

EMBLAZE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2013

PAGE

2	CORPORATE INFORMATION
3	CHAIRMAN STATEMENT
6	BUSINESS REVIEW
12	RISK MANAGEMENT
15	BOARD OF DIRECTORS
17	CORPORATE GOVERNANCE
34	REPORT ON DIRECTORS' REMUNERATION
F-2	INDEPENDENT AUDITOR'S REPORT - ANNUAL FINANCIAL STATEMENTS
F-3	CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
F-5	CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
F-6	CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
F-7	CONSOLIDATED STATEMENTS OF CASH FLOWS
F-9	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CORPORATE INFORMATION

FULL NAME

Emblaze Ltd.

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CHAIRMAN STATEMENT

CAUTIONARY STATEMENT

This Chairman's Statement and the Business Review have been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. These reports should not be relied on by any other party or for any other purpose. The Chairman's Statement and Business Review may contain certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

HIGHLIGHTS FOR THE PERIOD ENDING 31 DECEMBER 2013

The following sections reflect the position of the Company as at 31 December 2013 as well as several updates relating to the period from 1 January 2014 until the date of this report:

- The Company's consolidated financial statements have been prepared, in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**");
- Primary assets as at 31 December 2013:
 - a 95 per cent. interest in Emoze Ltd, a provider of mobile push messaging and push content solutions for handset manufacturers, mobile operators and enterprises; and
 - cash and cash equivalents;
- Continued strong cash position with cash, short term deposits and financial assets of US\$159.6 million, which include:
 - US\$3 million in cash and short term bank deposits with an original maturity of three months or less from date of acquisition; and
 - US\$156.6 million in short term bank deposits with an original maturity of more than three months from date of acquisition (including an amount of US\$121.7 million which was deposited in trust by the Company for the purposes of the previously proposed acquisition of a controlling stake in IDB Holding Corporation Ltd and were subsequently repaid to the Company following the abortion of said transaction).

In order to allow for the implementation of future acquisition opportunities, the Company's main objective with respect to its cash portfolio was, and remains, the preservation of cash value and liquidity, by maintaining a conservative investment policy;

- Revenues for the year ending 31 December 2013 totaled US\$1.9 million (2012: US\$2.1million) and loss from continued operations totaled US\$(3.0) million (2012: gain of US\$0.9 million);
- On 14 August 2013, BGI Investments (1961) Ltd ("**BGI**") an Israeli public company admitted to trading on the Tel Aviv Stock Exchange, along with an indirect subsidiary (the "**BGI Group**") acquired 20.01 per cent. of the total issued and outstanding ordinary shares of the Company, excluding dormant

shares (the "**Company's Capital**") and issued put options and purchased call options in respect of a further 19.09 per cent. of the Company's Capital (the "**Options**"). During September and October 2013, the BGI Group assigned the Options to its controlling shareholder, Israel 18 B.V. (formerly known as Chabad 770 B.V.) ("**Israel 18**"), which subsequently exercised call options in respect of 1.59% of the shares of the Company (BGI Group and Israel 18 together, the "**Extended BGI Group**"). As of 31 December 2013, the Extended BGI Group owned approximately 21.6% of the Company's Capital. As at 24 April 2014, the Extended BGI Group Owned approximately 29.65% of the Company's Capital.

- Following such acquisitions, on 14 August 2013, the Company's Chairman as well as the majority of its board of directors members were replaced and a new management team was appointed as described in the Corporate Governance and Board of Directors sections below.
- On 24 December 2013 the BGI Group made a tender offer (the "**Offer**") to holders of the Company's ordinary shares to acquire 5% of the voting rights in the Company at a price per share equal to £0.75. On 28 January 2014 the Offer was successfully completed and the BGI Group purchased an additional 5% of the voting rights in the Company.
- Following the success of the Offer, the Extended BGI Group is entitled to exercise the call options it has acquired. Upon the exercise of the call options, the Extended BGI Group will own shares, representing approximately 44.1% of the Company's Capital. In the meantime, following to the grant of proxies made by Mr Naftali Shani and Fortissimo Capital Management Ltd., amongst others, originally in favour of Israel 18, the Extended BGI Group, is entitled to vote the shares representing the Options not yet exercised, representing 14.46% of the Company's Capital.
- In August 2013, a consortium of investors led by the Company announced its intention to acquire a controlling stake in IDB Holdings Ltd, one of Israel's largest holding companies, in consideration of an aggregate payment of NIS1,580,000,000. As such proposed transaction was classified as a reverse takeover under the Listing Rules, trading in the Company's shares was suspended on 15 August 2013 and restored on 9 January 2014, following the Israeli District Court decision to uphold a competing offer.
- In November 2013, the Company transferred its listing from the Premium Segment to the Standard Segment of the Official List of the London Stock Exchange.
- During 2013 the Company has purchased 841,782 of its own shares for an aggregate amount of approximately US\$687,000, net of related expenses. The total issued share capital of the Company as at 31 December 2013 was 140,578,154 of which 109,990,252 ordinary shares were outstanding, and 30,587,902 shares were held in treasury.
- On 2 March 2014, the Company signed an agreement to acquire from Zwi Williger ("**ZW**") and Joseph Williger ("**JW**" and, together with ZW, the "**Sellers**"), subject to the terms and conditions set out therein, a stake comprising of between 44.99% and 58% in the share capital of Willi-Food Investments Ltd. ("**WFI**"), a company listed on the Tel Aviv Stock Exchange, a company which in turn, owns approximately 58 per cent. of G Willi-Food International Ltd ("**WFINT**" and together with WFI, "**Willifood**"), a company listed on NASDAQ subject to the approval of the Israeli Anti-Trust Authority (the "**Condition Precedent**"). The Condition Precedent was fulfilled upon receipt of the Anti-Trust Trust Authority approval on 26 March 2014 and the transaction is expected to be completed during May 2014.

- The acquisition of the abovementioned stake in WFI is deemed a reverse takeover under the Listing Rules and trading in the Company's shares was accordingly suspended on 3 March 2014. It is expected that such suspension will be lifted upon either: (i) the publication of a prospectus by Company in connection with the requirement on it to re-apply for the listing of its shares following completion of the transaction; or (ii) the termination of the acquisition agreement in accordance with its terms prior to the completion thereof. Until the Company has completed the formal application process and satisfied the UKLA as to its eligibility, there is no certainty that the UKLA will approve the re-listing of the Company's shares to trading on the Standard List. In such circumstances, the Company would cease to be listed although the board would actively explore the possibility of moving to AIM or an alternative listing or admission venue.

BUSINESS REVIEW

This Business Review is designed to provide a fair review of the business of the Company during the financial period ended 31 December 2013 as well as several updates relating to the period from 1 January 2014 until the date of this report. It has been prepared for the Company as a whole and therefore gives greater emphasis to those matters which are significant to the Company and to its subsidiary undertakings when viewed as a whole. A description of the principal risks and uncertainties facing the Company can be found at the end of this section.

Emblaze Ltd ("**Emblaze**" or the "**Company**") was incorporated in Israel on 19 January 1994. We maintain our principal executive offices at 132 Menachem Begin Road, Azrieli Center, Triangle Tower (40th floor), Tel Aviv 6702301, Israel and our telephone number is +972 (3) 5386602. Emblaze completed the initial public offering of its ordinary shares on the alternative investment market of the London Stock Exchange in October 1996 and thereafter completed a listing on the Official List of the London Stock Exchange in 1998.

Historically, Emblaze's growth was organic as well as through mergers and acquisitions, acquiring controlling interests, and investing, in companies which are engaged in the IT, software and mobile solutions and services.

In August 2013, the BGI Group acquired 20.01 per cent. of the Company's Capital and issued put options and purchased call options in respect of a further 19.09 per cent. of the Company's Capital (the "**Options**"). During September and October 2013, the BGI Group assigned the Options to Israel 18 B.V. (which subsequently exercised call options in respect of 1.59% of the Company's Capital. As of 31 December 2013, the Extended BGI Group owned approximately 21.6% of the Company's Capital. As at 24 April 2014, the Extended BGI Group owned approximately 29.65% of the Company's Capital.

Following such acquisitions, in August 2013, the Company's Chairman as well as the majority of its board of directors members was replaced and a new management team were appointed as further set out below. The Company's new management is determined to change the Company's past business trajectory and to seek actively to utilise the Company's resources in order to maximize value for its shareholders.

In August 2013, a consortium of investors led by the Company announced its intention to acquire a controlling stake in IDB Holdings Ltd, one of Israel's largest holding companies, in consideration of an aggregate payment of NIS1,580,000,000. IDB Holdings Ltd was finally acquired by a competing bidder. As such the proposed transaction was classified as a reverse takeover under the Listing Rules, trading in the Company's shares was suspended on 15 August 2013 and restored on 9 January 2014, following the Israeli District Court decision to uphold a competing offer.

In November 2013, the Company transferred from the Premium List to the Standard List of the Official List of the London Stock Exchange. Further to this change and pursuant to the regulatory requirements imposed by the EU that apply to all securities that are admitted to trading on EU regulated markets, the Company will remain subject to those sections of the listing rules ("**Listing Rules**") made under the Financial Services and Markets Act 2000 (as amended) ("**FSMA**") governing, amongst other things, admission of securities to the official list of the Financial Conduct Authority (the "**Official List**" and "**FCA**" respectively), the prospectus rules made by the FCA under Part VI of FSMA (the "**Prospectus Rules**") and the disclosure and transparency rules made by the FCA under Part VI of FSMA (the "**Disclosure and Transparency Rules**") relevant to an issuer with a standard listing.

On 24 December 2013, the BGI Group made an Offer to holders of ordinary shares in the capital of the Company to acquire five per cent. of the voting rights of Emblaze at a price per share equal to £0.75. The Offer was successfully completed on 28 January 2014 where the BGI Group purchased an additional 5% of the voting rights in the Company. Following the success of the Offer, the Extended BGI Group is entitled to exercise the call options it has acquired. Upon the exercise of the call options, the Extended BGI Group will own shares representing approximately 48,516,478 shares of the Company, approximately 44.1 per cent. of the Company's Capital. In the meantime, following to the grant of proxies made by Mr Naftali Shani and Fortissimo Capital Management Ltd., amongst others, originally in favour of Israel 18, the Extended BGI Group, is entitled to vote the shares representing the Options not yet exercised, representing 14.46% of the Company's Capital. On 2 March 2014, the Company signed an agreement to acquire, subject to the terms and conditions set out therein, a stake comprising of between 44.99% and 58% in the share capital of WFI, a public company traded on the Tel Aviv Stock Exchange subject to the Condition Precedent. The Condition Precedent was fulfilled upon receipt of the Anti-Trust Trust Authority approval on 26 March 2014 and the transaction is expected to be completed during May 2014.

The acquisition of the abovementioned stake in WFI is deemed a reverse takeover under the Listing Rules and trading in the Company's shares was accordingly suspended on 3 March 2014. It is expected that such suspension will be lifted upon either: (i) the publication of a prospectus by Company in connection with the requirement on it to re-apply for the listing of its shares following completion of the transaction; or (ii) the termination of the acquisition agreement in accordance with its terms prior to the completion thereof. Until the Company has completed the formal application process and satisfied the UKLA as to its eligibility, there is no certainty that the UKLA will approve the re-listing of the Company's shares to trading on the Standard List. In such circumstances, the Company would cease to be listed although the board would actively explore the possibility of moving to AIM or an alternative listing or admission venue.

BUSINESS OPPORTUNITIES

The Company's new management team is determined to change the Company's past business trajectory and to seek actively to utilize the Company's resources in order to maximize value for its shareholders.

The Company intends to explore business opportunities in various sectors. In this regard, the Company intends to acquire control of suitable businesses or to establish (whether by itself or together with joint venture partners) businesses in which the management of the Company would be actively involved. Such opportunities will generally be businesses which:

- generate revenue from ongoing operations;
- offer potential for growth; and
- are managed by professional and experienced management.

The Company would be involved in the management of these businesses through the appointment of its representatives as directors of these businesses, involvement in the appointment of their key executives and maintaining ongoing communication with their management.

The Company would seek to finance such transactions by a combination of equity and external debt.

In March 2014, the Company announced that it signed an agreement to acquire, subject to the terms and conditions set out therein, a stake comprising of between 44.99% and 58% in the share capital of WFI. Willi-

Food is engaged, directly and through subsidiaries, in the development, import, export, marketing and distribution of a wide variety of over 600 food products world-wide. Most of Willi-Food's sales are made in Israel with widespread demand in the Israeli marketplace, as well as products which cater to more select groups. Willi-Food purchases food products from over 150 suppliers located in Israel and throughout the world, including from the Far East (China, India, the Philippines and Thailand), Ethiopia, Eastern Europe (Poland, Lithuania, Bulgaria and Latvia), South America (Ecuador and Costa Rica), the United States, Canada, Western and Central Europe (the Netherlands, Belgium, Monaco, Germany, Sweden, Switzerland, Denmark, and France) and Southern Europe (Spain, Portugal, Italy, Turkey, Greece). Willi-Food's products are marketed and sold to approximately 1,500 customers in Israel and around the world (for example, to the United States, the United Kingdom and France), including to supermarket chains, wholesalers and institutional consumers, but its current operations outside Israel are small in comparison to its Israeli operations. The Company intends to be actively involved in the management of Willi-Food. Through such involvement, the Company hopes to be able to improve the results and profitability of Willi-Food, thereby creating value to the Company and its shareholders.

The acquisition of a stake in WFI's share capital is deemed a reverse takeover under the Listing Rules and trading in the Company's shares was accordingly suspended on 3 March 2014. It is expected that such suspension will be lifted upon either: (i) the publication of a prospectus by Company in connection with the requirement on it to re-apply for the listing of its shares following completion of the transaction; or (ii) the termination of the acquisition agreement in accordance with its terms. Until the Company has completed the formal application process and satisfied the UKLA as to its eligibility, there is no certainty that the UKLA will approve the re-listing of the Company's shares to trading on the Standard List. In such circumstances, the Company would cease to be listed although the board would actively explore the possibility of moving to AIM or an alternative listing or admission venue. The board of directors of the Company considers the acquisition of such stake in Willi-Food as an investment which meets the criteria set out above.

INTELLECTUAL PROPERTY

In July 2010, Emblaze filed a complaint in the Federal Court of Northern California (in San Jose), USA, against Apple Inc. for infringement of the Company's U.S. Patent No. 6,389,473 through Apple's HTTP Live Streaming protocol used in Apple products such as iPhones and iPads. Legal proceedings in this case are ongoing.

In October 2012, the Company filed another complaint with the US District Court for the Northern District of California for patent infringement against Microsoft Corporation ("**Microsoft**"). The complaint asserts that Microsoft's IIS Smooth Streaming system infringes Emblaze's U.S. patent No. 6,389,473 for media streaming technology. Microsoft has been using this technology to allow devices running on Windows 7 OS and Windows Phone 7 OS (and above) to view live streaming multimedia content; Microsoft has also been using the technology to provide the Windows Azure Media services (Cloud services).

Having invested substantial resources over the years, research and development efforts to build a rich portfolio of intellectual property, Emblaze will continue to protect its rights against infringements and defend its competitive position.

In 2013, as part of the claims filed against Microsoft and Apple, the Company recorded expenses relating to administration of the claims, legal and other advisors. Some of the Company's commitments relating to the payment of contingent fees in connection with the aforementioned claims depend on the outcome of the proceedings and such contingent fees are expected to amount to a substantial portion of any proceeds

received from the claims. Due to the uncertainty regarding the successful outcome of such claims, no receivable has been recorded in the financial statements regarding these claims.

