

EMBLAZE LTD.
(LSE:BLZ)
("EMBLAZE" OR "THE COMPANY")

INTERIM MANAGEMENT STATEMENT

Herzeliya, Israel, 19 November 2013:

During the period commencing 1 July 2013 to 18 November 2013 (the "**Relevant Period**"), the Company has undergone several changes. A summary of the material events and transactions that have taken place during the Relevant Period are set out below:

Highlights

- Revenues amounted to \$1.6 million for the period of nine months ending 30 September 2013 (Q3.2012: \$1.4 million). The balance of cash and cash equivalent, short term investments and deposit in trust as of 30 September 2013 is \$142.4 million (of which approx. \$120.4 million are deposited in trust in favour of the Proposed Transaction) (2012: \$144.7 million).
- The total issued share capital of the Company, as at 18 November 2013, was 140,578,154 of which, 109,990,252 ordinary shares are outstanding, and 30,587,902 shares are held in treasury.
- Acquisition by BGI Investments (1961) Ltd. (hereinafter: "**BGI**") on 14 August 2013 of:
 - i. 20.01% of the total issued and outstanding Ordinary Shares (excluding the treasury shares) (hereinafter: "**Issued Shares**") of the Company; and
 - ii. call options and grant of put options (hereinafter: "**Options**") in respect of a further 19.09 % of the Issued Shares(see Company announcement dated 15 August 2013)
- Subsequent assignment of the Options to Chabad 770 B.V., the controlling shareholder of BGI (hereinafter: "**Chabad**") and exercise by Chabad of a call option over 1,750,000 Ordinary Shares resulting in Chabad holding a total of 1,750,000 ordinary shares of the Company, representing approximately 1.59% of the Company's issued share capital (excluding treasury shares). Together with Chabad, BGI currently holds a total of 23,766,166 ordinary shares of the Company, representing approximately 21.6% of the Company's Issued Shares and voting rights (see Company announcements dated 22 August 2013, 21 October 2013 and 1 November 2013, as necessary)
- Effective 14 August 2013, replacement of a majority of the Company's board members.

The board of directors of Emblaze (the "**Board**") consists now of the following members:

- Abraham Wolff (Chairman)
- Israel Jossef Schneerson (CEO and Vice Chairman)
- Zvi Shur (statutory independent non-executive director¹)
- Yosef Schvinger (independent non-executive director)
- Chanoch Winderboim (non-executive Director)
- Amnon Ben-Shay (non-executive Director).

The Company's chief financial officer is Mr. Eyal Merdler.

Naftali Shani, Yuval Cohen, Shmuel Barashi, Ilan Flato and Hagit Gal each resigned from the Board on 14 August 2013 and Nahum Admoni and Shimon Laor resigned from the Board on 16 August 2013 and 25 August 2013, respectively.

(see Company announcement dated 15 August 2013, 16 August 2013 and 26 August 2013)

- Submission of an offer to IDB Holdings Corporation Ltd. (hereinafter: "**IDB**") on behalf of the Company and Netz Group Limited (hereinafter: "**Netz Group**") proposing the investment by Emblaze and Netz in IDB (hereinafter: the "**Proposed Transaction**").

¹Pursuant 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 2010 UK Corporate Governance.

(see Company announcements dated 15 August 2013 and 16 October 2013, as necessary)

- Extensions to deadline to submit proposals – first to 20 October 2013 and then to 3 November 2013 - and deposit in trust through 26 August 2013 of \$120.4 million (NIS 426 million) to be returned to the Company in circumstances where the proposed investment in IBD does not proceed.
(see Company announcements dated 27 August 2013 and 18 October 2013, as necessary)
- Issue of circular on 16 October 2013 convening an Extraordinary General Meeting to approve, amongst other things, the transfer of the Company's listing category from the category of a premium listing (commercial company) on the Official List to a standard listing on the Official List on the Official List (the "**Transfer**").
(see Company announcement dated 16 October 2013)
- Approval by the Company's Shareholders on 30 October 2013 of, amongst other things, the Transfer. The date upon which the Transfer is expected to become effective is 28 November 2013.
(see Company announcement dated 30 October 2013)
- Submission by IDB on 3 November 2013 of a proposal to the District Court of Tel Aviv (the "**Court**"), on behalf of a consortium of investors led by the Company (the "**Consortium**"), to acquire a controlling stake in IDB.
(see Company announcement dated 4 November 2013 for further details on the Proposed Transaction)
- Addition of Neto Melinda Trade Ltd. (the "**Neto Group**") to the Consortium on 10 November 2013.
(see Company announcement dated 11 November 2013)
- Submission of letter by IDB to the Court- appointed expert on 11 November 2013 clarifying certain matters relating to the Consortium's Proposal.
(see Company announcement dated 12 November 2013)
- Addition of Mr. Daniel Jusidman to the Consortium on 13 November 2013.
(see Company announcement dated 13 November 2013)

A number of the matters referred to above have resulted in changes to the Board and in the make-up of the substantial shareholders in the Company, particularly following the acquisition of Ordinary Shares by BGI. As stated above, In connection with the Proposed Transaction the Company has deposited in trust, through 26 August 2013, an amount of NIS 425 million (US \$120 million). The deposit will be returned to the Company in circumstances where the proposed investment in IBD does not proceed.

