Taptica
Ad the Right User

A proprietary **data** and **technology** platform, serving users ads at the precise moment of **engagement**

Taptica International Ltd.

Annual Report and Accounts 2016

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Directors, Secretary & Advisers

Directors

Timothy Grainger Weller
Non-Executive Director and Chairman

Hagai Tal
Chief Executive Officer

Yaniv Carmi
Chief Financial Officer

Joanna Rachael Parnell
Non-Executive Director

Neil Garth Jones
Non-Executive Director

Ronni Zehavi
Non-Executive Director

Company Secretary

Yaniv Carmi

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Financial & Operational Highlights 2016

- **Strong performance from first full-year period as mobile-focused business**
- **Significant increase in revenue and improvement in gross margin resulting in high level of cash generation**
- **Broadened global footprint with establishment of international offices and partnerships**
- **Mobile app advertiser customer revenue retention rate of 193% and addition of new customers**

Financial Highlights

- Revenues increased by 66% to $125.9 million (2015: $75.8 million)
- Gross profit more than doubled to $46.0 million (2015: $21.1 million), with improvement in gross margin to 36.5% (2015: 17.8%)
- Adjusted EBITDA* of $25.7 million (2015: $7.4 million)
- Net cash inflow from operating activities of $20.3 million (2015: $6.2 million)
- Final dividend for 2016 of $0.0432 per share, making a total dividend for the year of $0.1011 (total dividend for 2015: $0.00784)
- Cash and bank deposits as at 31 December 2016 were $21.5 million (30 June 2016: $9.5 million) after making a total cash payment of $16.5 million for three main items: final consideration of AreaOne's acquisition ($7.0 million); share buyback ($5.5 million); and dividend payment ($4.0 million)

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

Operational Highlights

- Mobile business accounted for 86% of revenues (2015: 61%) as Company continued to gain traction with existing household-name clients and added new customers
- US continued to be the largest geography by revenue generation, but also received first meaningful contribution from Asia-Pacific region
- Increased its international presence with the establishment of an office in Seoul, South Korea and a partnership with Adways Korea; and, post period end, a partnership with Adinnovation in Japan and an office in London, UK

Tim Weller
Chairman June 2017

Chairman's Statement

I am pleased to present this annual report and highlight our achievements in the year. The results of 2016 demonstrate the benefit of the early decision to move out of display and focus on mobile. The results are also testimony to the strength of Taptica's technology and, moreover, the vision and drive of the management team.

As the year ended, it was pleasing to see that our first-mover advantage was paying dividends as we continued to lead in a market that continues to struggle to adapt to the rapid shift of consumers spending more time on smartphones and mobile devices. Our results demonstrate how important mobile is to our advertisers who see this as vital in reaching their target audience. The other change was the need for advertisers to reach their audience globally.

The Company's results for 2016 reflect the first full year as a mobile-focused ad-tech business and, indeed, where we have begun to see the real benefit of our investment in our technology, which allows Taptica to gather intelligence and big data that enables us to run really effective campaigns for our customers. The more effective the advertising campaign, the more we are remunerated. I am pleased to report that Taptica is able to count global household brands and other Tier 1 customers as clients.

International expansion

In 2016, we made great progress with increasing our brand recognition in not only our traditional geographical areas of operation like the US, Europe and Israel but internationally as well. Expanding our business globally is a key tenet of our growth strategy. As businesses are becoming global, their target customers are too. As the use of smartphones increases, mobile campaigns are an ever-more effective way for advertisers to reach their customers globally in a cost effective way.

In the Chief Executive's statement we outline the progress we have made in expanding our footprint into South East Asia. Post period end we continued this expansion into Japan and UK as well. In these new territories, we are focused on serving clients located in those geographies as well as current clients based elsewhere who want access to those markets.

As a result of these advancements, we have been able to better target and attract and retain Tier 1 customers.

Ad-tech growth trends to continue

The ad-tech industry continues to expand and grow. Much has happened within mobile advertising in 2016 as global digital advertising spend reached almost $200bn. The trends seen in 2016 ranged from dominant social media companies solidifying their mobile ad products to new cross-channel attributions and improved location analytics technologies. The sector we operate in, once again, showed how fast paced it can be and 2017 promises to be another exciting year.

I have every confidence that we will continue to innovate and take advantage commercially. We continue to invest in mobile R&D, developing our mobile data analytics tool so that we maintain our competitive edge over others as we strive to continue to optimise campaign effectiveness, which, in turn, improves mobile advertising performance.

Our success is down to the hard work and dedication of our talented staff, and the support of our partners and customers, for which I am very grateful. Finally, I would like to thank you, our shareholders, for your continued support and I look forward to reporting further progress in due course.

Hagai Tal
Chief Executive Officer June 2017

Chief Executive Officer's Review

During the year we significantly increased revenue, improved margins and remained highly cash generative. We increased the number of advertisers on mobile, which included household names such as Amazon, Disney, Expedia, Cartoon Network and others. We also established strong foundations in the Asia-Pacific region, which is a key growth market. As a result, we entered 2017 positioned for sustained organic and inorganic expansion.

Operational review

2016 was the first full twelve-month period following the completion of our transition to a mobile-focused business. During the year, we continued to build on these strong foundations to increase our total revenue, and expand the proportion of revenue contributed by the mobile business. Significantly, this included growth amongst existing clients as well as the addition of new clients.

Due to the sustained development of our technology and the greater proportion of revenue generated by Tier 1 clients, gross margin improved and gross profit more than doubled. As a result, we remained highly cash generative with an increase in net cash inflow from operations.

Taptica entered 2016 as a mobile-focused business with a platform that optimises marketing campaigns for advertisers across mobile and social media channels based on its ability to leverage data, which is key to enabling successful mobile targeting for our clients. We have benefited from these strong foundations and our early transition to being mobile focused ahead of many of our competitors. We also continued to enhance our offering through R&D into database and machine learning to further enhance our ability to leverage user data to enable ever-more accurate user targeting.

With the strategic decision, executed during the year, to focus resources on developing our demand-side platform ("DSP"), we further strengthened our foundations. This, along with our improved mobile capabilities, has significantly enhanced our offering to Tier 1 advertisers, which has enabled sustained growth with existing household-name clients and increasing new customer demand.

International expansion

During the year, we completed the integration of our office in China, acquired with AreaOne, and succeeded in growing our business in the region with clients such as Cheetah Mobile (NYSE: CMCM), a Chinese app developer; JollyChic, an e-fashion retailer; and mobile game developers Locojoy and OneMT.

We also increased our presence in the Asia-Pacific region with the establishment of an office in Seoul, South Korea to advance sales initiatives in this key growth market, and subsequently entered into a partnership with Adways Korea, a leader in mobile marketing leveraging its strong Asia network and part of the TSE-listed Adways Inc. group. The aim is to facilitate global mobile app developers and our clients to run effective and efficient mobile marketing campaigns in Asia through access to Adways' extensive network and coverage combined with our ever-growing database. The strategic partnership will initially target the mobile games industry.

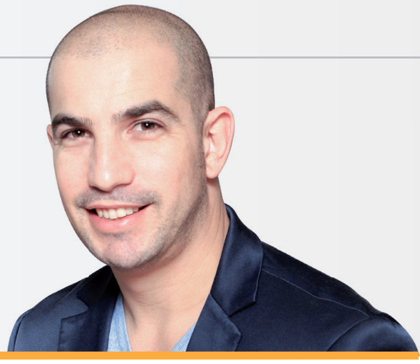
As a result, during the period we earned our first meaningful revenues from the Asia-Pacific region, the largest and fastest growing digital retail market in the world, with approximately 10% of mobile revenues being generated in this geography.

Post period, we entered into a partnership with Adinnovation Inc., a specialised marketing company headquartered in Japan providing comprehensive services for monetisation of apps. The initial target is the mobile games industry, which is one of the key areas of focus for Adinnovation. We expect the partnership to accelerate our brand awareness in Japan and help to lead the local market expansion.

In addition, post period, we opened an office in the UK – becoming the fifth international market to have a Taptica presence after the US, China, South Korea and Japan. Here, we will work with advertising agencies to bring brands into the digital and mobile world, with a primary focus on the entertainment, e-commerce, retail, digital banking, travel and gaming sectors. We intend to leverage our relationship with two of Europe's largest advertising agencies with headquarters in the UK to penetrate these sectors. Opening an office in UK will enable Taptica to better serve its existing client base in the UK and Europe as well as to target new customers and further expand our addressable market.

Outlook

Taptica entered 2017 at a run rate significantly higher than at the equivalent period in the previous year as we continue to benefit from the investment being made into mobile advertising by corporates and advertising agencies. The strength of our offer lies in our proprietary platform and ability to collect and utilise accurate data which enables the delivery of efficient and effective campaigns. With consumers continuing to increase the use of apps and accessing the internet on their mobile most of the time, we expect existing clients will grow their ad spend with Taptica as well as new advertisers entering this market. We also anticipate increasing demand from the Asia-Pacific region as well as demand from US and Europe set to continue. As a result, the Board remains confident of delivering strong year-on-year revenue growth in 2017.



Yaniv Carmi
Chief Financial Officer June 2017

Chief Financial Officer's Review

The twelve months to 31 December 2016 was the first full-year period following the restructuring of our business as we transitioned to focus on mobile. Despite this major shift, we succeeded in exceeding the expectations for 2016 performance that we had laid out at the time of our IPO in 2014. We demonstrated the significant gearing of our operational model with a 66% increase in revenue driving c. 250% growth in adjusted EBITDA. As a result, we also continued to be highly cash generative.

Now to look at the financial results in more detail.

Revenues for the twelve months ended 31 December 2016 increased by 66% to $125.9 million compared with $75.8 million for 2015.

Gross profit more than doubled to $46.0 million (2015: $21.1 million) representing the growth in overall revenue. Cost of sales, which consists primarily of traffic acquisition costs that are directly attributable to revenue generation and based on our revenue share arrangements with audience and content partners, decreased as a proportion of revenue compared with the prior year due to increased technology efficiency gains resulting from improved use of big data collected thereby significantly improving the gross margins. Consequently, total gross margin was 36.5% (2015: 27.8%).