The Company also sustains additional infringements of its IP and the pursuit against it shall be furthered' possibly into formal complaints.

PREVAILING LITIGATIONS

A. The Company and some of its past directors and officers were named as defendants in three separate claims, all in the context with the bankruptcy of Mr Eli Reifman, one of the founders and a former director of the Company. As part of his fiduciary and regulatory obligations, Mr Reifman was required to timely report to the Company of changes in his shareholding. All reports of Mr Reifman were duly reflected in the Company's reports, respectively. Mr Reifman's creditors assert reliance on information provided by the Company with respect to his shareholdings as reported by him to the Company. Some of the claims were directed at the Company, and some also named some of its directors and officers as defendants as follow:

1. In November 2010, a claim was filed against the Company and its subsidiary, ELSE Ltd (discontinued operations), in the Tel Aviv Labor Tribunal, by the trustee of Reifman's estate in bankruptcy, claiming for employment termination compensations. The claim against the Company was dismissed in December 2011. In May 2013, the claim against ELSE Ltd was dismissed by settlement between the parties according to which ELSE Ltd agreed to release the accrued pension funds of the former employee in the approximate amount of US\$50 thousand. The excess provision recorded for this claim over the settlement amount in the amount of US\$181 thousand was recorded as income in "profit or loss from discontinued operations" in the year ended 31 December, 2013.
2. In April, 2012, two of Mr Reifman's creditors filed a claim against their attorneys that represented them in their transaction with Mr Reifman, alleging malpractice, negligence and failure by their attorneys to properly secure their loans to Mr Reifman. As part of this claim, the two creditors have also named Emblaze, and some of its directors and officers, as well as the Company's external legal advisor and auditors, as defendants for sake of prudence. The claim is for a sum of NIS73.3 million (approximately US\$21.1 million as of 31 December 2013). Defense was filed in August 2012. The claim was referred by the court to mediation between the various parties. The Company alerted the Directors & Officers Liability insurance in this matter.
3. In June 2012, several other creditors of Mr Reifman filed a claim against Emblaze, some of its directors and officers as well as against its external legal advisor and auditors. The claim is for a sum of NIS86.6 million (approximately US\$24.9 million as of 31 December 2013). Defense was filed in October 2012. In June, 2013 the District Court has accepted in-part the request for dismissal filed by the Company and some of its directors and officers. The District Court dismissed the claim with respect to two of the claimants, thus reducing the total sum of the claim to NIS81.8 million (approximately US\$ 23.5 million as of 31 December 2013). The Company still waits decision of the Supreme Court on its appeal against the permission granted on 26 December 2011 by the Bankruptcy Court in Israel to the trustee to Mr Reifman's bankruptcy to represent the majority of the Mr Reifman's creditors in this claim. The Company alerted the Directors & Officers Liability insurance in this matter.
4. In November 2012, two creditors of Mr Reifman have filed a claim for NIS30 million against the attorneys involved in their transactions with Mr Reifman. The said attorneys submitted a third-party notification against numerous parties that were involved in the transaction, as well as against Emblaze and some of its directors and officers, asserting that they are to be indemnified in the event that the claim will be ruled

against them. The third party claim is for a sum of NIS7.6 million (approximately US\$ 2.2 million as of 31 December 2013). In addition, on 25 December 2012, the said attorneys filed also an application to join the Company as one of the defendants in the claim filed against them. Defense was filed in January 2013.

5. At the request of the Administrator for Mr Reifman's bankruptcy (who was later appointed as the trustee to Mr Reifman's bankruptcy), the Tel- Aviv District court issued an ex-parte temporary injunction on 6 September 2010, ordering the Company to withhold 27.75 per cent. of any dividend the Company may decide to distribute. Following an appeal filed by the Company, the Supreme Court cancelled the injunction on 29 November 2010, and limited the Company's responsibility only to timely notification in case of decision to distribute dividends.

The proceedings pursuant to the claims mentioned in paragraphs (2), (3) and (4) above are currently suspended in order to allow for the exhaustion of mediation proceedings initiated by the respective parties following the recommendation of the court.

While the claims mentioned above are still in preliminary stages and under mediation, the Company's legal advisors are of the opinion that the risks of success of these claims against the Company are remote. Therefore, the Company does not see necessary to make any provision in these matters. The Company alerted the Directors & Officers Liability insurance in this matter.

B. Emblaze Mobility Solutions Limited ("**EMSL**"), the Company's subsidiary, was involved in a dispute with HM Revenue & Customs ("**HMRC**") regarding a decision made by HMRC to withhold Global Telecom Distribution Plc ("**GTD**") VAT reclaims and raise an assessment relating to GTD's VAT return in the sum of approximately £8.8 million (which is an equivalent of US\$14.6 million as of 31 December 2013). These actions taken by HMRC were not specifically targeted at GTD but, rather, represent a part of the general measures applied by HMRC in its battle against VAT fraud exposed within the mobile telephone handset sector in which GTD had operated. As a result of the action taken by HMRC, GTD ceased its business activities and an administrative receiver was appointed to GTD in May 2007. In 2010, the First-tier Tribunal ruled in favour of EMSL and ordered HMRC to pay EMSL the full value of input tax. HMRC did not appeal the First-tier Tribunal order but did not pay EMSL as ordered. In 2011, EMSL filed for Judicial Review in the High Court of Justice to order actual payment as ruled by the Tribunal. In July 2011, the High Court of Justice ordered HMRC to make an immediate payment of the undisputed VAT reclaims, which the Company received. The Company recorded US\$4.1 million as other income, net of related expenses, in 2011. In May 2012, the High Court of Justice has ordered that EMSL be paid the balance of sums withheld by HMRC of approximately £1.5 million (which was an equivalent of US\$2.4 million). As a result, the Company recorded US\$2.0 million as other income, net of related expenses, in 2012. Legal proceedings are still ongoing in relation to EMSL's application for interest.

C. Two former employees of ELSE filed a claim under arbitration proceeding for costs and expenses incurred to them with the Company. Their claim was dismissed and they filed an appeal with the District Court in Tel Aviv. The odds of this appeal to prevail are remote.

D. The Company and/or its subsidiaries are involved in various legal disputes within the ordinary course of business. The Company's management is of the opinion that at this point, the potential exposure of these disputes is immaterial.

EMOZE LTD

Emoze Ltd ("**EMOZE**"), a 95 per cent. subsidiary of Emblaze, is a provider of transparent, synchronized mobile push messaging and push content solutions for handset manufactures, mobile operators and enterprises. EMOZE supports all major email providers, instant messaging services and social networks. EMOZE push messaging solution is based on EMOZE patented technology and provides real push experience combined with an efficient mechanism, minimizing both data traffic and battery consumption to all mobile devices (feature-phones and smart-phones). EMOZE architecture is based on reliable, redundant scalable server-technology that offers a low TCO and quick-to-market deployment.

A slowdown in the telecommunications industry generally and especially in the sector of feature phones and mid-range wireless devices that EMOZE targets may materially adversely affect EMOZE's sales.

During 2013, these adverse market conditions have had a negative impact on EMOZE's business so that the number of new customer engagements, the amount of their initial commitments under those engagements and the number of purchases decreased. In 2014, EMOZE expects a further decrease in its revenues.

However, EMOZE keep on developing new products based on Emblaze technology and EMOZE reached the final stage of development. In this respect, Realify is a new application available for Smartphone devices allowing the user to create his own social TV broadcasting channel on the go. This Application will be shortly available for Smartphone users (Google play store & Apple store).

The Company's management is currently considering several alternatives for introducing potential third party investors into the EMOZE activity.

ELSE LTD

In June 2010, the Company decided to cease further investments towards manufacturing of the First ELSE™ mobile device by its subsidiary ELSE. Accordingly, this activity has been treated as discontinued operations for the period presented. Else had profit of US\$ 181 thousand during 2013 and loss of US\$ 30 thousand during 2012.

RISK MANAGEMENT

The board of directors' primary focus areas when reviewing key risks and uncertainties considers strategic, operational and financial risks and identifies actions to manage and mitigate those risks. Pursuant to the requirements of the Disclosure and Transparency Rules, the Company provides the following information on its principal risks and uncertainties:

- Risks associated with global economy: the continuing challenges in macro-economic environment and turbulence in the overall financial markets economy as well as the drive for our technology solutions and products directly or indirectly by consumer demand and preferences – all of which may have an impact on our business.
- Risks associated with acquisitions: we seek to make certain investments and acquisitions in order to maximize shareholder value. Such acquisitions involve legal and economic risks. Ineffective investment selection and/or subsequent execution could lead to loss of value and higher capital expenditure. We may also encounter risks in the integration of acquired businesses and a risk that we may not generate the anticipated returns from our anticipated acquisitions.
- Risks associated with on-going legal proceedings: the Company is exposed to legal risks from legal disputes or proceedings to which the Company is a party as set out in section 3 (Business review) or which could arise in the future in particular, disputes in relation to intellectual property rights. The outcome of any current or future proceedings cannot be predicted. Therefore, judgments may give rise to expenses which cannot be anticipated and may affect the Company's results.
- Risks associated with competition matters: the Company's strategy depends upon continuous innovation and efficiency in a highly competitive market. There is strong competition, both within the mobile software and IT industries that poses pressure on the terms of access to new opportunities, license costs and product prices, and requires continuous management focus on improving efficiency, maintaining continued technological advances and innovation. Our performance could be impeded if competitors developed or acquired intellectual property rights to technology that we require, if our innovation lagged the industry, or if we fail to adequately protect our intellectual property. Our competitive position could be adversely affected if we fail to control our operating costs or manage our margins.
- Risks associated with political and military conditions in Israel: the Company is incorporated under the laws of the State of Israel and its headquarters and place of operation are located in Israel. The Company might be directly affected by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could materially and adversely affect the Company's business, financial condition and results of operations and affect the share price of publicly traded companies having operations in Israel, such as the Company. Contingency plans are required to continue or recover operations following a disruption or incident. Inability to restore or replace critical capacity to an agreed level within an agreed timeframe would prolong the impact of any disruption and could severely affect our business and operations.
- Risks associated with foreign currency: the Company's primary currency is U.S. dollar and its policy is to reduce exposure to exchange rate fluctuations by having most of assets and liabilities, as well as most of the revenues and expenditures in U.S. dollars. However, salaries and related expenses, as well as other expenses are denominated in NIS and Sterling. As of 31 December 2013, there are no significant exposures to foreign exchange in respect of financial assets and liabilities. However, as Willi-Food's

primary revenues are in NIS, following completion of the Willi-Food acquisition, the Company will be exposed to foreign currency risk due to fluctuations in NIS exchange rates.

- Credit risks: the Company has credit risk concentrations since its cash is held in various financial institutions and each of these institutions bear its own credit risk. In particular, as of 31 December 2013 the Company has a short term deposit in the amount of US\$6 million in foreign bank which is rated as B according to Fitch rating published in November 2013. Company's cash preservation activities includes cash and cash equivalents, short-term deposits and marketable securities (debentures) held in several financial institutions both local and foreign. The Company's policy is spreading out its cash investments among the various institutions. Pursuant to the Company's policy, assessments are made on an ongoing basis regarding the relative credit strength of the various financial institutions.

The directors continue to monitor all of the key risks and uncertainties and the board of directors will take appropriate actions to mitigate these risks and their potential outcomes. These actions include careful management of costs across all areas of the business with increased expenditure only in those areas that the board of directors decides are appropriate to drive growth and deliver long term strategic benefits.

GOING CONCERN

The directors have reviewed the performance and forecast for the forthcoming year of the Company. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Following review of the above risks and uncertainties and management's current expectations, the board of directors believes that the Company will continue to meet all of its financial commitments as they fall due and will be able to continue as a going concern. The financial statements have therefore been prepared on a going concern basis.

OUTLOOK

The Company is in the process of implementing the investment in Willi-Food Investment Ltd while continuing to actively identify suitable investments into solid businesses that can offer Emblaze the opportunity to drive revenues and achieve long-term sustainable growth. The Company is carefully managing its cash so as to be able to take advantage of opportunities in the market.

RESPONSIBILITY STATEMENT

The directors confirm that to the best of their knowledge:

- The consolidated financial statements of Emblaze have been prepared in accordance with IFRS. The accounting policies set in the financial statement have been applied consistently to all periods presented in these consolidated financial statements. The Financial Statements, prepared in accordance with IFRS give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Business Review includes a fair review of the development and performance of the business, the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board of directors,

Abraham Wolff
Chairman

24 April 2014

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Rabbi Abraham Wolff, Chairman (aged 43). Rabbi Abraham Wolff joined the board of directors on 14 August 2013. Rabbi Abraham Wolff also serves as a board of directors' member of BGI and ZBI Ltd, an Israeli holding company ("ZBI"). In addition, Rabbi Wolff serves as a Rabbi of Odessa and Southern Ukraine and is a director of a number of Odessa's Jewish community institutions.

Israel Jossef Schneorson, Chief Executive Officer and Vice Chairman (aged 47). Jossef Schneorson joined the board of directors on 14 August 2013. Jossef Schneorson also serves as a board of directors' member and the executive manager of BGI and ZBI. Mr Schneorson also serves as a financial advisor to Alexander Granovsky, the majority shareholder in BGI.

Zvi Shur, independent, non-executive and External Director (A), (FBC), (R) and (N) (aged 77). Zvi Shur joined the board of directors of Emblaze in September 2007. Until 2002, Mr Shur served as the General Manager of the Israeli Diamond Manufacturers Association, a position he had held since 1983. Between the years 1982 and 1983, Mr Shur served as the general controller of Tadiran, an electronics concern after serving in the Israeli Defense Force in a wide scope of duties for almost 30 years. His most recent post in the Israeli Defense Force was as head of the budget department at the Ministry of Defense and financial advisor to the Chief of Staff, with the rank of Brigadier General. Between the years 1982 and 2005, Mr Shur served as non-executive director of over 20 Israeli companies engaged in a variety of businesses from manufacturing to finance. In 2003, Mr Shur founded the Shur Zvi Consulting and is an active member of management of the Maccabia village and Maccabi World Union. Mr Shur holds a Bachelor of Science in electrical engineering and a Masters of Science industrial and management engineering.

Yossef Schvinger, independent non-executive director (A), (FBC), (R) and (N) (aged 53). Yossef Schvinger joined the board of directors on 14 August 2013. Prior to joining the Company, Yossef Schvinger served as a director of Boymelgreen Capital Limited, a public Israeli company and as a Chief Executive Officer of the company of the development of holy places in Israel an Israeli governmental company. In the past decade, Mr Schvinger was elected as the Mayor of Mod'in Elit local council. Prior to serving as a Mayor, Mr Schvinger acted as a member of the administration of the development of Mod'in Elit local council towns as a senior advisor of the Chief Executive Officer of the Ministry of Internal Affairs in Israel.

Chanoch Winderbolm, non-executive director (aged 57). Chanoch Winderbolm joined the board of directors on 14 August 2013. Chanoch Winderbolm also serves as a Chairman of the board of directors of ZBI and BGI has experience in real-estate transactions. Chanoch Winderbolm holds a LLB from Shaarei Mishpat College and a LLM from Bar-Ilan University.