Trading

Emblaze's shares have been temporarily suspended since 15 August 2013 pending the publication of sufficient information on the Proposed Transaction. It is likely that suspension of trading in Ordinary Shares will continue following the completion of the transfer of the Company's listing into the category of a standard listing on the Official List and completion of the Proposed Transfer until either the Company announces that it is ceasing to pursue the Proposed Transaction, or the Company publishes a prospectus in respect of the enlarged group (comprising the Company and IDB) following the Court's approval of the Proposed Transaction.

Intellectual Property

In July 2010, Emblaze filed a complaint against Apple Inc. for infringement of the Company's U.S. Patent No. 6,389,473 through Apple's HTTP Live Streaming protocol used in Apple products such as iPhones and iPads². The jury trial in this case was rescheduled for June 2014.

In October 2012, the Company filed a complaint for patent infringement against Microsoft Corporation ("Microsoft"). The complaint asserts that Microsoft's IIS Smooth Streaming system infringes Emblaze's U.S. patent No. 6,389,473 for media streaming technology³.

Legal proceedings in these two cases are ongoing.

²Apple, iPhone, iPod Touch, iPad and Snow Leopard are proprietary names of Apple Inc.

³Microsoft, IIS Smooth Streaming and Windows Azure Media Services are proprietary names of Microsoft Corporation.

Josief Schneerson, CEO, commented: *“we are committed to actively seek to utilise the Company's resources in order to maximize value for its shareholders. The transfer to standard listing should enable the Company to respond quickly to business opportunities and will better align the Company's regulatory responsibilities given the Company's size and the nature of its operations. We are hoping that the proposal filed, together with our partners, for the acquisition of IDB will be the winning proposal. However, if the proposed investment in IBD does not proceed, we intend to explore business opportunities in various sectors, in which the management of the Company can and would be actively involved.”*

Enquiries:

Hagit Gal
Emblaze Ltd.

hagit.gal@emblaze.com

Emblaze Ltd. is traded on the London Stock Exchange (LSE: BLZ) since 1996. www.emblaze.com

EMBLAZE LTD.

INTERIM CONDESED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2013

UNAUDITED

U.S. DOLLARS IN THOUSANDS

INDEX

	<u>Page</u>
Report on Review of Interim Condensed Consolidated Financial Statements	2
Interim Condensed Consolidated Statements of Financial Position	3 - 4
Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income	5
Interim Condensed Consolidated Statements of Changes in Equity	6 - 7
Interim Condensed Consolidated Statements of Cash Flows	8 - 9
Notes to Interim Condensed Consolidated Financial Statements	10 - 25

Report on Review of Interim Condensed Consolidated Financial Statements**Board of Directors****Emblaze Ltd.****Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Emblaze Ltd. and its subsidiaries ("the Group") as of September 30, 2013 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, "Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Beer-Sheva, Israel
November 18, 2013**KOST FORER GABBAY & KASIERER**
A Member of Ernst & Young Global

EMBLAZE LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2013	December 31, 2012
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	5,782	9,333
Deposit in trust (see Note 4)	120,428	-
Short-term deposits	16,223	122,000
Financial assets at fair value through profit or loss	-	13,360
Available for sale financial assets	205	215
Restricted deposits	201	195
Accrued interest receivable	122	966
Prepaid expenses and other receivables	493	1,001
Total current assets	143,454	147,070
NON-CURRENT ASSETS:		
Equipment, net	65	67
Total assets	143,519	147,137

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>September 30,</u> <u>2013</u> <u>Unaudited</u> <u>U.S. dollars in thousands</u>	<u>December 31,</u> <u>2012</u> <u>Audited</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	384	268
Deferred revenues and accrued expenses	<u>1,544</u>	<u>4,341</u>
Total current liabilities	<u>1,928</u>	<u>4,609</u>
NON-CURRENT LIABILITIES:		
Employee benefit liabilities, net	<u>18</u>	<u>34</u>
EQUITY:		
Share capital	416	416
Share premium	469,931	469,911
Treasury shares	(76,962)	(76,275)
Available for sale reserve	122	132
Accumulated deficit	<u>(251,542)</u>	<u>(251,346)</u>
Equity attributable to equity holders of the Company	141,965	142,838
Non- controlling interest	<u>(392)</u>	<u>(344)</u>
Total equity	<u>141,573</u>	<u>142,494</u>
Total liabilities and equity	<u><u>143,519</u></u>	<u><u>147,137</u></u>

