined the Salaries and Personnel 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.

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

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 2017

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
Nadav Zohar	40,000	10,000	4,000	1,500		55,500
Harel Locker	40,000	4,000	10,000	1,500		55,500

Information regarding Senior Executives Remuneration

Name	Base Salary	Employer Cost	Variable Compensation + Equity-Based Compensation	(employer cost + Equity-Based Compensation)
Druker, Ofer	613,620	646,492	220,311	866,802
Keren Farag Krygier	192,980	318,255	269,425	542,586
Sagi Niri	268,494	355,508	150,603	506,111
Gil Klein	182,072	257,436	177,862	410,299
Ido Barash	140,959	190,913	197,346	388,259

(1) Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for the year ended December 31, 2017.

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

(3) Amounts reported in this column titled "Variable Compensation + Equity-Based Compensation" include such sums paid as commission, incentive and bonus payments as recorded in our financial statements for the year ended December 31, 2017 together with the expense recorded on account of equity based compensation in our financial statements for the year ended December 31, 2017.

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 2017, the Nomination Committee provided its recommendations relating to the and the appointment of senior VP level executives.

Nomination Committee	
Harel Beit-On (chair)	2/2
Nadav Zohar	2/2
Sagi Niri	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 sturcture, size and composition of the Board;
- formulating Director and senior managmenet succession plans;
- making recommendations concerning Chairman and other Director nomination and re-election;
- recommending suitable candidates for the role of senior independent director and for membership of the Audit Committee and Renumeration Committee; and
- reporting to the Board on its proceedings.

Corporate responsibility

Details of Matomy's approach to Corporate Responsibility are set out on pages 47 to 49.

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 presentaions are made available on the Matomy website, www.matomy.com.
The Non-Executive Directos are available to meet with major shareholders.

Annual general meeting

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

Remuneration Policy for Executive Directors & Senior Managers

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 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 & 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 the reunder.

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 /Chief 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 substantial international subsidiaries), the complexity of the Company's business and the fact that Matomy's shares are traded on both 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 were 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"). 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 a going-concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

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

Report of Independent Auditors

We have audited the accompanying consolidated financial statements of Matomy Media Group Ltd. ("the Company") and its subsidiaries, which comprise the consolidated balance sheets as of 31 December 2017 and 2016, and the related consolidated statements of operations, changes in shareholders` equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing rocedures 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 2017 and 2016 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 Ernst & Young Global
March 28, 2018
Tel Aviv, Israel

Consolidated Balance Sheets

(US dollars in thousands)

	31 December 2017	31 December 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,827	$ 21,671
Trade receivables, net	33,353	54,900
Domains held for sale	-	9,965
Other receivables and prepaid expenses	7,306	5,502
Total current assets	69,486	92,038
LONG-TERM ASSETS:		
Property and equipment, net	8,796	9,032
Domains	10,797	-
Investment in affiliated companies	43	1,957
Other intangible assets, net	8,397	36,577
Goodwill	83,768	97,015
Other assets	161	398
Total long-term assets	111,962	144,979
Total assets	**$ 181,448**	**$ 237,017**

Consolidated Balance Sheets

(US dollars in thousands)

	31 December 2017	31 December 2016
CURRENT LIABILITIES:		
Liability to non-controlling interest	$ 41,547	$ 13,776
Short-term bank credit and current maturities of bank loans	17,795	8,960
Trade payables	29,234	43,982
Contingent payment obligation related to acquisitions	1,272	7,166
Employees and payroll accrual	4,107	4,953
Accrued expenses and other liabilities	9,539	4,964
Total current liabilities	103,494	83,801
LONG-TERM LIABILITIES:		
Deferred tax liabilities	3,411	11,148
Contingent payment obligation related to acquisitions	444	10,192
Bank loans, net of current maturities	3,001	6,661
Other liabilities	1,208	821
Total long-term liabilities	8,064	28,822
REDEEMABLE NON-CONTROLLING INTEREST	-	23,691
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	252	247
Additional paid-in capital	85,931	101,066
Accumulated other comprehensive loss	(3,174)	(3,174)
Retained earnings (accumulated deficit)	(7,196)	8,795
Treasury shares	(6,231)	(6,231)
Total Matomy Media Group Ltd. shareholders' equity	69,582	100,703
Non-controlling interest	308	-
Total equity	69,890	100,703
Total liabilities and equity	**$ 181,448**	**$ 237,017**

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

28 March 2018
Date of approval of the financial statements

Liam Galin
President & Chief Executive Officer

Keren Farag
Chief Financial Officer

Consolidated Statements of Operations

US dollars in thousands except earnings per share data

	Year ended 31 December	
	2017	2016
Revenues	$ 245,056	$ 276,631
Cost of revenues	191,375	219,715
Gross profit	53,681	56,916
Operating expenses		
Research and development	10,980	9,297
Selling and marketing	25,804	31,121
General and administrative	13,883	18,209
Impairment, net of change in fair value of contingent consideration	17,181	(425)
Restructuring costs	924	-
Gain from sale of activity	(913)	-
Total operating expenses	67,859	58,202
Operating loss	(14,178)	(1,286)
Financial expenses, net	2,536	2,057
Loss before taxes on income	(16,714)	(3,343)
Tax on income (benefit)	(2,145)	4,689
Loss before equity losses of affiliated companies	(14,569)	(8,032)
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	135	(73)
Net loss	(14,434)	(8,105)
Net income attributable to redeemable non-controlling interests in subsidiaries	(1,466)	(487)
Net income attributable to other non-controlling interests in subsidiary	(23)	-
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	$ (15,923)	$ (8,592)
Basic and diluted loss per ordinary share	**$ (0.35)**	**$ (0.13)**