Keren Arad-Leibovitz, independent, non-executive and External Director (A), (FBC), (R) and (N) (aged 43). Keren Arad-Leibovitz joined the board of directors on 30 December 2013. Keren Arad-Leibovitz has over 15 years of extensive experience in Israeli and International corporate and commercial law as an attorney admitted to practice in Israel and in the State of New York. Ms Arad-Leibovitz previously served as a director, and as a statutory External Director on the boards of two Israeli companies publicly traded in the Tel Aviv Stock Exchange. During this time Ms Arad-Leibovitz was also a member of the Audit Committees of these companies. In the last seven years Ms Arad-Leibovitz held the position of VP Business Development and head of legal in an Israeli privately held group of companies, which portfolio included over 20 companies in the fields of Cellular Based Operations, Telecom Products and Services, Real Estate, Tower Management,

WiMax, and other investments. Markets of activities of the various group companies included US, Western and Eastern Europe, South America, Asia, Africa and India. As part of her position, Ms Arad-Leibovitz also served as a director and member of the management team of six Israeli and foreign private companies. As a member of the various boards of directors and management teams, Ms Arad-Leibovitz participated in and managed various business processes and activities, structured business strategies, reviewed financial reports, analyzed marketing and sales plans, and structured financing strategies and transactions.

A - Member of the Audit Committee

FBC – Member of the Financial Balance Committee

R - Member of the Remuneration Committee

N – Member of the Nomination Committee

CORPORATE SECRETARY

The board of directors has appointed Eyal Merdler as corporate secretary. The corporate secretary ensures the compliance by the management with all procedures so as to ensure the protection of the rights of the Company's shareholders. The corporate secretary is in charge, *inter alia*, of organizing shareholders' general meetings and assists the board of directors and its committees in their day-to-day activities.

INTERNAL CONTROLLER

On 16 February 2014, the board of directors (after the approval of the audit committee) appointed Mr Ofer Orlitzki to replace the Company's previous internal controller. The internal controller is responsible for the conduct of all internal auditing at the Company, has a key role in the management of risks of the Company and contributes to safeguarding the shareholders' investment and rights in the Company and the Company's assets. The internal controller reports to the Audit Committee of the board of directors which approves its work plan and reviews its report and it supervises the financial statements preparation process. The internal controller takes part in all the meetings of the Financial Balance Committee.

In addition, the internal controller enables the Company to insure performance efficiency, mitigate actual or potential risks, duly and timely complete the Company's reporting obligations, ensure compliance with applicable laws and preserve the Company's assets.

CORPORATE GOVERNANCE

Incorporated in Israel, Emblaze is listed on the Standard List of the Official List of the London Stock Exchange. A standard listing requires the Company to comply with the harmonised regulatory requirements imposed by the EU that apply to all securities that are admitted to trading on EU regulated markets. As an issuer with a standard listing, the Company is not required to comply with super-equivalent provisions of the Listing Rules which apply only to companies with a premium listing, including, without limitation, complying with or explaining against the UK Corporate Governance Code (the "**Code**"). However, the board of directors will apply certain provisions of the Code on a voluntary basis and will comply with the requirements set out in rule 7.2 of the Disclosure and Transparency Rules.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the provisions set out in the Code.

THE GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the supreme body of Emblaze. Shareholders are required to approve a certain number of resolutions such as, *inter alia*, appointing the external auditors of the Company, approving allotment of shares, approving distribution of dividends, approving the director's remuneration and the Remuneration Committee Policy. Shareholders are exercising their rights by attending and voting at general meetings. For each resolution, proxy appointment forms are provided to shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The Company holds the annual general meeting once a year. The last annual general meeting was held on 4 April 2013.

THE BOARD

The board of directors is responsible for the Company's corporate governance policy. It recognizes the importance of high standards of integrity and consistently seeks to apply the provisions set out in the Code. The board of directors is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant laws of the State of Israel and the Articles of Association.

The Company is controlled through its board of directors whose main roles are to:

- create value for shareholders;
- provide leadership of the Company;
- approve the Company's strategic and operating objectives;
- review management performance;
- consider, and if thought fit, to approve major acquisitions and disposals;
- provide treasury policies;
- provide the Company's governance policies;
- ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives; and

- operate within a framework of effective controls which enables the assessment and management of principal business risks

The board of directors is responsible for approving, *inter-alia*, the Company's overall strategy and financial policy, acquisition and investment policy and major capital expenditure projects. It also appoints and removes members of the board of directors (including the independent non-executive directors but excluding External Directors) and board of directors committees, reviews recommendations of the Audit Committee and the Financial Balance Committee, Remuneration Committee and Nomination Committee and is responsible for the appointment of the independent auditor. The board of directors also reviews the financial performance and operation of each of the Company's businesses, approves financial statements after discussions with the Financial Balance Committee, changes in capital structure, appointment, removal and compensation of senior management, engagement of professional advisors, internal control arrangements, risk management and corporate governance. The board of directors sets the standards and values of the Company and much of this has been embodied in the Company's Code of Conduct and Ethics and Human Rights Policy which can be found on the Company's website, www.emblaze.com.

The Company's Code of Conduct and Ethics applies to all directors, officers and employees of the Company. The Company's Code of Conduct and Ethics contains provisions under which employees can report violations of company policy or any applicable law, rule or regulation. The current procedure provides for information to be given anonymously or by named employees under conditions of confidentiality. Those employees who come forward and give their name are assured that they will receive the full protection and no retaliation will take place.

However, the board of directors does not currently undertake formal appraisal of its own performance and that of its committees as required pursuant to section B.6.1 of the Code on the basis that it considers an informal rolling program of review appropriate.

During the year ended December 2013, the board of directors comprised the following members:

- Until 14 August 2013: Naftali Shani, the executive Chairman,¹ Hagit Gal², executive director, Shimon Laor³, a non-executive director, Ilan Flato⁴, a non-executive director, Zvi Shur, a non-executive director, Nahum Admoni⁵, a non-executive director, Yuval Cohen⁶, a non-executive director, Shmuel Barashi⁷, a non-executive director.
- As from 14 August 2013: Rabbi Abraham Wolff, the Chairman, Jossef Shneerson, Chief Executive Officer and Vice Chairman, Amnon Ben-Shay (who resigned on 12 January 2014), as non-executive director, Zvi Shur, an independent non-executive and External Director, Yossef Schvinger, an independent non-executive director, Chanoch Winderbolm, a non-executive director.
- As from 30 December 2013: Keren Arad-Leibovitz, an independent, non-executive and External Director.

¹ Mr Shani was appointed executive chairman with effect from conclusion of the annual general meeting dated 24 November 2010 and resigned on 14 August 2013.

² Mrs Hagit Gal resigned on 14 August 2013.

³ Mr Shimon Laor resigned on 16 August 2013.

⁴ Mr Flato resigned on 14 August 2013.

⁵ Mr Admoni resigned on 14 August 2013.

⁶ Mr Cohen resigned on 14 August 2013.

⁷ Mr Barashi resigned on 14 August 2013.

The Chairman is responsible for setting the board of directors' agenda in particular to discuss strategic issues. The Chairman also promotes culture of openness and debates, involves non-executive directors in the strategic decisions of the Company in particular and ensures constructive relations between executive and non-executive directors.

The Chairman is also responsible for ensuring that the directors receive accurate, timely and clear information and ensure effective communication with shareholders. In addition the Chairman is also responsible for the induction and training of each member of the directors whether executive or non-executive.

On 14 August 2013, the board of directors resolved to appoint Rabbi Abraham Wolff as Chairman of the Company and Jossef Schneerson as Chief Executive Officer and Vice Chairman.

The board of directors, which is responsible for the Company's overall leadership, believes that it holds an appropriate balance of skills, experience, and knowledge of the Company to enable it to discharge its respective duties and responsibilities effectively. At the same time, the Company's subsidiary, EMOZE, is managed by a separate management, thus allowing for clear division of responsibilities whereby no one individual holds unfettered powers of decision and there is a sufficient balance and a clear division of responsibilities at the various decision making levels of the Company.

The Nomination Committee leads the process for the appointment of the members of the board of directors. The process used in relation to board of directors' appointments and the work of the Nomination Committee is described in a specific part below.

Directors are subject to re-election at every annual general meeting (with the exception of the External directors, as further described below). The board of directors has the power at any time, and from time to time, to appoint additional directors (either to fill any vacancy or as additional directors) provided that the number of directors does not exceed the maximum permitted in accordance with the Company's articles of association. In such cases, the newly appointed director holds office until the next annual general meeting of shareholders immediately following such appointment.

Under the Israeli Companies Law 5759-1999 (the "**Israeli Companies Law**"), a person who lacks the necessary qualifications and the ability to devote an appropriate amount of time to the performance of his or her duties as a director shall not be appointed director of a publicly traded company. While determining a person's compliance with such provisions, the company's special requirements and its scope of business shall be taken into consideration. Where the agenda of a shareholders meeting of a publicly traded company includes the appointment of directors, each director nominee should submit a declaration to the company confirming that he or she has the necessary qualifications and that he or she is able to devote an appropriate amount of time to performance of his or her duties as a director. In the declaration, the director nominee should specify his or her qualifications and confirm that the restrictions set out in the Israeli Companies Law do not apply.

Under the Israeli Companies Law, if a director ceases to comply with any of the requirements provided in the Israeli Companies Law, such director must immediately notify the company, and his or her term of service shall terminate on the date of the notice.

On appointment, non-executive directors receive a range of information about the Company which aims to provide an understanding of the Company as a whole, including its strategy, structure, geographic spread of operations, financial position, markets, products, technologies and people, as well as their legal

responsibilities as directors. There is in place a procedure whereby the directors may, in furtherance of their duties, take independent legal and financial advice, at the Company's expense. Other than Jossef Schneerson, the Chief Executive Officer and Vice Chairman of the Company, who holds 5 per cent. of Israel 18 B.V. which is BGI's controlling shareholder, the directors and their respective immediate families have no direct or indirect interests, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2013. In addition, Rabbi Abraham Wolff's brother serves as the protector of the fund holding Israel 18 B.V. Therefore, Rabbi Abraham Wolff is deemed to have indirect interests with the controlling shareholder.

Total issued share capital of the Company as at 31 December 2013: 140,578,154

Total issued and outstanding share capital of the Company as at 31 December 2013: 109,990,252

DIRECTOR'S REMUNERATION

Members of the Board of directors are paid for the performance of their duties and reimbursed for expenses arising from the exercise of their functions. The remuneration of independent and non-independent members of the board is determined according to the laws and approved by the shareholders during the annual general meeting.

The annual remuneration of each director is detailed further in the report on directors' remuneration below.

BOARD MEETINGS

The board of directors meets on a regular basis to discuss the overall direction and strategic plan of the Company. Ad hoc meetings may also be convened at any time to deal with matters between scheduled meetings as appropriate. Prior to each board of directors meeting, each director receives background materials related to the matters for discussion at the meeting. Once a year, a budget is discussed and approved by the board of directors for the following year. All directors are properly briefed on progress with respect to matters discussed at board of directors meetings and further information requested by a director is made available.

It is expected that all directors attend physically or by teleconference the board of directors and relevant committee meetings, unless they are prevented from doing so by prior commitments. Directors leave the meeting where matters relating to them, or which may constitute a conflict of interest to them, are being discussed.

The board of directors votes on decisions by simple majority. Each member of the board of directors has one vote. The quorum for meeting is the majority of its members.

Board members have the opportunity to ask any questions and request any additional information on agenda items

The table below shows the number of years directors have been on the board of directors and their attendance at scheduled board of directors meetings and at meetings of the Audit, Financial Balance and Remuneration Committees during the year ended 31 December 2013:

Meetings held in 2013	Years on board of directors	Board	Audit/FBC	Remuneration	Nomination
		20	5	3	1****

Meetings attended:

Naftali Shani*	18.5	6	n/a	n/a	n/a
Hagit Gal*	2.5	6	n/a	n/a	n/a
Shimon Laor*	12.5	4	n/a	n/a	n/a
Ilan Flato*	7	6	4	3	n/a
Zvi Shur	5	19	5	3	1
Nahum Admoni*	4	6	4	3	n/a
Yuval Cohen*	4.5	4	n/a	n/a	n/a
Shmuel Barashi*	3	3	n/a	n/a	n/a
Abraham Wolff**	0.4	8	n/a	n/a	n/a
Jossef Schneerson**	0.4	14	n/a	n/a	n/a
Amnon Ben-Shay***	0.4	14	n/a	n/a	n/a
Yossef Schvinger**	0.4	14	1	n/a	1
Chanoch Winderbolm**	0.4	12	1	n/a	n/a

* Until 14 August 2013

** From 14 August 2013

*** From 14 August 2013 and until 12 January 2014

**** Meeting approving Keren Arad-Leibovitz as an independent, non-executive and External Director

n/a = not applicable (where a director is not a member of a committee).

During the year, other directors have attended meetings of the Audit and Financial Balance Committees by invitation. These details are not included in the table above.

INDEPENDENCE & QUALIFICATION

The Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board of directors' decision taking. In particular, the Code provides that smaller companies (i.e. companies which are below the FTSE 350 throughout the year immediately prior to the reporting year) shall have at least two independent non-executive directors. The Code states that the board of directors should determine whether a director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The board of directors has considered the independence of its non-executive directors in line with the principles of the Code (section B.1.1) and, following careful consideration, assessed the independence of the non-executive directors as set out herein.

Pursuant to the Israeli Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel, are required to appoint at least two statutory independent directors ("**External Directors**") who meet certain statutory criteria of independence, which are in line with the independence requirement under the Code. The Israeli Companies Law provide that a person may not be appointed as an External Director if the person is a relative of the controlling shareholder of the company or if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subject, or any entity under the person's control, has, as of the date of the person's appointment to serve as External Director, or had, during the two years preceding that date, any affiliation or one of certain other prohibited relationships with the company or any person or entity controlling (or relative of such controlling person), controlled by or under common control with the company (or, in the case of a company with no controlling shareholder, any affiliation or one of certain other prohibited relationships with a person serving as Chairman of the board of directors, Chief Executive Officer, a substantial shareholder or the most senior office holder in the company's finance department).

The term "**affiliation**" and the similar types of prohibited relationships include:

- an employment relationship;
- a business or professional relationship, even if not maintained on a regular basis (but excluding a de-minimis level relationship);
- control; and
- service as an office holder.

No person may serve as an External Director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an External Director or may otherwise interfere with the person's ability to serve as an External Director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an External Director if he or she accepts, during his or her tenure as an External Director, direct or indirect compensation from the company for his or her role as a director, other than amounts prescribed under the Israeli Companies Law regulations (as described below) or indemnification, the company's undertaking to indemnify such person, exemption and insurance coverage. If, at the time of election of an External Director, all other directors who are not the company's controlling persons or their relatives are of the same gender, the External Director to be elected must be of the other gender.

Pursuant to the Israeli Companies Law, all External Directors must have accounting and financial expertise or professional qualifications, and at least one External Director must have accounting and financial expertise. A director with "accounting and financial expertise" is a director that due to his or her education, experience and skills has a high expertise and understanding in financial and accounting matters and financial statements, in such a manner which allows him to deeply understand the financial statements of the company and initiate a discussion about the presentation of financial data. A director is deemed to have "professional qualifications" if he or she either (i) has an academic degree in economics, business management, accounting, law or public service, (ii) has an academic or other degree or has completed other higher education, all in the field of business of the company or relevant for his/her position, or (iii) has at least five years' experience as either a senior managing officer in the company's line of business with a significant volume of business, a public office, or a senior position in the company's main line of business.

An External Director may be removed from office only: (i) by a court, upon determination that the External Director to be so removed ceased to meet the statutory qualifications for his or her appointment or if he or she violated his or her duty of loyalty to the company; (ii) by the same percentage of shareholders, acting through a shareholders' meeting, as is required for his or her election, if the board of directors has determined that the External Director to be so removed has ceased to meet the statutory qualifications for his or her appointment or violated his or her duty of loyalty to the company and has proposed the removal to the shareholders. Such determination by the board of directors is to be made in the first meeting of the board of directors to be convened following learning of the said cessation or violation.

An External Director who ceases to meet the conditions for his or her service as such must notify the company immediately and such service shall cease immediately upon such notification.