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

EMBLAZE LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Nine months ended September, 30		Three months ended September, 30		Year ended December, 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	U.S. dollars in thousands (except earnings per share)				
Revenues	1,587	1,388	522	495	2,149
Cost of revenues	334	325	62	101	525
Gross profit	1,253	1,063	460	394	1,624
Operating expenses:					
Research and development	1,154	1,322	393	502	1,751
Selling and marketing	134	539	-	163	800
General and administrative	3,422	1,902	1,873	527	2,620
Total operating expenses	4,710	3,763	2,266	1,192	5,171
Operating loss	(3,457)	(2,700)	(1,806)	(798)	(3,547)
Financial income	3,407	1,851	2,582	607	2,460
Financial expense	(323)	(29)	(271)	(3)	(58)
Other income (loss)	-	1,999	-	(3)	2,061
Net income (loss) from continuing operations	(373)	1,121	505	(197)	916
Net income (loss) from discontinued operations	129	(13)	(31)	6	(30)
Net income (loss)	(244)	1,108	474	(191)	886
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:					
Gain (loss) from available-for-sale financial assets	(10)	(6)	-	-	34
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:					
Actuarial loss from defined benefit plans	-	-	-	-	(32)
Total other comprehensive income (loss)	(10)	(6)	-	-	2
Total comprehensive income (loss)	(254)	1,102	474	(191)	888
Net income (loss) attributable to:					
Equity holders of the Company	(196)	1,036	493	(161)	968
Non controlling interests	(48)	72	(19)	(30)	(82)
Net income (loss)	(244)	1,108	474	(191)	886
Total comprehensive income (loss) attributable to:					
Equity holders of the Company	(206)	1,030	493	(161)	970
Non controlling interests	(48)	72	(19)	(30)	(82)
Total comprehensive income (loss)	(254)	1,102	474	(191)	888
Basic and diluted net earnings (loss) per share attributable to Company's equity holders (in U.S. dollars):					
Earnings from continuing operations	- *)	0.01	- *)	- *)	0.01
Earnings from discontinued operations	- *)	-*)	- *)	- *)	- *)
Net earnings (loss) per share	-	0.01	-	-	0.01

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available-for-sale reserve	Accumulated deficit	Total		
	U.S. dollars in thousands							
	Unaudited							
Balance as of January 1, 2013 (audited)	416	469,911	(76,275)	132	(251,346)	142,838	(344)	142,494
Loss	-	-	-	-	(196)	(196)	(48)	(244)
Other comprehensive loss	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive loss	-	-	-	(10)	(196)	(206)	(48)	(254)
Cost of share based payment	-	20	-	-	-	20	-	20
Purchase of treasury stock	-	-	(687)	-	-	(687)	-	(687)
Balance as of September 30, 2013	416	469,931	(76,962)	122	(251,542)	141,965	(392)	141,573
	Attributed to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Available-for-sale reserve	Accumulated deficit	Total		
	U.S. dollars in thousands							
	Unaudited							
Balance as of January 1, 2012 (audited)	416	469,864	(75,555)	98	(252,282)	142,541	(266)	142,275
Net income	-	-	-	-	1,036	1,036	72	1,108
Other comprehensive loss	-	-	-	(6)	-	(6)	-	(6)
Total comprehensive income (loss)	-	-	-	(6)	1,036	1,030	72	1,102
Cost of share based payment	-	22	-	-	-	22	-	22
Purchase of treasury stock	-	-	(308)	-	-	(308)	-	(308)
Balance as of September 30, 2012	416	469,886	(75,863)	92	(251,246)	143,285	(194)	143,091

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company						Non- controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Available- for-sale reserve	Accumulated deficit	Total		
	U.S. dollars in thousands							
	Audited							
Balance as of January 1, 2012	416	469,864	(75,555)	98	(252,282)	142,541	(266)	142,275
Net income (loss)	-	-	-	-	968	968	(82)	886
Other comprehensive income (loss)	-	-	-	34	(32)	2	-	2
Total comprehensive 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 interim condensed consolidated financial statements.