Operating costs increased primarily due to greater sales & marketing expenses as well as R&D expenses and the contribution from AreaOne. Sales & marketing costs increased to $14.2 million (2015: $8.6 million) as investments were made to enhance brand recognition, expand the global customer base and invest in the expansion of global offices. R&D expenses were $6.1 million (2015: $4.1 million) due to investment in the technology platform enhancements and data base capabilities. General & administrative expenses were broadly similar to the prior year. Operating costs for 2016 include the AreaOne costs following the acquisition in September 2015 (compared to a partial year contribution for 2015).

Adjusted EBITDA for 2016 was $25.7 million compared with $7.4 million for 2015, which is comprised as follows:

	2016 $m	2015 $m
Operating profit	19.7	2.9
Depreciation & Amortisation	5.1	3.5
Share-based payments	0.5	0.6
Acquisition-related costs	0.4	0.4
Adjusted EBITDA	**25.7**	**7.4**

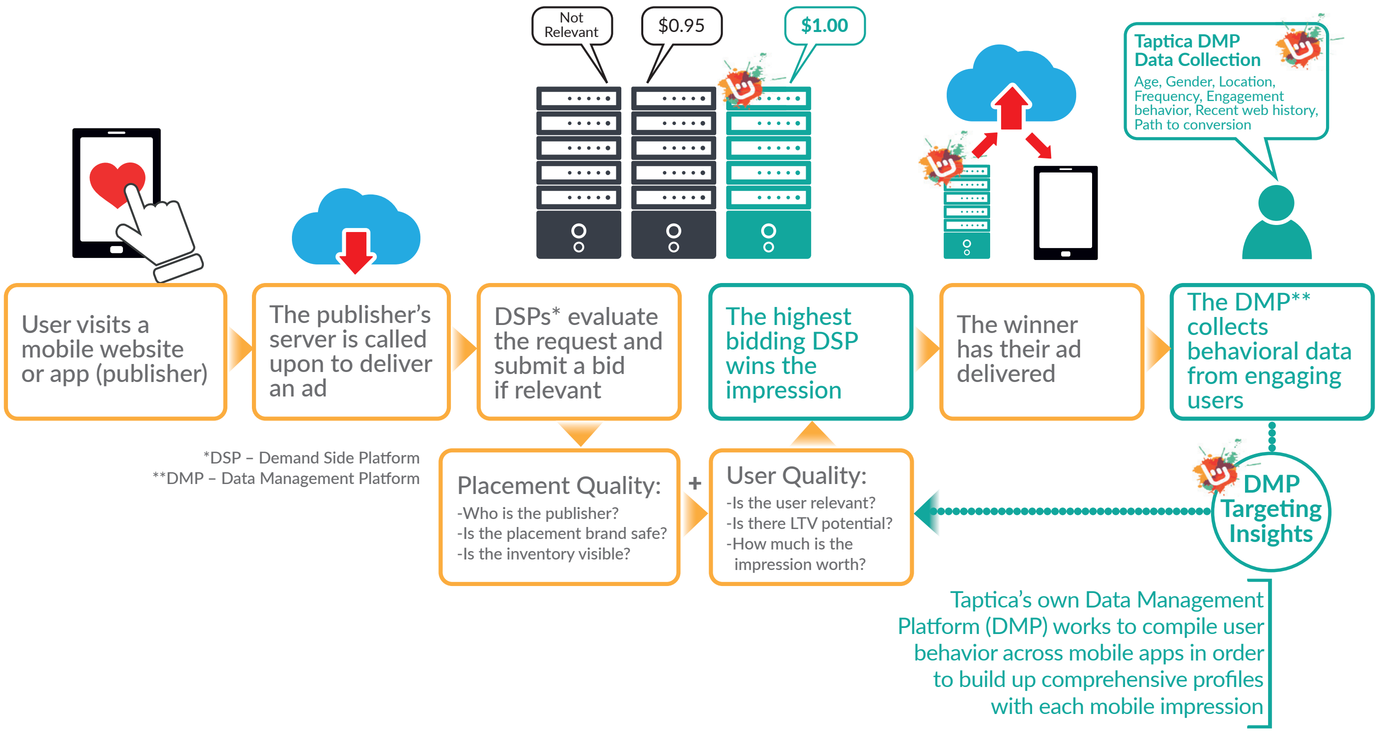
We continued to be cash generative with net cash provided by operating activities of $20.3 million (2015: $6.2 million).

As at 31 December 2016, cash and bank deposits were $21.5 million (30 June 2016: $9.5 million; 31 December 2015: $18.7 million) after making a total cash payment of $16.5 million for three main items: final consideration of AreaOne's acquisition ($7.0 million); share buyback ($5.5 million); and dividend payments ($4 million).

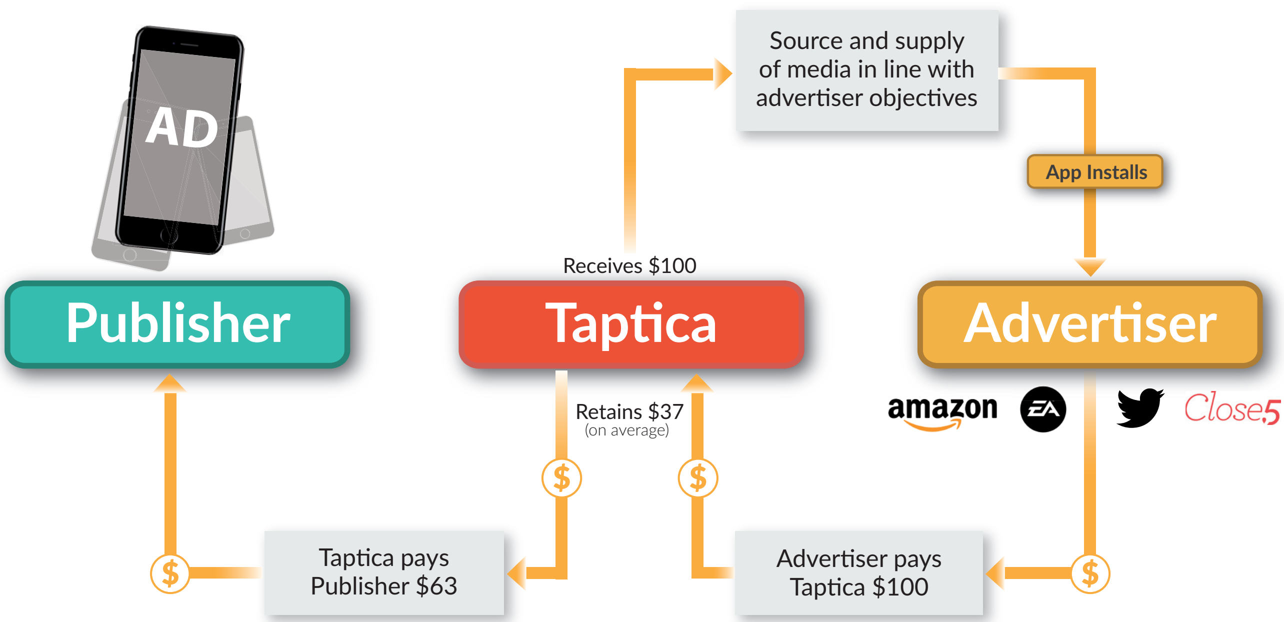
We maintained our policy of distributing 25% of net profits in dividend payments. As such, the Board resolved to declare a final dividend of $0.0432 per share, with an ex dividend date of 20 April 2017, a record date of 21 April 2017 and a payment date of 20 June 2017. This equates to a total dividend for the year, including the Special Dividend payment that we made following the interim results, of $0.1011 per share (total dividend for 2015: $0.00784).

This was another demanding year for Taptica and I would like to thank our employees, shareholders and partners for their support, which has enabled us to reach these fantastic achievements.

Taptica Mobile Ad Placement Flow



Revenue Model



Directors' Biographies

Tim Weller
Non-Executive Director and Chairman

Tim Weller is the founder of Incisive Media and its Chairman and Group Chief Executive. He successfully floated the company on the Main Market of the London Stock Exchange in 2000 and in 2006 he led the £275m management buyout which took the company private again. Mr Weller was non-executive director and Chairman of RDF Media from 2005-2010 and was also Non-Executive Chairman of Polestar from 2009-2011 until its sale to Sun European Partners LLP. Mr Weller was a member of the Shadow Cabinet New Enterprise Council, which advised the then Shadow Chancellor of the Exchequer, George Osborne, on business and enterprise prior to the 2010 General Election. Mr Weller was Chairman of InternetQ from April 2013 – April 2016. Tim is also Chairman of Trustpilot, a leading provider of trusted company reviews.

Hagai Tal
Chief Executive Officer

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

Yaniv Carmi
Chief Financial Officer

Yaniv Carmi joined Taptica in 2010 and became Chief Financial Officer at the Company in January 2011. Mr Carmi is an experienced finance professional, whose roles include tax and audit senior at KPMG, Israel. In his current role within the Company, Mr Carmi is responsible for financial strategies, agendas and operations in directing key corporate initiatives. Mr Carmi is a Certified Public Accountant and holds a B.A. degree in Economics and Accounting from Ben-Gurion University and an MBA in Financial Management from Tel Aviv University.

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Joanna Parnell
Non-Executive Director

Joanna Parnell is a Managing Partner at MEC, one of the world's leading media agency networks and owned by WPP plc, where she leads the paid digital team and oversees the agency's focus on data driven campaigns. Prior to moving to MEC in March 2016, Ms Parnell was Director of Strategy and sat on the Board at Unique Digital, with responsibility for setting product and business strategy, including leading the multichannel planning strategy (crossdevice and cross-platform), managing product heads and driving key initiatives across data buying, attribution modelling and biddable media adaptation. Ms Parnell has a Masters in German and Business from the University of Edinburgh and studied as a postgraduate at the London School of Marketing between 2005 and 2006.

Neil Jones
Non-Executive Director

Neil Jones has been Chief Financial Officer and a Director of Huntsworth plc, a healthcare communications and public relations group, which is listed on the Main Market of the London Stock Exchange, since February 2016. He joined Huntsworth from ITE Group plc, the international exhibitions group, where he held the position of Chief Financial Officer from 2008. Between 2003 and 2008, Mr Jones was Group Finance Director at Tarsus Group plc and prior to that, he spent five years as Finance Director (Europe) at Advanstar Communications. Mr Jones has a BA degree in Economics from the University of Manchester and completed the ACA in July 1990 with Price Waterhouse.

