EMBLAZE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2012

EXECUTIVE CHAIRMAN STATEMENT

CAUTIONARY STATEMENT

This Executive 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 Executive 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.

The following sections reflect the position of the Company as at 31 December 2012:

HIGHLIGHTS FOR THE PERIOD ENDING 31 DECEMBER 2012

- The Company's consolidated financial statements have been prepared, for the first time, in accordance with International Financial Reporting Standards ("IFRS");

- Continued strong cash position with cash, short term deposits and financial assets of $145 million, which include:
    - $9.3 million in cash and short term bank deposits with an original maturity of three months or less from date of acquisition;
    - $122 million in short term bank deposits with an original maturity of more than three months from date of acquisition; and -
    - $13.4 million in financial assets at fair value through profit or loss (debentures) and available for sale financial assets.

  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. The Company extended the maturity of its deposits in order to respond to the overall decrease of return in short terms deposits, and achieve better yields;

- Revenues for the year of 2012 totaled $2.1 million (2011: $1.2 million) and income from continued operations totaled $0.9 million (2011: $2.8 million);

- During the first half of the year, the Company's UK subsidiary, Emblaze Mobility Solutions Limited ("EMSL"), has been successful in recovering the remaining disputed gross sum of £1.5 million, which was part of the overall VAT repayments claimed withheld by HM Revenue & Customs ("HMRC") since March 2006. As a result, the Company recorded in 2012 approximately $ 2 million as other income, net of related expenses;

- During 2012 the Company has purchased 923,898 of its own shares through the market in an amount of approximately $720,000, net of related expenses. The total issued share capital of the Company as at 31 December 2012 is 140,578,154 of which, 110,832,034 ordinary shares are outstanding, and 29,746,120 shares are held in treasury.

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 2012. 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 9 Hamenofim Street, Herzeliya Pituach 46725, Israel and our telephone number is +972.9.7699333. 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. The Company has adopted a strategy of seeking opportunities to realize gains through the selective investment in mature companies, as well as in innovative technologies that sit well alongside Emblaze's core competency and expertise in the IT, mobile and software arena. We believe that this strategy provides us with capital to support the growth of our operations, and the ability to increase value for our shareholders. We expect to continue to develop and enhance our in-house technology and solutions, and to pursue additional acquisitions of, or investments in, mature and established companies.

During 2012, the board had two main priorities: the continuous pursuit to identify potential opportunities for investment in growth activities and the legal proceedings brought by the Company against Apple Inc. and against Microsoft Corporation for infringement of the Company's U.S. Patent No. 6,389,473 for Network Media Streaming.
The Company's management also had to manage the ongoing litigations filed against the Company and some of its directors and officers.

INVESTMENT OPPERTUNITIES

As part of its growth strategy the Company reviewed over the past two years numerous investment opportunities, mainly in hi-tech companies. To-date, we have not identified a suitable investment that will comply with the strategic standards set by the Company's board of directors, namely that the main considerations for any investment to be implemented by the Company would be of proven superior technology, international sales, significant potential for growth and which can offer Emblaze the opportunity to drive profits through efficiencies and increasing sales. The Company may also consider an investment outside the above criteria, provided that it represents a unique opportunity to enhance value for the Company.

INTELLECTUAL PROPERTY

In July 2010, Emblaze filed a complaint against Apple[1] 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 a complaint for patent infringement against Microsoft[2] 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). The complaint was filed with the US District Court for the Northern District of California

Emblaze also filed a Patent Statement & Licensing Declaration with the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) stating that the ISO/IEC 23009-1 standard for HTTP streaming of multimedia content, known as MPEG Dynamic Adaptive Streaming over HTTP (MPEG-DASH), incorporates Emblaze's patented streaming technology and, therefore, the use of this technology is subject to a license from Emblaze. The information concerning the declaration filed by Emblaze is available in the ISO patent database at: http://www.iso.org/iso/standards_development/patents and the IEC database at: http://patents.iec.ch/

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[1] Apple, iPhone and iPod Touch iPad and Snow Leopard are proprietary names of Apple Inc.
[2] Microsoft, IIS Smooth Streaming and Windows Azure Media Services are proprietary names of Microsoft Corporation.

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

ONGOING LITIGATIONS

Further information is provided in the Risks and Uncertainties section herein.

EMOZE LTD.

Emoze Ltd., a 95 per cent. subsidiary of Emblaze, is a provider of transparent, synchronised 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.

During 2012, additional handset manufacturers chose to pre-install EMOZE's proprietary push-mail application into their mobile devices. Such new deals include MyPhone (Philippines) and Karbonn Mobiles (India). Additional releases took place in Canada and Latin America, with EMOZE's solution for both Android and feature phones embedded as a White Label.

2012 saw also technological advances in EMOZE with the introduction of its Push Email solution for Android. The Android operating system has gained significant market share and is fast becoming the most popular choice among smartphone consumers. The native Android Operating System has a built in POP3/IMAP as well as a corporate mail client, but the EMOZE Push Email solution for Android is much more powerful and user-friendly, conserving battery resources and reducing the time needed for data transfer. By embedding the EMOZE solution, manufacturers can offer end-users mobile devices that provide faster, more efficient service, with advanced push email, PIM (Contacts and Calendar), and Instant Messaging.

EMOZE's intellectual property portfolio was further expanded in 2012 with the issuance of its patent titled "System & Method for Reliable Symmetric Data Synchronization" on 14 August 2012 by the US Patent and Trademark Office under serial number 8,244,670.

EMOZE's is focusing its sales efforts in markets where demand for a differentiating feature is an asset for mobile manufacturers, operators and content providers. EMOZE's management is currently evaluating how to adjust and better position EMOZE's activity in view of market trends and the increasing share of Smartphones in the market.

RISKS AND UNCERTAINTIES

The Board's primary focus areas when reviewing key risks and uncertainties considers strategic, operational and financial risks and identifies actions to 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:

- 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 reshape our assets by making strategic bolt-on acquisition of complementary business. 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.

- The Company and some of its directors and officers were named as defendants in few separate proceedings in the context of Bankruptcy proceedings brought against Mr. Eli Reifman, 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 position. Mr. Reifman's reports were duly 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 holdings in the Company. Some of the claims were directed at the Company, and some also named some of its directors and officers as defendants.
  The information set forth herein reflects the director's knowledge as at the date of this report as follows:
  - On 05 April 2012, a claim was filed by two of Mr. Reifman's creditors against the 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 "caution reasons". The claim is for a sum of NIS 73,340,642 (approximately $19 million as of 31 December 2012).
  - On 12 June 2012, a claim was filed by twelve creditors of Mr. Reifman against Emblaze, some of its directors and officers as well as against the Company's external legal advisor and auditors. The claim is for a sum of NIS 86,459,093 (approximately $22 million as of 31 December 2012). Pursuant to permission granted by the Bankruptcy Court in Israel on 26 December 2011, the majority to these creditors are represented in this claim by the trustee to Mr. Reifman's bankruptcy. The Company has appealed to the Supreme Court against this decision based on the apparent conflict of interest that the trustee has if he acts in this capacity and the trustee's apparent lack of standing to raise such claims. The appeal awaits a decision following a hearing that was held on 31 December 2012.
  - On 4 November 2012, two creditors of Mr. Reifman filed a claim for NIS 30,000,000 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 transactions, 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 notification is for a sum of NIS 7,600,000 (approximately $2 million as of 31 December 2012). 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.

  While these claims are still in preliminary stages, the Company's legal advisors are of the opinion that the chances of success of these claims are remote and based on legal opinion of its legal advisors, the Company saw no reason to make any provision in these matters.

- Competition: 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, licence 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, or if we fail to sustain, develop and operate efficiently a high quality portfolio of assets.

- Political and Military Conditions in Israel affect our operations: 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 may 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.

- The Company believes that its future success will greatly depend upon the expertise and continued services of certain key executives and technical personnel, including the executive directors. Whilst the Board has sought to and will continue to ensure that directors and any key employees are appropriately incentivised, their services cannot be guaranteed. The Company has a small management team and the loss of one or more key executives or technical personnel may have an adverse effect on its operational performance and growth plans. In addition, the Company may find it difficult to recruit new employees. The business may suffer if the Company fails to attract, hire or retain the necessary personnel.

- 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. The Company is therefore exposed to foreign currency risk due to fluctuations in exchange rates. This may result in gains or losses with respect to movements in exchange rates which may cause fluctuations in reported financial information.

- The Company has marketable securities (debentures) at fair value through profit or loss in respect of which the Company is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price.