EMBLAZE LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September, 30		Three months ended September, 30		Year ended December 31,
	2013	2012	2013	2012	2012
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Income (loss)	(244)	1,108	474	(191)	886
Less - gain (loss) from discontinued operations	<u>129</u>	<u>(13)</u>	<u>(31)</u>	<u>6</u>	<u>(30)</u>
Income (loss) from continuing operations	<u>(373)</u>	<u>1,121</u>	<u>505</u>	<u>(197)</u>	<u>916</u>
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities :					
Depreciation	23	22	7	7	30
Cost of share-based payment	20	22	-	-	51
Change in financial assets at fair value through profit or loss	271	(81)	(57)	(81)	(70)
Decrease (increase) in accrued interest receivables	844	(379)	581	(85)	(614)
Interest received-adjustment	(1,631)	(1,384)	(220)	(530)	(1,426)
Exchange rate differences on deposit in trust	<u>(2,516)</u>	<u>-</u>	<u>(2,516)</u>	<u>-</u>	<u>-</u>
	<u>(2,989)</u>	<u>(1,800)</u>	<u>(2,205)</u>	<u>(689)</u>	<u>(2,029)</u>
Changes in asset and liability items:					
Decrease in receivables and prepaid expenses	377	127	268	277	35
Decrease in trade payables, deferred revenues, accrued expenses and other liabilities, net	(2,217)	(2,710)	(1,637)	(1,843)	(3,103)
Interest received	<u>1,631</u>	<u>1,384</u>	<u>220</u>	<u>530</u>	<u>1,426</u>
	<u>(209)</u>	<u>(1,199)</u>	<u>(1,149)</u>	<u>(1,036)</u>	<u>(1,642)</u>
Net cash used in operating activities from continuing operations	(3,571)	(1,878)	(2,849)	(1,922)	(2,755)
Net cash provided by (used in) operating activities from discontinued operations	<u>(220)</u>	<u>2</u>	<u>(74)</u>	<u>(3)</u>	<u>5</u>
Net cash used in operating activities	<u>(3,791)</u>	<u>(1,876)</u>	<u>(2,923)</u>	<u>(1,925)</u>	<u>(2,750)</u>

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

EMBLAZE LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September, 30		Three months ended September, 30		Year ended December 31,
	2013	2012	2013	2012	2012
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of property and equipment, net	(21)	(22)	(10)	(5)	(38)
Maturing of (investment in) short-term bank deposits	105,771	(129,183)	95,871	(23,391)	(122,000)
Investment in deposit in trust	(117,912)	-	(117,912)	-	-
Purchase of financial assets at fair value through profit or loss	(13,352)	(8,607)	(640)	(8,607)	(15,133)
Proceeds from sale of financial assets at fair value through profit or loss and available for sale financial assets	26,441	644	25,059	634	1,713
Net cash provided by (used in) investing activities	927	(137,168)	2,368	(31,369)	(135,458)
<u>Cash flows from financing activities:</u>					
Purchase of treasury shares	(687)	(308)	-	(93)	(720)
Net cash used in financing activities	(687)	(308)	-	(93)	(720)
Net decrease in cash and cash equivalents	(3,551)	(139,352)	(555)	(33,387)	(138,928)
Cash and cash equivalents at the beginning of the period	9,333	148,261	6,337	42,296	148,261
Cash and cash equivalents at the end of the period	5,782	8,909	5,782	8,909	9,333

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Emblaze Ltd. ("Emblaze" or "the Company") is a corporation registered in Israel. As at the reporting date, the Company's shares are listed for trading on the Official List of the London Stock Exchange ("LSE") under the symbol BLZ. See Note 4 for details of the transfer of listing and suspension of trading in the Company's shares.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**a. Basis of preparation:**

The interim condensed consolidated financial statements as of September 30, 2013 and for the nine month period then ended ("interim consolidated financial statements") have been prepared in accordance with IAS 34 - "Interim Financial Reporting".

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as of December 31, 2012.

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 reporting 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 profit or loss 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.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Basis of consolidation: (cont.)

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 statement of financial position.

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.

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

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

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

b) Available-for-sale financial assets:

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

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Financial assets: (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.

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.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

	<u>%</u>
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.

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.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 benefits 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).

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.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Employee benefits liabilities: (cont.)

3. Share-based payment transactions:

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

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

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

The fair value of the options is estimated using a Binomial method options pricing model.

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. Comparative data are restated as if the operation had been discontinued from the start of the earliest comparative period.

NOTE 2:- BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- m. New standards, interpretations and amendments applied for the first time by the Company

The following changes in accounting policies commencing from January 1, 2013 due to the adoption of new standards did not have a material effect on the interim financial statements:

- IAS 19 (Revised) Employee benefits
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 13 Fair Value Measurement
- Presentation of Items of other Comprehensive Income

- n. Financial Instrument disclosure

1. The fair value of financial assets and liabilities approximate their carrying amount.

2. Exchange risk-

During the three month period ended September 30, 2013, most of the Company's investments and cash and cash equivalents were converted from the US Dollar, which is the functional and presentation currency to NIS.

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.

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.

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

b. Estimates and assumptions: (cont.)

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:- SUPPLEMENTARY INFORMATION

4.1 Recent transactions in Ordinary Shares and Board changes

On 14 August 2013, the Company was notified that BGI Investments (1961) Ltd. ("**BGI**"), an Israeli public company admitted to trading on the Tel Aviv Stock Exchange (TASE), had:

- acquired, directly or through a wholly-owned subsidiary of BGI, 20.01% of the total issued and outstanding Ordinary Shares (excluding the treasury shares) ("**Issued Shares**") of the Company; and
- granted written put options and purchased call options in respect of a further 19.09 % of the Issued Shares.