Consolidated Statements of Changes in Shareholders Equity

(US dollars in thousands, except share data)

	Ordinary shares		Additional paid-in capital	Accumulated other comp. loss	Retained earnings	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non-controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2016	93,093,626	$ 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
Accretion of redeemable non-controlling interest	-	-	-	-	(3,141)	-	(3,141)	-	(3,141)
Net loss	-	-	-	-	(8,592)	-	(8,592)	-	(8,592)
Balance as of 31 December 2016	95,787,694	$247	$101,066	(3,174)	$8,795	(6,231)	$100,703	-	$100,703
Cumulative-effect adjustment from adoption of ASU 2016-09	-	-	68	-	(68)	-	-	-	
Change in parent's ownership interest in subsidiary	-	-	-	-	-	-	-	285	285
Stock-based compensation	-	-	1,374	-	-	-	1,374	-	1,374
Exercise of options and vesting of restricted share units	1,493,229	4	522	-	-	-	526	-	526
Exercise of warrants	254,100	1	-	-	-	-	1	-	1
Accretion of redeemable non-controlling interest	-	-	(17,099)	-	-	-	(17,099)	-	(17,099)
Net loss	-	-	-	-	(15,923)	-	(15,923)	23	(15,900)
Balance as of 31 December 2017	97,535,023	$252	$85,931	$(3,174)	$(7,196)	$(6,231)	$69,582	$308	$69,890

*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	
	2017	2016
Cash flows from operating activities		
Net loss	$ (14,434)	$ (8,105)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,397	16,511
Stock-based compensation	1,374	1,854
Impairment of intangible assets, goodwill and capitalized research and development	27,144	396
Change in deferred tax, net	(7,802)	(1,039)
Change in accrued interest and effect of foreign exchange differences on long term loans	516	(266)
Gain on remeasurement to fair value and equity gains (equity losses) of affiliated companies, net	(135)	73
Decrease in trade receivables	21,981	3,268
Increase in domains held for sale	-	(4,151)
Increase in other receivables and prepaid expenses	(1,540)	(1,664)
Decrease (increase) in other assets	58	(82)
Decrease in trade payables	(14,814)	(5,183)
Changes in fair value of contingent payment obligation related to acquisitions recognized in earnings	(9,963)	(821)
Accretion of contingent payment obligation related to acquisitions	359	712
Increase (decrease) in employees and payroll accruals	(846)	516
Increase (decrease) in accrued expenses and other liabilities	2,078	(2,243)
Gain from sale of activity	(913)	-
Other	(5)	55
Net cash provided by (used in) operating activities	17,455	(169)

	Year ended 31 December	
	2017	2016
Cash flows from investing activities:		
Sale of activity	5,642	-
Purchase of property and equipment	(322)	(1,653)
Purchase of domains	(1,002)	-
Proceeds from sale of domains	160	-
Capitalization of research and development costs	(3,901)	(5,106)
Purchase of technology and database	-	(158)
Investments in subsidiaries net of cash acquired	(141)	-
Sale of investment in affiliated company	1,823	-
Net cash provided by (used in) investing activities	$ 2,259	$ (6,917)

*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	
	2017	2016
Cash flows from financing activities:		
Short-term bank credit, net	$ 11,555	$ 2,093
Receipt of bank loans	2,000	7,021
Repayment of bank loans	(8,937)	(6,966)
Additional payments related to previous acquisitions, net	(3,228)	(624)
Acquisition of redeemable and non-redeemable non-controlling interest	(10,994)	(565)
Dividend paid to redeemable non-controlling interest	(3,491)	(1,863)
Exercise of options and warrants	527	2,382
Net cash provided by (used in) financing activities	(12,568)	1,478
Effect of exchange rate differences on cash	10	8
Increase (decrease) in cash and cash equivalents	7,156	(5,600)
Cash and cash equivalents at beginning of year	21,671	27,271
Cash and cash equivalents at end of year	$ 28,827	$ 21,671
Supplemental disclosure of cash flow activities		
Cash paid during the year for:		
Income taxes, net	$ 5,263	$ 6,336
Interest paid	$ 997	$ 642

Notes to Consolidated Financial Statements

(US dollars in thousands)

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

NOTE 1: GENERAL

a. Matomy Media Group Ltd together with its subsidiaries (collectively - "the Company") offers and provides a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers, domain owners through access to digital media, via a vast chain of direct and indirect media partners, such as websites, mobile apps and video. With this large and diversified network of digital media source relationships, the Company reduces potential dependency on any one digital media source and can thereby give its customers broad reach, liquidity and choice. The focus on two core activities of domain monetization and mobile digital advertising is a result of the strategic focus plan adopted by the Company in 2017, shifting the key business focus away from its non-core business to these two core activities.

The Company through its proprietary programmatic technological platforms provides its customers with access to a wide range of digital media channels, and enables customized performance and programmatic solutions supported by big data analytics, optimization technology, business intelligence, programmatic media buying and Real-Time-Bidding (RTB) on mobile and web, empowering advertising and media partners to meet their digital goals, which include user acquisition and revenue results for both advertisers and media partners. The Company also provides a media management platform (SSP) and demand management platform (DSP) offering publishers or advertisers end to end solutions.