Ronni Zehavi
Non-Executive Director

Ronni Zehavi has 25 years' experience in the technology industry, including holding executive roles at publicly traded companies, with a primary focus on SaaS businesses, IT security and content delivery. Most recently, he founded hibob, a cloud-based HR and benefits provider. Before that he was Senior Manager of Akamai Technologies, Inc., a NASDAQ-listed provider of content delivery network services. Mr Zehavi joined Akamai in 2012 when it acquired Cotendo, Inc., a content delivery network and site acceleration services company that he had founded in 2008, for approximately $300m. Prior to Cotendo, he held the position of Vice President of Sales & Business Development of NASDAQ-listed Commtouch Ltd. (now 'CYREN Ltd.'), a cloud-based, internet security technology company.

Corporate Governance Statement

The Board is responsible to shareholders for effective direction and control of the Company and this report describes the framework for corporate governance and internal control that the directors have established to enable them to carry out this responsibility. As an AIM listed company, the Company is not required to comply with the provisions of the UK Corporate Governance Code (the "Code") and this is not a statement of compliance as required by the Code. However, the Directors recognize the importance of sound corporate governance and, accordingly, comply with the Code, to the extent they believe appropriate for a company of its nature and size. As an Israeli company, the Company also complies with the corporate governance provisions of Israel's Companies Law, 5759-1999 (the "Companies Law").

The Board and Committees

Board

The Board is responsible for the overall strategy and financial performance of the Company and has a formal schedule of matters reserved for its approval. Each Board meeting is preceded by a clear agenda and any relevant information is provided to directors in advance of the meeting. The Company has established properly constituted audit, remuneration and nomination committees of the Board (in accordance with the Companies Law) with formally delegated duties and responsibilities.

The Board is comprised of two executive directors, Hagai Tal and Yaniv Carmi, and four non-executive directors, Tim Weller (Chairman of the Board), Neil Jones, Joanna Parnell and Ronni Zehavi.

The performance of the Board, the Board committees and the individual Board members is assessed on an evaluation of Board performance survey conducted on an annual basis via questionnaire and detailed Board discussion. An implementation plan is then actioned for any matters arising.

The Board held meetings on eight occasions during 2016. The meetings were held on 26 January, 10 March, 15 March, 24 March, 31 May, 14 June, 30 August and 7 November. The required majority of directors attended these meetings.

The Board also holds regular telephone calls to update the members on operational and other business. The Company provides training to directors where required. No individual or group of directors dominates the Board's decision making. Collectively, the non-executive directors bring a valuable range of expertise in assisting the Company to achieve its strategic aims.

In accordance with the Companies Law, the Board must always have at least two outside directors who meet certain statutory requirements of independence (the "Outside Directors"). The Company's Outside Directors are currently Neil Jones and Joanna Parnell. The term of office of an Outside Director is three years, which can be extended for two additional three year terms. Under the Companies Law, Outside Directors are elected by shareholders by a special majority and may be removed from office only in limited cases. Any committee of the Board must include at least one Outside Director and the Audit Committee and Remuneration Committee must each include all of the Outside Directors (including one Outside Director serving as the chair of the Audit Committee and Remuneration Committee), and a majority of the members of each of the Audit Committee and Remuneration Committee must comply with the director independence requirements prescribed by the Companies Law.

Remuneration Committee

The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive Officer, the Chairman of the Board, the executive and non-executive directors, the Company Secretary and other senior executives. The Remuneration Committee also has responsibility for: (i) recommending to the Board a compensation policy for directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Company's shareholders, the total individual remuneration package of the Chairman of the Board, each executive and non-executive director and the Chief Executive Officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share options or other share

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awards), in each case within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the Chief Executive Officer. No Director or manager may be involved in any discussions as to their own remuneration.

The UK Corporate Governance Code recommends a remuneration committee comprise non-executive directors. The Remuneration Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi and is chaired by Joanna Parnell and operates under written terms of reference. The remuneration report on pages 20 to 21 contains a detailed description of the Company's remuneration policy. The Committee held meetings on four occasions during 2016. The meetings were held on 26 January, 10 March, 13 May and 30 August. The quorum for meetings is two independent non-executive director members, and this quorum was met for all of the meetings. During these meetings the Committee reviewed and recommended to the Board for its approval grant of equity incentive awards to the Company's employees, increasing the pool of equity incentive awards available for employee grants under the Company's equity incentive plans, amending the terms of certain outstanding option award agreements, reviewed and recommended to the Board and shareholders for their approval annual bonuses for the Company's Chief Executive Officer and Director and for the Company's Chief Financial Officer and Director, reviewed and recommended to the Board for approval the allotment of shares to a non-executive director in lieu of a cash payment, and determined and agreed with the Board about the Company's remuneration philosophy and the principles of its remuneration policy for executives, ensuring that these are in line with the business strategy, objectives, values and long-term interests of the Company and comply with all regulatory requirements.

Nomination Committee

The Nomination Committee has responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, and giving full consideration to succession planning. It also has responsibility for recommending new appointments to the Board. The Nomination Committee aims to meet not less than twice a year and at such other times as required.

The UK Corporate Governance Code recommends that a majority of members of the nomination committee should be non-executive directors. The Nomination Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi and is chaired by Ronni Zehavi. The Committee held a meeting on one occasion during 2016. The required majority of Committee members were present. The meeting was held on 30 August in relation to the re-election of Hagai Tal, Yaniv Carmi and, non-executive directors, Tim Weller and Ronni Zehavi, which was approved at the Company's 2016 Annual General Meeting. Hagai Tal, Yaniv Carmi and, non-executive directors, Tim Weller and Ronni Zehavi will be standing for re-election at the forthcoming Annual General Meeting. The Company's Outside Directors, Neil Jones and Joanna Parnell, whose current term of office continues until September 2017, will be standing for re-election at the forthcoming Annual General Meeting for another three-year term in accordance with Israeli law. The Nomination Committee's members believe that the directors put forward for re-election at the forthcoming Annual General Meeting continue to be effective and demonstrate commitment to their role. The Nomination Committee and Board unanimously recommend the re-election of all Board members offering themselves for re-election.

Audit Committee

The Audit Committee has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors. In addition, under the Companies Law, the Audit Committee is required to monitor the effectiveness of the internal control environment of the Company, including consulting with the internal auditor and independent accountants, to review, classify and approve related party transactions and extraordinary transactions, to review taxation and transfer pricing, to review the internal auditor's audit plan and to establish and monitor whistle-blower procedures.

The UK Corporate Governance Code recommends that an audit committee

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should comprise at least three members who are independent non-executive directors, and that at least one member should have recent and relevant financial experience. The Audit Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi, and is chaired by Neil Jones. The Committee operates under written terms of reference and meets at least twice a year with the Company's external auditors, and with the executive directors present by invitation only. The Committee meets with the external auditors without the executive directors present as it considers appropriate. The Committee held meetings on two occasions during 2016. The meetings were held on 10 March and 30 August. The required majority of members were in attendance on each occasion. Among others, the Committee reviewed the financial performance and financial statements of the Company.

Disclosure Committee

The Disclosure Committee was established by the Board in November 2016 and has responsibility for assisting the Board in fulfilling its responsibilities in respect of the requirement to make timely and accurate disclosure of all information that is required to be disclosed to meet legal and regulatory obligations. The Disclosure Committee is comprised of Tim Weller, Hagai Tal, Yaniv Carmi and Neil Jones and is chaired by Tim Weller. The quorum for meetings is two director members, one of whom must be an executive director.

Conflicts of Interest

The Company has procedures for the disclosure and review of any conflicts, or potential conflicts, of interest in compliance with the Companies Law, which the directors may have and for the authorization of such conflict matters by the Board.

Under the Companies Law, any transaction of the Company with a director or any transaction of the Company in which a director has a personal interest requires the approval of the Board. The transaction must not be approved if it is not in the Company's best interest. If the transaction is an extraordinary transaction (i.e. a transaction that is not in the ordinary course of business, that is not on market terms or that is likely to have a material impact on a company's profitability, assets or liabilities), then Audit Committee approval is required in addition to Board approval. If the transaction concerns exculpation, indemnification, insurance or compensation of the director, then the approvals of the Remuneration Committee, the Board and the shareholders by way of ordinary resolution are required (in that order). A Director who has a personal interest in a matter that is considered at a meeting of the Board, the Audit Committee or the Remuneration Committee may not attend that meeting or vote on that matter, unless a majority of the Board, the Audit Committee or the Remuneration Committee, as applicable, has a personal interest in the matter. If a majority of the Board, the Audit Committee or the Remuneration Committee, as applicable, has a personal interest in the transaction, then shareholder approval, by way of ordinary resolution, is also required.

The authorization of a conflict matter, and the terms of authorization, may be reviewed at any time by the Board. The Board considers that these procedures are operating effectively.

Relationship with Shareholders

The Company encourages the participation of both institutional and private investors. The Chief Executive Officer, Hagai Tal, and Chief Financial Officer, Yaniv Carmi, meet regularly with institutional investors, usually in regard to the issuance of half and full year results. Communication with private individuals is maintained through the Annual General Meeting and the Company's annual and interim reports. In addition, further details on the strategy and performance of the Company can be found at its website (www.taptica.com), which includes copies of the Company's press releases. Regular updates are provided to the Board on meetings with shareholders and analysts, and broker's opinions. Non-executive directors are available to meet major shareholders, if required. Investors are encouraged to contact the Company's Investor Relations advisors at Luther Pendragon.

Internal Controls

The Board maintains full control and direction over appropriate strategic, financial, organizational and compliance issues. The Company's organizational structure has clearly defined lines of authority, responsibility and accountability, which is reviewed regularly. The annual budget and forecasts are reviewed by the Board prior to approval being given. This includes the identification and assessment of the business risks inherent in the Company and the digital media industry as a whole along with associated financial risks.