The initial term of an External Director is three years and may be extended by the general meeting of shareholders, for up to two additional three year terms.

In relation to the period ending on 14 August 2013, the board of directors determined that Ilan Flato and Zvi Shur had the requisite accounting, financial and professional expertise as required of External Directors under the Israeli Companies Law. Zvi Shur was appointed for a first three-year term as an External Director at the Company's annual general meeting held on 11 September 2007, a second three-year term at the annual general meeting held on 24 November 2010 and a third three-year term at the general meeting held on 4 April 2013. The second External Director was Ilan Flato, who was appointed for a first three-year term at the annual general meeting held on 20 April 2006, a second three-year term at the annual general meeting held on 08 December 2009 and a third three-year term at the annual general meeting held on 4 April 2013.

As from 14 August 2013, the board of directors has determined that Zvi Shur has the requisite accounting, financial and professional expertise as required of External Directors under the Israeli Companies Law. Zvi Shur was appointed for a first three-year term as an External Director at the Company's annual general meeting held on 11 September 2007, a second three-year term at the annual general meeting held on 24 November 2010 and a third three-year term at the annual general meeting held on 4 April 2013. As from 30 December 2013, the second External Director is Keren Arad-Leibovitz, who was appointed for a first three-year term at the annual general meeting held on 30 December 2013.

As detailed above, between 14 August 2013 and 30 December 2013 the Company had only one External Director.

Each committee of a Company's board of directors is required to include at least one External Director and the Audit Committee must include all of the External Directors.

An External Director is entitled to compensation as provided in regulations promulgated under the Israeli Companies Law and is otherwise prohibited from receiving any compensation, directly or indirectly, in connection with services provided as an External Director or otherwise to the company

The board of directors determined (i) for the period ending on 14 August 2013, Ilan Flato, Zvi Shur and Nahum Admoni; (ii) as from the 14 August 2013, Zvi Shur and Yossef Schvinger; and (iii) as from 30 December 2013, Zvi Shur and Yossef Schvinger and Keren Arad-Leibovitz, meet the Code's independence requirements, as they are independent of the Company's executive management and free from any material business or other relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Accordingly, the board of directors believes that there are no such relationships that could materially interfere with the exercise of its independent judgment.

Until 14 August 2013, Shimon Laor was holding shares in the Company as well as options under the Company's share option plan. The exercise price attached to his the options granted to him under the Company's share option plan was significantly higher than the share price at the time of grant. The board of directors, at that time, believed that the modest number of shares held did not affect his independence.

As from 14 August 2013, Jossef Schneorson, the Chief Executive Officer and Vice Chairman of the Company, holds 5 per cent. of Israel 18 B.V. which is BGI's controlling shareholder.

Under the Israeli Companies Law, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors (not merely External Directors) who must have accounting and financial expertise (according to the same criteria described above with respect to External Directors under). In accordance with the Israeli Companies Law, the determination of the board of directors should be based on, among other things, the type of the company, its size, the volume and complexity of its activities and the number of directors. Based on the foregoing considerations, the board of directors determined that the number of directors with financial and accounting expertise in the Company shall not be less than one. As described above, until 14 August 2013, Ilan Flato, Zvi Shur, Shimon Laor and Shmuel Barashi were determined by the board of directors to possess all the skills required. As from 14 August 2013 Zvi Shur and Keren Arad-Leibovitz have been determined by the board of directors to possess such accounting and financial expertise. It should be noted that other board of directors' members also possesses relevant financial expertise, such as Jossef Schneorson and Yossef Schvinger.

Pursuant to section B.1.2 of the Code, a smaller company (below the FTSE 350 throughout the year immediately prior to the reporting year) should have at least two independent non-executive directors. Having three independent directors, the board of directors is satisfied that there is sufficient independent representation on the board of directors.

INTERNAL CONTROL

The board of directors is responsible for establishing and maintaining the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

In order to create an ongoing process to fulfill this responsibility, the board of directors has established a number of measures in order to identify, evaluate and manage the key financial, operating and compliance risks faced by the Company throughout the year and up to the date of the signing of the accounts. These measures are summarized below:

- The board of directors generally meets at least once per quarter and is responsible for the major business risks faced by the Company and for determining the appropriate course of action to manage those risks.
- The Company's non-executive directors meet together from time to time in the absence of management.
- The board of directors has a budgetary process in which the key risks faced by the Company are identified. Performance is monitored and relevant action taken through the monthly reporting to the board of directors of variances from the Budget, updated forecasts for the period together with information on the key risk areas.
- Capital expenditure is regulated by the budgetary process and authorization levels. For expenditure beyond certain levels, detailed written reports have to be submitted to the board of directors.
- Responsibility levels are communicated throughout the Company, including delegation of authority and authorization levels, segregation of duties and other control procedures. The Audit Committee, through the internal audit, monitors controls which are in force and any perceived gaps in the control environment, and also considers and determines relevant action in respect of any control issues raised by the external auditors. The findings of the Audit Committee are communicated to the board of directors.
- The board of directors ensures that the Company sets the appropriate policies on internal control and maintains a sound and effective internal control system to safeguard the shareholders' investments and the Company's assets. In this respect, the board of directors takes ultimate responsibility for the internal controls of the Company.

On 16 February 2014, the board of directors (after the approval of the Audit Committee) has appointed Mr Ofer Orlitzki as the Company's internal controller.

BOARD COMMITTEES

The board of directors has established Audit, Financial Balance, Remuneration and Nomination Committees. The duties of these committees are set out in formal terms of reference and the board of directors is satisfied that these terms conform to best corporate governance practice. The terms of reference for all board of directors committees can be found on the Company's website at www.emblaze.com. The Company secretary is secretary to all board of directors committees.

AUDIT COMMITTEE

Under the Israeli Companies Law, the Audit Committee must have at least three members, including all External Directors, and neither the Chairman of the board of directors, nor any person who is employed by or provides services to the Company nor any person having control over the Company (or any relative of such control person) may be a member of the Audit Committee.

Pursuant to the Israeli Companies Law, the Audit Committee of a publicly traded company must consist of a majority of independent directors. An "**independent director**" is defined as an External Director and as a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an External Director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies whose securities

have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and

- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

The Israeli Companies Law further provides that a company may also elect to impose, via the adoption of a propose set of corporate governance rules, certain independence requirements with respect to the composition of the board of directors as a whole. Those requirements, if undertaken by a company, mandate that (i) if the company has no controlling shareholder or no shareholder that holds at least 25 per cent. of the company's voting rights, most of the members of the board of directors must be independent directors, whereas (ii) if the company has a controlling shareholder or a shareholder that holds at least 25 per cent. of the voting rights, then at least one-third of the directors need to be independent directors.

As of the date of this report, the Company has not elected to adopt these corporate governance rules. However, The Audit Committee comprises three independent non-executive directors: Yossef Schvinger, Zvi Shur, and Keren Arad-Leibovitz.

The board of directors has determined that all three members of the Audit Committee are independent for the purposes of the Israeli Companies Law as well as for the purpose of the Code. The members bring wide-ranging financial, commercial and management experience to the work of the Audit Committee. Hence, as previously described, the board of directors has determined that Zvi Shur and Keren Arad-Leibovitz are each a 'financial expert' as that term is defined under the Israeli Companies Law, having recent and relevant financial and accounting knowledge and experience.

The Audit Committee meets at least twice a year and on other occasions when circumstances require. The quorum for a meeting of the committee is two members. The Company's financial team and representatives from the independent auditor and the internal auditor attend meetings under a standing invitation.

Between 14 August 2013 and 30 December 2013, the Company has only one External Director. As a result, between such dates, the Company's Audit Committee could not have been convened. Following the appointment of a second External Director in 30 December 2013, this situation was corrected.

In accordance with its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external auditors and to monitor compliance with statutory and listing requirements for any exchange on which the Company's shares are quoted. It reviews the Company's internal control and risk management as well as the Company's cash investment policy. The Audit Committee also reviews the arrangements by which the Company's employees may, in confidence, raise concerns about improprieties in matters of financial reporting and other matters (commonly referred to as "whistle-blowing" procedures).

The Code and the Israeli Companies Law require the Company to ensure a sound system of internal control to safeguard shareholders investments and the Company's assets. Such system should cover all material controls – financial, operational, compliance and risk management. To comply with this provision, the board of directors appointed an internal auditor, who is responsible for examination of the Company's internal controls and reviewing their effectiveness. All the recommendations provided by the internal auditor are presented to the Audit Committee for review and evaluation. The Audit Committee then recommends the required measures, if any, to the board of directors for final decision and execution.

Part of the role of the Audit Committee is to review and monitor the independence and objectivity of the Company's external auditor as well as the effectiveness of the audit process. The Company's external auditor, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global ("**E&Y Israel**"), has provided non-audit services to the Company in the form of tax advice. The Audit Committee is satisfied that E&Y Israel has adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained. The Audit Committee is aware that providing audit and non-audit advice could lead to a potential conflict of interest. The level of fees paid to E&Y Israel for non-audit services has been considered by the Audit Committee and is not perceived to be in conflict with auditor independence.

For the year ended 31 December 2013, the board of directors of the Company, with the recommendation of the Audit Committee of the board of directors, has determined the audit remuneration of its auditors at a level of US \$63 thousands to include the audit for the period ending 31 December 2013 in conformity with IFRS, the review of the Company's Interim Reports for the period ending 30 June and September 2013 in conformity with IFRS and the 2013 annual Israeli tax returns of the Company and its subsidiaries. For the year 2014, it was resolved, subject to shareholders' approval, to determine the audit remuneration of its auditors at a level of US\$90 thousands to include the audit for the period ending 31 December 2014 in conformity with IFRS, the review of the Company's Interim Reports for the periods ending 31 March 2014, 30 June 2014 and 30 September 2014 in conformity with IFRS and the 2014 annual Israeli tax returns of the Company and its subsidiaries.

FINANCIAL BALANCE COMMITTEE

Pursuant to the Israeli regulations, Israeli companies shall appoint a Financial Balance Committee.

Under the Israeli regulations, the Financial Balance Committee must have at least three members and the Chairman of the Financial Balance Committee shall be an External Director. In addition, all the members of the Financial Balance Committee shall be directors and the majority of the members of the Financial Balance Committee shall be independent directors. The members of the Financial Balance Committee shall have the skills necessary to read and understand financial statements and at least one the independent directors shall have accounting and financial expertise and shall make a declaration before their appointment in this respect. In addition, members of the Financial Balance Committee can be those members that comprise the Audit Committee. The Financial Balance Committee meets at least twice a year and on other occasions when circumstances require.

In this respect, the members of the Financial Balance Committee of the Company are those same members that comprise the Company's Audit Committee as set out above. The board of directors has determined that all three members of the Financial Balance Committee are independent for the purposes of the Israeli Companies Law as well as for the purpose of the Code. The members bring wide-ranging financial, commercial and management experience to the work of the Financial Balance Committee. Hence, as previously described, the board of directors has determined that Zvi Shur and Keren Arad-Leibovitz are each a 'financial expert' as that term is defined under the Israeli Companies Law, having recent and relevant financial and accounting knowledge and experience.

The quorum required for discussions and the Financial Balance Committee's decision-making process is the majority of its members provided that the majority of the attending directors are independent directors and includes at least one External Director.

According to the Israeli regulations, prior to the approval of the financial accounts by the board of directors of the Company, the Financial Balance Committee shall review and discuss the preliminary results, the interim

results and the financial statements of the Company and formulates recommendations to the board of directors of the Company in respect of, *inter alia*, data and underlying assumptions, internal controls over financial reporting, the completeness and adequacy of disclosure in the financial statements. Between 14 August 2013 and 30 December 2013, the Company had only one External Director. As a result, between such dates, the Company's Financial Balance Committee could not have been convened. Following the appointment of a second External Director in 30 December 2013, this situation was corrected.

The internal auditor shall be invited to all meetings of the Committee to examine the financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises only the independent directors: Zvi Shur, Keren Arad-Leibovitz and Yossef Schvinger. In accordance with its terms of reference, the Remuneration Committee reviews the remuneration of all of the Company's senior executives and is responsible for making recommendations to the board of directors on the Company's framework of executive remuneration and for determining on behalf of the board of directors the remuneration package for each executive director. In accordance with the Israeli Companies Law, the remuneration of executive directors requires the approval of the Company's Audit Committee, board of directors and, where applicable under Israeli law, shareholders, in this order. The Remuneration Committee meets when circumstances require. No director participates in board of directors discussions on, or votes on matters relating to, their own remuneration unless the discussions are relating to general matters affecting the majority of the directors.

The primary responsibilities of the committee are:

- To recommend to the board of directors of the Company, a remuneration policy for directors (which should be re-approved every three years) and any updates that are recommended from time to time as well as how such policy should be implemented;
- To recommend the approval or rejection of conditions of service and employment of directors, where such approval is required pursuant to Israeli law;
- To ensure that individual pay levels for executive directors should generally be in line with levels of pay for executives in similar companies with similar performance achievement and responsibilities;
- To ensure that share option and bonus schemes, if any, should be set at a level that provides sufficient incentive to the executive to produce results that will reflect the board of directors' expectations.
- To ensure that total pay and long term remuneration will be sufficient to retain executives;
- To ensure that aggregate pay for all executive directors is reasonable in light of the Company's size and performance.

The board of directors, following the evaluation and recommendation of the Remuneration Committee, will present an updated compensation plan for the approval of shareholders. The Company's current remuneration package for Executive Directors combines four main elements:

A) Basic salary

An Executive Director's basic salary is normally reviewed annually, and paid as a fixed cash sum monthly. The Remuneration Committee, in determining salary adjustments, considers increased responsibilities such as the size of the Company, individual performance and contribution, as well as market practices.

B) Social benefits (including pension arrangements):

The Company rewards Executive Directors with social benefits that are common in the local employment environment, and can confer tax benefits. These can include Pension Contributions, Education Fund contributions as detailed below, as well as availability of a Company car.

C) Annual bonus payments:

Executive directors are eligible to participate in a performance related annual bonus scheme. The maximum potential bonus for any individual, together with the associated performance measures and targets, is set by the Remuneration Committee and thereafter, approved by the Audit Committee and the board of directors.

Mr Naftali Shani was entitled to an annual bonus in an amount determined by the Remuneration Committee and approved by the board of directors based on achievements of targets to be determined by the board of directors and calculated on a *pro rata temporis* basis for the year 2013.

The Company has several key performance measures used internally to monitor and challenge performance and to assist investment decisions. The performance indicators include revenue, gross profit margin, net change in cash and income/loss per share to Company shareholders.

D) Share option incentives:

Options to acquire the Company's shares were granted in addition to other forms of remuneration. The price at which shares may be acquired is the higher of the fair market value at the date of grant or the average of 30 days trading prior to the grant date. The exercise of options granted was generally phased over four years. The grant or exercise of options may be linked to performance criteria. For additional information about the Company's share option plan, see the Share Option Incentives section below.

On 5 November 2012, the Israeli parliament approved an amendment (the "**Amendment**") to the Israeli Companies Law concerning the terms of service and employment in public companies (applicable to issuers of either publicly-held equity or publicly-held debt). The Amendment is primarily based upon the recommendations of a government committee headed by the Israeli Justice Ministry, which was appointed in response to various legislative initiatives that had sought to reduce disparities in compensation in the marketplace. The Amendment amends existing law governing directors and executives' compensation in two primary ways, by requiring public companies (i) to adopt a broad compensation policy and (ii) to establish a corporate body to oversee compensation - i.e., a compensation committee. The Amendment also changes certain principles related to approval of compensation, as an outgrowth of the compensation policy and committee requirements

The Amendment took effect on 12 December 2012 (the "**Effective Date**"). The rules introduced by the Amendment apply to terms of engagement of executives that are approved on or after the Effective Date. However, until a company approves a compensation policy in keeping with the Amendment, the Amendment's requirements will not apply to the approval of a mere extension of existing compensation terms of an executive that were set before the Effective Date and that will not be modified at all under the

extension. A public company will need to adopt a compensation policy for the first time within nine (9) months after the effectiveness of the Amendment.