Matomy Media Group Ltd. was incorporated in 2006. The Company's markets are located primarily in the United States and Europe.

The Company's shares are traded in the "London Stock Exchange and also on the Tel Aviv Stock Exchange.

b. Sale of an activity:

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

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

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

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

NOTE 1: GENERAL (Cont.)

Gain from sale of activity:

Goodwill	$ (4,660)
Other intangible assets, net	(69)
Consideration	$ 5,642
Gain from sale of activity	$ 913

c. In February 2018, the Company completed a public offering in Israel of Convertible Bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately $29,930) issuing a total of 101,000 units of Bonds, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). Transaction costs amounted to $1,681. The principal of the Bonds, denominated in ILS, will be repaid in two equal annual instalments commencing on December 2020. The Bonds will be convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (ie December 21, 2021). The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend. The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions.

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 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, fair values and useful lives of intangible assets, contingent payment obligation related to acquisitions, liability to non-controlling interest, fair values of stock-based awards, deferred taxes and income tax uncertainties and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

c. Financial statements in US dollars:

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

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

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 2017 and 2016 were $ 1,648 and $ 1,704, respectively.

During the years ended 31 December 2017 and 2016 bad debt expenses were $1,958 and $ 1,794, respectively, and the write offs of balances included in allowances for doubtful accounts amounted to $ 1,884 and $ 2,806 in the years ended 31 December 2017 and 2016, respectively. During 2017 recoveries amounted to $ 130 of amounts previously included allowance for doubtful accounts.

f. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation and 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	10-20
Capitalized research and development costs	33
Leasehold improvements	Over the shorter of related lease period or the life of the improvement

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

During the year ended 31 December 2017, following the recent strategic restructuring, consolidation of certain business units and considering the current market terms, including adequacy of certain technological products, the Company performed an impairment review of intangible assets that were recognized in connection with the acquisition of Optimatic and Avenlo, which resulted in impairment charge of $18,139.

In connection with the restructuring plan, the Company recorded in 2017 an impairment of $152 relating to disposal of certain office furniture and equipment.

h. Goodwill and other intangible assets:

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

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

Following completion of Matomy's strategic restructuring to focus on programmatic mobile and domain monetization, the Company has also streamlined the way it measures its results to reflect such operational focus, which consists of one operating segment, comprised of three reporting units – Domain Monetisation, Mobile ("Mobfox") and non-core. The Company determined that certain indicators of potential impairment existed during 2017, which triggered goodwill impairment analysis for its reporting units.

The Company determines the fair value of each reporting unit using the income approach, which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, gross margin, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discounted and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill. As a result of the annual impairment test in 2016, no impairment loss was recorded. During 2017 the Company recorded goodwill impairment charges of $9,005 related to its non-core reporting unit.

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

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

i. Investments in affiliated companies:

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.

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

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 2017 and 2016, no impairment losses were recorded.

j. Severance pay:

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

Severance expenses during the years ended 31 December 2017 and 2016 were $ 1,063 and $ 1,311, respectively.

k. 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 operations.
Total employer 401(k) contributions for the years ended 31 December 2017 and 2016 were $ 79 and $ 54, respectively.

l. Revenue recognition:

The Company provides smart marketing services through customized 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 core mobile, domain monetisation and non-core email and video, for multiple industry verticals 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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 selecting 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 $ 1,059 and $ 1,737 at 31 December 2017 and 2016, respectively, and are included within accrued expenses and other liabilities on the balance sheets.

m. 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.

n. 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 2017 and 2016.

o. Research and development costs:

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

p. 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 2017 and 2016, the Company capitalized software development costs of $ 3,901 and $ 5,106, respectively. Amortization expense for the related capitalized internally developed software in 2017 and 2016 totaled $ 2,757 and $ 1,179, respectively, and is included in cost of revenues in the accompanying consolidated statements of operations. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. As a result of changes in circumstances in the non-core activity, management decided to abandon certain projects and therefore recorded an impairment charge of $ 447 in 2017.

Capitalized internally developed software of $ 6,755 and $ 6,058 are included in property and equipment in the consolidated balance sheets as of 31 December 2017 and 2016, respectively.

q. Accounting for stock-based compensation:

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

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

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

1. The Company estimates the fair value of stock options granted to its employees and directors using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton model requires a number of assumptions, of which the most significant are the 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 expected share price volatility was based on the historical equity volatility of the ordinary shares of comparable companies that are publicly traded and the Company's historical equity volatility.
- Expected option term - the expected term of the options represents the period of time that the options are expected to be outstanding and is based on the simplified method, which is the midpoint between the vesting date and the end of the contractual term of the option.
- Risk-free interest - the risk-free interest rate assumption is based on the yield from zero-coupon US government bonds appropriate for the expected term of the Company's employee stock options.
- Dividend yield - the Company estimates its dividend yield based on historical pattern, however the Company currently intends to invest funds in business development and not to distribute dividends.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of the Company's stock options granted to employees and directors for the years ended 31 December 2017 and 2016 was estimated using the following weighted average assumptions:

	Year ended 31 December	
	2017	2016
Volatility	47%	43%
Expected option term (in years)	5.9	6.3
Risk-free interest rate	1.97%	1.3%
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.

r. 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.

s. 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.