- 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. Company's cash preservation activities includes cash and cash equivalents, cash deposits and marketable securities (debentures) held in various 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.

- Repurchase of shares: subject to all applicable rules and regulations, the Board may resolve from time to time to implement a repurchase of a portion of the Company’s own outstanding shares. Such repurchase of shares may result in risk for the Company due to reduced equity in the Company’s capital structure and the risk that the repurchase by the Company is overvalued. In addition, trading in the Company’s shares may be affected due to less outstanding shares available for trade.

The directors continue to monitor all of the key risks and uncertainties and the Board will take appropriate actions to mitigate these risks and their potential outcomes. These actions include close review and monitoring of the economic environment to ensure the business can respond appropriately to changes in trading conditions, careful management of costs across all areas of the business with increased expenditure only in those areas that the Board decides are appropriate to drive growth and deliver long term strategic benefits.

GOING CONCERN

The directors have reviewed the latest forecast results and cash flow projections 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 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 identifying 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and are the Company's first annual financial statements reported in accordance with IFRS. For all periods up to and including the year ended 31 December 2011, the Company prepared its financial statements in accordance with U.S Generally Accepted Accounting Principles (US GAAP). The preparation of these consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under U.S. GAAP as of 31 December 2011 and for the year then ended. The accounting policies set in the financial statement have been applied consistently to all periods presented in these consolidated financial statements. The impact of the transition to report in accordance with IFRS on the Company's financial position results in operation and cash flow is detailed in the financial statements (note 16). 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,
Naftali Shani
Executive Chairman
17 March 2013

BOARD OF DIRECTORS

Naftali Shani, Executive Chairman
Naftali Shani (64) is one of the four founding partners of Emblaze. Prior to founding Emblaze, he served as general manager of Bartrade Ltd. (a subsidiary of Bank Leumi, one of Israel's leading banks), dealing with trade finance and counter-trade worldwide, and as general manager of the Israeli Chemical Company, Pazchem. Prior to this, Mr Shani was the treasurer and controller of the Israeli Prime Minister's Office.

Ilan Flato, Non-Executive Director (A) (R)
Ilan Flato (57) joined the board of directors of Emblaze in April 2006. Until 2004, Mr. Flato served as the VP for planning, economics & online banking in United Mizrahi Bank and as the chief economist of the bank, where he was responsible for strategic & business planning and all aspects of online banking. Between 1992 and 1996, Mr Flato served as the economic advisor to the Prime Minister of Israel. Prior to this position, Mr. Flato served in the Treasury Office as the deputy director of the budget department, responsible for the budgets of various governmental offices. Mr. Flato currently serves as chairman of The Israeli Association of Publicly Traded Companies. In addition, Mr. Flato serves as a statutory independent directors in Tower Semiconductor Ltd. (NASDAQ: TSEM, TASE: TSEM), Gal & Hagomel (an Israeli mutual fund) and as chairman of the business corporations in Kibbutz Kfar Blum. Mr. Flato holds a BA in Economic and MA in information technology. He is also a member of the Israeli Bar as a licensed advocate and holds an LLB in law.

Shimon Laor, Non-Executive Director
Shimon Laor (46) served as the chief financial officer of Emblaze until April 2000, also directing the operations and legal departments. Since then he has served as a non-executive director on the Emblaze board and has been engaged in private business initiatives. Prior to joining Emblaze in August 1995, Mr Laor served as an economist at the Head Office of the Foreign Currency Division of the First International Bank in Israel.

Zvi Shur, Non-Executive Director (A) (R)
Zvi Shur (77) 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.

Nahum Admoni, Non-Executive Director (A) (R)
Nahum Admoni (83) joined the board of directors of Emblaze in September 2008. Between July 2003 and May 2009, Mr. Admoni served as director of Universe Security Group Ltd., a private company. In addition, Mr. Admoni has served as a member of the Board of Governors of the Ben Gurion University since 1998. Between the years 1989 and 1994, Mr. Admoni served as the chief executive officer of Mekorot, the Israel National Water Company. Prior to this, Mr. Admoni served as the head of the Israeli Secret Intelligence Service between the years 1982 and 1989. Previous directorships held by Mr. Admoni include ECI Telecom Ltd., a NASDAQ traded company until September 2007, where he served as a director between May 1998 and September 2000, Sunfrost Ltd., listed on the Tel Aviv Stock Exchange, where he served as external director under the Israeli Companies Law between September 2005 and September 2008, Housing & Construction Holding Company Ltd., a member of the Arison Group and listed on the Tel Aviv Stock Exchange, where he served as a director between August 1996 and November 2006, Discount Investment Corporation Ltd., listed on the Tel Aviv Stock Exchange, where he served as external director under the Israeli Companies Law between December 1999 and December 2004, The Israel Electric Corporation Ltd., an Israeli government corporation listed on the Tel Aviv Stock Exchange, where he served as a director between July 2000 and August 2003, Mishkan Bank Ltd., a private bank, where he served as a director between March 2000 and August 2003 and Bank Hapoalim, where he served as a director between June 1998 and December 1999. Mr. Admoni holds a BA and MA in Political Science from the University of California in Berkeley.

Yuval Cohen, Non-Executive Director
Yuval Cohen (51) joined the board of directors of Emblaze in May 2009. He serves as the chairman of SodaStream (NASDAQ: SODA), Telrad, Dip Tech, Kornit Digital, Solcon and Starhome. Prior to founding Fortissimo Capital, Mr. Cohen was a general partner at Jerusalem Venture Partners (JVP), an international venture capital firm with over $650 million under management. Mr. Cohen serves as chairman of Soda Club Holdings Ltd., and has served on boards of numerous companies, including: Precise Software Solutions, Inc. (sold to Veritas Software Corporation. NASDAQ: PRSE), PowerDsine Ltd. (NASDAQ: PDSN; sold to Microsemi), T.sqware Inc. (sold to Globespan Inc. NASDAQ: GSPN), Sheer Networks (sold to Cisco, NASDAQ: CSCO), Teleknowledge Group (sold to MTS NASDAQ: MTSL), Celltick Technologies, and XMPie (sold to Xerox, NASDAQ:XRX), Telrad Networks Ltd and Nur Macroprinters (NASDAQ: NURM; sold to Hewlett Packard in 2008). Prior to joining JVP, Mr. Cohen held various executive positions in the Silicon Valley. Mr. Cohen was the vice president of business development and also served as the general manager of the licensing division at DSP Group, Inc. (NASDAQ: DSPG). In addition, Mr. Cohen served as the vice president of Marketing at VDOnet Corporation and as the assistant to the president of Intel Capital at Intel Corporation (NASDAQ: INTC). Mr. Cohen received an MBA from the Harvard Business School and a B.Sc. in Industrial Engineering from Tel Aviv University

Shmuel Barashi, Non-Executive Director
Shmoulik Barashi (51) joined the board of directors of Emblaze in May 2009. Mr. Barashi is a partner at Fortissimo Capital, an Israeli private equity investment fund. Mr. Barashi serves as a member of the board directors of Solcon and Starhome and has previously served as a board member of Sodastream (NASDAQ: SODA) and NUR (sold to HP; NYSE: HPQ).Prior to joining Fortissimo, Mr. Barashi was a senior partner in BDO Ziv Haft, one of the largest accounting firms in Israel. At BDO, Mr. Barashi specialized in corporate finance, initial public offerings, due diligence evaluations, deal structuring, business consultancy, auditing and tax (both international and local), and valuation analysis. Mr. Barashi managed the Jerusalem branch of BDO Israel. Mr. Barashi received an MBA from Hebrew University, an LLM from Bar Ilan University and a BA in economics and accounting from Hebrew University.

Hagit Gal, Executive Director
Hagit Gal (40) was appointed as member of the board of director of Emblaze in November 2010. Ms. Gal joined Emblaze in 1999 and is an integral member of the corporate management team. During her tenure at Emblaze, Ms. Gal has been actively involved in the Company's M&A and fund raising activities, leading several equity related transactions and managing acquisitions and disposals of privately held companies. Ms. Gal currently serves Company Secretary of Emblaze, and is also responsible for the Company's investor and public relations as well as human resources. Ms. Gal is a member of the Israeli Bar as a licensed advocate and holds an LLB in law.

A Member of the Audit Committee
R Member of the Remuneration Committee

CORPORATE GOVERNANCE

Incorporated in Israel, Emblaze Ltd. ("Emblaze" or the "Company") is listed on the Official List of the London Stock Exchange. The Company's Board is committed to high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. 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 2010 UK Corporate Governance Code (the "Code") published by the Financial Reporting Council.