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The Board has overall responsibility for the Company's systems of internal control and for monitoring their effectiveness. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance that issues are identified on a timely basis and dealt with appropriately. The Company's key internal financial control procedures include:

- a review by the Board of actual results compared with budget and forecasts;
- reviews by the Board of year end forecasts;
- the establishment of procedures for acquisitions, capital expenditure and expenditure incurred in the ordinary course of business;
- the appraisal and approval of proposed acquisitions; and
- the appointing of experienced and suitably qualified staff to take responsibility for key business functions to ensure maintenance of high standards of performance.

The external auditors are engaged to express an opinion on the financial statements. They discuss with management the reporting of operational results and the financial condition of the Company, to the extent necessary to express their audit opinion.

In accordance with Companies Law, the Board must appoint an internal auditor nominated following the recommendation of the Audit Committee. The primary role of the internal auditor is to examine whether a company's actions comply with the law and proper business procedure. The internal auditor may be an employee of the Company but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the Company's independent accounting firm or its representative. The Company's internal auditor is Mrs Irit Segal.

Audit and Auditor Independence

An additional responsibility of the Audit Committee is to keep under review the scope and cost effectiveness of the external audit. This includes recommending to the Board the appointment of the external auditors and reviewing the scope of the audit, approving the audit fee and, on an annual basis, the Committee being satisfied that the auditors are independent.

Somekh Chaikin, member firm of KPMG International, is retained to perform audit and audit-related work on the Company and its subsidiaries. The Audit Committee monitors the nature and extent of non-audit work undertaken by the auditors. It is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. Periodically, the Audit Committee monitors the cost of non-audit work undertaken by the auditors. The Audit Committee considers that it is in a position to take action if at any time it believes that there is a risk of the auditors' independence being undermined through the award of this work.

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

As the Company is incorporated in Israel, it is subject to Israeli law and the City Code on Takeovers and Mergers will not apply to the Company, except to the extent share control limits are incorporated into the Company's Articles of Association, as described below.

Mergers

The Companies Law permits merger transactions, provided that each party to the transaction obtains the approval of its board of directors and shareholders (excluding certain merger transactions which do not require the approval of the shareholders, as set forth in the Companies Law).

Pursuant to the Company's Articles of Association, the shareholders of the Company are required to approve the merger by the affirmative vote of a majority of the Ordinary Shares of the Company represented at the shareholders meeting in person or by proxy and voting thereon. In addition, for purposes of the shareholder vote of each party, the merger will not be deemed approved if a majority of the shares not held by the other party, or by any person who holds 25 per cent. or more of the shares or the right to appoint 25 per cent. or more of the directors of the other party, has voted against the merger.

The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

In addition, the provisions of the Companies Law that deal with "arrangements" between a company and its shareholders may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the participating shareholders holding at least 75 per cent. of the shares voted on the matter, as well as 75 per cent. of each class of creditors. In addition to shareholder approval, court approval of the transaction is required.

Under the Companies Law, in the event the Company enters into a merger or an "arrangement" under the Companies Law (as described above), the provisions of the Companies Law and the Articles of Association rules with respect to tender offers (as described below) do not apply.

Articles of Association and Special Tender Offer

The Company's Articles of Association contain a prohibition on a person acquiring shares, whether by himself or in concert, which, when aggregated with shares held by his concert parties, carry 25 per cent. or more of the voting rights attributable to the shares of the Company except as a result of a "permitted acquisition". An acquisition is a "permitted acquisition" if (i) the acquisition is made in compliance with any applicable tender offer rules under the Companies Law as may be in effect at such time and (ii) the acquisition is made in circumstances which the Takeover Code, if it applied to the Company, would require an offer to be made as a consequence and such offer is made in accordance with Rule 9 of the Takeover Code, as if such rule applied.

The Companies Law provides that an acquisition of shares of a public Israeli company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser could become a holder of 25 per cent. or more of the voting rights in the Company. This rule does not apply if there is already another holder of at least 25 per cent. of the voting rights in the Company.

Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser could become a holder of more than 45 per cent. of the voting rights in the company, if there is no other shareholder of the company who holds more than 45 per cent. of the voting rights in the company.

A special tender offer must be extended to all shareholders of a company but the offeror is not required to purchase shares representing more than 5 per cent. of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) at least 5 per cent. of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer. Shares that are acquired in violation of this requirement to make a tender offer will be deemed Dormant Shares (as defined in the Companies Law) and will have no rights whatsoever for so long as they are held by the acquirer.

Full Tender Offer

Under the Companies Law, a person may not purchase shares of a public company if, following the purchase, the purchaser would hold more than 90 per cent. of the company's shares or of any class of shares, unless the purchaser makes a tender offer to purchase all of the target company's shares or all the shares of the particular class, as applicable. If, as a result of the tender offer, either:

- the purchaser acquires more than 95 per cent. of the company's shares or a particular class of shares and a majority of the shareholders that did not have a Personal Interest accepted the offer; orthe appointing of experienced and suitably qualified staff to take responsibility for key business functions to ensure maintenance of high standards of performance.
- the purchaser acquires more than 98 per cent. of the company's shares or a particular class of shares;

then, the Companies Law provides that the purchaser automatically acquires ownership of the remaining shares. However, if the purchaser is unable to purchase more than 95 per cent. or 98 per cent., as applicable, of the company's shares or class of shares, the purchaser may not own more than 90 per cent. of the shares or class of shares of the target company.

Directors' Report

Principal Activities

Taptica International Ltd is a global end-to-end mobile advertising platform that helps the world's top brands reach their most valuable users with the widest range of traffic sources available today, including social. Its proprietary technology leverages big data and, combined with innovative machine learning, enables quality media targeting at scale. Taptica creates a single arena in which brands can scale and engage more relevantly with mobile audiences, staying ahead of the competition.

Business Review

The information that fulfils the requirements of the business review, including details of the 2016 results, principal risks and uncertainties and the outlook for future years, are set out in the Chairman's and Chief Executive Officer's Statements and the Business and Financial Review, on pages 5 to 9.

Dividends

The Company has paid dividends to its Shareholders in each of the last four years. The Board recognises the importance of dividend income to Shareholders and intends to adopt a progressive dividend policy to reflect the expectation of future cash flow generation and long-term earnings potential of the Company. For 2016, the Company maintained its policy of distributing 25% of net profits in dividend payments.

Directors

The following Directors held office as indicated below for the year ended 31 December 2016 and up to the date of signing the consolidated financial statements except where otherwise shown.

Tim Weller – Non-Executive Chairman (Throughout 2016-present)
Hagai Tal – Chief Executive Officer (Throughout 2016-present)
Yaniv Carmi – Chief Financial Officer (Throughout 2016-present)
Joanna Parnell - Non-Executive Director (Throughout 2016-present)
Neil Jones - Non-Executive Director (Throughout 2016-present)
Ronni Zehavi - Non-Executive Director (Throughout 2016-present)

Directors' Remuneration and Interests

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

Corporate Governance

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

Directors' Responsibilities

The Companies Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the relevant financial year pursuant to applicable accounting standards.

The Directors, after considering the risks and uncertainties and after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company has sufficient resources at their disposal to continue their operations for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Principle Risks and Uncertainties

The Company's financial risk management is discussed in Note 14 to the financial statements. The Directors regularly assess the Company's key commercial risks, which are considered to be large and established internet companies, that have significant control over publishing platforms, implementing changes that severely disrupt the marketplace; regulatory or legislative developments that would have a detrimental effect on the entire ad-tech industry; and organisations that have greater capital resources developing or acquiring a product offering competitive to that of the Company.

The Company's risk management methods rely on a combination of internally-developed controls and monitoring and observation of market behavior. Commercial risks are managed through Taptica's technological lead as well as through establishing partnerships with key publishers. The Company invests significant resources in research to continually develop its technology to enhance its offer. It is one of very few companies that have integrated DSP and DMP and combining all three in mobile. Its ability to address and align to industry changes with speed and flexibility has been demonstrated, particularly with the successful transition to become a mobile-focused business.

Corporate Governance

Research and Development

The Company earns it revenue from providing user acquisition services by using technological tools and developments. In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Company's market position and for future growth. Taptica's research and development team is based at the Company's headquarters in Tel Aviv and has a staff of 40. Research and development expenses during the year were $6.13m (2015: $4.09m).

Share Capital and Substantial Shareholdings

Details of the share capital of the Company as at 31 December 2016 are set out in Note 11 to the consolidated financial statements.

At 7 June 2017 the total issued and outstanding number of Ordinary Shares were 60,558,832 and 8,088,337 Ordinary Shares were held in treasury as dormant shares. The following held 3% or more of the ordinary share capital of Taptica:

Shareholder	%
Eitan Epstein and Shirley Dahan Trust on Behalf of Smart and Simple Ltd[1]	17.5
Eitan Epstein and Shirley Dahan Trust on Behalf of MTD PTE Ltd[2]	17.4
Schroder Investment Mgmt	15.3
Lazarus Mgmt Company LLC	7.96
River & Mercantile Asset Mgmt	7.4
Dooi Holdings Ltd[3]	5.3
Cababie Holdings Ltd[4]	5.3
Legal & General	4.6
Investec Asset Mgmt	4.2
Slater Investments Ltd	3.7

(1) The shares are held in trust on behalf of Mr Ehud Levy. Mr Levy, through his direct and indirect holdings, is the beneficial owner of 11,075,509 ordinary shares representing 18.3% of the issued share capital of the Company.

(2) The shares are held in trust on behalf of Mr Hagai Tal (Chief Executive Officer and Director). Mr Tal, through his direct and indirect holdings, is the beneficial owner of 11,025,509 ordinary shares representing 18.2% of the issued share capital of the Company.

(3) Ms Maia Shiran is the sole beneficial owner of Dooi Holdings Ltd.

(4) Mr Ariel Cababie is the sole beneficial owner of Cababie Holdings Ltd. Mr Cababie and Ms Shiran are co-habiting.

Independent Auditors

The Audit Committee of the Board of Directors reviews annually the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditors. KPMG Somekh Chaikin was engaged to perform the 2016 audit. The total fee paid to the Company's auditors for audit services rendered to the Company during that year was US$82,000.

Events after the reporting period

For significant events after the reporting period please refer to Note 18 on page 55.