t. 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.

u. 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".

v. 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.

w. Domains:

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

Since the domains have no expiry date, management believes that these intangible assets have indefinite useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

x. Change in accounting policies:

The Company changed its accounting policy regarding the presentation of the adjustment to the net income attributable to Matomy Media Group Ltd. as a result of accretion of redeemable non-controlling interest. According to the new accounting policy, the Company presents the accretion amount in the calculation of the loss per share in the notes of the financial statements, compared to the previous presentation on the face of the consolidated statements of operations, since Company's management believes that reflecting the effects of the accretion as an adjustment to income available to Matomy Media Group Ltd. in the loss per share note is a more appropriate presentation. The presentation of prior years was changed to conform to current year's presentation. The reclassification had no effect on previously reported net loss or shareholders' equity.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. 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 loss or shareholders' equity.

z. Recently issued accounting standards:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after 15 December 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after 15 December 2016.

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 elected to apply the modified retrospective method, and is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which generally requires companies to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The guidance is effective for the interim and annual periods beginning on or after December 15, 2018, and early adoption is permitted. For operating leases having initial or remaining non-cancelable lease terms in excess of one year, the lessee shall disclose both of the following: a. Future minimum rental payments required as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years. b. The total of minimum rentals to be received in the future under non-cancelable subleases as of the date of the latest balance sheet presented.

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

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 does not expect the guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued authoritative guidance clarifying the definition of a business to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard is effective for the Company for the first quarter of fiscal 2019 and will be applied on a prospective basis. Early adoption is permitted. The Company does not expect the adoption of the standard will have a material impact on its consolidated financial statements.

In October 2016, the FASB issued authoritative guidance requiring the recognition of income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The standard is effective for the Company for the first quarter of fiscal 2019 and will be applied on a modified retrospective basis. Early adoption is permitted.

In August 2016, the FASB issued new authoritative guidance addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are presented and classified in the statement of cash flows. The standard is effective for the Company for the first quarter of fiscal 2019 and will be applied on a retrospective basis. Early adoption is permitted. The Company does not expect the adoption of the standard will have a material impact on our consolidated financial statements.

NOTE 3: PROPERTY AND EQUIPMENT, NET

Composition:

	31 December	
	2017	2016
Cost:		
Computers and software	$ 1,659	$ 2,895
Office furniture and equipment	1,179	1,247
Electronic equipment	98	249
Capitalized research and development costs	10,465	7,488
Leasehold improvements	1,339	1,240
Total cost	14,740	13,119
Less: accumulated depreciation and amortization	(5,944)	(4,087)
Property and equipment, net	$ 8,796	$ 9,032

Depreciation and amortization expense amounted to $ 3,784 and $ 2,527 for the years ended 31 December 2017 and 2016, respectively.

In 2017 the Company recorded an impairment of capitalized research and development costs in the amount of $ 447.

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

In 2017 and 2016, the Company recorded a loss on disposal of property and equipment in the amount of $ 77 and $ 55, respectively.

In 2017 and 2016, the Company derecognised property and equipment in the amount of $ 2,602 and $ 2,927, respectively, which were fully depreciated.

NOTE 4: OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets comprise of the following:

	Technology	Customer relationships	Database	Trade name	Total
31 December 2015	$ 22,346	$ 19,498	$ 5,124	$ 3,374	$ 50,342
Acquisition	125	-	33	-	158
Adjustment during the measurement period	-	457	-	-	457
Amortization	(6,194)	(6,458)	(564)	(768)	(13,984)
Impairment	(396)	-	-	-	(396)
31 December 2016	$ 15,880	$ 13,498	$ 4,593	$ 2,606	$ 36,577
Acquisition	194	-	-	-	194
Amortization	(4,741)	(4,761)	(587)	(524)	(10,613)
Impairment	(9,327)	(5,013)	(1,270)	(2,082)	(17,692)
Disposal	-	(69)	-	-	(69)
31 December 2017	$ 2,006	$ 3,655	$ 2,736	$ -	$ 8,397

During the year 2017 and 2016 the Company recorded an impairment charges in the total amount of $ 17,692 and $ 396, respectively. The impairment charges were attributed mostly to intangible assets related to the non-core activity for which sales were lower than expected and the decision to abandon certain technologies.

Related deferred tax liabilities of $ 6,148 and $ 0 have also been written off and are included in taxes on income, as tax benefit, for the years ended 31 December 2017 and 2016, respectively.

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

2018	4,634
2019	1,777
2020	1,074
2021	608
2022	304
	$ 8,397

NOTE 5: GOODWILL

Changes in goodwill for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017	2016
Goodwill at beginning of year	$ 97,015	$ 96,643
Acquisitions	418	-
Disposals	(4,660)	-
Impairment	(9,005)	-
Adjustment to goodwill during the measurement period		372
	$ 83,768	$ 97,015

NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present liabilities measured at fair value on a recurring basis as of 31 December 2017 and 2016:

	31 December 2017			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Level 4
Assets:				
Derivative asset	-	22	-	22
Total financial asset	**-**	**22**	**-**	**22**
Liabilities:				
Liability to non-controlling interest	-	-	41,547	41,547
Contingent consideration in connection with acquisitions	-	-	1,716	1,716
Total financial liabilities	**-**	**-**	**$ 43,263**	**$ 43,263**