THE BOARD

The Board is responsible for the Company's corporate governance policy. It recognises the importance of high standards of integrity and consistently seeks to apply the provisions set out in the Code. The Board 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;
- 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 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 and board committees, reviews recommendations of the audit committee, remuneration committee and nomination committee, and the appointment of the independent auditor. It also reviews the financial performance and operation of each of the Company's businesses, approves financial statements, 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 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.

During the year ended December 2012, the Board comprised the following members:

Mr. Naftali Shani, the executive chairman[3]
Ms. Hagit Gal, executive director
Mr. Shimon Laor, a non-executive director
Mr. Ilan Flato, a non-executive director[4]
Mr. Zvi Shur, a non-executive director
Mr. Nahum Admoni, a non-executive director
Mr. Yuval Cohen, a non-executive director
Mr. Shmuel Barashi, a non-executive director

The Company believes that it is essential to maintain a number of long serving directors who may serve for more than the ten year period recommended under the Code in order to provide continuous experience and knowledge, especially in light of the Israeli Companies Law regulations that poses a limit on the term of the external directors.

[3] Mr. Shani was appointed executive chairman with effect from conclusion of the annual general meeting dated 24 November 2010.
[4] Also acts as the senior non-executive director.

As at 2012 year-end, two of its Board members, Mr. Naftali Shani and Mr. Shimon Laor, have served for 18 and 12 years respectively, for the year ended 31 December 2012.

Mindful of its prime objective to ensure the Company's ongoing orderly operation, the Board has resolved to appoint Mr. Naftali Shani as Executive Chairman of the Company following the sale of the Company's holding in Formula Systems (1985) Ltd., which was completed in November 2010. The Board is aware that according to the UK best practice recommendations the roles of chairman and chief executive should not be exercised by the same person and does not intend this combination of roles to be permanent, having regard to the implementation of the Company's acquisition strategy. The Board believes that until this strategy is implemented in full scale, the requirements of the Company in terms of size and business are met: the Board, which is responsible for the Company's overall leadership, 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 Ltd., is managed by a separate chief executive, 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

Directors are subject to re-election at every annual general meeting (with the exception of the External Directors, as further described below). The Board 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.

Each of the directors has a service agreement with the Company. Details of the terms of the service agreements are set out in the Report on Directors' Remuneration. The performance of the Board is assessed by the Chairman and the strengths and weaknesses identified are discussed at meetings of the Board. Any improvements that are required are implemented based on these regular discussions.

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.

The interests of the directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2012 as reported to the Company by the respective director were as follows:

	Number of Shares	**Percentage Held**
Naftali Shani	15,482,784	13.97%
Shimon Laor	100,000	0.09%

Total issued share capital of the Company as at 31 December 2012: 140,578,154
Total issued and outstanding share capital of the Company as at 31 December 2012: 110,832,034

BOARD MEETINGS

The Board meets on a regular basis to discuss the overall direction and strategic plan of the Company. Ad hoc meetings may also be convened to deal with matters between scheduled meetings as appropriate. Prior to each Board 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 for the following year. All directors are properly briefed on progress with respect to matters discussed at Board meetings and further information requested by a director is made available.

It is expected that all directors attend Board 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 table below shows the number of years directors have been on the Board and their attendance at scheduled Board meetings and at meetings of the Audit and Remuneration Committees during the year ended 31 December 2012:

Meetings held in 2012	Years on Board	Board	Audit	Remuneration
		7	3	-
<u>Meetings attended</u>:				
Naftali Shani	18	7	n/a	n/a
Hagit Gal	2	7	n/a	n/a
Shimon Laor	12	6	n/a	n/a
Ilan Flato	6.5	7	3	-
Zvi Shur	5	7	3	-
Nahum Admoni	4	7	3	-
Yuval Cohen	3.5	3	n/a	n/a
Shmuel Barashi	3.5	6	n/a	n/a

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 committee by invitation. These details are not included in the table above. On the occasion when a director cannot attend a meeting, he or she will normally make his views on the agenda items known prior to the meeting to the chairman or to another director or, in respect of committee meetings, to the chairman of the respective committee.

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's decision taking. 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 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 director") 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, 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.

The Board has determined that Mr. Ilan Flato and Mr. Zvi Shur have the requisite accounting, financial and professional expertise as required of external directors under the Israeli Companies Law. Mr. 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 and a second three-year term at the annual general meeting held on 24 November 2010. The second external director is Mr. Ilan Flato, who was appointed for a first three-year term at the annual general meeting held on 20 April 2006 and a second three-year term at the annual general meeting held on 08 December 2009. It is intended, following the recommendation of the Nomination Committee and the Board, and subject to shareholders approval, to extend the term of each of the external directors for additional three years, respectively.

Each committee of a Company’s Board 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 executive chairman, Naftali Shani, one of the founding shareholders of Emblaze, holds approximately 14% of the issued and outstanding share capital of the Company and is therefore not considered under the Code to be independent. As explained above, the Board considers, that the appointment of Mr. Shani as an executive chairman is a sensible and justified departure from the Code’s principles, specifically since the Board does not intend this combination of roles to be permanent and intends to split the roles as soon as reasonably possible having regard to the implementation of the Company’s acquisition strategy.

The Board has determined that the non-executive directors, Ilan Flato, Zvi Shur and Nahum Admoni all 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 organisation that has a relationship with the Company). Accordingly, the Board believes that there are no such relationships that could materially interfere with the exercise of its independent judgment.

Shimon Laor holds Company shares 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 is significantly higher than the share price at the time of grant. The Board, therefore, believes that the modest number of shares that he holds does not affect his independence.

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 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 determined that the number of directors with financial and accounting expertise in the Company shall not be less than one. As described above, currently Mr. Ilan Flato and Mr. Zvi Shur have been determined by the Board to possess such accounting and financial expertise. It should be noted that other Board members also posses relevant financial expertise, such as Mr. Laor and Mr. Barashi.

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 is satisfied that there is sufficient independent representation on the Board.

INTERNAL CONTROL

The Board 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 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 summarised below:

- The Board generally meets at least once a month 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 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 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 authorisation levels. For expenditure beyond certain levels, detailed written reports have to be submitted to the Board.
- Responsibility levels are communicated throughout the Company, including delegation of authority and authorisation 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.

BOARD COMMITTEES

The Board has established Audit, Remuneration and Nomination Committees. The duties of these committees are set out in formal terms of reference and the Board is satisfied that these terms conform to best corporate governance practice. The terms of reference for all Board committees can be found on the Company's website at www.emblaze.com. The Company Secretary is secretary to all Board 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, 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% of the company's voting rights, most of the members of the board must be independent directors, whereas (ii) if the company has a controlling shareholder or a shareholder that holds at least 25% of the voting rights, then at least one-third of the directors need to be independent directors.

As of the date of this report, we have not elected to adopt these corporate governance rules. However, the Audit Committee comprises three independent non-executive directors: Ilan Flato, who was appointed to the Committee in April 2006 and became chairman of the Committee in September 2007, Zvi Shur, who was appointed in September 2007 and Nahum Admoni, who was appointed in September 2008.

The Board 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. The chairman of the Committee, Ilan Flato, has previously held a number of senior financial management positions. Hence, as previously described, the Board has determined that Ilan Flato is 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.

In accordance with its terms of reference, the Audit Committee is required to oversee the relationship with the Company's external auditors, to review the Company's preliminary results, interim results and financial statements 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 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.

At the request of the Audit Committee, the internal auditor conducted during 2012 an audit on the means of payment in the Company as well as on the Company's corporate expenses procedure.

Part of the role of the Audit Committee is to review the independence of the Company's auditor. 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 2012, the Board of Directors of the Company, with the approval of the Audit Committee of the Board, has determined the audit remuneration of its auditors at a level of US$50,000 to include the audit for the period ending 31 December 2011 in conformity with US Generally Accepted Accounting Principles (US GAAP), the review of the Company's Interim Reports for the period ending 30 June 2012 in conformity with US GAAP and the 2011 annual Israeli tax returns of the Company and its subsidiaries. For the year 2013, it was resolved, subject to shareholders approval, to determined the audit remuneration of its auditors at a level of US$60,000 to include the audit for the period ending 31 December 2012 in conformity with International Financial Reporting Standards (IFRS), the review of the Company's Interim Reports for the period ending 30 June 2013 in conformity with IFRS and the 2012 annual Israeli tax returns of the Company and its subsidiaries.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises only the independent directors: Ilan Flato, Zvi Shur and Nahum Admoni. 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 on the Company's framework of executive remuneration and for determining on behalf of the Board 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 and shareholders, in this order. No director participates in Board discussions on, or votes on matters relating to, their own remuneration.