The Company was subsequently notified that BGI assigned the above options to Chabad 770 B.V., the controlling shareholder of BGI ("**Chabad**").

After the reporting period, Chabad exercised call options in respect of 1,750,000 Ordinary Shares of the Company, equal to 1.59% of the issued shares. BGI and Chabad are considered as holding together, approximately 21.6% of the issued shares.

The following appointments to the Board took effect on 14 August 2013:

- Mr. Abraham Wolff (Chairman);
- Mr. Israel Jossef Schneerson (CEO and Vice Chairman);
- Mr. Amnon Ben-Shay (Non-Executive Director);
- Mr. Yosef Schvinger (Independent Non-Executive Director); and
- Mr. Chanoch Winderboim (Non-Executive Director).

On the same day, Mr. Naftali Shani, Mr. Yuval Cohen, Mr. Shmuel Barashi, Mr. Ilan Flato and Ms. Hagit Gal resigned from the Board. Further, Mr. Nahum Admoni and Mr. Shimon Laor also resigned from the Board on August 16, 2013 and August 25, 2013, respectively.

4.2 Proposed investment in IDB Holdings Corporation Ltd.

Following the Company's reconstituted board of directors, the Company submitted on August 14, 2013 an offer to IDB Holdings Corporation Ltd. ("**IDB**") on behalf of the Company and together with Netz Group Limited ("**Netz Group**") proposing the investment by Emblaze and Netz in IDB pursuant to the terms of which they would pay New Israeli Shekels ("**NIS**") 826 million (US \$233 million) to subscribe for new shares in IDB constituting at least 80% of the issued share capital of IDB, post-investment (the "**Proposed Transaction**").

In connection with the Proposed Transaction through August 26, 2013 the Company has deposited in trust an amount of NIS 425 million (US \$120 million). The deposit will be returned to the Company in circumstances where the proposed investment in IDB does not proceed.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

IDB is a holding company which, through its wholly owned subsidiary, IDB Development Corporation Ltd ("IDBD"), holds a mixture of majority and minority shareholdings in companies that are engaged in various sectors of the Israeli economy and overseas. IDBD is a domestic Israeli entity incorporated in Israel. The securities of IDB are listed on TASE and most of the major companies held by IDB are traded on TASE or NASDAQ in the US.

In April, 2013 a bondholder of IDB initiated a liquidation application against it owing to a going concern note in IDB's 2012 annual report and accounts. In June 2013, the trustees of the IDB bondholders applied to the District Court of Tel Aviv, Israel (the "Court") for a compromise arrangement in accordance with Section 350 of the Israel Companies Law, 1999 ("Compromise" or "Arrangement"). On June 9, 2013, the Court made a decision in which it ordered proposals for a creditors' arrangement to be filed and examined by a Court-appointed expert. Subsequently, the Court extended the timetable for submission of proposals to November 3, 2013. The Proposed Transaction as described below is intended to be carried out as part of the potential implementation of such Arrangement.

On November 3, 2013, IDB submitted to the Court a proposal, on behalf of a consortium of investors led by the Company (the "Consortium"), to acquire a controlling stake in IDB. IDB, the Company, Mr. Nochi Dankner, Netz Group, Alon Group and Mr. Yitzhak Dankner (together the "Consortium Members") have entered into a set of agreements which regulate the parties' respective rights and obligations in relation to the Proposed Transaction (see "investment structure" below for further details).

The proposal comprises two alternatives (amounts in NIS have been translated into US dollars based on the representative exchange rate on November 3, 2013 as published by the Bank of Israel):

Alternative 1

The Consortium will invest NIS 1,170 million (US \$ 332 million) based on an IDB valuation of NIS 1,090 million (US \$ 309 million) (the "Alternative 1 Valuation") as follows:

At closing of the Proposed Transaction ("Closing"), the Consortium will invest NIS 900 million (US \$255 million) (the "Alternative 1 Closing Payment"). In the event that proceeds exceeding NIS 1,000 million (US \$283 million) from the sale of shares of Clal Insurance Enterprises Holdings Ltd ("Clal") are received by IDBD (the "Clal Closing") by June 1, 2014, then, out of the Alternative 1 Closing Payment: NIS 150 million (US \$42 million) will be paid to IDBD and NIS 750 million (US \$213 million) will be paid to the IDB creditors. In the event that the Clal Closing does not occur by 1 June 2014, out of the Alternative 1 Closing Payment, up to NIS 650 million (US \$184 million) will be paid to IDBD and NIS 250 million (US \$71 million) will be paid to the IDB creditors, who will also receive additional IDBD shares (as further detailed below). In order to provide for such mechanism, certain funds will be put into escrow at Closing.