	31 December 2016			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Level 4
Liabilities:				
Contingent consideration in connection with acquisitions	-	-	$ 17,358	$ 17,358
Derivative liabilities	-	33	-	33
Total financial liabilities	**-**	**$33**	**$ 17,358**	**$ 17,391**

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

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the year ended 31 December 2017 and 31 December 2016:

	31 December	
	2017	2016
Total fair balance at the beginning of the year	$ 17,358	$ 18,091
Liability to non-controlling interest	41,547	-
Accretion of contingent liability related to acquisitions	359	712
Changes in fair value recognized in earnings	(9,963)	(821)
Payment of consideration during the period	(5,794)	(624)
Other adjustments	(244)	-
Total fair value at the end of year	$ 43,263	$ 17,358

The fair value of the liability to non-controlling interests was estimated using the discounted cash flows method. The expected payment is determined by forecasting the EBITDA and net earnings amounts (as defined in the agreement and described in Note 7a). The significant unobservable inputs are the EBITDA forecasts. The estimated fair value of the liability will increase (decrease) if the EBITDA were higher (lower).

NOTE 7: LIABILITY TO NON-CONTROLLING INTEREST

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

	31 December	
	2017	2016
Redeemable non-controlling interest at beginning of year	$ 23,691	$ 35,365
Decrease in redeemable non-controlling interests due to change in ownership in subsidiaries *)	(565)	(565)
Revaluation of redeemable non-controlling interest in subsidiaries	17,099	3,141
Net income attributable to redeemable non-controlling interests	1,466	487
Dividend declaration/distributed to non-controlling interests	(144)	(961)
Classification of redeemable non-controlling interest into current liabilities **)	(41,547)	(13,776)
Total fair value at the end of year	$ -	$ 23,691

*) In June 2017 and November 2016, the non-controlling interest of Matomy Social exercised their put option, and sold 10% of Matomy Social to the Company. As of 31 December 2017 and 2016, the Company holds 100% and 90% of Matomy Social, respectively.

**) During the fourth quarter of 2016, the non-controlling interest of Team Internet, Rainmaker Investments GmbH ("Rainmaker"), exercised their put option and sold 10% of Team Internet to the Company. The payment was made in January 2017, 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.

On 28 December 2017, Matomy entered into an agreement with Rainmaker relating to the exercise of the second and third sale exit option. The total consideration for the second sale exit is due no later than 15 March 2018. The consideration for the third sale exit option is due no later than 30 November 2018 according to the formula set out in the Team Internet Framework Agreement, with additional 10% premium. The parties also agreed that Rainmaker will be entitled to an additional consideration of 8% of the net earnings of Team Internet during the period beginning on 1 September 2018 and ending on 31 December 2018 and in the subsequent financial year beginning on 1 January and ending on 31 December 2019. In addition, a one-off bonus of $1,000 will be paid to Rainmaker for the extension of the cooperation between Team Internet and its unrelated search engine provider beyond 31 July 2019. As of 31 December 2017 the Company recorded a liability for the expected consideration based on fair value according to its best estimates. As of 31 December 2017 the Company believes that it is premature to estimate the expected payment for the search engine renewal bonus, and therefore no provision was recorded.

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

	Years ended 31 December	
	2017	2016
Net loss attributable to Matomy Media Group Ltd before accretion of redeemable non-controlling interest	$ 15,923	$ 8,592
Accretion of redeemable non-controlling interest	17,099	3,141
Net loss attributable to Matomy Media Group Ltd. shareholders after accretion of redeemable non-controlling interest	$ 33,022	$ 11,733

NOTE 8: BANK LOANS AND CREDIT LINE

a. On 16 June 2014, the Company signed a loan agreement with an Israeli bank in an amount of $21,600. The loan agreement requires repayment of 85% of the principal in 12 equal payments every three months commencing 16 September 2014, and 15% of the principal in 4 equal payments every three months commencing 16 September 2017. The loan bears an interest of three months 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. As of 31 December 2017, the Company was in full compliance with the financial covenants.

b. As of 31 December 2017, the Company has an unsecured line of credit with Israeli banks which is available to the Company based on meeting certain account receivable conditions, out of which, it utilized $ 8,269. The Company presented the bank credit, net of cash deposits in the amount of $ 580, at the same bank account. Interest rate of the credit line is USD LIBOR plus 3.25%. In relation to this line of credit, the Company is required to comply with the same covenants as in loan agreement and its amendments. As of 31 December 2017, the Company was in full compliance with the financial covenants and with the agreed account receivable conditions.

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 20 August 2015, the Company's subsidiary Team Internet signed a term loan agreement with a German bank in an amount of $ 1,427 (EUR 1,192 thousand based on the exchange rate on 31 December 2017). 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.

d. On 28 April 2016, Team Internet signed a loan agreement with a German bank in an amount of $ 3,186 (EUR 2,660 thousand based on the exchange rate on 31 December 2017). 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.

e. On 28 September 2016, the Company's subsidiary in the US ("Matomy US") signed a loan agreement with a bank in the US in an amount of $ 4,000, and a secured line of credit in the amount of $ 1,000. The line of credit beard a used credit line interest rate of LIBOR plus 3.25% and was repaid in full in November 2017. The term loan agreement requires repayment of principal and interest every 3 months commencing 28 December 2016. The loan bears an interest of three months USD LIBOR plus 3.65% and the line of credit bears a monthly interest of LIBOR plus 3.25%. As security, the Company provided a guarantee to Matomy US, and Matomy US and its subsidiary have granted a first priority lien on and security interest in all of their assets and provided cross guaranties. In December 2017 the Company signed an addendum to the loan agreement, and repaid loan principal of $ 500. The remaining principal of $ 1,834 was paid in full during February 2018.

f. On 10 January 2017, the Company's subsidiary in the US signed a secured line of credit in the amount of $ 5,000, all is utilized with a bank in the US. The line of credit bears an interest rate of LIBOR plus 3.25%, and an interest of 0.35% on the unused credit line.