The board of directors, following the evaluation and recommendation of the Remuneration Committee, will present an updated compensation plan for the approval of shareholders.

During 2013, in comparing to 2012, there have been no changes to remuneration of directors or executives except the mere extension of existing compensation terms that were set before the Effective Date and approved by shareholders.

Between 14 August 2013 and 30 December 2013, the Company had only one External Director. As a result, between such dates, the Company's Remuneration Committee could not have been convened. Following the appointment of a second External Director in 30 December 2013, this situation was remedied.

EMPLOYEES

Emblaze's employees are located in Israel. The Company carefully monitors its overhead and employment expenditure to insure streamlined and efficient operation, both on the cost side and from a professional aspect. The Company is subject to various Israeli labor laws and labor practices, and to administrative orders extending certain provisions of collective bargaining agreements between the Israeli General Federation of Labor ("**Histadrut**") and the Coordinating Bureau of Economic Organizations (the Israeli federation of employers' organizations) to all private sector employees. For example, mandatory cost of living adjustments, which compensate Israeli employees for a portion of the increase in the Israeli consumer price index, are determined on a nationwide basis.

Israeli law also requires the payment of severance benefits upon the termination, retirement or death of an employee. Emblaze meets this requirement by (i) contributing on an ongoing basis towards funds that combine pension, insurance and, if applicable, severance pay benefits and (ii) payment of differences, if applicable. In addition, the Company contributes up to 2.5 per cent. of the employees' basic salary to disability insurance. In addition, Israeli employers and employees are required to pay specified percentages of wages to the National Insurance Institute. Other provisions of Israeli law or regulation govern matters such as the length of the workday, minimum wages as well as terms of employment and discrimination restrictions.

SHARE OPTION INCENTIVES

It was the policy of the Company to grant share options under its employee share option schemes to all of its full time employees in a manner that is consistent with that of other similar companies with whom Emblaze competes for recruitment and retention of staff, and which incentivizes and rewards loyalty and high performance. Options to acquire the Company's shares were granted in addition to other forms of remuneration. The price at which shares may be acquired is the higher of the fair market value at the date of grant or the average of 30 days trading prior to the grant date. The exercise of options granted was generally phased over four years. The grant or exercise of options may be linked to performance criteria.

In 2001, the Company implemented the 2001 Global Stock Option Plan (the "**2001 Plan**"). Under the 2001 Plan, 10,000,000 options to purchase ordinary shares have been reserved for issuance. These options may be granted to the Company's employees, directors and consultants and vest evenly mainly either on an annual basis or semi-annual basis in equal portions over a period varying between two to four years, commencing on the date of grant. If not exercised, the options will expire on the 10th anniversary of the date

of grant. Generally, the exercise price of these options may not be less than the fair market price of the shares at the date of grant. Any options that are either cancelled or forfeited before expiration become available for future grants.

On 11 September 2007, the Company's shareholders resolved to amend the Company's 2001 Plan such that the board of directors may grant employees of the Company options with an exercise price per share that is less than the fair market value of the shares on the date of approval of the grant, provided however that any such grant by the board of directors will be subject to the approval of the general meeting of shareholders.

On 21 February 2012, the Company's shareholders resolved to extend the term of the Company's 2001 Plan for additional 10 years effective from 1 July 2011.

The total number of options that is available for future grant was adjusted during previous years with the approval of the Company's shareholders.

Total number of options available for future grants was 26,700,307 and 26,541,557 as of 31 December 2012 and 2013, respectively.

The options were granted through trustee arrangement pursuant section 102 of the income tax ordinance.

The vesting schedule of the options is usually set for four years as of grant date and provides the Company with an additional retention measure.

NOMINATION COMMITTEE

The board of directors has established a Nomination Committee which leads the process for board of directors' appointments and makes recommendations to the board of directors. The board of directors has resolved that the committee should comprise only of all independent directors. The Nomination Committee's principal function is to regularly review the structure, size and composition of the board of directors (including gender, skills, knowledge and experience required of directors) and to make recommendations to the board of directors as to any changes required. The Nomination Committee meets at least once a year and on other occasions when circumstances require.

RELATIONS WITH SHAREHOLDERS

The Company places a high degree of importance on maintaining good relationships and communications with both institutional and private investors and ensures that shareholders are kept informed of significant Company developments.

The Company's website (www.emblaze.com) contains up to date information on the Company's activities and published financial results.

The Company welcomes dialogue with its shareholders and communicates with them through timely announcements, its interim and annual reports and through the Company's website, which is regularly updated. Regular meetings are held with institutional investors and the Company encourages the direct approach of its senior management by shareholders for questions and clarifications on the Company's business activities.

The Company's annual general meeting is also used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's annual general meetings in order to take advantage of the opportunity to ask questions to the Company's representative attending the meeting. Separate resolutions are proposed on each substantially different issue so that each receives proper consideration, including the approval of the annual report and accounts. Proxy votes are announced after each proposed resolution is voted on by a show of hands.

Notice of general meetings and related documentation are sent to shareholders generally at least 14 (but up to 35) days in advance of such meeting (as permitted by Israeli Companies Law).

SHARES IN PUBLIC HANDS

Pursuant to public information available to the Company and the knowledge of the Directors of the Company, the Company has maintained a public float as required by the Listing Rules.

SHARE CAPITAL

The number of shares in issue (excluding shares held in treasury) is now 140,578,154.

As part of the repurchase program approved by the board of directors in 2012, the Company continued the implementation of the repurchase program in accordance with Israeli Companies Law, the FCA Listing Rules (the "Listing Rules") and the Commission Regulation (EC) No 2273/2003 (the "EC Buy-back Regulations"). The program was implemented by way of market purchases of the Company's own shares for transfer into Treasury. In accordance with the Listing Rules, the maximum price which may be paid by the Company was not more than the higher of (i) an amount equal to 105 per cent. of the average market closing price (as derived from the London Stock Exchange Daily Official List) for the five dealing days immediately preceding such purchase; and (ii) the amount stipulated by Article 5(1) of the EC Buy-back Regulations, exclusive of expenses. Following the share repurchase, the Company now holds 30,587,902 of its shares in Treasury.

SHAREHOLDERS RIGHTS

The Company has one class of ordinary shares in issue of NIS0.01 each, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The total issued share capital of the Company as at 31 December 2013 is 140,578,154 of which, 109,990,252 ordinary shares are outstanding.

In August 2013, the BGI Group acquired 20.01 per cent. of the Company's Capital and granted a put option and purchased a call option in respect of a further 19.09 per cent. the Company's Capital. As part of said transactions, the BGI Group was granted powers of attorney which entitle it to vote the shares which are the subject matter of such options (19.09 per cent. of the Company's Capital). Other than as described above, the directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

SHAREHOLDERS DUTIES

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards a company in which he holds shares and towards other shareholders and to refrain from abusing his power in the respective

company. The Company's articles of association represent the rules of contract between the Company and its shareholders and among shareholders themselves.

MAJOR SHAREHOLDINGS

As at 23 April 2014, being the most recent practicable date prior to the publication of this report, the major shareholders and number of shares held (beneficially or otherwise) as notified to the Company in writing by the respective shareholders under the Disclosure and Transparency Rules:

	Number of Shares	Percentage Held
B.G.I. Investments (1961) Ltd* and **	27,525,679	25.01
Israel 18 B.V.**	5,092,233	4.63
Schroders Plc.	14,752,397	13.41
Donald L. Sturm and the Sturm Family Foundation	9,106,600	8.28
Fortissimo Capital Management Ltd***	5,541,524	5.04
Naftali Shani***	7,741,392	7.04

* By B.G.I. Investments (1961) Ltd and B.G Alfa Ltd

** In August 2013, the BGI Group acquired 20.01 per cent. of the total issued and outstanding ordinary shares of the Company and granted a put option and purchased a call option in respect of a further 19.09 per cent. of the issued shares of the Company. As part of said transactions, the BGI Group was granted powers of attorney which entitle it to vote the shares which are the subject matter of such options (19.09 per cent. of the issued shares of the Company).

*** To the best of the Company's knowledge, Mr Naftali Shani and Fortissimo Capital Management Ltd., amongst others, granted proxies originally in favour of the Israel 18 providing the Extended BGI Group with the right to vote the shares held by each respectively.

REPORT ON DIRECTORS' REMUNERATION

This remuneration report is made by the board of directors for the year ended 31 December 2013. It has been prepared on its behalf and for its approval by the Remuneration Committee. The report sets out how the principles of the Combined Code relating to directors' remuneration are applied. The Remuneration Committee believes that the Company was compliant with the provision of the Combined Code relating to the directors' remuneration throughout the period.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

Information with respect to the Company's current executive directors' compensation policy is detailed under the Remuneration Committee paragraph. The board of directors, following the evaluation and recommendation of the Remuneration Committee, will present an updated compensation plan for the approval of shareholders.

The tables below summarize the remuneration packages and share options granted to the current and former directors of the Company who held office during 2013:

EXECUTIVE DIRECTORS - REMUNERATION PACKAGES

(In paying currency - New Israeli Shekels⁸)

Naftali Shani, Executive Chairman*

Mr Shani's remuneration package did not change since approved by the Company's shareholders on 24 November 2010 and included until 14 August 2013 (when his engagement by the Company as an Executive Chairman was terminated):

Monthly salary: NIS80,000

Additional terms: Reimbursement for car expenses: NIS 8,000 gross per month; Vacation: 24 days per annum, Sick leave: according to Israeli labor laws; Social benefits: Company's contribution to pension fund, severance pay, and education fund is: 7.5%, 8 1/3% and 7.5% of monthly salary, respectively; Reimbursement of expenses (travel, cell phone, guest entertainment etc.) in accordance with Company's procedures and practices.

Annual bonus: Subject to Board discretion, following the recommendation of the Remuneration Committee.

Hagit Gal, Executive Director*

Ms. Gal's remuneration package did not change since approved by the Company's shareholders on 21 February 2012:

Monthly salary: NIS30,000

⁸ Exchange rate NIS to US dollar as at 31 December 2013 - 1 : 3.47

Additional terms: Vacation and sick leave: according to Israeli labor laws; Social benefits: Company's contribution to pension fund, severance pay, education fund and disability insurance is: 5%, 8 1/3%, 7.5% and up to 2.5% of monthly salary, respectively; reimbursement of expenses (travel, cell phone, guest entertainment etc.) in accordance with Company's procedures and practices.

Annual bonus: Subject to Board discretion, following the recommendation of the Remuneration Committee.

* Until 14 August 2014. Ms Gal continued to benefit from such salary and additional terms, as the Company's Secretary until January 2014.

EXECUTIVE DIRECTORS - SHARE OPTIONS

EMBLAZE STOCK OPTION PLAN

	Number of options	Exercise Price	Vested	Option Expiry	Vesting Schedule
Hagit Gal	10,000	£1.13	10,000	April 14, 2014	4 equal annual installments
	8,400	£1.422	8,400	Dec. 14, 2014	4 equal annual installments
	20,000	£0.7275	20,000	Sept. 05, 2017	4 equal annual installments
	150,000	£0.4597	75,000	Nov. 22, 2020	4 equal annual installments

SUBSIDIARIES STOCK OPTION PLAN

	Granting Subsidiary	Number of options	Exercise Price	Vested	Option Expiry	Vesting Schedule
Naftali Shani	EMOZE Ltd	1,080,000	US\$0.125	1,080,000	Sept. 11, 2013	Fully vested as of Sept. 11, 2007

None of the current directors is entitled to participate in any stock option plan offered by Emblaze or any subsidiary thereof. As at 31 December 2013, all options expired and Mr Shani had not exercised any of these options pursuant to the stock option plan.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is set by the Remuneration Committee and approved by the Audit Committee and the board of directors, subject to the approval of the annual general meeting.

Non-executive directors are entitled to fees of £20,000 per annum, paid quarterly. These fees have been determined with reference to available information on the fees paid to non-executive directors in other companies of broadly similar size, market cap and complexity. Remuneration of non-executive directors normally did not include share options or other performance-related elements. Non-executive directors were also entitled to reimbursement of reasonable out-of-pocket expenses.

Each director (excluding the External Directors) is subject to re-election at each annual general meeting. The two External Directors are appointed, as required by Israeli law, for a term of three years and may be appointed for two additional three-year term.

None of the directors is involved in any discussion with the board of directors or any committee of the board of directors relating to their own remuneration, nor do they participate in any vote on their remuneration by the board of directors or any committee of the board of directors unless the discussions are relating to general matters affecting the majority of the directors.

The table below summarizes the share options granted to the non-executive directors and former non-executive directors of the Company who held office during 2013:

NON-EXECUTIVE DIRECTORS - SHARE OPTIONS GRANTED

EMBLAZE STOCK OPTION PLAN

	Number of options	Exercise Price	Vested	Option Expiry	Vesting Schedule
Shimon Lior	250,000	£1.075	250,000	Nov. 24, 2020	Fully vested as of Nov. 24, 2010

None of the current directors is entitled to participate in any stock option plan offered by Emblaze or any subsidiary thereof.

In accordance with the Israeli Companies Law and Code provision D.1.3, shareholders approval was sought and obtained from shareholders on 24 November 2010, in advance of the grant and following the approval by the Company's relevant committees and the board of directors.

EMBLAZE LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2013

IN U.S. DOLLARS

INDEX

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Profit or Loss and Other Comprehensive Income	5
Consolidated Statements of Changes in Equity	6-7
Consolidated Statements of Cash Flows	8-9
Notes to Consolidated Financial Statements	10-39

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

EMBLAZE LTD.

We have audited the accompanying consolidated financial statements of Emblaze Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of 31 December 2013, 2012 and 2011 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended 31 December 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, 2012 and 2011, its consolidated financial performance and its cash flows for each of the three years in the period ended 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the European Union.