The primary responsibilities of the Committee are 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;
- That share option and bonus schemes should be set at a level that provides sufficient incentive to the executive to produce results that will reflect the board's expectations.
- That total pay and long term remuneration will be sufficient to retain executives;
- That aggregate pay for all executive directors is reasonable in light of the Company's size and performance.

The Company combines four main elements of the remuneration package for Executive Directors:

A) Basic salary

An executive director's basic salary is normally reviewed annually, and paid as a fixed cash sum monthly. The 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:

The directors believe that retaining a workforce which is motivated to achieve the Company's objectives is fundamental to its continued prosperity. Accordingly, 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.

In accordance with existing service contracts, Mr. Naftali Shani is entitled to an annual bonus in an amount to be determined by the Remuneration Committee and approve by the Board based on achievements of targets to be determined by the Board.

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:

It is the policy of the Company to grant share options under its employee share option schemes to all of its full time employees and executive directors in a manner that is consistent with that of other similar companies with whom Emblaze competes for recruitment and retention of staff, and which incentivises and rewards loyalty and high performance. Options to acquire the Company's shares are 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 is generally phased over four years. The grant or exercise of options may be linked to performance criteria.

On June 28, 2001 the Company's shareholders approved the Company's Global Option Plan. The Company reserved 10,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of this option plan. On June 9, 2003 the shareholders approved the consolidation of the Geo Interactive Media Group Ltd. 1999 Stock Option Plan ("1999 Plan") with the Emblaze Ltd. 2001 Global Stock Option Plan ("2001 Plan") so as to treat shares reserved for allotment under the 1999 Plan as being reserved for allotment under the 2001 Plan (but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan). The reason for the consolidation was that, following the adoption of certain amendments to Israeli tax laws, rules and regulations, grants under the 1999 Plan did not comply with such amendments. Therefore, the available pool of options under the 1999 Plan was transferred to the 2001 Plan. On August 31, 2006 the Company's shareholders approved an additional reserve of 13,000,000 registered (i.e. authorised) but unissued ordinary shares of the Company for the purpose of the Global Option Plan. In May 2011 the Company's board of directors resolved to extend the term of the Company's 2001 Plan for additional 10 years. This resolution was approved by the Company's Shareholders in February 2012.

Eligibility for vesting of Company options is subject to meeting of certain performance criteria, which are usually linked to pre-defined annual financial objectives and to focus on the most important measures of business success, while rewarding individuals for outstanding performance. In this way option based rewards seek to align the interests of shareholders and those eligible.

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.

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 considers that the Remuneration Committee, in acting in accordance with its terms of reference, complies with all the requirements of a Compensation Committee pursuant to the Amendment. The Board, following the evaluation and recommendation of the Remuneration Committee, will present a comprehensive compensation plan for the approval of shareholders. It is further clarified that during 2012, in comparing to 2011, 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.

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% 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.

NOMINATION COMMITTEE

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. Under the Israeli Companies Law, at least one external director must be a member of the Nomination Committee. The Board 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 (including the skills, knowledge and experience required of directors) and to make recommendations to the Board as to any changes required.

INVESTMENT COMMITTEE

The Board has established an Investment Committee for the purpose of assisting the Board in fulfilling its responsibilities with respect to the Company's financial and investment strategies and policies, including the approval of the Company's investment guidelines for investment of cash and cash equivalents, the determination of policies on these matters and the monitoring and monitoring the implementation of these guidelines. The Committee will also review risk factors associated with management of the Company finances, and mitigation of such risks. The members of the Committee includes Ilan Flato, who is a statutory independent director and qualifies under the Israeli Companies Law as a financial and accounting expert, Mr. Shmuel Barashi, who also meets the requirements of a financial and accounting expert, and Mr. Naftali Shani.

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. Further, as the senior non-executive director, Ilan Flato is available to shareholders.

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 of the directors. 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 35 days in advance of such meeting (subject to certain exceptions as permitted by Israeli Companies Law).

SHARE CAPITAL

The number of shares in issue (excluding shares held in treasury) is now 110,832,034.

On 3 June 2012, the directors of the Company approved a share repurchase program of the Company's shares up to a maximum consideration of US$2 million, representing approximately 3% of the Company's issued share capital.
The repurchase program was undertaken in accordance with Israeli Companies Law, the FSA 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% 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 29,746,120 of its shares in Treasury.

SHAREHOLDERS RIGHTS

The Company has one class of ordinary shares in issue of NIS 0.01 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 2012 is 140,578,154 of which, 110,832,034 ordinary shares are outstanding.
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 17 March 2013, 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 by the respective shareholders under the Disclosure and Transparency Rules of the UKLA or as the Company has otherwise been made aware are set out in the table below:

	Number of Shares	**Percentage Held**
Schroders plc	20,119,163	18.15
Fortissimo Capital Management Ltd	18,782,880	16.95
Naftali Shani	15,482,784	13.97
Donald L. Sturm & Sturm Family Foundation	10,388,553	9.37

CORPORATE SOCIAL RESPONSIBILITY

Emblaze recognises the obligations it has towards those with whom it has dealings, including its staff, customers, suppliers, shareholders and the community as a whole. Given the Company's relatively low social and environmental impact, the Company believes that there are few risks to its short and long term value proposition arising from these matters. Whilst the Board considers that material risks arising from social, ethical, employment and environmental issues are limited, given the nature of the Company's business, policies have been adopted in key areas to ensure that such risks are limited. More information on the Company's approach to these matters can be found in the Company's Ethics and Environmental Policies, which are available on the Company's website at www.emblaze.com.

Although the Company is not a manufacturing industrial company, our activities do have an impact on the environment as a result of the use of electricity, generation of waste as well as business and local travelling. Emblaze endeavours to take steps to minimise the impact of the Company's operations on the environment in a responsible and appropriate manner with the aim to provide a safe and healthy workplace for all employees. As such, the main guiding principles of our policy focuses on minimising waste generation and preventing pollution, reducing energy consumption and encourage recycling. In leading general environmental good practice, Emblaze will:

- continue to comply with environmental laws, regulations and industry standards of the countries in which we conduct business;
- continue to maintain its offices "smoke-free". There are only restricted outdoor areas where employees may smoke;
- continually seek to improve its environmental performance;
- minimise the consumption of energy and water used in our facilities;
- reduce, re-use and, wherever is environmentally practicable, recycle consumables and dispose of non-recyclable items in an environmentally acceptable manner.
- where possible, procure resources and services from suppliers who have a sympathetic approach to the environment; and
- carefully plan the business flights of its staff in order to maximise utilisation of each travel.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE CODE

The Company complied throughout 2012 with the provisions of the UK Corporate Governance Code, except in the following aspects:

A.2.1 The Board is aware that according to the Code the roles of chairman and chief executive should not be exercised by the same person. Having regard to the implementation of the Company's acquisition strategy, the Board does not intend this combination of roles to be permanent. The Board also considers that because the Company's subsidiary, EMOZE Ltd., is managed by a separate chief executive there is a sufficient balance and a clear division of responsibilities at the various decision making levels of the Company. The Board therefore considers that the above considerations justify the adoption of the exemption provided under Section 121(C) of the Israeli Companies Law and since the combination of roles at this stage is a sensible and justified departure from the principle and .

B.6.1 The Board does not currently undertake formal appraisal of its own performance and that of its committees on the basis that it considers an informal rolling programme of review appropriate.

REPORT ON DIRECTORS' REMUNERATION

This remuneration report is made by the Board for the year ended 31 December 2012. 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

The Company's executive remuneration policy is to set total remuneration at levels designed to attract, motivate and retain high quality executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee is mindful of the competitive pressures inherent in the sector in which it operates. It is the Company's policy that remuneration components, except base salaries which are determined in accordance with compared companies, are related to the financial performance of the Company.
Each of the executive directors has a service contract with the Company, providing a notice provision of a maximum of six months.
Further information with respect to the Company's Compensation Plan is detailed under the Remuneration Committee paragraph.

EXECUTIVE DIRECTORS - REMUNERATION PACKAGES FOR THE YEAR 2012
(in paying currency - New Israeli Shekels[5])

Naftali Shani, Executive Chairman

Mr. Shani's remuneration package has not changed since approved by the Company's shareholders on 24 November 2010 and includes:

Monthly salary:	NIS 80,000
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. No bonus has been paid to-date.