Directors' Remuneration Report

Directors' Remuneration
The Board recognizes that Directors' remuneration is of legitimate interest to the shareholders. The Company operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation. As an Israeli company, listed on the AIM market of the London Stock Exchange, the Company is not required to comply with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Policy on Directors' Remuneration
The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the caliber necessary to maintain the Company's position. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Director's responsibilities.

Remuneration
The remuneration of the Directors in 2016 was as follows (all amounts in GBP – NIS 5.21: GBP 1):

Tim Weller	75,000
Hagai Tal	711,210
Yaniv Carmi	470,864
Neil Jones	35,000
Joanna Parnell	25,000
Ronni Zehavi*	25,000

** The amount includes share-based payments.*

The Remuneration Committee is formally required to meet not less than twice a year and at such other times as necessary. The Remuneration Committee has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's Chief Executive Officer, the Chairman of the Board, the executive and non-executive Directors, the Company Secretary and other senior executives. The Remuneration Committee also has responsibility for: (i) recommending to the Board a compensation policy for Directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Company's shareholders, the total individual remuneration package of the Chairman of the Board, each executive and non-executive director and the Chief Executive Officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of the Company Secretary and all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Company's policy and in consultation with the Chairman of the Board and/or the Chief Executive Officer. No Director or manager may be involved in any discussions as to their own remuneration. The Remuneration Committee comprises Neil Jones, Joanna Parnell and Ronni Zehavi and is chaired by Joanna Parnell and operates under written terms of reference.

Remuneration of Executives and Other Managers
The remuneration of the Company's five most highly compensated executives and managers (including two of its executive directors) in 2016 was as follows (all amounts in GBP):

Hagai Tal, CEO	711,210
Yaniv Carmi, CFO	470,864
Tal Feigel, GM, Europe	444,518
Galia Reichenstein, COO & Head of Sales, US*	434,653
Melissa Dickman, VP Sales, US	358,021

**During 2016, Ms. Galia Reichenstein was granted options to purchase 160,000 Ordinary Shares with an exercise price of 0.80 GBP. The options were granted with terms such that 50% of such options will vest on the second anniversary of the date of grant, 25% will vest on the third anniversary of the date of grant and the remaining 25% will vest on the fourth anniversary of the date of grant, provided that Ms. Reichenstein continues to serve as a Service Provider of the Company.*

During 2016, the Company granted 1,758 thousand options over ordinary shares of NIS 0.01 each to certain employees under the Company's Global Share Incentive Plan (2011) and the Company's 2015 U.S. Equity Incentive Plan. As of 31 December 2016 options were held by employees over an aggregate of 5,526 thousand Ordinary Shares under the Plan. The options have an exercise price of 0.00 GBP to 1.19 GBP, vest in tranches from 2017-2020, and expire in tranches in 2020, 2021 and 2024. There are 12,636 options exercisable at 0.00 GBP and 191,293 options exercisable at 0.24 GBP, which were granted to employees of AreaOne as part of the acquisition agreement whereby Taptica agreed to convert unvested options held in AreaOne to unvested options in Taptica with the same terms. The remaining options (excluding those granted to former AreaOne employees) have an exercise price of 0.65 GBP to 1.19 GBP.

Directors' Interests

As of 7 June 2017:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Tim Weller	81,698	Nil	0.1
Hagai Tal[1]	11,025,509	Nil	18.2
Yaniv Carmi	294,572	Nil	0.5
Joanna Parnell	Nil	Nil	Nil
Neil Jones	3,267	Nil	0.0
Ronni Zehavi	28,003	Nil	0.1

1) 10,553,125 shares are registered in the name of Eitan Epstein and Shirley Dahan Trust on behalf of MTD PTE Ltd. Mr Tal is the sole shareholder and beneficial owner of MTD PTE Ltd.

The Taptica Advantage

- Accredited Facebook and Instagram Marketing Partner
- 600+ brands and apps customers
- Headquartered in Tel Aviv with offices in San Francisco, New York, Beijing, Seoul and London
- 22+ billion requests per day
- 211 employees with 25% in R&D
- 17,000+ campaigns as data source
- Traded on the London Stock Exchange (AIM: TAP)
- 50,000+ supply and publishing partners worldwide
- 220+ million user profiles database – with 100+ data items on each
- 15+ countries with significant presence

Credentials

Marketing Partner

Instagram Partner

FORENSIQ

Incapsula

tag TRUSTWORTHY ACCOUNTABILITY GROUP

iab Member of Internet Advertising Bureau UK

Deloitte. Technology Fast50

AppsFlyer Top 10 Media Source, H1 2016

Gold Partner KOCHAVA

TUNE CERTIFIED PARTNER

singular ROI INDEX BEST AD NETWORKS

adjust

Consolidated Financial Statements 2016

Independent Auditors' Report

Auditors' Report to the Shareholders of Taptica International Ltd.

We have audited the accompanying consolidated statements of financial position of Taptica International Ltd. (hereinafter – "the Company") as at 31 December 2016 and 2015 and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the two years in the period ended 31 December 2016. These financial statements are the responsibility of the Company's Board of Director and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) – 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of 31 December 2016 and 2015 and their results of operations, changes in equity and cash flows for each of the two years in the period ended 31 December 2016, in accordance with International Financial Reporting Standards (IFRS).

Somekh Chaikin

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

March 2017

Consolidated Statements of Financial Position

as at 31 December

	Note	2016 US$ 000s	2015 US$ 000s
Assets			
Cash and cash equivalents	9	**21,471**	10,173
Bank deposits		–	8,516
Trade receivables, net	7	**27,443**	19,168
Other receivables	7	**1,890**	1,558
Total current assets		**50,804**	39,415
Fixed assets, net	5	**433**	514
Intangible assets, net	6	**33,046**	*36,620
Deferred tax assets	4	**301**	180
Total non-current assets		**33,780**	37,314
Total assets		**84,584**	76,729
Liabilities			
Trade payables	8	**22,501**	20,366
Other payables	8	**9,443**	*5,949
Total current liabilities		**31,944**	26,315
Employee benefits		**176**	182
Contingent consideration commitment	16	–	*2,277
Deferred tax liabilities	4	**1,740**	2,676
Total non-current liabilities		**1,916**	5,135
Total liabilities		**33,860**	31,450
Equity	11		
Share capital		**175**	190
Share premium		**29,759**	35,566
Capital Reserves		**1,238**	2,450
Retained earnings		**19,552**	7,073
Total equity		**50,724**	45,279
Total liabilities and equity		**84,584**	76,729

* Restated – see Note 16B

Date of approval of the financial statements by the Board of Directors: 17 March, 2017

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December

	Note	2016 US$ 000s	2015 US$ 000s
Revenues		**125,861**	75,829
Cost of sales		**(79,880)**	(54,716)
Gross profit		**45,981**	21,113
Research and development expenses		**6,127**	4,092
Selling and marketing expenses		**14,202**	8,634
General and administrative expenses	10	**5,919**	5,464
		26,248	18,190
Profit from operations		**19,733**	2,923
Profit from operations before amortization of purchased intangibles and business combination related expenses*		**22,910**	5,688
Financing income		**355**	75
Financing expenses		**(504)**	(207)
Financing expenses, net		**(149)**	(132)
Profit before taxes on income		**19,584**	2,791
Taxes on income	4	**(3,115)**	(642)
Profit for the year		**16,469**	2,149
Profit for the year before amortization of purchased intangibles and business combination related expenses (net of tax)**		**19,042**	4,952
Total comprehensive income for the year		**16,469**	2,149
Earnings per share			
Basic earnings per share (in USD)	12	**0.2627**	0.033
Diluted earnings per share (in USD)	12	**0.2592**	0.033

* Amounting to USD 3,177 thousand (2015: USD 2,765 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses.

** Amounting to USD 2,573 thousand (2015: USD 2,803 thousand) of amortization of purchased intangibles acquired in business combination and related acquisition expenses.

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

Consolidated Statements of Changes in Equity

for the years ended 31 December 2016 & 2015

	Share capital	Share premium	Capital reserves**	Retained earnings	Total
			US$ thousands		
Balance as at 1 January 2015	186	35,170	525	6,451	42,332
Total comprehensive income for the year					
Profit for the year	–	–	–	2,149	2,149
Total comprehensive income for the year	–	–	–	2,149	2,149
Transactions with owners, recognized directly in equity					
Business combination	–	–	1,656	–	1,656
Share-based payments	–	–	622	–	622
Exercise of options	4	396	(353)	–	47
Dividends to owners	–	–	–	(1,527)	(1,527)
Balance as at 31 December 2015	190	35,556	2,450	7,073	45,279
Total comprehensive income for the year					
Profit for the year	–	–	–	**16,469**	**16,469**
Total comprehensive income for the year	–	–	–	**16,469**	**16,469**
Transactions with owners, recognized directly in equity					
Business combination	–	**(344)**	**(1,656)**	–	**(2,000)**
Own shares acquired	**(15)**	**(5,505)**	–	–	**(5,520)**
Share-based payments	–	**27**	**453**	–	**480**
Exercise of share options	*	**15**	**(9)**	–	**6**
Dividends to owners	–	–	–	**(3,990)**	**(3,990)**
Balances as at 31 December 2016	**175**	**29,759**	**1,238**	**19,552**	**50,724**

* Less than USD 1 thousand.

** Includes reserves for share-based payments and a commitment to issue shares under business combination (see Note 16) and other comprehensive income.