Matomy US and 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 2017, both were in full compliance with the financial covenants.

g. On 3 January 2017, the Company signed a term loan agreement with an Israeli bank in an amount of $ 2,000. In accordance with the loan agreement, repayment of the principal and the interest shall be made in 12 equal quarterly payments, commencing 10 April 2017. The loan bears an annual interest of three months USD LIBOR plus 4.6%.

h. As of 31 December 2017, the aggregate principal annual maturities according to the loan agreement are as follows:

2018 (current maturities)	$ 5,089
2019	1,652
2020	1,030
2021	319
Total	$ 8,090

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

a. The Company rents its facilities under operating lease agreements with a term expiring in 2021. Future minimum lease commitments under non-cancellable operating leases for the year ended 31 December 2017 were as follows:

	Minimum lease payments	Minimum sublease rentals	Net future minimum lease commitment
2018	$ 2,732	$ 1,454	$ 1,278
2019	2,525	1,454	1,071
2020	2,413	1,454	959
2021	346	250	96
	$ 8,016	$ 4,612	$ 3,404

Rent expenses, net of sublease rentals, for the years ended 31 December 2017 and 2016, were $ 2,105 and $ 2,337, respectively.

The Company has provided guarantees for rent expenses in the amount of $ 1,091.

The Company leases its motor vehicles under cancellable operating lease agreements until February 2020. The minimum payment under these operating leases, upon cancellation of these lease agreements, was $ 5 as of 31 December 2017.

Lease expenses for motor vehicles for the years ended 31 December 2017 and 2016 were $ 130 and $ 133, respectively.

b. From time to time, the Company is party to ordinary and routine litigation incidental to its business. As of 31 December 2017 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 10: EQUITY

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

	31 December 2016			31 December 2017		
	Authorised	Issued	Outstanding	Authorised	Issued	Outstanding
	Number of shares					
Ordinary shares	430,500,000	107,293,898	97,535,023	430,500,000	105,546,569	95,787,694

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

b. Options issued to employees and directors:

Under the global share plan as approved in 2012 options and Restricted Share Unit ("RSU") may be granted to employees, directors, officers and consultants of the Company. Each option granted under the Plans is fully exercisable up to 4 years and expires in between 7 to 10 years from the date of grant. As of 31 December 2017, there were 3,560,647 options available for future grants under the plan.

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

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

	Number of options	Weighted-average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at 1 January 2017	7,409,845	$ 1.46	5.1	1,480
Granted	730,344	$ 1.23		
Exercised	(791,229)	$ 1.13		
Forfeited	(2,616,301)	$ 1.43		
Outstanding at 31 December 2017	4,732,659	$ 1.50	6.09	3
Exercisable at 31 December 2017	2,463,393	$ 1.53	3.85	3

As of 31 December 2017, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to $ 787.

The aggregate intrinsic value of the outstanding stock options at 31 December 2017 and 2016, represents the intrinsic value of 5,000 and 5,225,268 outstanding options that are in-the-money as of such dates. The remaining 4,727,659 and 2,189,577 outstanding options are out-of-the-money as of 31 December 2017 and 2016, and their intrinsic value was considered as zero.

The aggregate intrinsic value of the exercisable stock options at 31 December 2017 represents the intrinsic value of 5,000 exercisable options that are in-the-money as of such dates. The remaining 2,458,393 exercisable options are out-of-the-money as of 31 December 2017, and their intrinsic value was considered as zero.

Total intrinsic value of options exercised during the years ended 31 December 2017 and 2016 was $ 0 and $ 1,088, respectively.

The weighted average grant date fair values of options granted for the years ended 31 December 2017 and 2016 were $ 0.55 and $ 1.08, respectively.

c. Options to non-employees:

The Company's outstanding options to non-employees as of 31 December 2017 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	January 2018

No stock-based compensation expense was recorded in respect of options granted to non-employees in the years ended 31 December 2017 and 2016.

In 2017 and 2016, no options to non-employees were exercised.

NOTE 10: EQUITY (cont.)

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

	Number of RSU's
Unvested at 1 January 2017	1,472,500
Granted	506,344
Vested	(702,000)
Forfeited	(182,500)
Unvested at 31 December 2017	1,094,344

The weighted average grant date fair value per share for the year ended 31 December 2017 and 2016 was $ 1.22 and $ 1.35, respectively.

As of 31 December 2017, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to $ 538.

e. Treasury shares

As of 31 December 2017, and 2016, treasury shares amounted to 10,970,111 shares of which 1,211,236 shares are held by Team Internet, and are considered outstanding.

NOTE 11: LOSS PER SHARE

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

	Years ended 31 December	
	2017	2016
Basic and diluted net loss attributable to Matomy Media Group Ltd. (Note 8b)	$ (33,022)	$ (11,733)
Weighted average number of shares used in computing basic and diluted net loss per share (in thousands)	95,474	92,884
Basic and diluted loss per ordinary shares (in dollars)	$ (0.35)	$ (0.13)

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 5,859,047
and 10,159,124 for years 2017 and 2016, respectively.