Hagit Gal, Executive Director

Ms. Gal's remuneration package has not changed since approved by the Company's shareholders on 21 February 2012 and includes:

Monthly salary:	NIS 30,000
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. A bonus equivalent to one monthly salary was paid in 2011 for contribution in 2010.

[5] Exchange rate NIS to US dollar as at 31 December 2012 - 3.733

EXECUTIVE DIRECTORS - SHARE OPTIONS

EMBLAZE STOCK OPTION PLAN

	Number of options	Exercise Price	Cancelled	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	$0.125	1,080,000	Sept. 11, 2013	Fully vested as of Sept. 11, 2007

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, 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 does not include share options or other performance-related elements. Non-executive directors are also entitled to reimbursement of reasonable out-of-pocket expenses.

Non-executive directors have service contracts with the Company under which, each non-executive director 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 or any committee of the Board relating to their own remuneration, nor do they participate in any vote on their remuneration by the Board or any committee of the Board.

NON-EXECUTIVE DIRECTORS - SHARE OPTIONS

EMBLAZE STOCK OPTION PLAN

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

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.

EMBLAZE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

IN U.S. DOLLARS

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AUDITORS' REPORT - ANNUAL FINANCIAL STATEMENTS

To the Shareholders of

EMBLAZE LTD.

We have audited the accompanying consolidated financial statements of Emblaze Ltd. and its subsidiaries ("the Company") which comprise the consolidated balance sheets as of December 31, 2012, and 2011, and as of January 1, 2011, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the two years in the period ended December 31, 2012, 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 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 consolidated balance sheets of the Company as of December 31, 2012, and 2011, and as of January 1, 2011, and its consolidated financial performance and its cash flows for each of the two years in the period ended December 31, 2012, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 17, 2013

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31, 2012	December 31, 2011	January 1 2011
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5	$ 9,333	$ 148,261	$ 144,173
Short-term deposits	14	122,000	-	-
Financial assets at fair value through profit or loss	14	13,360	-	-
Available for sale financial assets	14	215	196	229
Restricted deposits		195	198	420
Accrued interest receivable		966	204	137
Prepaid expenses and other receivables	6	1,001	1,075	1,039
Total current assets		147,070	149,934	145,998
NON-CURRENT ASSETS:				
Equipment, net	7	67	59	44
Total assets		$ 147,137	$ 149,993	$ 146,042

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31, 2012	December 31, 2011	January 1 2011
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade payables		$ 268	$ 325	$ 341
Deferred revenues, other payables and accrued expenses	8	4,341	7,372	5,088
Liabilities of discontinued operations		-	-	2,445
Total current liabilities		4,609	7,697	7,874
NON-CURRENT LIABILITIES:				
Employee benefit liabilities, net	15	34	21	16
EQUITY:	10			
Share capital		416	416	416
Share premium		469,911	469,864	469,844
Treasury shares		(76,275)	(75,555)	(75,555)
Other capital reserve		132	98	131
Accumulated deficit		(251,346)	(252,282)	(256,503)
Equity attributable to Company's equity holders		142,838	142,541	138,333
Non- controlling interest		(344)	(266)	(181)
Total equity		142,494	142,275	138,152
Total liabilities and equity		$ 147,137	$ 149,993	$ 146,042

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

U.S. dollars in thousands, except share and per share data

	Note	Year ended December 31, 2012	2011
Revenues		$ 2,149	$ 1,207
Cost of sales		525	247
Gross profit		1,624	960
Operating expenses:			
Research and development		1,751	1,401
Selling and marketing		800	599
General and administrative		2,620	2,433
Total operating expenses		5,171	4,433
Operating loss		(3,547)	(3,473)
Financial income	13	2,460	2,702
Financial expense	13	(58)	(459)
Other income	9b	2,061	4,114
Income from continuing operations		916	2,884
Income (loss) from discontinued operations, net	21	(30)	1,289
Net income		$ 886	$ 4,173
Other comprehensive income (loss) :			
Gain (loss) from available-for-sale financial assets		$ 34	$ (33)
Actuarial loss from defined benefit plans		(32)	(42)
Total other comprehensive income (loss)		$ 2	$ (75)
Total comprehensive income		$ 888	$ 4,098
Net income attributable to:			
Equity holders of the Company		$ 968	$ 4,263
Non controlling interests		(82)	(90)
		$ 886	$ 4,173
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		$ 970	$ 4,188
Non controlling interests		(82)	(90)
Net income		$ 888	$ 4,098
Basic and diluted net earnings per share attributable to Company's equity holders	11		
Earnings from continuing operations		$ 0.01	$ 0.03
Earnings from discontinued operations		-	0.01
Net earnings per share		$ 0.01	$ 0.04

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Share capital	Share premium	Treasury shares	Available-for-sale reserve	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance as of January 1, 2011	$ 416	$ 469,844	$ (75,555)	$ 131	$ (256,503)	$ 138,333	$ (181)	$ 138,152
Net income	-	-	-	-	4,263	4,263	(90)	4,173
Other comprehensive loss	-	-	-	(33)	(42)	(75)	-	(75)
Total comprehensive income (loss)	-	-	-	(33)	4,221	4,188	(90)	4,098
Cost of share based payment	-	20	-	-	-	20	5	25
Balance as of January 1, 2012	416	469,864	(75,555)	98	(252,282)	142,541	(266)	142,275
Net income	-	-	-	-	968	968	(82)	886
Other comprehensive income (loss)	-	-	-	34	(32)	2	-	2
Total comprehensive income (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 December 31, 2012	$ 416	$ 469,911	$ (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 CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	2011
Cash flows from operating activities:		
Consolidated net income	$ 886	$ 4,173
Less - gain (loss) from discontinued operations	(30)	1,289
Income from continuing operations	916	2,884
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities :		
Depreciation	30	33
Cost of share-based payment	51	25
Change in financial assets at fair value through profit or loss	(70)	-
Increase in accrued interest from assets at fair value through profit or loss, short term deposits and restricted deposits	(614)	(67)
Interest received	(1,426)	(2,434)
	(2,029)	(2,443)
Changes in asset and liability items:		
Decrease (increase) in receivables and prepaid expenses	35	(81)
Increase (decrease) in trade payables, other payables and accrued expenses	(3,103)	2,394
Cash received during the year for:		
Interest	1,426	2,434
Net cash provided by (used in) operating activities from continuing operations	(2,755)	5,188
Net cash provided by (used in) operating activities from discontinued operations	5	(1,274)
Net cash provided by (used in) operating activities	(2,750)	3,914

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	2011
Cash flows from investing activities:		
Purchase of property and equipment	$ (38)	$ (48)
Investment in short term deposits	(122,000)	-
Purchase of financial assets at fair value through profit or loss	(15,133)	-
Proceeds from sale of financial assets at fair value through profit or loss and available for sale financial assets	1,713	-
Proceeds from restricted deposits	-	222
Net cash provided by (used in) investing activities from continuing operations	(135,458)	174
Cash flows from financing activities:		
Repurchase of Company shares	(720)	-
Net cash used in financing activities from continuing operations	(720)	-
Net increase (decrease) in cash and cash equivalents	(138,928)	4,088
Cash and cash equivalents at the beginning of the year	148,261	144,173
Cash and cash equivalents at the end of the year	$ 9,333	$ 148,261

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

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. Emblaze Ltd. ("Emblaze" or "the Company") is an Israeli corporation. The Company's shares are traded on the London Stock Exchange ("LSE") under the symbol BLZ.

EMOZE Ltd. ("EMOZE"), a provider of Push email and Personal Information Management ("PIM") synchronization to mobile users, is a 95% owned subsidiary of Emblaze.

ELSE Ltd. ("ELSE"), a 99% owned subsidiary of Emblaze, was engaged in the design of advanced mobile devices. The Company ceased further investments towards manufacturing of the First ELSE™ mobile device in June 2010 (see Note 2l).

b. Definitions in these financial statements:

Subsidiaries	- Companies that are controlled by the Company (as defined in IAS 27 (2008)) and whose accounts are consolidated with those of the Company.
Related parties	- As defined in IAS 24.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

These consolidated financial statements of Emblaze have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and are the Company's first annual financial statements reported in accordance with IFRS. In these financial statements, IFRS 1,"First-time Adoption of International Financial Reporting Standards", has been applied.