Beer-Sheva, Israel
27 March 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December		
		2013	2012	2011
		U.S. dollars in thousands		
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5	2,957	9,333	148,261
Short-term deposits	6a	16,242	122,195	198
Short-term deposits held in trust	6b	140,418	-	-
Financial assets at fair value through profit or loss		-	13,360	-
Available for sale financial assets		206	215	196
Prepaid expenses and other receivables	7	552	1,967	1,279
Total current assets		<u>160,375</u>	<u>147,070</u>	<u>149,934</u>
NON-CURRENT ASSETS:				
Equipment, net		<u>67</u>	<u>67</u>	<u>59</u>
Total assets		<u><u>160,442</u></u>	<u><u>147,137</u></u>	<u><u>149,993</u></u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December		
		2013	2012	2011
		U.S. dollars in thousands		
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade payables		699	268	325
Deferred revenues and accrued expenses	8	1,990	4,341	7,372
Short-term loan	6b	18,813	-	-
Total current liabilities		21,502	4,609	7,697
NON-CURRENT LIABILITIES:				
Employee benefit liabilities, net	9	40	34	21
EQUITY:				
Share capital	11	416	416	416
Share premium		469,925	469,911	469,864
Treasury shares		(76,962)	(76,275)	(75,555)
Available for sale reserve		123	132	98
Accumulated deficit		(254,189)	(251,346)	(252,282)
Equity attributable to Company's equity holders		139,313	142,838	142,541
Non- controlling interests		(413)	(344)	(266)
Total equity		138,900	142,494	142,275
Total liabilities and equity		160,442	147,137	149,993

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

27 March 2014

Date of approval of the
financial statements

Abraham Wolff
Chairman of the Board

Israel Jossef Schneerson
CEO and Vice Chairman of
the Board

Eyal Merdler
CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2013	2012	2011
		U.S. dollars in thousands (except earnings (loss) per share)		
Revenues		1,882	2,149	1,207
Cost of sales		449	525	247
Gross profit		1,433	1,624	960
Operating expenses:				
Research and development		1,562	1,751	1,401
Selling and marketing		134	800	599
General and administrative	13a	7,095	2,620	2,433
Total operating expenses		8,791	5,171	4,433
Operating loss		(7,358)	(3,547)	(3,473)
Financial income	13b	5,208	2,460	2,702
Financial expense	13b	(846)	(58)	(459)
Other income	10b	-	2,061	4,114
Income (loss) from continuing operations		(2,996)	916	2,884
Income (loss) from discontinued operations, net	13c	181	(30)	1,289
Net income (loss)		(2,815)	886	4,173
<u>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods :</u>				
Gain (loss) from available-for-sale financial assets		(9)	34	(33)
<u>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods :</u>				
Remeasurement loss from defined benefit plans		(97)	(32)	(42)
Total other comprehensive income (loss)		(106)	2	(75)
Total comprehensive income (loss)		(2,921)	888	4,098
Net income (loss) attributable to:				
Equity holders of the Company		(2,746)	968	4,263
Non- controlling interests		(69)	(82)	(90)
Net income (loss)		(2,815)	886	4,173
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		(2,852)	970	4,188
Non- controlling interests		(69)	(82)	(90)
Total comprehensive loss		(2,921)	888	4,098
Basic and diluted net earnings per share attributable to Company's equity holders (in U.S dollars):	15			
Income (loss) from continuing operations		(0.03)	0.01	0.03
Income from discontinued operations		-	-	0.01
Net earnings (loss) per share		(0.03)	0.01	0.04

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available for sale reserve	Accumulated deficit			
	U.S. dollars in thousands							
Balance as of 1 January 2013	416	469,911	(76,275)	132	(251,346)	142,838	(344)	142,494
Net Loss	-	-	-	-	(2,746)	(2,746)	(69)	(2,815)
Other comprehensive loss	-	-	-	(9)	(97)	(106)	-	(106)
Total comprehensive loss	-	-	-	(9)	(2,843)	(2,852)	(69)	(2,921)
Cost of share- based payment	-	14	-	-	-	14	-	14
Purchase of treasury stock	-	-	(687)	-	-	(687)	-	(687)
Balance as of 31 December 2013	416	469,925	(76,962)	123	(254,189)	139,313	(413)	138,900

	Attributed to equity holders of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available for sale reserve	Accumulated deficit			
	U.S. dollars in thousands							
Balance as of 1 January 2012	416	469,864	(75,555)	98	(252,282)	142,541	(266)	142,275
Net income (loss)	-	-	-	-	968	968	(82)	886
Other comprehensive income (loss)	-	-	-	34	(32)	2	-	2
Total comprehensive loss	-	-	-	34	936	970	(82)	888
Cost of share-based payment	-	47	-	-	-	47	4	51
Purchase of treasury stock	-	-	(720)	-	-	(720)	-	(720)
Balance as of 31 December 2012	416	496,911	(76,275)	132	(251,346)	142,838	(344)	142,494

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company					Total	Non- controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available for sale reserve	Accumulated deficit			
	U.S. dollars in thousands							
Balance as of January 2011	416	469,844	(75,555)	131	(256,503)	138,333	(181)	138,152
Net income (loss)	-	-	-	-	4,263	4,263	(90)	4,173
Other comprehensive loss	-	-	-	(33)	(42)	(75)	-	(75)
Total comprehensive loss	-	-	-	(33)	4,221	4,188	(90)	4,098
Cost of share- based payment	-	20	-	-	-	20	5	25
Balance as of 31 December 2011	<u>416</u>	<u>469,864</u>	<u>(75,555)</u>	<u>98</u>	<u>(252,282)</u>	<u>142,541</u>	<u>(266)</u>	<u>142,275</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2013	2012	2011
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(2,815)	886	4,173
Less - income (loss) from discontinued operations	181	(30)	1,289
Income (loss) from continuing operations	(2,996)	916	2,884
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities :			
Depreciation	31	30	33
Cost of share-based payment	14	51	25
Change in financial assets at fair value through profit or loss	432	(70)	-
Interest income	(1,863)	(2,040)	(2,501)
Interest expense on short term loan	86	-	-
Exchange rate differences on deposit held in trust and short term loan	(3,438)	-	-
	(4,738)	(2,029)	(2,443)
Changes in asset and liability items:			
Decrease in receivables and prepaid expenses	494	35	(81)
Decrease in trade payables, other payables and accrued expenses	(1,468)	(3,103)	2,394
	(974)	(3,068)	2,313
Cash received during the year:			
Interest received	2,450	1,426	2,434
Net cash provided by (used in) operating activities from continuing operations	(6,258)	(2,755)	5,188
Net cash provided by (used in) operating activities from discontinued operations	(189)	5	(1,274)
Net cash provided by (used in) operating activities	(6,447)	(2,750)	3,914

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2013	2012	2011
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property and equipment	(31)	(38)	(48)
Maturing of (investment in) short-term deposits, net	105,953	(122,000)	222
Investment in deposit held in trust	(118,253)	-	-
Purchase of financial assets at fair value through profit or loss	(13,352)	(15,133)	-
Proceeds from sale of financial assets at fair value through profit or loss and available for sale financial assets	26,441	1,713	-
Net cash provided by (used in) investing activities from continuing operations	758	(135,458)	174
<u>Cash flows from financing activities:</u>			
Repurchase of Company shares	(687)	(720)	-
Net cash used in financing activities from continuing operations	(687)	(720)	-
Net decrease in cash and cash equivalents	(6,376)	(138,928)	4,088
Cash and cash equivalents at the beginning of the year	9,333	148,261	144,173
Cash and cash equivalents at the end of the year	2,957	9,333	148,261
<u>Non-cash transactions:</u>			
Deposit of deposit held in trust against short-term loan	18,393	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. Emblaze Ltd. ("Emblaze" or "the Company") is corporation registered in Israel. The Company's shares are traded on the Official List of the London Stock Exchange ("LSE") under the symbol BLZ. In November 2013 the Company transferred from the Premium List to the Standard List of the Official List of the LSE, see Note 12. The Company's office is located in 132 Menachem Begin Road, Tel Aviv.
- b. On 14 August 2013, BGI Investments (1961) Ltd. ("BGI") an Israeli public company registered for trading on the Tel Aviv Stock Exchange, along with its direct and indirect subsidiaries (the "BGI Group"), acquired 20.01% of the total issued shares of the Company and issued put options and purchased call options in respect of a further 19.09% of the issued shares of the Company (the "Options"). During September and October 2013, BGI Group assigned the Options to its controlling shareholder, Israel 18 B.V (formerly- Chabad 770 B.V.) ("Israel 18") which subsequently exercised call options in respect of 1.59% of the shares of the Company (the BGI Group and Israel 18 collectively, the "Extended BGI Group"). As of 31 December 2013 Extended BGI Group owns approximately 21.6% of the issued shares.

Following the acquisition, on 14 August 2013, the chairman of the Company's board of directors as well as the majority of the directors were replaced and a new management team was appointed.

On 24 December 2013 the BGI Group made a tender offer (the "Offer") to holders of the Company's ordinary shares to acquire 5% of the voting right in the Company. On 28 January 2014 the Offer was successfully completed and the BGI Group purchased an additional 5% of the voting rights in the Company.

Following the success of the Offer, the Extended BGI Group is entitled to exercise the call options it has acquired. Upon the exercise of the call options, the Extended BGI Group will own shares, representing approximately 44.1% of the Company's issued shares (excluding dormant shares).

- c. In August 2013 a consortium of investors led by the Company announced its intention to acquire a controlling stake in IDB Holding Ltd., one of the largest investment holding companies in Israel, in consideration for an aggregate payment of NIS 1,580 million (US \$ 450 million). As the proposed transaction, if consummated, would constitute a reverse takeover under the LSE- listing rules, trading in the Company's shares was suspended on 15 August 2013. Trading in the Company's shares was restored on 9 January 2014, following the Israeli District Court decision to uphold a competing offer.
- d. On 2 March 2014, the Company signed an agreement to acquire a controlling interest in Willi-Food Investments Ltd., a public company traded on the Tel Aviv Stock Exchange, see Note 17 for further details. As this transaction, upon consummation, would constitute a reverse takeover under the LSE listing rules, on 3 March 2014 trading in the Company's shares was suspended.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the consolidated financial statements:

The accounting policies adopted are consistent with those of the previous years, except as described below:

1. Measurement basis:

The consolidated financial statements have been prepared on the historical cost basis, except for available for sale financial assets and financial assets at fair value through profit or loss which are measured at fair value.

2. Basis of preparation of the consolidated financial statements:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousands, except when otherwise indicated.

b. Functional and presentation currency:

In accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", the Company's management believes that the U.S. dollar is the primary currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and presentation currency of the Company and its subsidiaries is the U.S. dollar. Accordingly, amounts in currencies other than U.S. dollars have been translated as follows:

- Monetary balances - at the exchange rate in effect on the reporting date.
- Non-monetary balances are measured at cost are translated at the exchange rate at the date of the transaction.
- Revenues and expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses arising upon translation are reflected in profit or loss in financial expenses and financial income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Basis of consolidation:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been applied consistently and uniformly with those applied in the financial statements of the Company. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

Non-controlling interests in a subsidiary represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and each component of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

The disposal of a subsidiary that does not result in a loss of control is recognized as a change in equity. Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities.
- derecognizes the carrying amount of non-controlling interests.
- derecognizes the adjustments arising from translating financial statements carried to equity.
- recognizes the fair value of the consideration received.
- recognizes the fair value of any remaining investment.
- reclassifies the components previously recognized in other comprehensive income on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- recognizes any resulting difference (surplus or deficit) as gain or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss or in the statement of comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

e. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

f. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

g. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the subsequent accounting and measurement of financial assets depends on their classification as follows:

1. Financial assets at fair value through profit or loss.
2. Available-for-sale financial assets
3. Loans and receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial assets: (Cont.)

1. The Company has classified all of its financial assets as follows:

a) Financial assets at fair value through profit or loss:

This category includes financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

b) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for interest and exchange rate differences that relate to debt instruments, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in profit or loss.

c) Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses.

2. Fair value:

The fair value of financial instruments that are traded in an active market is determined by reference to market prices at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

3. Derecognition of financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial assets: (Cont.)

4. Impairment of financial assets:

The Company assesses at the end of each reporting period whether there is any objective evidence of impairment of available-for-sale financial assets as follows:

For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and evaluation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates.

The determination of a significant or prolonged impairment depends on the circumstances at the end of each reporting period.

Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value - is reclassified from other comprehensive income and recognized as an impairment loss in profit or loss. In subsequent periods, any reversal of the impairment loss is not recognized in profit or loss but recognized in other comprehensive income.

h. Equipment, net:

Equipment (computers and peripheral equipment) is measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates of between 6%-33%.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

Revenues from sale of software

The Company recognizes revenues from the sale of software only after the significant risks and rewards of ownership of the software have been transferred to the buyer for which a necessary, but not sufficient condition, is delivery of the software, either physically or electronically, or providing the right to use or permission to make copies, of the software. When the stage of completion cannot be determined reliably, revenues are recognized on a straight-line basis over the agreement period.

Software arrangements generally contain multiple sale elements (software, integration, installation, upgrades, support, training, consultation etc.). The Company evaluates the arrangement's elements, including those delivered on a "when and if available basis", in order to determine if the elements can be separately identified.

Interest income:

Interest income resulting from cash deposits and financial assets is accounted for in accordance with the effective interest method used for recognizing interest income for the respective period.

j. Taxes on income:

The tax results of current or deferred taxes are recognised in profit or loss, except to the extent that they refer to items which are recognised in other comprehensive income or equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability payable in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred tax balances are measured at the tax rate that is expected to apply when the taxes are reversed in profit or loss or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilised. Temporary differences for which deferred tax assets had not been recognised are reviewed at the end of each reporting period and a respective deferred tax asset is recognised to the extent that their utilisation is probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Taxes on income: (Cont.)

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that would trigger an additional tax liability.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

k. Treasury shares:

Company shares held by the Company and/or subsidiaries are recognized at cost and deducted from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

l. Employee benefits liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Employee benefits liabilities: (cont.)

2. Post-employment benefits: (Cont.)

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company.

Remeasurements, comprising of actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in accumulated deficit and are not reclassified to profit or loss in subsequent periods.

3. Share-based payment transactions:

The Company accounts for share-based compensation in accordance with IFRS 2, "Share-Based Payment". The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined by using the Binomial method option-pricing model taking into accounts the terms and conditions upon which the instruments were granted.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the change between the cumulative expense recognized at the end of the reporting period and the cumulative expense recognized at the end of the previous reporting period.

m. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Company expects part or all of the expense to be reimbursed to the Company, such as in an insurance contract, the reimbursement is recognized as a separate asset only when it is virtually certain that it will be received by the Company. The expense is recognized in profit or loss net of the reimbursed amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- n. Research and development expenditures:

Development and research expenditures are recognized in profit or loss when incurred.

- o. Discontinued operations:

Under the provisions of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" when a component of an entity, as defined in IFRS 5, has been disposed of or is classified as held-for-sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations. Comparative data are restated as if the operation had been discontinued from the start of the earliest comparative period.

- p. New and amended standards and interpretations:

The Group applied, for the first time, certain standards and amendments. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 19 Employee Benefits (Revised 2011), IFRS 13 Fair Value Measurement, amendments to IAS 1 Presentation of Financial Statements and IFRS 12 Disclosure of interests in Other Entities.

The application of this amended didn't have an effect on the financial statements of Company.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

- a. In the process of applying the significant accounting policies, the Company has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

The fair value of share-based payment transactions is determined using an acceptable option-pricing model. The model includes data as to the share price and exercise price, and assumptions regarding expected volatility, expected life, expected dividend and risk-free interest rate.

- b. Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Legal claims:

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION**

- a. Amendments to IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities":

The IASB issued amendments to IAS 32 regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off".

The Company estimates that the amendments to IAS 32 are not expected to have a material impact on the financial statements.

- b. IFRS 9, "Financial Instruments":

The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

The IASB did not set a mandatory effective date for the Standard.

The Company believes that adoption of IFRS 9 is not expected to have a material effect on the financial statements.

Amendments regarding derecognition and financial liabilities (Phase 2) have also been issued. According to those amendments, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

In November 2013, the IASB issued a new version of IFRS 9 ("IFRS 9 (2013)") which includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39.

IFRS 9 (2013) does not have a mandatory effective date, but it is available for adoption now.

The Company is evaluating the possible impact of IFRS 9 (2013) but is presently unable to assess its effect, if any, on the financial statements.

NOTE 5:- CASH AND CASH EQUIVALENTS

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Cash	2,955	2,075	13,010
Cash equivalents – deposits	2	7,258	135,251
	<u>2,957</u>	<u>9,333</u>	<u>148,261</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SHORT-TERM DEPOSITS

a. Short-term deposit

	Annual interest rate (1) %	31 December		
		2013	2012	2011
		U.S. dollars in thousands		
Short term deposits:				
In US dollars (2)	5.1	16,165	122,127	130
In NIS (3)		77	68	68
		<u>16,242</u>	<u>122,195</u>	<u>198</u>

(1) The above interest rates are the weighted average rate as of 31 December 2013.