NOTE 12: TAXES ON INCOME

a.Israeli taxation:
1. Corporate tax rates in Israel:

The Israeli corporate income tax rate was 24% in 2017 and 25% in 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"):

As of 31 December 2017, the Company had $ 6,527 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 $ 1,632 would be incurred as of 31 December 2017.

3. Carryforward operating tax losses of the Israeli parent and its Israelis subsidiaries amounted to $ 20,600 as of 31 December 2017 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.

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

At 31 December 2017, the Company have made reasonable estimates of the effects on the existing deferred tax balances for which provisional amounts have been recorded.

The Company re-measured certain of its U.S. deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The aforesaid provisional amounts are based on the Company's initial analysis of the Act as of 31 December 2017. Given the significant complexity of the Act, anticipated guidance from the U.S. Treasury about implementing the Act, the potential for additional guidance from the Financial Accounting Standards Board related to the Act, as well as additional analysis and revisions to be conducted by the Company, these estimates may be adjusted during 2018.

Carryforward operating tax losses of its Canadian and US subsidiaries amounted to $ 9,200 as of 31 December 2017 which can be carried forward and offset against taxable income up to 20 years, expiring between fiscal 2035 and fiscal 2036.

NOTE 12: TAXES ON INCOME (Cont.)

c. Deferred tax assets and liabilities:

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

	31 December	
	2017	2016
Deferred tax assets:		
Carry forward losses	$ 6,711	$ 2,799
Research and development expenses	948	542
Allowance for doubtful debts	254	892
Intangible assets	1,141	1,003
Other	742	420
Gross deferred tax assets	9,796	5,656
Valuation allowance	(8,763)	(4,284)
Total deferred tax assets	1,033	1,372
Deferred tax liabilities:		
Intangible assets	1,246	9,218
Gain on achieving control	2,022	2,022
Deductible goodwill	829	1,207
Other	347	73
Deferred tax liabilities	$ 4,444	$ 12,520
Deferred tax liabilities, net	**(3,411)**	**(11,148)**

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	
	2017	2016
Domestic	$ (16,230)	$ (6,859)
Foreign	(484)	3,516
	$ (16,714)	$ (3,343)

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

	Year ended 31 December	
	2017	2016
Current:		
Domestic	$ 71	$ 268
Foreign	5,585	5,452
	5,656	5,720
Deferred:		
Domestic	(145)	1,731
Foreign	(7,656)	(2,762)
	(7,801)	(1,031)
	$ (2,145)	**$ 4,689**

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

	31 December	
	2017	2016
Beginning balance	$ 169	$ 139
Increase related to tax positions taken during prior years	24	66
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	$ 193	$ 169

NOTE 12: TAXES ON INCOME (Cont.)

The entire amount of unrecognised tax benefits as of 31 December 2017, if recognised, would reduce the Company's annual effective tax rate.

As of 31 December 2017, the Company and its subsidiaries in Israel and in the US received final, or considered final, tax assessments through 2013.

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 2017 and 2016, the Company did not record any interest and exchange rate differences expenses related to prior years' uncertain tax positions, since the amount was immaterial.

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

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

	Years ended 31 December	
	2017	2016
Income before taxes as reported in the statements of income	$ (16,714)	$ (3,343)
Statutory tax rate in Israel	24%	25%
Theoretical income tax benefit	(4,011)	(836)
Increase (decrease) in taxes resulting from: Effect of "Preferred Enterprise" status	$ -	$ 729
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	4,479	4,258
Tax adjustment in respect of different tax rate of foreign subsidiaries	(381)	493
Non-deductible expense including impairment charge, net	(1,446)	394
Effect of foreign exchange rate *)	(730)	(55)
Change in future tax rate	-	(308)
Others	(56)	14
	$ (2,145)	**$ 4,689**

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

NOTE 13: REPORTABLE SEGMENTS

a. Reportable segments:

The Company applies ASC 280, "Segment Reporting". While the Company has offerings in multiple business units, 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 business units:

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

	Year ended 31 December	
	2017	2016
Domain monetisation	$ 105,358	$ 63,282
Mobfox	50,614	42,141
Non-core	67,649	128,885
Selling activity (see note 1b)	21,435	42,323
Total	$ 245,056	$ 276,631

NOTE 13: REPORTABLE SEGMENTS (Cont..)

c. Geographical information:

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

1. Revenues from external customers:

	Year ended 31 December	
	2017	2016
United States	$ 186,203	$ 180,048
Europe	30,228	44,132
Asia	12,016	17,922
Israel	88	200
Other	16,521	34,329
	$ 245,056	$ 276,631

2. Property and equipment, net:

	31 December	
	2017	2016
Israel	$ 5,614	$ 5,665
United states	1,815	1,908
Germany	1,291	1,335
Other	76	124
Other		
	$ 8,796	$ 9,032

d. In the year ended 31 December 2017 and 2016, one customer contributed 39% and 20% of the Company's revenues, respectively, while no other customer contributed more than 10%.