For all periods up to and including the year ended December 31, 2011, the Company prepared its financial statements in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) .The preparation of these consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under U.S. GAAP as of December 31, 2011 and for the year then ended. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The impact of the transition to report in accordance with IFRS on the Company's financial position, results of operations is detailed in Note 16.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 reporting currency of the Company and 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 balance sheet date.
- Revenues and expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the re-measurement mentioned above are reflected in the statement of operations in financial expenses and financial income.

c. Basis of consolidation:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. 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 consolidated financial statements are prepared using uniform accounting policies by all companies in the Company. Intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and their share of the net assets at fair value/ at the fair value of the non-controlling interests upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated balance sheet.

d. 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 acquisition.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. Short term deposits are deposits with original maturity of between three month and one year from date of investment.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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. In making such a determination, historical volatility in fair value is considered, as well as a decline in fair value of 20% or more, or a decline in fair value whose duration is six months or more. 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.

f. Equipment, net:

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 as follows:

	%
Computers and peripheral equipment	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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. 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.

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. The Company recognizes revenues from providing software related services. When the stage of completion cannot be determined reliably, revenues are recognized on a straight-line basis over the agreement period.

i. 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.

ii. Financial 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. (see Note 13).

h. 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.

i. Employee benefit liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include vacation pay, paid sick leave and social security contributions Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as expenses as the services are rendered or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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. Accordingly, the Company recognized all cumulative actuarial gains and losses at the date of transition to IFRS. Further details are disclosed in Note 15.

4. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of the options is estimated using a Binomial method options pricing model with the following weighted average assumptions:

	2011
Expected volatility	60%
Risk-free interest rate	0.83%-3.75%
Dividend yield	0%
Suboptimal exercise factor	1.5
Annual forfeiture rate	0%-15%

There were no grants during 2012. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. See Note 10.

j. 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 the income statement net of the reimbursed amount.

k. Research and development expenditures:

Research expenditures are recognized in profit or loss when incurred.

l. 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. The comparative income statement is restated as if the operation had been discontinued from the start of the earliest comparative period.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. 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, on May 19, 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. On June 13, 2011, the Company received the final payment for the sale of its holdings in Orca and recognized a gain of $ 1,609.

2. 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 loss of $ 30 and $ 320 during 2012 and 2011 respectively.

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

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:

a. Judgments:

   Determining the fair value of share-based payment transactions:
   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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

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

1. 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.

2. Pension and other post-employment benefits:

   The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. The carrying amount of the liability may be significantly affected by changes in such estimates.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

IAS 1 - Presentation of Financial Statements:

In June 2011, the IASB issued an amendment to IAS 1 ("the Amendment") which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be reclassified to profit or loss in a future period (such as upon derecognition or recovery) should be presented separately from items that will never be reclassified to profit or loss. The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. The Company will adopt the Amendment in its financial statements starting from the Amendment's effective date in 2013.

IAS 19 (Revised) - Employee Benefits:

Employee Benefits-The IASB made several changes to IAS 19, the principal of which are as follows: To eliminate the corridor approach and recognize all actuarial gains and losses in OCI as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. The Company estimates that the Standard is not expected to have a material impact on its financial statements.

U.S. dollars in thousands, except share and per share data

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

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 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.
The Standard is effective commencing from January 1, 2015. The Company believes that the Standard is not expected to have a material effect on the financial statements.

IFRS 10 - Consolidated Financial Statements:

IFRS 10 supersedes IAS 27 regarding the accounting treatment in respect of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "*Consolidation - Special Purpose Entities*".
IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. The Company believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements

IFRS 12 - Disclosure of Interests in Other Entities:

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and subsidiaries. The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

IFRS 13 - Fair Value Measurement:

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011	January 1, 2011
Cash	$ 2,075	$ 13,010	$ 459
Cash equivalents - deposits	7,258	135,251	143,714
	$ 9,333	$ 148,261	$ 144,173

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6:- PREPAID EXPENSES AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011	January 1, 2011
Prepaid expenses	$ 590	$ 868	$ 746
Government authorities	99	31	41
Trade receivables	175	-	31
Other	137	176	221
Total	$ 1,001	$ 1,075	$ 1,039

NOTE 7:- EQUIPMENT, NET

	December 31, 2012	December 31, 2011	January 1, 2011
Cost:			
Computers and peripheral equipment	$ 329	$ 291	$ 243
Accumulated depreciation:			
Computers and peripheral equipment	262	232	199
Depreciated cost	$ 67	$ 59	$ 44

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to $ 30 and $ 33, respectively.

NOTE 8:- DEFERRED REVENUES, OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2012	December 31, 2011	January 1, 2011
Deferred revenues	$ 1,211	$ 2,057	$ 2,743
Accrued expenses	1,729	3,806	355
Employees and payroll accruals	758	862	1,180
Other	643	647	810
	$ 4,341	$ 7,372	$ 5,088

NOTE 9:- COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

a. Guarantees:

The Company and its subsidiaries have provided bank guarantees aggregating to $ 68 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 $ 13,575 as of December 31, 2012). 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. On July 13, 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 $ 4,114 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 is an equivalent of $ 2,400). As a result, the Company recorded $ 2,020 as other income, net of related expenses, in 2012 (2011: $ 4,114). Legal proceedings are still ongoing in relation to EMSL's application for interest.

2. Emblaze, and some of its directors and officers, were named defendants in a few proceedings in the context of Bankruptcy proceedings brought personally against Mr. Eli Reifman, 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 position. Mr. Reifman's reports were duly reflected in the Company's annual and immediate reports, respectively. Several of Mr. Reifman's creditors have filed claims against numerous parties, as well as against the Company and some of its directors and officers, asserting reliance on information provided by the Company with respect to Mr. Reifman's holdings in 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 herebelow:

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

a) In November 2010, a claim was filed against the Company and its subsidiary, ELSE, in the Tel Aviv Labor Tribunal, claiming for termination indemnities in respect to an employment cessation of a former employee. The amount of the claim is NIS 2,700,000 (approximately $ 716 as of December 31, 2012). The claim against the Company was withdrawn in December 2011.

b) In April 2012, two of Mr. Reifman's creditors filed a claim against the 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 “caution reasons”. The claim is for a sum of NIS 73,340,642 (approximately $ 19,438 as of December 31, 2012),

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 86,459,093 (approximately $ 22,915 as of December 31, 2012). Pursuant to permission granted by the Bankruptcy Court in Israel on December 26, 2011, the majority of these creditors are represented in this claim by the trustee to Mr. Reifman's bankruptcy. The Company has appealed to the Supreme Court against this decision based on the apparent conflict of interest that the trustee has if he acts in this capacity and the trustee's apparent lack of standing to raise such claims. The appeal awaits a decision following a hearing that was held on December 31, 2012.

d) In November 2012, two creditors of Mr. Reifman have filed a claim for NIS 30,000,000 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 notification is for a sum of NIS 7,600,000 (approximately $ 2,014 as of December 31, 2012). On December 25, 2012, the said attorneys also filed an application to join the Company as one of the defendants in the claim filed against them.

While these claims described in a), b), c) and d) above are still in preliminary stages, the Company's legal advisors are of the opinion that the Company's chance of success against claim a) is not more likely than not and that the chance of success of claims b), c) and d) are remote and based on legal opinion of its legal advisors, the Company saw no reason to make any provision in these matters.

U.S. dollars in thousands, except share and per share data

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

3. 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 September 6, 2010, ordering the Company to withhold 27.75% of any dividend the Company may decide to distribute, to be held in trust by the General Administrator and Official Receivers Department of Israel's Ministry of Justice. The Court clarified that any such amount belongs to all Company's shareholders. Following an appeal filed by the Company, the Supreme Court cancelled the injunction on November 29, 2010, and limited the Company's responsibility only to notification obligation in case a decision on dividend distribution is made.

4. In June 2012, the Supreme Court has rejected an appeal filed by Paldom Feingold Metals, L.P. (the "Applicant") to order the Company to register a transfer of shares in the name of the Applicant pursuant to a share transfer deed between the Applicant and Mr. Reifman.

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 rent its offices under operating lease agreements. Aggregate minimum rental commitments under non-cancelable leases as of December 31, 2012, are as follows:

2013	$ 301
2014	27
Total	$ 328

Total rent expense for the years ended December 31, 2012 and 2011, amounted to $ 309, $ 249, respectively.