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

Consolidated Statements of Cash Flows

for the year ended 31 December

	Note	2016 US$ 000s	2015 US$ 000s
Cash flows from operating activities			
Profit for the year		**16,469**	2,149
Adjustments for:			
Depreciation and amortization	5, 6	**5,098**	3,472
Net financing expense		**118**	87
Loss on sale of fixed assets		**9**	-
Share-based payment	13	**480**	574
Income tax expense	4	**3,115**	642
Change in trade and other receivables		**(9,244)**	(6,017)
Change in trade and other payables		**4,004**	6,419
Change in employee benefits		**183**	(34)
Income taxes received		**748**	105
Income taxes paid		**(790)**	(1,224)
Interest received		**104**	18
Interest paid		**(9)**	(9)
Net cash provided by operating activities		**20,285**	6,182
Cash flows from investing activities			
Increase in pledged deposits		**(28)**	(78)
Acquisition of property, plant and equipment	5	**(124)**	(336)
Acquisition and capitalization of intangible assets	6	**(1,332)**	(2,010)
Proceeds from sale of property, plant and equipment	5	**4**	74
Repayment (grant) of short-term loans		**527**	(544)
Proceeds from sale of investments on money market fund		–	482
Acquisition of subsidiaries, net of cash acquired	16	**(5,000)**	(8,099)
Decrease (increase) in bank deposits, net		**8,500**	(8,500)
Net cash provided by (used in) investing activities		**2,547**	(19,011)
Cash flows from financing activities			
Repayment of loans from related parties		–	(111)
Buy back of shares	11A, 16B	**(7,520)**	–
Proceeds from exercise of share options		**6**	47
Dividends paid	11B	**(3,990)**	(1,527)
Net cash used in financing activities		**(11,504)**	1,591
Net increase (decrease) in cash and cash equivalents		**11,328**	(14,420)
Cash and cash equivalents as at the beginning of the year		**10,173**	24,664
Effect of exchange rate fluctuations on cash and cash equivalents		**(30)**	(71)
Cash and cash equivalents as at the end of the year		**21,471**	10,173

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

Notes to the Consolidated Financial Statements

as at 31 December 2016

1. General

A. Reporting entity

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

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

On 28 May 2014, the Company's shares began trading on the AIM Market of the London Stock Exchange following the Company's Initial Public Offering ("IPO"). As part of the IPO, the Company issued 11,672,001 ordinary shares, of NIS 0.01 par value in consideration for a gross amount of € 17,858,162 (approximately USD 30 million). The share issue costs amounted to USD 2.2 million (net of tax) and the net consideration amounted to approximately USD 27.5 million (€ 16.4 million).

On 1 August 2014, the Company purchased 100% of Taptica Ltd's ("Taptica") share capital for a total consideration of USD 13.84 million.

On 7 September 2015, the Company acquired 100% of share capital in Taptica Social Ltd., formerly named AreaOne Ltd. ("Taptica Social") for a total consideration of USD 15.6 million, see also Note 16B.

B. Definitions

In these financial statements –

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

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

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

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

2. Basis of Preparation

A. Statement of compliance

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

The consolidated financial statements were authorized for issue by the Company's Board of Directors on 17 March 2017.

B. Functional and presentation currency

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

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

as at 31 December 2016

2. Basis of Preparation *(continued)*

C. Basis of measurement

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

- Deferred tax assets and liabilities
- Contingent consideration commitment

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

D. Use of estimates and judgments

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

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

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

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

E. Determination of fair value

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

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

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

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

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

as at 31 December 2016

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

A. Basis of consolidation

(1) Business combinations

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity instruments that were issued by the Company. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss, whereas contingent consideration classified as an equity instrument is not remeasured.

Costs associated with the acquisitions that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees are expensed in the period the services are received.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service. The unvested portion of the replacement award that is attributed to post-acquisition services is recognized as a compensation cost following the business combination.

(2) Subsidiaries

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

(3) Transactions eliminated on consolidation

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

B. Foreign currency transactions

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

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

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition of financial assets

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

Derecognition of financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

Receivables

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

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

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include trade and other payables.

Initial recognition of financial liabilities

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

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

Derecognition of financial liabilities

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

Offset of financial instruments

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

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

C. Financial instruments *(continued)*

(3) Share capital

Ordinary shares

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

Treasury shares

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

D. Fixed Assets

Fixed assets are measured at cost less accumulated depreciation. Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its residual value (assumed to be nil), using the straight line method, over its expected useful life as follows:

	Years
Computers	3
Office furniture and equipment	6-17
Motor vehicles	7
Leasehold improvements	The shorter of the lease term and the useful life

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

E. Intangible assets

(1) Software development

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group are recognized as intangible assets when all the criteria in IAS 38 are met.

Development costs are capitalized only when it is probable that future economic benefit will result from the project and the following criteria are met:

- the technical feasibility of the product has been ascertained;
- adequate technical, financial and other resources are available to complete and sell or use the intangible asset;
- the Group can demonstrate how the intangible asset will generate future economic benefits and the ability to use or sell the intangible asset can be demonstrated;
- it is the intention of management to complete the intangible asset and use it or sell it; and
- the development costs can be measured reliably.

In subsequent periods, these costs are amortized over the useful economic life of the asset.

Where these criteria are not met development costs are charged to the statement of comprehensive income as incurred.

The estimated useful lives of developed software is three years.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

(2) Acquired software

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software licenses. These costs are amortized over their estimated useful lives (3-5 years) using the straight line method. Costs associated with maintaining software programs are recognized as an expense as incurred.

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

E. Intangbible assets *(continued)*

(3) Goodwill

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

In subsequent periods goodwill is measured at cost less accumulated impairment losses. The Group has identified its entire operation as a single cash generating unit (CGU). As of 31 December 2016 and 2015, the CGU's recoverable amount was based on the fair value of the Company's quoted share price (level 1). According to management assessment, no impairment in respect to goodwill has been recorded.

(4) Other intangible assets

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

(5) Amortization

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

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

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

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

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

• Trademarks	5 years
• Software (developed and acquired)	3–5 years
• Customer relationships	5-7 years
• Technology	5 years
• Distribution channel	5 years

F. Impairment of financial assets

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

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

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

G. Impairment of non-financial assets

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

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

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

H. Employee benefits

(1) Post-employment benefits

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

(a) Defined contribution plans

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

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

(b) Defined benefit plans

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

(2) Short-term benefits

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

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

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

(3) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense with a corresponding increase in equity, over the period that an employee becomes unconditionally entitled to an award. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service vesting conditions, is adjusted to reflect the number of awards that are expected to vest.

I. Revenue recognition

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

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

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

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

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

J. Classification of expenses

Cost of revenues

Cost of revenues consists primarily of traffic acquisition costs that are directly attributable to revenue generated by the Company.

Research and development

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

Selling and marketing

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

General and administrative

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

K. Financing income and expenses

Financing income comprises interest income on funds invested, changes in the fair value of financial assets held for trading and foreign currency gains. Interest income is recognized as it accrues using the effective interest method.

Changes in the fair value of financial assets at fair value through profit or loss also include income from interest.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

L. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive income except to the extent that they relate to a business combination.

Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- The initial recognition of goodwill; and
- Differences relating to investments in subsidiaries to the extent it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing taxable dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

L. Income tax expense *(continued)*

A deferred tax asset is recognized for tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Offset of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

M. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which mainly comprise of share options granted to employees and certain equity instruments resulting from business combination transactions.

N. Dividends

Dividend distribution to the Group's owners is recognized as a liability in the Group's consolidated statement of financial position on the date on which the dividends are approved by the Group's Board of Directors.

O. Leases

The Group's leases are classified as operating leases, and the leased assets are not recognized on the Group's statement of financial position. Payments made under operating leases, other than conditional lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under operating leases are recognized in profit or loss as incurred.

P. New standards and interpretations not yet adopted

IFRS 9 (2014), Financial Instruments

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

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

IFRS 16, Leases

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

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

as at 31 December 2016

3. Significant Accounting Policies *(continued)*

P. New standards and interpretations not yet adopted *(continued)*

IFRS 16, Leases *(continued)*

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

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

4. Income Tax

A. Details regarding the tax environment of the Group

(1) Corporate tax rate

(a) Presented hereunder are the tax rates relevant to the group in the years 2015-2016:

2015 – 26.5%

2016 – 25%

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

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

As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at 31 December 2016 were calculated according to the new tax rate specified in the Economic Efficiency Law, at the tax rate expected to apply on the date of reversal. The effect of the changes described above on the financial statements as at December 31, 2016 is reflected in a decrease in the deferred tax liabilities in the amount of USD 771 thousand and a decrease in the deferred tax assets in the amount of USD 158 thousand. The adjustment in deferred tax balances was recognized against deferred tax expenses/income in the amount of USD 613 thousand.

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

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

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

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

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

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

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

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

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

as at 31 December 2016

4. Income Tax *(continued)*

A. Details regarding the tax environment of the Group *(continued)*

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

Amendment to the Law for the Encouragement of Capital Investments – 1959 (continued)

In June 2016, Taptica appealed for a tax ruling, similar to those that have been obtained as stated above. Based on several discussions that took place during 2016 with the Israeli Tax Authorities, the Company believes that it is probable that the ruling will be obtained. Subsequent to the balance sheet date, a draft of the tax ruling was obtained by the Company.

B. Composition of income tax expense

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Current tax expense		
Current year	**4,172**	624
Adjustment for prior years, net	–	37
	4,172	661
Deferred tax expense (income)		
Creation and reversal of temporary differences	**(444)**	(20)
Change in tax rate	**(613)**	1
	(1,057)	(19)
Income tax expense	**3,115**	642

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

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Profit before taxes on income	**19,584**	2,791
Primary tax rate of the Company	**25%**	26.5%
Tax calculated according to the Company's primary tax rate	**4,896**	740
Additional tax (tax saving) in respect of:		
Non-deductible expenses	**242**	156
Effect of reduced tax rate on preferred income according to the Law for the Encouragement of Capital Investments – 1959	**(1,492)**	(134)
Utilization of tax losses from prior years for which deferred taxes were not created	**(6)**	(302)
Effect on deferred taxes at a rate different from the primary tax rate	**(506)**	(4)
Foreign tax rate differential	**161**	111
Other differences	**(180)**	75
Income tax expenses	**3,115**	642

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

as at 31 December 2016

4. Income Tax *(continued)*

D. Deferred tax assets and liabilities

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

	Intangible assets	Carry-forward tax deductions and losses	Initial public offering costs	Other	Total
	US$ thousands				
Balance of deferred tax asset (liability) as at 1 January 2015	(2,269)	770	284	66	(1,149)
Changes recognized in profit or loss	683	(618)	(158)	113	20
Recognized in respect of business combination	(1,477)	56	–	21	(1,400)
Effect of change in tax rate	1	–	(2)	–	(1)
Effect of change due to transition to Dollar Regulations	–	–	34	–	34
Balance of deferred tax asset (liability) as at 31 December 2015	(3,062)	208	158	200	(2,496)
Balance of deferred tax asset (liability) as at 1 January 2016	**(3,062)**	**208**	**158**	**200**	**(2,496)**
Changes recognized in profit or loss	**599**	**(162)**	**(146)**	**153**	**444**
Effect of change in tax rate	**700**	**(46)**	**(12)**	**(29)**	**613**
Balance of deferred tax asset (liability) as at 31 December 2016	**(1,763)**	–	–	**324**	**(1,439)**