NOTE 14: FINANCIAL EXPENSES, NET

	Year ended 31 December	
	2017	2016
Financial income:		
Interest income	$ 16	$ 45
Foreign currency remeasurement, net	-	659
Hedging transactions	324	-
Other	-	32
	340	736
Financial expenses:		
Bank fees	(628)	(662)
Interest expense	(1,078)	(746)
Foreign currency remeasurement, net	(787)	-
Hedging transactions	-	(673)
Accretion of contingent payment obligation related to acquisitions	(359)	(712)
Other	(24)	-
	(2,876)	(2,793)
	$ (2,536)	$ (2,057)

NOTE 15: RELATED PARTIES

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

Revenues from related parties amounted to $ 56 and $ 711 for the years ended 31 December 2017 and 2016, respectively. Cost of revenues to related parties amounted to $ 3,736 and $ 2,552 for the years ended 31 December 2017 and 2016, respectively.

Trade receivables from related parties amounted to $ 0 and $ 132 for the years ended 31 December 2017 and 2016, respectively. Trade payables to related parties amounted to $ 678 and $ 268 for the years ended 31 December 2017 and 2016, respectively.

NOTE 16: RESTRUCTURING COSTS

During May 2017, the Company initiated a restructuring plan in order to focus on core activities of programmatic mobile, video and domain monetization, while significantly reducing operational costs moving forward, as well as other cost saving measures.

Pursuant to the restructuring plan, the Company has incurred cumulative charges of $ 924 (net of expense reimbursement of $358), as follows:

Payroll and related expenses	$ 695
Lease facilities and related expenses	58
Property and equipment impairment	152
Other expenses	377
Expense reimbursement (see note 1b)	(358)
	$ 924

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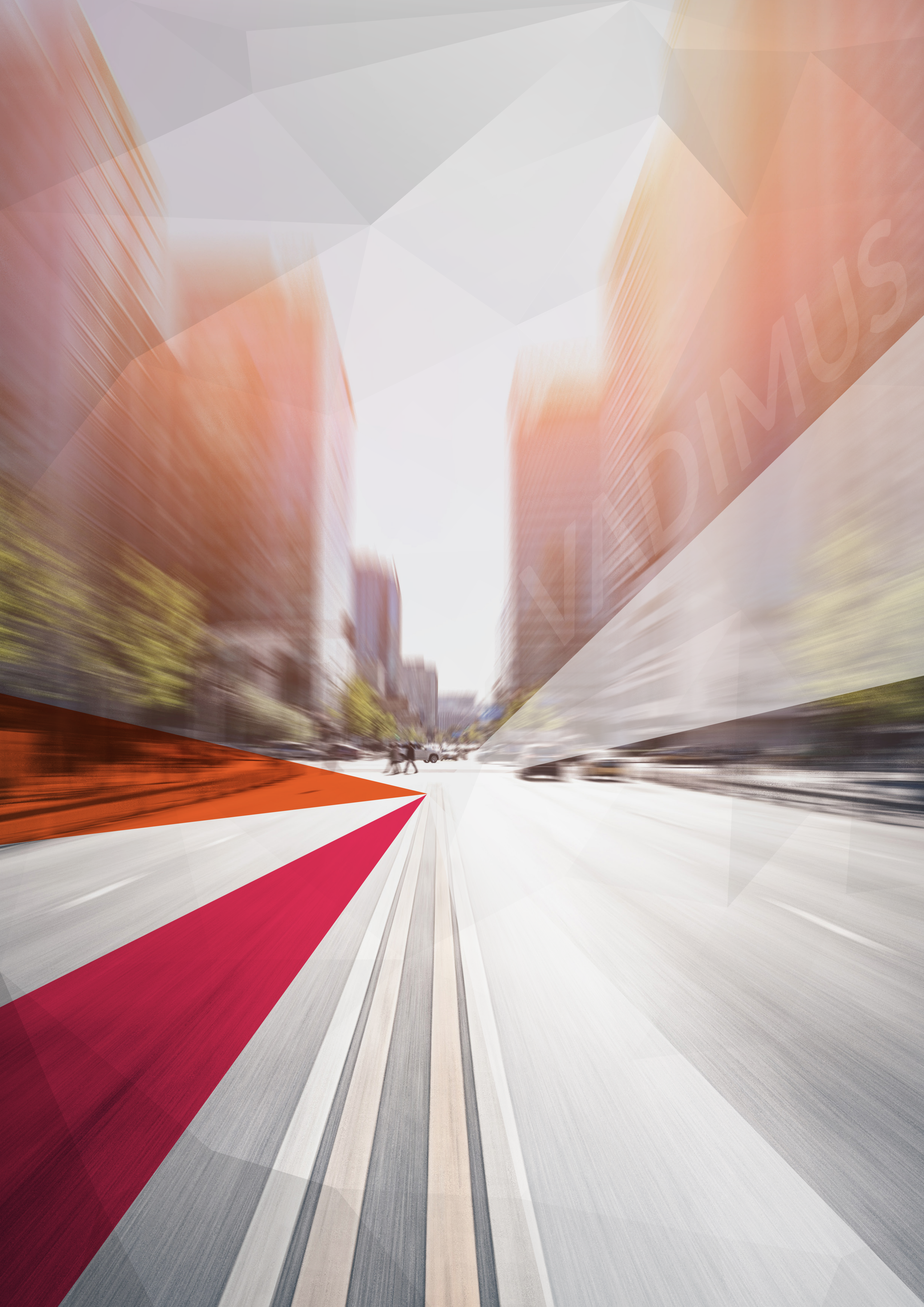
VADIMUS