U.S. dollars in thousands, except share and per share data

NOTE 10:- 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:

	December 31,		January 1,
	2012	2011	2011
	Number of shares		
Authorized	200,000,000	200,000,000	200,000,000
Issued	140,578,154	140,578,154	140,578,154
Outstanding	110,832,034	111,755,932	111,755,932

The shares are quoted on the London Stock Exchange, as of December 31, 2012 at ₤ 0.44 ($ 0.71) per Ordinary share of NIS 0.01 per value.

b. Treasury stock:

As of December 31, 2011, the outstanding treasury stock amounted to 28,822,222 shares. During 2012, the Company has purchased a quantity of 923,898 shares through the market in amount of $ 720. As of December 31, 2012, the outstanding treasury stock amounted to 29,746,120 shares.

c. Employee's stock option plans:

In 1998, the Company implemented the 1999 employee stock option plan ("the 1999 Plan"). Under the 1999 Plan, 12,000,000 options to purchase Ordinary shares have been reserved for issuance. These options may be granted to officers, directors and employees and vest evenly each year over a period of four years after 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 granted options may not be less than the fair market price of the share at the date of grant. Any options that are either canceled or forfeited before expiration become available for future grants.

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.

U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

On June 9, 2003, the Company's shareholders approved the consolidation of the reserved Ordinary shares under 1999 Plan with the reserved Ordinary shares under 2001 Plan, so that shares reserved for allotment under the 1999 Plan will be treated as being available for allotment under the 2001 Plan, but without prejudice to the actual terms and conditions of each grant previously made under the 1999 Plan.

On August 31, 2006, the Company's shareholders approved the increase of the reserve of stock for issuance under the Company's 2001 Plan by an additional 13,000,000 shares.

On September 11, 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 February 21, 2012, the Company's shareholders resolved to extend the term of the Company's 2001 Plan for additional 10 years effective from July 1, 2011.

Total number of options available for future grants was 26,487,857 and 26,541,557 as of December 31, 2011 and 2012, respectively.

d. Expenses recognized in the financial statements:

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

	December 31,	
	2012	**2011**
Total expense arising from share-based payment transactions	$ 51	$ 25

The share-based payment transactions that the Company granted to its employees are described below. There have been no modifications or cancellations to any of the employee benefit grants during 2012 and 2011.

U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

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

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

The following table summarizes information about options outstanding and exercisable as of December 31, 2012:

Range of exercise price	Options outstanding as of December 31, 2012	Weighted average remaining contractual life (years)	Weighted Average Exercise Price	Options exercisable as of December 31, 2012	Weighted average exercise price of options exercisable
$ 0.00-0.79	465,000	8.1	$ 0.701	161,250	$ 0.715
$ 1.18-1.83	280,000	7.4	$ 1.701	280,000	$ 1.701
$ 2.068-3.35	216,400	1.5	$ 2.343	216,400	$ 2.343
	961,400		$ 1.36	657,650	$ 1.67

For options outstanding at December 31, 2011, the aggregate intrinsic value was $ 4 and for options exercisable at December 31, 2012, the aggregate intrinsic value was $0. The aggregate intrinsic value represents the total pre-tax intrinsic value based on the Company's closing stock price of $ 0.71 on December 31, 2012, less the weighted average exercise price of in-the-money options. This represents the potential amount receivable by the option holders had all option holders exercised their options as of such date. The total intrinsic value of options exercised during the years ended December 31, 2011 and 2012 was $ 0.

U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

On March 21, 2011, the Board of the Company approved to grant 300,000 share options to the Company's employees. The exercise price of the stock options was determined at $ 0.65 equal to the fair market value of the shares at the date of grant. The share options vest quarterly over a period of four years until November 2015.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2011 was $ 0.44.

As of December 31, 2012, there was an unrecognized compensation cost of $ 93 related to stock options that is expected to be recognized in future periods.

g. 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.

The following table is a summary of the status of options of the Company's subsidiary as of December 31, 2012:

Subsidiary	Outstanding options	Weighted average exercise price	Exercisable options	Weighted average exercise price of exercisable options
EMOZE	3,341,000	$ 0.09	3,341,000	$ 0.09

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 11:- EARNINGS PER SHARE

Basic:

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of Ordinary shares issue during the year excluding Ordinary shares purchased by the Company and held as treasury shares.

Diluted:

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has one category of dilutive potential Ordinary shares - share options, of share based payment arrangements. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares). The assumed proceeds from exercise should be regarded as having been used to repurchase ordinary shares at the average market price during the period. The difference between the number of Ordinary shares assumed issued on exercise and the number of Ordinary shares assumed repurchased shall be treated as an issue of Ordinary shares for no consideration.

	December 31,	
	2012	**2011**
Number of shares used for calculation of earnings per share - Basic	111,498,570	111,755,932
Adjustments for share options	11,180	604
Number of shares used for calculation of earnings per share - Diluted	111,509,750	111,756,536
Continuing operations:		
Net income from continuing operations	$ 916	$ 2,884
Basic and diluted earnings per share to Company's shareholders	$ 0.01	$ 0.03
Discontinued operations:		
Net income (loss) from discontinued operations	$ (30)	$ 1,289
Basic and diluted earnings per share to Company's shareholders	$ -	$ 0.01
Total earnings per share	$ 0.01	$ 0.04

NOTE 12:- TAX ON INCOME

a. Israeli income tax rates:

The Israeli corporate tax rate was 24% in 2011. On December 5, 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.

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. According to this status and subject to compliance with certain conditions in the law the company and its subsidiary submit a consolidated tax return to the Tax Authorities. As a result, the companies are, inter alia, filling on a consolidated basis to offset their losses from the taxable income.

c. Subsidiaries outside Israel:

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

d. Loss carryforward:

The Company and its Israeli subsidiaries have trading and capital accumulated losses for tax purposes as of December 31, 2012 in the aggregate amount of approximately $ 181,736 which may be carried forward and offset against certain taxable income in the future for an indefinite period.

The Company's foreign subsidiaries have trading and capital accumulated losses for tax purposes as of December 31, 2012, in the amount of approximately $ 8,192.

Deferred tax assets relating to carryforward operating losses of approximately $ 46,217 and to other temporary differences of approximately $ 35 were not recognized because their utilization in the foreseeable future is not probable.

e. 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 accumulated net operating losses carry forward among the Company and various subsidiaries due to uncertainty of the realization of such tax benefits.

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

NOTE 13:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Financial Income and Expenses

	Year ended December 31	
	2012	2011
Financial income:		
Interest income on bank deposits	$ 2,298	$ 2,702
Interest income from debentures	162	-
Total financial income recognized in profit or loss	$ 2,460	$ 2,702
Financial expenses:		
Bank fees and charges	$ 34	$ 13
Net foreign exchange loss	24	446
Total financial expenses recognized in profit or loss	$ 58	$ 459

NOTE 14: - FINANCIAL ASSETS

a. Classification of financial assets:

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

	December 31, 2012	December 31, 2011	January 1, 2011
Financial assets at fair value through profit or loss	$ 13,360	$ -	$ -
Available-for-sale financial assets	$ 215	$ 196	$ 229
Cash and cash equivalents	$ 9,333	$ 148,261	$ 144,173
Short- term deposits	$ 122,000	$ -	$ -

b. Management of financial risks:

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

NOTE 14: - FINANCIAL ASSETS (Cont.)

1. Market risks:

   a) 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 December 31, 2012, there are no assets or liabilities in significant amounts that are denominated in a foreign currency.

   b) Price risk - The Company has marketable securities (debentures) at fair value through profit or loss in respect of which the Company is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price. As of December 31, 2012, the carrying amount of these investments was $ 13,360 (December 31, 2011 and January 1, 2011 - $ 0 thousand).

2. Credit risk - the Company believes it has no significant credit risk concentrations in respect to its cash preservation activities, which includes cash and cash equivalents, cash deposits and marketable securities (debentures).

   As of December 31, 2012, cash and cash equivalents totaled $ 9,333 thousand (December 31, 2011 - $ 148,261 thousand, January 1, 2011 - $ 144,173 thousand), marketable securities totaled $ 13,360 thousand (debentures) and short-term deposits totaled approximately $ 122,000 thousand (December 31, 2011 and January 1, 2011 - $ 0).

   The Company holds cash and cash equivalents, short-term deposits and marketable securities 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.

3. Fair value

   a) Fair values versus carrying amounts:

   The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, short-term investments, deposits, trade payables and other payables are the same or proximate to their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 14: - FINANCIAL ASSETS (Cont.)

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.

	December 31, 2012		
	Level 1	**Level 2**	**Total**
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
	$ 13,360	$ 215	$ 13,575

	December 31, 2011		
	Level 1	**Level 2**	**Total**
Available-for-sale financial assets:			
Marketable shares	$ 10	$ -	$ 10
Other securities	-	186	186
	$ 10	$ 186	$ 196

	January 1, 2011		
	Level 1	**Level 2**	**Total**
Available-for-sale financial assets:			
Marketable shares	$ 9	$ -	$ 9
Other securities	-	220	220
	$ 9	$ 220	$ 229

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 15:- EMPLOYEE BENEFITS

Employee benefits include post-employment benefits, short-term benefits and share-based payments.