Furthermore, up to an additional NIS 270 million (US \$76 million) (the "Alternative 1 Post-Closing Payment", and together with the Alternative 1 Closing Payment, the "Alternative 1 Payment") will be paid to the IDB creditors within 36 months of Closing, of which at least NIS 135 million (US \$38 million) will be paid within 18 months of Closing, by way of tender offers to be made by IDB at a price per share based on the Alternative 1 Valuation plus all amounts paid into IDBD by the Consortium.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

Pursuant to this Alternative 1, upon Closing, the Consortium members will hold 94.4% (if the Clal Closing does occur by June 1, 2014) or 67.2% (if the Clal Closing does not occur by June 1, 2014) of the issued share capital of IDBD, and the remainder will be held by the IDB creditors.

Pursuant to this Alternative 1, the IDB creditors will also be granted IDB's cash reserves (*minus* certain expenses) and any net amounts which IDB may receive as a result of legal proceedings to which it is a party the basis of which predates Closing.

Alternative 1 includes a penalty mechanism in case the Consortium fails to pay the Alternative 1 Payment in full, whereby the Consortium will pledge in favour of the IDB creditors IDBD shares equal to 25% (in case of Alternative 1 Closing Payment) or 50% (in case of Alternative 1 Post-Closing Payment) of the unpaid amount based on the Alternative 1 Valuation plus all amounts paid into IDBD by the Consortium.

Alternative 2

The Consortium will invest up to NIS 1,550 million (US \$440 million) based on an IDB valuation of NIS 900 million (US \$255 million) (the "Alternative 2 Valuation"), as follows:

At Closing, NIS 350 million (US \$ 99 million) will be paid to the IDB creditors, NIS 150 million (US \$42 million) will be paid to IDBD, and an additional NIS 400 million (US \$113 million) will either be paid to the IDB creditors if the Clal Closing occurs by June 1, 2014, or, if the Clal Closing does not occur by June 1, 2014, to IDBD (the "Alternative 2 Closing Payment"). In order to provide for such mechanism, certain funds will be put into escrow at Closing.

If the Clal Closing occurs by June 1, 2014, an additional NIS 150 million (US \$42 million) will be paid to the IDB creditors within 12 months of Closing (together with annual interest equal to 7%), or, if the Clal Closing does not occur by June 1, 2014, (1) NIS 100 million (US \$28 million) will be paid to IDBD by June, 2014 and (2) NIS 550 million (US \$156 million) will be paid to the IDB creditors in 3 equal annual installments commencing one year from Closing (together with annual interest equal to 7%) (the "Alternative 2 Post-Closing Payment", and together with the Alternative 2 Closing Payment, the "Alternative 2 Payment").

In the event that the Clal Closing does not occur by June 1, 2014 the total investment by the Consortium will be NIS 1,050 million (US \$298 million), based on the same valuation.

Pursuant to this Alternative 2, at Closing, the Consortium members will hold 100% of the issued share capital of IDBD.

Pursuant to this Alternative 2, the IDB creditors will also be granted IDB's cash reserves (minus certain expenses) and any net amounts which IDB may receive as a result of legal proceedings to which it is a party the basis of which predates Closing.

Alternative 2 includes a penalty mechanism in case the Consortium fails to pay the Alternative 2 Payment in full, whereby the Consortium will pledge in favour of the IDB creditors IDBD shares equal to 20% of the unpaid amount based on the Alternative 2 Valuation plus all amounts paid into IDBD by the Consortium.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

Conditions to Closing

The Proposed Transaction will be conditional upon, inter alia, the following:

- a. the approval of the Proposed Transaction by the creditors of IDB;
- b. the approval of the Proposed Transaction by the Court;
- c. various regulatory approvals required in connection with the transfer of control of IDB and its subsidiaries, and the implementation of the Proposed Transaction; and
- d. transfer of the Company's listing category on the Official List of the LSE from a premium listing (commercial company) to a standard listing (the "Proposed Transfer").

On October 30, 2013 the Company's Shareholders approved (i) the transfer of the Company's listing of ordinary shares out of the category of a premium listing (commercial company) on the Official List and into the category of a standard listing on the Official List and (ii) an amendment to the Company's memorandum of incorporation.

The date upon which the transfer of listing category is expected to become effective is November 28, 2013. The change to the Company's memorandum of incorporation will become effective on November 20, 2013.

Investment structure

The Consortium Members have entered into a set of agreements which regulate the parties' respective rights and obligations in relation to the Proposed Transaction. In order to participate in the Consortium, the Company and Mr. Nochi Dankner have set up a new company ("Newco"), which is 70%-owned (indirectly through a wholly-owned subsidiary of the Company) by the Company and 30%-owned by Mr. Dankner (through a company ("Dankner") controlled by him).