(2) Includes restricted deposit in the amount of US\$ 130 thousand.

(3) Includes deposit as security for bank guarantee, see Note 10 (c).

b. Short-term deposit held in trust

In connection with the proposed acquisition described in Note 1 (c), there were two deposits held in trust as follows:

- (1) Balance of US\$ 121,691 thousand- The Company deposited in August 2013 approximately US\$ 118 million in an interest-bearing (annual rate of 1.1%), bank deposit. The Company's proposal was rejected in December 2013, and in January 2014 the deposit was returned to the Company. For most of the period from September 2013 till mid-December the deposit was denominated in New Israeli Shekel ("NIS"). Financing income (interest and exchange rate differences) on the deposit amounted to US\$ 3,770 thousand in the period ended 31 December 2013.
- (2) Balance of US\$ 18,727 thousand- The deposit (in NIS) was deposited in trust by one of the investors in the consortium. In consideration for the deposit, a subsidiary of the Company was obligated to repay the NIS amount deposited to the investor with interest at an annual rate of 5%, compounded until the date of repayment, plus linkage to the Israeli Consumer Price Index. In January 2014 subsequent to the rejection of the proposal, the deposit was returned to the investor and the loan was thereby repaid. Financing expenses on the loan, net of financing income on the deposit, amounted to US\$ 86 thousand in the period ended 31 December 2013.

NOTE 7:- PREPAID EXPENSES AND OTHER RECEIVABLES

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Prepaid expenses	200	590	868
Accrued interest receivable	218	966	204
Government authorities	28	99	31
Trade receivables	30	175	-
Other	76	137	176
	<u>552</u>	<u>1,967</u>	<u>1,279</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- DEFERRED REVENUES AND ACCRUED EXPENSES

	December 31		
	2013	2012	2011
	U.S. dollars in thousands		
Deferred revenues	28	1,211	2,057
Accrued expenses	1,520	1,729	3,806
Employees and payroll accruals	237	758	862
Employee benefit liability	45	-	-
Other	160	643	647
	<u>1,990</u>	<u>4,341</u>	<u>7,372</u>

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

1. Changes in the defined benefit obligation and fair value of plan assets:

2013:

	Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income		Contributions by employer	Balance at 31 December 2013	
	Balance at 1 January 2013	Current service cost	Net interest expenses	Effect of changes in foreign exchange rates	Total expenses recognized in profit or loss for the period	Payments from the plan	Actuarial gain (loss) arising from changes in financial assumptions			Total effect on other comprehensive income for the period
	U.S. dollars in thousands									
Defined benefit obligation	(535)	(91)	(12)	(44)	(147)	270	(109)	(109)	-	(521)
Fair value of plan assets	501	-	13	33	46	(235)	12	12	112	436
Net defined benefit asset (liability)	<u>(34)</u>	<u>(91)</u>	<u>1</u>	<u>(11)</u>	<u>(101)</u>	<u>35</u>	<u>(97)</u>	<u>(97)</u>	<u>112</u>	<u>(85)</u>

2012:

	Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income		Contributions by employer	Balance at 31 December 2012	
	Balance at 1 January 2012	Current service cost	Net interest expenses	Effect of changes in foreign exchange rates	Total expenses recognized in profit or loss for the period	Payments from the plan	Actuarial gain (loss) arising from changes in financial assumptions			Total effect on other comprehensive income for the period
	U.S. dollars in thousands									
Defined benefit obligation	(384)	(128)	(19)	(5)	(152)	7	(6)	(6)	-	(535)
Fair value of plan assets	363	-	18	5	23	(5)	(26)	(26)	146	501
Net defined benefit asset (liability)	<u>(21)</u>	<u>(128)</u>	<u>(1)</u>	<u>-</u>	<u>(129)</u>	<u>2</u>	<u>(32)</u>	<u>(32)</u>	<u>146</u>	<u>(34)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

1. Changes in the defined benefit obligation and fair value of plan assets: (Cont.)

2011:

	Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income		Contributions by employer	Balance at 31 December 2011	
	Balance at 1 January 2011	Current service cost	Net interest expenses	Effect of changes in foreign exchange rates	Total expenses recognized in profit or loss for the period	Payments from the plan	Actuarial gain (loss) arising from changes in financial assumptions			Total effect on other comprehensive income for the period
	U.S. dollars in thousands									
Defined benefit obligation	(366)	(109)	(13)	25	(97)	113	(34)	(34)	-	(384)
Fair value of plan assets	350	-	13	(28)	(15)	(85)	(8)	(8)	121	363
Net defined benefit asset (liability)	(16)	(109)	-	(3)	(112)	28	(42)	(42)	121	(21)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

2. Plan assets:

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

3. Plan assets (liabilities), net:

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Defined benefit obligation	(521)	(535)	(384)
Fair value of plan assets	436	501	363
Total liabilities, net	<u>(85)</u>	<u>(34)</u>	<u>(21)</u>
Presented in current liabilities	(45)	-	-
Presented in non-current liabilities	(40)	(34)	(21)
	<u>(85)</u>	<u>(34)</u>	<u>(21)</u>

4. The principal assumptions used in defined benefit plan:

	31 December		
	2013	2012	2011
	%		
Discount rate of the plan liability	<u>3.07</u>	<u>3.21</u>	<u>4.08</u>
Rate of increase in the Israeli CPI	<u>2.35</u>	<u>2.62</u>	<u>2.46</u>
Expected rate of return on plan assets	<u>3.51</u>	<u>3.6</u>	<u>4.4</u>
Expected salary increases	<u>-</u>	<u>2</u>	<u>-</u>
Employee turnover rate	<u>*)</u>	<u>*)</u>	<u>*)</u>

*) Employee turnover rates are 20% for all periods of service (previous year-employee turnover rates are 20%, 15%, for period of service of one year and above one year, respectively).

The Company estimates that reasonably possible changes at the end of 2013 in actuarial assumptions would not have a material effect on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

a. Guarantees:

The Company and its subsidiaries have provided bank guarantees aggregating to US\$ 77 thousand as security for rent to be paid for their offices.

b. Legal proceedings:

1. Emblaze Mobility Solutions Limited ("EMSL"), the Company's subsidiary, was involved in a dispute with HM Revenue & Customs ("HMRC") regarding a decision made by HMRC to withhold Global Telecom Distribution Plc. ("GTD") VAT reclaims and raise an assessment relating to GTD's VAT return in the sum of approximately £ 8.8 million (which is an equivalent of US\$ 14,560 thousand as of 31 December 2013). These actions taken by HMRC were not specifically targeted at GTD but, rather, represent a part of the general measures applied by HMRC in its battle against VAT fraud exposed within the mobile telephone handset sector in which GTD had operated.

As a result of the action taken by HMRC, GTD ceased its business activities and an administrative receiver was appointed to GTD in May 2007. In 2010, the First-tier Tribunal ruled in favor of EMSL and ordered HMRC to pay EMSL the full value of input tax. HMRC did not appeal the First-tier Tribunal order but did not pay EMSL as ordered. In 2011, EMSL filed for Judicial Review in the High Court of Justice to order actual payment as ruled by the Tribunal. In July 2011, the High Court of Justice ordered HMRC to make an immediate payment of the undisputed VAT reclaims, which the Company received. The Company recorded US\$ 4,114 thousand as other income, net of related expenses, in 2011. In May 2012, the High Court of Justice ordered that EMSL be paid the balance of sums withheld by HMRC of approximately £ 1.5 million (which was an equivalent of US\$ 2,400 thousand). As a result, the Company recorded US\$ 2,020 thousand as other income, net of related expenses, in 2012. Legal proceedings are still ongoing in relation to EMSL's application for interest.

2. The Company, and some of its past directors and officers, were named defendants in three separate claims, all in the context with the bankruptcy of Mr. Eli Reifman, one of the founders and a former director of the Company. As part of his fiduciary and regulatory obligations, Mr. Reifman was required to timely report to the Company of changes in his shareholding. All Mr. Reifman's reports were duly reported and reflected in the Company's annual and immediate reports, respectively. Mr. Reifman's creditors assert reliance on information provided by the Company with respect to his shareholding as was reported by him to the Company. Some of the claims were directed at the Company, and some also named part of its directors and officers as defendants, as detailed below:
 - a. In November 2010, a claim was filed against the Company and its subsidiary, ELSE Ltd. (discontinued operations), in the Tel Aviv Labor Tribunal, by the trustee of Reifman's estate in bankruptcy, claiming for employment termination compensations. The claim against the Company was dismissed in December 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Legal proceedings: (Cont.)

In May 2013, the claim against ELSE Ltd. was dismissed by settlement between the parties according to which ELSE Ltd' agreed to release the accrued pension funds of the former employee in the approximate amount of US\$ 50 thousand. The excess provision recorded for this claim over the settlement amount in the amount of US\$ 181 thousand was recorded as income in "profit or loss from discontinued operations" in the year ended 31 December 2013.

- b. In April 2012, two of Mr. Reifman's creditors filed a claim against their attorneys that represented them in their transaction with Mr. Reifman, alleging malpractice, negligence and failure by their attorneys to properly secure their loans to Mr. Reifman. As part of this claim, the two creditors have also named Emblaze, and some of its directors and officers, as well as the Company's external legal advisor and auditors, as defendants for sake of prudence. The claim is for a sum of NIS 73.3 million (approximately US\$ 21.1 million as of 31 December 2013). Defense was filed in August 2012. The claim was referred by the court to mediation between the various parties. The Company alerted and affected the Directors and Officers insurance in this matter.
- c. In June 2012, several other creditors of Mr. Reifman filed a claim against Emblaze, some of its directors and officers as well as against its external legal advisor and auditors. The claim is for a sum of NIS 86.6 million (approximately US\$ 24.9 million as of 31 December 2013). Defense was filed in October 2012. In June 2013 the District Court has accepted in-part the request for dismissal filed by the Company and some of its directors and officers. The District Court dismissed the claim with respect to two of the claimants, thus reducing the total sum of the claim to NIS 81.8 million (approximately US\$ 23.5 million as of 31 December 2013). The Company still waits decision of the Supreme Court on its appeal against the permission granted on 26 December 2011 by the Bankruptcy Court in Israel to the trustee to Mr. Reifman's bankruptcy to represent the majority of the Mr. Reifman's creditors in this claim. The Company alerted and affected the Directors and Officers insurance in this matter.
- d. In November 2012, two creditors of Mr. Reifman have filed a claim for NIS 30 million against the attorneys involved in their transactions with Mr. Reifman. The said attorneys submitted a third-party notification against numerous parties that were involved in the transaction, as well as against Emblaze and some of its directors and officers, asserting that they are to be indemnified in the event that the claim will be ruled against them. The third party claim is for a sum of NIS 7.6 million (approximately US\$ 2.2 million as of 31 December 2013). Defense was filed in January 2013. On 25 December 2012, the said attorneys also filed an application to join the Company as one of the defendants in the claim filed against them.
- e. At the request of the Administrator for Mr. Reifman's bankruptcy (who was later appointed as the Trustee to Mr. Reifman's bankruptcy), the Tel- Aviv District court issued an ex-parte temporary injunction on 6 September 2010, ordering the Company to withhold 27.75% of any dividend the Company may decide to distribute. Following an appeal filed by the Company, the Supreme Court cancelled the injunction on 29 November 2010, and limited the Company's responsibility only to timely notification in case of decision to distribute dividends.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Legal proceedings: (Cont.)

The proceedings pursuant to the claims mentioned in paragraphs 2 (b), (c) and (d) above are currently suspended in order to allow for the exhaustion of mediation proceedings initiated by the respective parties following the recommendation of the court.

While the claims mentioned above are still in preliminary stages and under mediation, the Company's legal advisors are of the opinion that the risks of success of these claims against the Company are remote. Therefore, the Company does not see necessary to make any provision in these matters. The Company also alerted and affected the Directors and Officers Insurance in this matter.

3. Two former employees of ELSE filed a claim for costs and expenses incurred to them in a course of Arbitration with the Company. Their claim was dismissed and they filed an appeal with the District Court in Tel Aviv. The odds of this appeal to prevail are remote.
4. Claims for patent infringement filed by the company – see Note 13(a) (1).
5. The Company and/or its subsidiaries are involved in various legal disputes within the ordinary course of business. The Company's management is of the opinion that at this point the potential exposure of these disputes is immaterial.

c. Operating lease obligation:

The Company rented its offices under operating lease agreements which ended in January 2014. Total rent expense for the years ended 31 December 2013, 2012 and 2011 amounted to US\$ 330 thousand, US\$ 309 thousand and US\$ 249 thousand, respectively. In February 2014, the Company is renting new offices under an operating lease agreement for a five year period. According to the new contract, the minimum annual rent in the first year is NIS 319 thousand (US\$ 92 thousand) (with increases in the following years up to NIS 396 thousand (US\$ 114 thousand)).

In connection with this lease, the Company will provide the lessor a bank guarantee in the amount of NIS 171 thousand (US\$ 49 thousand).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - FINANCIAL INSTRUMENTS

a. Classification of financial assets:

The financial assets in the balance sheet presented in accordance with IAS 39 are:

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Financial assets at fair value through profit or loss	-	13,360	-
Available-for-sale financial assets	206	215	196
Cash and cash equivalents	2,957	9,333	148,261
Short- term deposits	156,660	122,000	198

b. Management of financial risks:

The Company is exposed to the following financial risks: market risk (foreign exchange risk) and credit risk. Risk management is carried out by the financial department policies approved by the board of directors and management.

1. Market risks:

Foreign exchange risk - the Company's functional currency is the U.S. dollar and its policy is to reduce exposure to exchange rate fluctuations by having most of assets and liabilities, as well as most of the revenues and expenditures in U.S. dollars. However, salaries and related expenses are denominated in NIS and Sterling.

As of 31 December 2013, there are no significant exposures to foreign exchange in respect of financial assets and liabilities.

2. Credit risk - the Company holds cash and cash equivalents, short-term deposits in various financial institutions. The Company's policy is to spread out its cash investments among the various institutions. Pursuant to the Company's policy, assessments are made on an ongoing basis regarding the relative credit strength of the various financial institutions. As of 31 December 2013 the Company has a short term deposit in the amount of US\$ 6 million in foreign bank which is rated as B based on Fitch rating published at November, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - FINANCIAL INSTRUMENTS (Cont.)

b. Management of financial risks: (Cont.)

3. Fair value of financial assets and liabilities

a) Fair values versus carrying amounts:

The fair value of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, short-term deposits, trade payables and other payables approximate their carrying amounts.

b) Fair value hierarchy:

The table below summarizes financial instruments carried at fair value, using a valuation method in accordance with the fair value hierarchy level. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

	31 December 2013		
	Level 1	Level 2	Total
	U.S dollars in thousands		
Financial assets at fair value through profit or loss:			
Available-for-sale financial asset- Other securities	-	206	206
	<u>-</u>	<u>206</u>	<u>206</u>
	31 December 2012		
	Level 1	Level 2	Total
	U.S dollars in thousands		
Financial assets at fair value through profit or loss:			
Marketable corporate debentures	13,360	-	13,360
Available-for-sale financial assets:			
Other securities	-	215	215
	<u>13,360</u>	<u>215</u>	<u>13,575</u>
	31 December 2011		
	Level 1	Level 2	Total
	U.S dollars in thousands		
Financial assets at fair value through profit or loss:			
Available-for-sale financial asset- Other securities	10	186	196
	<u>10</u>	<u>186</u>	<u>196</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY

a. Ordinary shares:

Ordinary shares confer upon their holders voting rights, the right to receive cash dividends, and the right to a share in excess assets upon liquidation of the Company.