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

as at 31 December 2016

5. Fixed Assets, net

	Computers	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	US$ thousands				
Cost					
Balance as at 1 January 2015	388	117	97	319	921
Additions	42	–	27	267	336
Business combination	23	–	34	24	81
Disposals	–	(117)	–	–	(117)
Balance as at 31 December 2015	453	–	158	610	1,221
Additions	**76**	–	**15**	**33**	**124**
Disposals	**(2)**	–	**(15)**	–	**(17)**
Balance as at 31 December 2016	**527**	–	**158**	**643**	**1,328**
Depreciation					
Balance as at 1 January 2015	227	29	14	82	352
Additions	95	14	10	279	398
Disposals	–	(43)	–	–	(43)
Balance as at 31 December 2015	322	–	24	361	707
Additions	**99**	–	**34**	**59**	**192**
Disposals	**(1)**	–	**(3)**	–	**(4)**
Balance as at 31 December 2016	**420**	–	**55**	**420**	**895**
Carrying amounts					
As at 1 January 2015	161	88	83	237	569
As at 31 December 2015	131	–	134	249	514
As at 31 December 2016	**107**	–	**103**	**223**	**433**

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

as at 31 December 2016

6. Intangible Assets, net

	Software	Trademarks	Customer relationships	Technology	Distribution channel	Residual Goodwill	Total
	US$ thousands						
Cost							
Balance as at 1 January 2015	2,140	2,907	539	5,622	–	10,719	21,927
Additions	1,794	–	–	–	–	–	1,794
Business combination	–	2,100	361	4,851	1,044	8,881	17,237
Balance as at 31 December 2015	3,934	5,007	900	10,473	1,044	19,600	40,958
Additions	**1,332**	–	–	–	–	–	**1,332**
Balance as at 31 December 2016	**5,266**	**5,007**	**900**	**10,473**	**1,044**	**19,600**	**42,290**
Amortization							
Balance as at 1 January 2015	543	234	43	444	–	–	1,264
Additions	731	730	128	1,415	70	–	3,074
Balance as at 31 December 2015	1,274	964	171	1,859	70	–	4,338
Additions	**1,729**	**1,001**	**186**	**1,782**	**208**	–	**4,906**
Balance as at 31 December 2016	**3,003**	**1,965**	**357**	**3,641**	**278**	–	**9,244**
Carrying amounts							
As at 1 January 2015	1,597	2,673	496	5,178	–	10,719	20,663
As at 31 December 2015	2,660	4,043	729	8,614	974	19,600	36,620
As at 31 December 2016	**2,263**	**3,042**	**543**	**6,832**	**766**	**19,600**	**33,046**

A. Amortization

The amortization of technology and software is allocated to research and development expenses and amortization of trademarks, distribution channel and customer relationships is allocated to selling and marketing expenses.

B. Capitalized development costs

Development costs capitalized in the period amounted to USD 1,172 thousand (2015: USD 1,313 thousand) and were classified under software.

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

as at 31 December 2016

7. Trade and Other Receivables

	31 December	
	2016	2015
	US$ 000s	US$ 000s
Trade receivables, net [(1)]	**27,443**	19,168
Other receivables		
Prepaid expenses	**391**	156
Institutions	**1,314**	653
Related parties (see Note 15)	**4**	55
Pledged deposits	**181**	150
Short-term loan	–	544
	1,890	1,558
	29,333	20,726

[(1)] Including trade receivables due from related parties in the amount of USD 12 thousand and USD 7 thousand, as at 31 December 2016 and 2015, respectively. (See also Note 15).

8. Trade and Other Payables

	31 December	
	2016	2015
	US$ 000s	US$ 000s
Trade payables [(1)]	**22,501**	20,366
Other payables		
Advances from customers	**1,297**	1,360
Wages and salaries	**3,217**	1,461
Provision for vacation	**517**	321
Institutions	**4,071**	215
Related parties (see Note 15)	**17**	27
Contingent consideration commitment (see Note 16B)	**200**	2,495
Others	**124**	70
	9,443	5,949
	31,944	26,315

[(1)] Including trade payables due to related parties in the amount of USD 13 thousand and USD 46 thousand, as at 31 December 2016 and 2015, respectively. (See also Note 15).

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

as at 31 December 2016

9. Cash and Cash Equivalents

	31 December	
	2016	2015
	US$ 000s	US$ 000s
Cash	**20,571**	10,111
Bank deposits	**900**	62
Cash and cash equivalents	**21,471**	10,173

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

10. General and Administrative Expenses

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Payroll and related expenses	**2,627**	1,967
Rent and office maintenance	**675**	1,139
Professional expenses	**1,044**	871
Doubtful debts	**589**	300
Other expenses	**984**	1,187
	5,919	5,464

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

as at 31 December 2016

11. Equity

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

	Ordinary shares	
	2016	2015
Issued and paid-in share capital as at 31 December	**60,447**	66,405
Authorized share capital	**300,000**	300,000

(1) Rights attached to share

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

(2) Director share allotment

According to Director's employment commitment letter, the Company is committed to issue shares worth of GBP 6,250 each quarter in consideration of the director's services. On May 2016, the commitment to issue shares was terminated and the consideration was replaced to cash payments. In the year ended 31 December 2016, the Company issued 25,442 ordinary shares of a par value of NIS 0.01 based on the share price on the date of the issuance. The total expenses recognized in the statement of Comprehensive Income in the year ended 31 December 2016 with respect to the director share allotment amounted to USD 27 thousand.

(3) Own share acquisition

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

On 20 June 2016, the Board of the Company resolved to exercise its option to finalize the acquisition of Taptica Social in cash consideration, which includes purchasing 2,088,337 ordinary shares of the Company that had been issued to the shareholders of Taptica Social and held in escrow ("Escrow Shares"). The acquisition of the Escrow Shares took place on 30 June 2016 and the purchased shares were reclassified as Treasury Shares. (see Note 16B)

B. Dividends

Details on dividends (in USD thousand):

	For the year ended 31 December	
	2016	2015
Declared and paid	**3,990**	1,527

A dividend in the amount of USD 1,527 thousand (USD 0.023 per ordinary share) that was declared in March 2015 was paid in June 2015.

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

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

For a dividend that was declared subsequent to the balance sheet date- see Note 18.

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

as at 31 December 2016

12. Earnings per Share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2016 and 2015 was based on the profit for the year divided by a weighted average number of ordinary shares outstanding, calculated as follows:

Profit for the year

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Profit for the year	**16,469**	2,149

Weighted average number of ordinary shares:

	Year ended 31 December	
	2016	2015
	Shares of NIS 1 0.01 par value	Shares of NIS 1 0.01 par value
Weighted average number of ordinary shares used to calculate basic earnings per share as at 31 December	**62,682,253**	65,990,349
Basic earnings per share	**0.2627**	0.033

Diluted earnings per share

The calculation of diluted earnings per share as at 31 December 2016 and 2015 was based on profit for the year divided by a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted):

	Year ended 31 December	
	2016	2015
	Shares of NIS 0.01 par value	Shares of NIS 0.01 par value
Weighted average number of ordinary shares used to calculate basic earnings per share	**62,682,253**	65,990,349
Effect of share options on issue	**856,519**	11,360
Weighted average number of ordinary shares used to calculate diluted earnings per share	**63,538,772**	66,001,709
Diluted earnings per share	**0.2592**	0.033

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

as at 31 December 2016

13. Share-Based Payment Arrangements

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

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Selling and marketing	303	407
Research and development	95	84
General and administrative	55	83
	453	574

(2) Share-based compensation plan

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

- All the share options that were granted are non-marketable.
- All options are to be settled by physical delivery of shares.
- Vesting conditions are based on a service period of between 3-5 years.

In June 2015, the Board of the Company approved a change in the exercise price and vesting terms relating to 2,861,000 options for ordinary shares held by certain employees under the Plan (the "Amended Options"). The Amended Options were originally granted as follows:

- 1,015,000 were granted on 1 February 2014 exercisable from 1 February 2016 at a price of USD 2.28 each with an expiry date of 1 February 2024
- 1,846,000 were granted on 24 February 2015 with an exercise price of GBP 1.3232, with the same gradual four-year vesting period as that described above for the New Options (with the exercise period commencing on the second anniversary of 24 February 2015) and an expiry date of 24 February 2020

The Amended Options are exercisable at a price of 90 pence each. The options granted on 1 February 2014 will now vest and become exercisable on 30 June 2017, while the expiration date remains on 1 February 2024. The vesting and exercise periods of the options granted on 24 February 2015 remain unchanged. The incremental fair value (amounting to USD 451 thousand) is recognized over the remaining vesting period.