IDB, Newco, Netz Group, Alon Group and Yitzhak Dankner, undertook as follows:

- a. Newco undertook to invest at least NIS 500 million (US \$142 million), and in any case the total investment amount invested under Alternative 1 or Alternative 2 minus any amount invested by any other party;
- b. Alon Group, subject to certain conditions, undertook to invest up to NIS 120 million (US \$34 million);
- c. Netz Group undertook to invest NIS 64 million (US \$18 million); and
- d. Mr. Yitzhak Dankner has an option to invest up to NIS 148 million (US \$42 million).

Netz Group and Alon Group will also be granted put options by Newco in relation to their holdings in IDB (including convertible bonds), to be exercised within the period commencing 3 years from Closing and ending 6 years from Closing. Emblaze will guarantee payment in the event of the exercise of said options.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

At Closing, each Consortium Member will be allocated and issued, pro-rata to its investment, IDB shares and/or non-tradable, non-interest-bearing convertible bonds, which in aggregate amount to 93.75% of the issued share capital of IDB. The agreements entered into between the Consortium Members include penalty mechanisms in case of default to carry out each Consortium Member's investment undertaking.

In the event that prior to Closing not all outstanding claims against IDB have been terminated such that IDB is free and clear of all exposure to such claims and any future claims the basis of which predates Closing, then, in order to avoid such exposure, Newco and the other Consortium Members will have the option to invest, at the Company's discretion, in a new special purpose vehicle or directly in IDBD, rather than in IDB, in a manner which reflects the financial rationale of the Proposed Transaction.

At Closing, the Company will provide Newco with a loan secured by Newco's investment in IDB shares, of an amount equal to NIS 500 million (US \$142 million). The loan will bear annual interest of 4% with repayment at the end of 5 years. The interest rate will be increased to 6% in case the loan repayment is extended for a further 4-year period.

At Closing, Newco will provide Netz Group with a non-interest bearing loan secured by a portion of Netz Group's IDB shares, of an amount equal to NIS 9 million (US \$2.5 million) which will be repayable over 3 years. In case of a default by Netz Group to repay the loan, Newco's only recourse will be enforcement of its security over said portion of Netz Group's IDB shares. In addition, the Company will invest an amount equal to NIS 9 million (US \$2.5) based on a valuation equal to Netz Group's own capital.

On November 11, 2013 IDB, on behalf of the Consortium, submitted to the Court-appointed expert (the “**Expert**”) a letter of clarification with respect to the Proposal the letter further provided that in the event that the Court sanctions the Proposal but Consortium fails to raise the Alternative 1 Closing Payment for completion of the Proposed Transaction, the bond holders will be able to choose, at their discretion, between one of the following alternatives, as a final and complete relief:

- a. to proceed with the Proposal with the amounts made available by the Consortium, and activate the penalty mechanism for Alternative 1 of the Proposal, or;
- b. reject the Proposal and receive compensation in the amount of NIS 100 million (US \$28 million) out of the funds deposited in escrow - such amount will be settled on a pro-rated basis between the Revised Consortium members.

In addition, in the event that the Proposed Transaction cannot be completed following the approval of the general meeting of IDB creditors and the sanction of the Court, due to other conditions not being met, where IDBD requires additional cash flow, the Consortium will agree to provide IDBD, no later than 1 April 2014, with a bridge loan of NIS 100 million (US \$28 million). The bridge loan shall be pro-rated between the Consortium Members in accordance with their respective portion of the Alternative 1 Closing Payment. The bridge loan will be for a period up to 6 months bearing interest at a fixed rate of 5% and secured against 100% of IDB's holding in IDBD.

Where the bond holders elect to exercise the compensation route, the bridge loan amount shall constitute said compensation and eligibility on its settlement shall be assigned to the eligible debt holders out of the escrow in an amount of NIS 100 million (US \$28 million) as a final and complete relief. It was further agreed that the liability for the compensation amount shall be borne by the parties failing to fulfill their respective investment undertaking towards the Base Consideration, on a pro-rated basis.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

As far as IDB is concerned, the Proposal shall not condition the completion of the Proposed Transaction upon the receipt of regulatory approvals in connection with Clal. IDB shall endeavour to maintain IDBD's holding in Clal under the existing trust mechanism in accordance with the current known regulatory position on this issue

On November 10, 2013 the Consortium Members entered into an agreement with Neto Melinda Trade Ltd. (the "Neto Group") in relation to the Proposed Transaction. Pursuant to the agreement Neto Group has undertaken to invest NIS 135.4 million (US \$38 million) in connection with the Proposed Transaction on similar terms to those entered into with Netz Group and Alon Group, including the grant of a put options by Newco in relation to their holdings in IDB (including convertible bonds), to be exercised within the period commencing 3 years from Closing and ending 6 years from Closing. The company will guarantee payment in the event of the exercise of said option. The amount undertaken by Neto Group was added on November 11, 2013 to the NIS 451 million (US \$128 million) escrow account allocated by the Consortium Members for the Proposed Transaction.