Composed of Ordinary shares of NIS 0.01 par value, as follows:

	31 December		
	2013	2012	2011
	Number of shares		
Authorized	<u>200,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
Issued	<u>140,578,154</u>	<u>140,578,154</u>	<u>140,578,154</u>
Outstanding	<u>109,990,252</u>	<u>110,832,034</u>	<u>111,755,932</u>

- (1) As described in Note 1(c), the Company's shares were temporarily suspended from trading. On 9 January, 2014, when trading resumed, the closing price per share was £0.56 (US\$ 0.92).
- (2) On 30 October 2013 the Company's shareholders approved (i) the transfer of the Company's listing of ordinary shares from the category of a premium listing (commercial company) on the Official List and into the category of a standard listing on the Official List (effective as of 28 November 2013) and (ii) an amendment to the Company's memorandum of incorporation (effective as of 20 November, 2013).
- (3) As described in Note 1 (d), trading in the Company's shares have been temporarily suspended commencing 3 March, 2014, see Note 17.

b. Treasury stock:

During 2012, the Company purchased 923,898 of its own share through the market in consideration of approximately US\$ 720 thousand.

During 2013, the Company purchased 841,782 of its own share through the market in consideration of approximately US\$ 687 thousand including related expenses. The Company holds 30,587,902 of its shares in Treasury.

c. Employee stock option plans:

In 2001, the Company implemented the 2001 Global Stock Option Plan ("the 2001 Plan"). Under the 2001 Plan, 10,000,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to the Company's employees, directors and consultants and vest evenly mainly either on an annual basis or semi-annual basis in equal portions over a period varying between two to four years, commencing on the date of grant. If not exercised, the options will expire on the tenth anniversary of the date of grant. Generally, the exercise price of these options may not be less than the fair market price of the shares at the date of grant. Any options that are either cancelled or forfeited before expiration become available for future grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

c. Employee's stock option plans: (Cont.)

On 11 September 2007, the Company's shareholders resolved to amend the Company's 2001 Plan such that the Board of Directors (the "Board") may grant employees of the Company options with an exercise price per share that is less than the fair market value of the shares on the date of approval of the grant, provided however that any such grant by the Board will be subject to the approval of the general meeting of shareholders.

On 21 February 2012, the Company's shareholders resolved to extend the term of the Company's 2001 Plan for additional 10 years effective from 1 July 2011.

The total number of options that is available for future grant was adjusted during previous years with the approval of the Company's shareholders.

Total number of options available for future grants was 26,700,307 and 26,541,557 as of 31 December 2012 and 2013, respectively.

The options were granted through trustee arrangement pursuant section 102 of the Israeli Income Tax Ordinance.

d. Expenses recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Total expense arising from share-based payment transactions	<u>14</u>	<u>51</u>	<u>25</u>

The share-based payment transactions that the Company granted to its employees are described below.

e. The following is a summary of the Company's stock options granted among the various plans:

	Year ended 31 December					
	2013		2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	961,400	1.34	1,015,100	1.33	7,115,400	1.80
Granted	-		-	-	300,000	0.67
Canceled or forfeited	<u>(158,750)</u>	1.59	<u>(53,700)</u>	1.59	<u>(6,400,300)</u>	1.81
Outstanding at the end of the year	<u>802,650</u>	<u>1.36</u>	<u>961,400</u>	<u>1.36</u>	<u>1,015,100</u>	<u>1.33</u>
Exercisable at the end of the year	<u>665,150</u>	<u>1.46</u>	<u>657,650</u>	<u>1.67</u>	<u>595,100</u>	<u>1.79</u>
Vested and expected to vest at year end	<u>702,650</u>	<u>1.46</u>	<u>961,400</u>	<u>1.36</u>	<u>952,100</u>	<u>1.39</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

e. (Cont.)

The following table summarizes information about options outstanding and exercisable as of 31 December 2013:

Range of exercise price	Options outstanding			Options Exercisable		
	Number Of Options	Weighted Average Remaining Contractual life (years)	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price of	
\$ 0.69-0.8	411,250	4.3	\$ 0.72	273,750	\$ 0.72	
\$ 1.2-2.4	371,400	9.5	\$ 1.9	371,400	\$ 1.9	
\$ 3.5	20,000	1.2	\$ 3.53	20,000	\$ 3.53	
	<u>802,650</u>		<u>\$ 1.36</u>	<u>665,150</u>	<u>\$ 1.46</u>	

f. Options granted by subsidiary to its employees:

The options were mainly granted in the years 2008-2009. In general, the options are exercisable 1-4 years after the date of grant and expire 6-10 years after grant. Most of the options were granted as part of plans that were adopted in accordance with the provisions of Section 102 of the Israeli Income Tax Ordinance.

As of 31 December 2013 all options were expired.

NOTE 13:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

a. General and administrative

	Year ended 31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Payroll and related expenses	1,247	1,046	1,199
Legal intellectual property expenses (1)	2,240	174	145
Expenses relating to proposed investment (2)	1,977	-	-
Rent	342	309	422
Consulting	325	299	204
Other	965	792	463
	<u>7,095</u>	<u>2,620</u>	<u>2,433</u>

(1) The Company filed claims against two companies for direct and indirect damages caused by infringement of patents it developed and registered. In 2013 the Company recorded expenses relating to administration of the claims, legal and other advisors. Some of the Company's commitments relating to the payment of contingent fees in connection with the aforementioned claims depend on the successful outcome of the claims (the contingent fees are expected to amount to a substantial portion of any proceeds received from the claims). Due to the uncertainty regarding the successful outcome, no receivable has been recorded in the financial statements regarding these claims.

(2) See Note 1 (c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

b. Financial Income and Expenses

	Year ended 31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Financial income:			
Interest income on bank deposits	1,314	2,298	2,702
Interest income from debentures	549	162	-
Net foreign exchange income (see Note 6)	3,345	-	-
Total financial income recognized in profit or loss	<u>5,208</u>	<u>2,460</u>	<u>2,702</u>
Financial expenses:			
Bank fees and charges	328	34	13
Capital loss from sales of debentures	432	-	-
Interest expenses on short term-loan	86	-	-
Net foreign exchange loss	-	24	446
Total financial expenses recognized in profit or loss	<u>846</u>	<u>58</u>	<u>459</u>

c. Income (Loss) from discontinued operation, net

1. ELSE:

In June 2010, the Company decided to cease further investments towards manufacturing of the First ELSE™ mobile device by its subsidiary ELSE. Accordingly, this activity has been treated as discontinued operations for the period presented. Else had income of US\$ 181 thousand during 2013 (see Note 10 (b) (2) (a)), loss of US\$ 30 thousand during 2012 and loss of US\$ 320 thousand during 2011.

2. Orca Interactive Ltd. ("Orca"):

In March 2008, Viaccess S.A., a wholly owned subsidiary of France Telecom SA, entered into a merger agreement with Orca to acquire all of its shares. Following the closing, in May, 2008, the Company disposed of its entire holdings in Orca. Accordingly, the Orca business has been treated as discontinued operations in the financial statements since 2008. In June 2011, the Company received the final payment for the sale of its holdings in Orca and recognized a gain of US\$ 1,609 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAX ON INCOME

a. Israeli income tax rates:

The Company is subject to the Income Tax Regulation (Rules of Bookkeeping of Foreign Investment Companies and Certain Partnerships and Determination of their taxable Income), 1986 and accordingly reports for tax purposes in U.S dollars.

The Israeli corporate tax rate was 24% in 2011, 25% in 2012 and 2013. On 5 December 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, effective from 2012, among others, cancels the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

On 30 July 2013, the Knesset approved the second and third readings of the Economic Plan for 2013-2014 ("the Budget Law") which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

These changes include, among others, raising the Israeli corporate tax rate from 25% to 26.5%, cancelling the lowering of the tax rates applicable to preferred enterprises (9% in development area A and 16% in other areas) and in certain cases increasing the tax rates on dividends within the scope of the Law for the Encouragement of Capital Investments to 20% effective from 1 January 2014. Other changes include taxing revaluation gains effective from 1 August 2013. The provisions of the changes regarding the taxation of revaluation gains, however, will only become effective once regulations that define "non-corporate taxable retained earnings" are issued as well as regulations that set forth provisions for avoiding double taxation of assets outside of Israel. As of the date of publication of these financial statements, no such regulations have been issued.

The change in the tax rates did not have a material effect on the financial statements.

b. The Law for the Encouragement of Industry (Taxation), 1969

The Company's Israeli subsidiary, Emoze Ltd. has the status of an "industrial company" as defined by this law.

c. Subsidiaries outside Israel:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence.

d. Final tax assessment:

The Company and the subsidiaries in Israel received final tax assessment through 2009. A foreign subsidiary has received tax assessment through 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 14:- TAX ON INCOME (Cont.)

- e. Losses and deductions carried forward for tax purposes:

As of 31 December 2013, carry forward operating losses and temporary differences of the Company total approximately US\$ 123 million and capital tax losses approximately US\$ 48 million.

The Company's Israelis' subsidiaries have operating and capital accumulated losses for tax purposes as of 31 December 2013, in the amount of approximately US\$ 157.7 million and US\$ 58 million, respectively.

The Company did not record a tax benefit in respect of the carry forward losses due to the uncertainty of their utilization.

- f. Reconciliation of the theoretical tax expense to the actual tax expense:

The main reconciling items between the statutory tax rate of the Company and the effective tax rate are the non-recognition of tax benefits from net operating due to uncertainty of the realization of such tax benefits (2013) and the utilization of carry forward losses for which tax benefits had not been previously recorded (2012 and 2011).

NOTE 15:- EARNINGS PER SHARE

	31 December		
	2013	2012	2011
	U.S. dollars in thousands		
Number of shares used for calculation of earnings per share –			
Basic	110,143,043	111,498,570	111,755,932
Adjustments for share options	32,090	11,180	604
Number of shares used for calculation of earnings per share –			
Diluted	<u>110,175,133</u>	<u>111,509,750</u>	<u>111,756,536</u>
Continuing operations:			
Net income (Loss) from continuing operations	<u>(2,927)</u>	<u>998</u>	<u>2,974</u>
Basic and diluted earnings per share to Company's shareholders	<u>(0.03)</u>	<u>0.01</u>	<u>0.03</u>
Discontinued operations:			
Net income (loss) from discontinued operations	<u>181</u>	<u>(30)</u>	<u>1,289</u>
Basic and diluted earnings per share to Company's shareholders	<u>(* -)</u>	<u>(* -)</u>	<u>0.01</u>
Total earnings per share	<u>(0.03)</u>	<u>0.01</u>	<u>0.04</u>

*) Less than U.S \$0.01 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2013:

	<u>Shareholders</u>	<u>Key management personnel</u>
	<u>U.S. dollars in thousands</u>	
Other payables	63	94
Employee benefit liabilities, net	-	11

As of 31 December 2012:

	<u>Shareholders</u>	<u>Key management personnel</u>
	<u>U.S. dollars in thousands</u>	
Other payables	-	207

As of 31 December 2011:

	<u>Shareholders</u>	<u>Key management personnel</u>
	<u>U.S. dollars in thousands</u>	
Other payables	-	184
Employee benefit liabilities, net	-	8

b. Benefits to key management personnel:

	<u>Year ended 31 December</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	<u>U.S. dollars in thousands</u>		
Short-term benefits	687	754	848
Post-employment benefits	341	62	143
Share-based payment	12	22	21
	<u>1,040</u>	<u>838</u>	<u>1,012</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SUBSEQUENT EVENTS

On 2 March 2014, the Company signed an agreement (the Agreement) to acquire a controlling interest in Willi-Food Investment Ltd (WFI), a public company whose shares are traded on the Tel-Aviv Stock Exchange. WFI is engaged in the development, import, export, marketing and distribution of a wide variety of food products world-wide. According to the Agreement, the Company is to acquire from Zwi Williger (“ZW”) and Joseph Williger (“JW”) and, together with ZW, the “Sellers”), subject to the approval of the Israeli Anti-trust Authorities (the Condition Precedent):(1) between 44.99% and 61.85% of the shares in WFI for an aggregate consideration of approximately up to NIS 285.5 million (US\$ 82.3 million), and (2) up to 7% of the shares in Willi- Food International Ltd (WFINT), a public company whose shares are traded on the NASDAQ in consideration of approximately US\$ 10.8 million.

Following receipt of the Anti-trust authority approval on 26 March, 2014 the Condition Precedent has been fulfilled. The transaction is expected to be completed on the day on which the Special Tender Offer is successfully completed (see b below) or within seven business days on which the Special Tender lapsed (see d below).

According to the Agreement, subject to fulfilment of the Condition Precedent:

- (a) The Company will acquire shares representing 44.99% of the voting rights in WFI, from the Sellers.
- (b) The Company will, within seven business days of fulfilment of the Condition Precedent, publish a special tender offer (the “Special Tender Offer”) addressed to all shareholders of WFI in order to acquire shares representing 5% of the voting rights in WFI at NIS 34.71 (US\$ 10) per share. The Sellers have undertaken to participate in the Special Tender Offer in relation to their remaining shares in WFI not sold by them pursuant to (a) above (the “Remaining Shares”).
- (c) Subject to the successful completion of the Special Tender Offer, the Company will make a further purchase from the Sellers of their Remaining Shares in WFI, such that the Sellers will have sold, in aggregate, approximately 58% of the shares of WFI (or approximately 55% on a fully diluted basis), comprising their entire holding of shares in WFI.
- (d) If the Company fails to complete the Special Tender Offer, the Sellers may elect, within seven business days of such date on which the Special Tender Offer lapsed to rescind the Agreement unless the Company elects, within a nine business day period starting from the date on which the Special Tender Offer lapsed, to purchase from the Sellers their Remaining Shares (the “Call Option”) (in which case the Agreement will not be rescinded). If the Company elects to purchase the Remaining Shares in these circumstances, then pursuant to Israeli companies law, any shares in WFI held by the Company, which would give the Company an interest in more than 44.99% of the voting rights in WFI will be treated as “dormant” and would not entitle them to exercise or enjoy any voting or economic rights for as long as the Company continues to hold, in aggregate, more than 44.99% of the voting rights in WFI or if and when the holding of such voting rights would no longer cause a breach of Israeli companies law with regard to any requirement on the Company, to make a Special Tender Offer.
- (e) Alternatively, if the Company fails to complete the Special Tender Offer and the Sellers have not elected to rescind the Agreement within the seven business day period referred to above and provided that the Company has not exercised the Call Option the Company will grant the Sellers a put option (the “WFI Put Option”) exercisable at any time during a period of five years from completion of the Transaction, to sell all or some of the Remaining Shares to the Company. Exercise of the WFI Put Option by the Sellers will be subject to such exercise not breaching Israeli Companies Law with regard to any requirement on the Company to make a Special Tender Offer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SUBSEQUENT EVENTS (Cont.)

- (f) The Sellers also hold shares and employee options in relation to approximately 7% of the shares of WFINT on a fully diluted basis. The Company has granted the Sellers a put option to sell all or some of such shares as vested from time to time (the “WFINT Put Option”) exercisable for a period of four years (commencing one year from the completion of the Transaction) at a price of US\$ 12 per share. As from completion of the Transaction and until the exercise or expiry of the WFINT Put Option, the Sellers will each grant the Company an irrevocable proxy with respect to their holdings in WFINT, so as to allow the Company to vote such shares at general meetings of WFINT.
- (g) The Agreement includes provisions for the continued employment of the Sellers by WFI and for non-compete payments to the Sellers for specified periods subsequent to their termination of employment.