(3) Option grants during 2016 and 2015

Grant date	**Number of options (thousands)**	**Exercise price**
Options granted on 24 February 2015	2,328	GBP 1.32
Options granted on 30 June 2015	1,509	GBP 0.90
Options granted on 1 November 2015	1,632	GBP 0.65
Options granted on 22 November 2015	157	GBP 0-0.24
Options granted on 14 December 2015	150	GBP 0.65
Options granted on 15 March 2016	160	GBP 0.8
Options granted on 31 May 2016	1,248	GBP 0.79
Options granted on 30 August 2016	350	GBP 1.19

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

as at 31 December 2016

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

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

	Weighted average exercise price		Number of options	
	2016	**2015**	**2016**	**2015**
	(US$)		**(000s)**	
Outstanding at 1 January	**1.6**	0.76	**5.144**	3,217
Forfeited during the year	**1.36**	1.61	**(1,360)**	(2,167)
Exercised during the year	**0.33**	0.03	**(16)**	(1,682)
Granted during the year	**1.23**	1.26	**1,758**	5,776
Outstanding at 31 December			**5,526**	5,144
Exercisable at 31 December			–	19

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

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

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

The parameters used to calculate fair value:

	2016	2015
Grant date fair value in USD	0.229-0.377	0.32-0.96
Share price (on grant date) (in GBP)	0.8-1.28	0.63-1.32
Exercise price (in GBP)	0.79-1.19	0.01-1.3232
Expected volatility (weighted average)	40%	35%
Expected life (weighted average)	5	5
Expected dividends	4%-6%	0%
Risk-free interest rate	1.18%-1.5%	0.67-1.66%

14. Financial Instruments

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

B. Credit risk

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

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

as at 31 December 2016

14. Financial Instruments *(continued)*

B. Credit risk *(continued)*

Exposure to credit risk

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

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

	31 December	
	2016	2015
	US$ 000s	US$ 000s
Cash and cash equivalents[(1)]	**21,471**	10,173
Bank deposits[(2)]	–	8,516
Trade receivables, net [(3)]	**27,443**	19,168
Other receivables	**185**	749
	49,099	38,606

(1) At 31 December 2016, USD 475 thousand are held in NIS, USD 160 thousand are held in GBP and USD 149 thousand are held in EUR, with the remainder held in USD. At 31 December 2015, USD 491 thousand are held in NIS, USD 372 thousand are held GBP, and USD 271 thousand are held in EUR, with the remainder held in USD.

(2) In 2015 bank deposits are held in USD at two large banks in Israel, for a duration of 6 months, carrying a weighted average interest rate of 0.6%.

(3) At 31 December 2016, the Group included provision to doubtful debts in the amount of USD 655 thousand (31 December 2015: USD 510 thousand) in respect of specific debtors that their collectability is in doubt.

C. Liquidity risk

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

As of December 31, 2016 and 2015, the Group's contractual obligation of financial liability is in respect of Trade and other payables in the amount of USD 22,842 thousand and USD 22,931 thousand, respectively. The contractual maturity of this financial liability is less than one year and in its carrying amount.

D. Market risk

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

Linkage and foreign currency risks

Currency risk

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

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

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

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

as at 31 December 2016

14. Financial Instruments *(continued)*

E. Fair value

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

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

	Contingent consideration
Balance as at September 7, 2015 (see also Note 16B)	4,602
Expenses recognized in profit and loss	170
Balance as at December 31, 2015	4,772
Expenses recognized in profit and loss	**428**
Settlement of partial contingent consideration	**(5,000)**
Balance as at December 31, 2016	**200**

15. Related Parties

A. Compensation and benefits to key management personnel

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

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

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Share-based payments	**30**	–
Other compensation and benefits(*)	**2,562**	1,322
	2,592	1,322

(*) Including management fees that were paid directly to key management personnel.

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

as at 31 December 2016

15. Related Parties *(continued)*

B. Transactions with related parties

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

		Year ended 31 December	
		2016	2015
		Value of transactions	
		US$ 000s	US$ 000s
Related party	**Nature of transaction**		
Webisaba Ltd.	Sale of media from the Company.	**17**	51
	Purchase of media by the Company	**(147)**	(48)

C. See also Notes 7 and 8.

16. Subsidiaries

A. Details in respect of subsidiaries

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

Name of Company	Principal location of the company's activity	The Group's ownership interest in the subsidiary for the year ended December 31 **2016**	2015
Taptica LTD	Israel	**100%**	100%
Taptica INC	USA	**100%**	100%
Taptica Social LTD	Israel	**100%**	100%
SocialClicks INC	USA	**100%**	100%

B. Acquisition of subsidiaries

Business combination from a prior period – Taptica Social Ltd.

On 7 September 2015 (hereinafter – the Acquisition Date) the Company acquired 100% of the outstanding share capital of Taptica Social. Taptica Social is a leading mobile user acquisition platform for brands and applications' developers to engage valuable mobile users through social media networks.

Upon the closing of the transaction, the Company paid USD 9,288 thousand in cash and USD 2 million, satisfied by the allotment of 2,088,337 newly issued ordinary shares of the Company, calculated based on 61 pence per share, following the receipt by Taptica Social of a tax ruling from the Israeli tax authority (see Note 18). Those shares were held in escrow, in the name of ESOP Management & Trust Services Ltd., the escrow agent, for 30 months. In addition, the consideration included two contingent deferred payments – payable at 12 months and 24 months after the closing of the transaction – each consist of up to USD 1 million in cash and up to USD 1.5 million satisfied by the allotment of 3,132,504 New Ordinary Shares calculated based on 61 pence per share, that were payable subject to compliance with certain performance criteria. The Company had an option through 30 June 2016 to substitute the 2,088,337 ordinary shares held in escrow with a USD 2 million cash payment, and to substitute the ordinary shares included in the contingent deferred payments with cash.

During 2016, the Company has exercised the option and in total the Company has paid in 2016 an amount of USD 7 million and in doing so has settled its obligations with respect to the acquisition of Taptica Social, except for the cash deferred payment in the amount of USD 200 thousand related to the estimated fair value of the usable tax loss.

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

as at 31 December 2016

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries *(continued)*

Business combination from a prior period – Taptica Social Ltd. *(continued)*

The aggregate cash flow derived for the Group as a result of the acquisition in 2015:

	US$ thousands
Cash and cash equivalents paid	9,288
Cash and cash equivalents of the subsidiaries	(1,189)
	8,099

Adjustment of provisional amounts presented in 31 December 2015 financial statement:

The financial statements of the Company for December 31, 2015 included provisional amounts in respect of the subsidiary's intangible assets. During 2016 upon the completion of the independent valuation of the business combination the amounts reported were adjusted as follows:

December 31, 2015

	As presented in Note 16 of the annual financial statements as of 31 December 2015	Effect of retrospective adjustment	As adjusted in these financial statements
	US$ thousands	US$ thousands	US$ thousands
Intangible assets	6,918	944	7,862
Deferred tax liabilities	(1,276)	(304)	(1,580)
Goodwill	9,328	(447)	8,881
Contingent consideration commitment	(2,302)	(193)	(2,495)

The effect of the adjustment on the Statement of Comprehensive Income for the year ended 31 December 2015 is immaterial.

Consideration transferred:

The following summarizes the major classes of consideration transferred, and the recognized amounts of assets acquired and liabilities adjusted upon completion of the independent valuation:

	2015
	US$ thousands
Cash	9,288
Equity instruments (2,088,337 ordinary shares) (i)	1,656
Replacement share-based awards (ii)	48
Contingent consideration (iii)	4,602
	15,594

(i) Equity instruments

The fair value of the equity instrument was based on the quoted price of the Company's share on the Acquisition Date, deducted by the value of the embedded share repurchase option, measured based on Black & Scholes model (exercise price and share value – $0.96, risk-free interest rate – 0.48%, volatility – 40%).

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

as at 31 December 2016

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries *(continued)*

Business combination from a prior period – Taptica Social Ltd. *(continued)*

(ii) Replacement of share-based payment awards

The terms of the acquisition agreement required the Group to exchange share-based payment awards held by employees of the acquiree (hereinafter – the acquiree's awards) for share-based payment awards of the Group (hereinafter – the replacement awards). Details of the acquiree's awards and replacement awards are as follows:

- The acquiree's awards were granted before the acquisition of Taptica Social.
- The vesting date of the replacement awards is the same as the acquiree's awards.

	Acquiree's award	Replacement awards
Market-based value at acquisition date	USD 176 thousand	USD 176 thousand

In 2015, the Group recognized USD 48 thousand as part of the cost of the business combination on the basis of the portion of the replacement awards that can be attributed to services provided before the business combination. An amount of USD 128 thousand will be recognized as post-acquisition compensation cost.

(iii) Contingent consideration

The contingent consideration, as discussed above with respect to 3,132,504 shares, had been recorded as a financial liability at fair value. The fair value had then been measured based on the price per share, the probability of achievement of the performance criteria and the value of the option to settle in cash. Accordingly as of 31 December 2015, the Group had included USD 4,602 thousand (adjusted amount upon completion of the valuation) thousand as contingent consideration as part of the purchase price. Such contingent consideration is subsequently measured at fair value with result in differences recognized in profit or loss. See also Note 14E.

Identifiable assets acquired and liabilities:

	US$ thousands
Cash and cash equivalents	1,189
Trade receivables	1,231
Other receivables	341
Property, plant and equipment	81
Intangible assets[1]	8,356
Other payables	(772)
Trade payables	(2,311)
Deferred tax liabilities, net	(1,402)
Net identifiable assets	**6,713**

(1) Comprised from trade name, technology and customer relationships.

Goodwill:

Goodwill was recognized as a result of the acquisition as follows:

	US$ thousands
Consideration transferred	15,594
Less fair value of identifiable net assets	(6,713)
Goodwill	**8,881**

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

as at 31 December 2016

16. Subsidiaries *(continued)*

B. Acquisition of subsidiaries *(continued)*

Business combination from a prior period – Taptica Social Ltd. *(continued)*

Measurement of fair values

Presented hereunder is information regarding the techniques the Group used to measure the fair value of the assets and liabilities recognized as a result of the business combination:

a. Trade name and Technology

The fair value of technology and trade name is based on the relief from royalty rate method, which considers both the market approach (compare to similar businesses or intangible assets that have been sold) and the income approach (convert anticipated benefits into a present single amount).

b. Customer Relationships

The fair value of customer relationships is based on the income approach specifically the multi-period excess earnings method.

17. Operating Segments

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

A. Revenue from media channels

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

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
Mobile	**107,889**	46,448
Non-mobile	**17,972**	29,381
	125,861	75,829

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

as at 31 December 2016

17. Operating Segments *(continued)*

B. Entity level disclosures

Information on geographical segments

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

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

	Year ended 31 December	
	2016	2015
	US$ 000s	US$ 000s
External revenues		
America	**56,902**	45,137
Europe	**35,697**	13,444
Asia	**22,784**	6,664
Israel	**5,868**	5,211
Others	**4,610**	5,373
Consolidated	**125,861**	75,829

18. Subsequent Events

Subsequent to the balance sheet date, the board has resolved to declare a dividend of $0.0432 per share, with a payment date of 20 June 2017.

Notes

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