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 Company 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 Company deposits amounts in central severance pay funds and in qualifying insurance policies.

Short-term employee benefits:

	December 31,		January 1
	2012	2011	2011
Presented under current liabilities – other payables and accrued expenses:			
Short-term employee benefits (1)	$ 300	$ 234	$ 206
Post employment benefits:			
Presented under non-current liabilities - employee benefits:			
Recognized liability for defined benefit plan, net	$ 535	$ 384	$ 366
Net asset for termination benefits - defined benefit plan	501	363	350
Net liability	$ 34	$ 21	$ 16

(1) Short-term employee benefits include liabilities for salary, social benefits including vacation and recreation.

U.S. dollars in thousands, except share and per share data

NOTE 15:- EMPLOYEE BENEFITS (Cont.)

(2) Plan assets comprise:

	December 31, 2012	December 31, 2011
Qualifying insurance policies	$ 501	$ 363

a. Movement in the present value of the defined benefit obligations:

	December 31, 2012	December 31, 2011
Defined benefit obligation as of January 1	$ 384	$ 366
Benefits paid	(7)	(113)
Current service costs	128	109
Interest costs	19	13
Changes in respect of foreign exchange differences	5	(25)
Actuarial losses recognized in other comprehensive income	6	34
Defined benefit obligation as of December 31	$ 535	$ 384

b. Movement in plan assets:

	December 31, 2012	December 31, 2011
Fair value of plan assets as of January 1	$ 363	$ 350
Contributions paid into the plan	146	121
Benefits paid by the plan	(5)	(85)
Changes in respect of foreign exchange differences	5	(28)
Expected return on plan assets	18	13
Actuarial losses recognized in other comprehensive income	(26)	(8)
Fair value of plan assets as of December 31	$ 501	$ 363

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 15:- EMPLOYEE BENEFITS (Cont.)

c. Expense recognized in profit or loss:

	Year ended December 31, 2012	Year ended December 31, 2011
Current service costs	$ 128	$ 109
Interest costs	19	13
Expected return on plan assets	(18)	(13)
	$ 129	$ 109

d. Actual return:

	Year ended December 31, 2012	Year ended December 31, 2011
Actual return on plan assets	$ (10)	$ 3

e. Actuarial gains and losses recognized directly in other comprehensive income:

	Year ended December 31, 2012	Year ended December 31, 2011
Cumulative amount as of January 1	$ 42	$ -
Recognized amount during the period	32	42
Cumulative amount as of December 31	$ 74	$ 42

f. Actuarial assumptions:

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	Year ended December 31, 2012	2011	2010
	%		
Discount rate as of December 31	3.21	4.08	4.42
Expected return on plan assets as of January 1	3.6	4.4	4.95
Future salary increases	2	-	2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

a. General

As discussed in Note 2, these consolidated financial statements are the first annual consolidated financial statements in accordance with IFRS. The accounting policies detailed in Note 2 were applied in preparation of the consolidated financial statements for the year ended December 31, 2012, the comparative data for year ended December 31, 2011 and the opening balances sheet as of January 1, 2011 ("The Transition Date").

b. Reconciliation from US GAAP to IFRS

1. IFRS 1 requires the presentation of a reconciliation in respect of the financial statement data that were published in the past and are included as comparative data in these consolidated financial statements, between the amounts of the said financial statement data presented in accordance with US GAAP, as were published in the past, and the amounts that would have been presented if the said consolidated financial statements had been prepared in accordance with IFRS.

2. Set forth below is a reconciliation note which presents the material effects of application of IFRS on the Company's consolidated balance sheet and equity as of December 31, 2011 and January 1, 2011, and on the Company's consolidated statement of income for 2011.

Company reconciliation of equity as at January 1, 2011:

	US GAAP	Effect of transition to IFRS and other adjustments	IFRS as at January 1, 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 144,173	$ -	$ 144,173
Short-term investments	229	(229)	-
Available-for-sale financial assets	-	229	229
Restricted deposits	420	-	420
Accrued interest	137	-	137
Prepaid expenses and other receivables *	1,039	-	1,039
Total current assets	145,998	-	145,998
NON-CURRENT ASSETS:			
EQUIPMENT, NET	44	-	44
Total assets	$ 146,042	$ -	$ 146,042

* Include as discontinued assets and liabilities under the US GAAP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS (Cont.)

Company reconciliation of equity as at January 1, 2011:

	US GAAP	Effect of transition to IFRS and other adjustments	IFRS as at January 1, 2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	$ 341	$ -	$ 341
Other payables and accrued expenses *	5,088	-	5,088
Liabilities of discontinued operations	2,445	-	2,445
Total current liabilities	7,874	-	7,874
Employee benefit liabilities, net	117	(101)	16
EQUITY:			
Share capital	416	-	416
Share premium	469,844	-	469,844
Treasury shares	(75,555)	-	(75,555)
Other capital reserve	-	131	131
Accumulated deficit	(257,123)	620	(256,503)
Equity attributed to Company's equity holders	137,582	751	138,333
Non- controlling interest	469	(650)	(181)
Total equity	138,051	101	138,152
Total liabilities and equity	$ 146,042	$ -	$ 146,042

* Include as discontinued assets and liabilities under the US GAAP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS (Cont.)

Company reconciliation of equity as at December 31, 2011:

	US GAAP	Effect of transition to IFRS and other adjustments	IFRS as at December 31, 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 148,261	$ -	$ 148,261
Short-term investments	196	(196)	-
Available-for-sale financial assets	-	196	196
Restricted deposits	198	-	198
Accrued interest	204	-	204
Prepaid expenses and other receivables *	1,075	-	1,075
Total current assets	149,934	-	149,934
NON-CURRENT ASSETS:			
EQUIPMENT, NET	59	-	59
Total assets	$ 149,993	$ -	$ 149,993

* Include as discontinued assets and liabilities under US the GAAP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS (Cont.)

Company reconciliation of equity as at December 31, 2011:

	US GAAP	Effect of transition to IFRS and other adjustments	IFRS as at December 31, 2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables	$ 325	$ -	$ 325
Other payables and accrued expenses *	7,372	-	7,372
Total current liabilities	7,697	-	7,697
Employee benefit liabilities, net	151	(130)	21
EQUITY:			
Share capital	416	-	416
Share premium	469,864	-	469,864
Treasury shares	(75,555)	-	(75,555)
Other components of equity	-	98	98
Accumulated deficit	(253,054)	772	(252,282)
Equity attributed to Company's equity holders	141,671	870	142,541
Non- controlling interest	474	(740)	(266)
Total equity	142,145	130	142,275
Total liabilities and equity	$ 149,993	$ -	$ 149,993

* Include as discontinued assets and liabilities under the US GAAP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS (Cont.)

Company reconciliation of total comprehensive income for the year ended December 31, 2011

	US GAAP	Effect of transition to IFRS and other adjustments	IFRS as at December 31, 2011
Revenues	$ 1,207	$ -	$ 1,207
Cost of sales	247	-	247
Gross profit	960	-	960
Operating expenses:			
Research and development	1,401	-	1,401
Selling and marketing	599	-	599
General and administrative	2,504	(71)	2,433
Total operating expenses	4,504	(71)	4,433
Operating loss	3,544		3,473
Financial income	2,669	33	2,702
Financial expense	(459)	-	(459)
Other income	4,114	-	4,114
Profit for the year from continuing operations	2,780	104	2,884
Profit from discontinued operations, net	1,289	-	1,289
Profit for the year to Company's shareholders	$ 4,069	$ 104	$ 4,173
Other comprehensive income :			
Loss from available-for-sale financial assets	$ -	$ (33)	$ (33)
Actuarial loss from defined benefit plans	-	(42)	(42)
Total comprehensive income for the year to Company's shareholders	$ 4,069	$ 29	$ 4,098

NOTE 16:- RECONCILIATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER US GAAP TO CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS (Cont.)

c. Notes to reconciliations:

1. Reclassification of financial assets presented as short-term investments under US GAAP to available-for-sale financial assets under IFRS in accordance with IAS 39. Accordingly, gains and losses from fair value adjustments are recognized to other comprehensive income.

2. Adjustment of post-employment benefits from undiscounted method under US GAAP to an actuarial calculation (projected unit credit method) under IFRS. Under IFRS actuarial gains and losses are included in other comprehensive income in the period in which they arise.

3. Adjustment of US GAAP to reflect correction of non-controlling interests in respect of losses attributable to those interests.

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