On November 13, 2013, Newco has entered into an agreement with Mr. Daniel Jusidman in relation to the Proposed Transaction. Pursuant to the agreement, Mr. Daniel Jusidman has undertaken to invest NIS 90 million (US \$26 million) in connection with the Proposed Transaction. Except as detailed below, the agreement with Mr. Jusidman provides for similar terms to those entered into with Netz Group, Alon Group, and Neto Group, including the grant of a put option by Newco in relation to Mr. Jusidman's holdings in IDB (including convertible bonds), to be exercised within the period commencing 3 years from Closing and ending 6 years from Closing. The Company will guarantee payment in the event of the exercise of said option. At Closing, each Consortium Member, including Mr. Daniel Jusidman, will be allocated and issued, pro-rata to its investment, IDB shares and/or non-tradable, non-interest-bearing convertible bonds, which in aggregate amount to 93.75% of the issued share capital of IDB.

With respect to the put option, it was further agreed with Mr. Jusidman that the exercise price of the option shall be the higher of: (i) the nominal investment amount paid by Mr. Jusidman per share actually allocated to him upon Closing, including annual interest rate of 5 per cent commencing the time of the Closing and until the time of exercise of the option, or (ii) market value, provided that the price per share upon exercise will not increase the investment value per share including annual interest of 6 per cent, 7 per cent or 7.5 per cent (depending on the timing of exercise of the put option), commencing the time of the Closing and until the time of exercise of the option. In addition, it was agreed that should Newco (or the Company as the guarantor) fail to pay the exercise of the put option in time, Newco (and the Company) will be granted additional 6 months to fulfill its payment obligations toward the exercise of the put options. During this extended relief period, the number of directors in the board of IDB and IDBD (or the new special purpose vehicle, as applicable), shall be allocated equally between Newco on one hand, and all other Consortium members on the other. The balance in favour of Newco's board appointees shall be reinstated following payment of the exercised option.

Following the investment by Neto Group and Mr. Jusidman, the Company will maintain the right to appoint the majority of directors of the boards of directors of all IDB Group companies; the other Consortium Members will have the right to be represented on the boards of directors of all IDB Group companies, subject to certain conditions.

NOTE 4:- SUPPLEMENTARY INFORMATION (cont.)

4.2 Proposed investment in IDB Holdings Corporation Ltd. (cont.)

As of November 13, 2013, an amount equal to NIS 713.4 million (US \$202 million) has been put into escrow by the Consortium Members (the Company's share is NIS 426 (US \$121 million)) and the remainder of the Alternative 1 Payment or Alternative 2 Payment, as applicable, will be funded by the Consortium (including by way of external debt) prior to the dates of actual payment. Additional investors may be added to the Consortium in the future.

The General meeting of IDB creditors to vote on the proposals in relation to IDB submitted by the Company and other parties is scheduled to take place no later than November 24, 2013. Date of sanction by the Court of the proposal approved by the IDB creditors in relation to IDB is set for December 5, 2013. It is expected that the Proposed Transaction, if sanctioned by the Court, will be completed during the first quarter of 2014.

4.3 Suspension of trading in the Company's shares

The proposed investment by the Company in IDB would constitute a reverse takeover under the rules of the UK Listing Authority and after consultation with the UK Listing Authority, Emblaze's shares have been temporarily suspended since August 15, 2013 pending the publication of sufficient information on the Proposed Transaction. It is likely that suspension of trading in Ordinary Shares will continue following the completion of the Transfer Resolution and completion of the Proposed Transfer until either the Company announces that it is ceasing to pursue the Proposed Transaction, or the Company publishes a prospectus in respect of the Enlarged Group (comprising the Company and IDB) following the Court's approval of the Proposed Transaction.

4.4 Treasury shares

During the period between January 1, 2013 and September 30, 2013 the Company purchased 923,898 of its own shares through the market in consideration for approximately \$687, including related expenses. As of September 30, 2013, the Company holds 30,587,902 of its shares in Treasury, the outstanding share capital (excluding shares held in Treasury) is 109,990,252 shares, and the total issued share capital of the Company is 140,578,154 shares.

NOTE 5:- LEGAL PROCEEDINGS

1. 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 5:- LEGAL PROCEEDINGS (cont.)

- a. In November, 2010, a claim was filed against the Company and its subsidiary, ELSE Ltd. (discontinued operations), in the Tel Aviv Labor Tribunal, claiming for termination indemnities in respect to an employment cessation of a former employee. The claim against the Company was withdrawn in December 2011. In May 2013, the claim against ELSE Ltd. was dismissed by settlement between the parties according to which ELSE Ltd's agreed to make an ex-gratia release of pension funds already accrued to the benefit of the former employee in the approximate amount of US \$ 50. The excess provision recorded for this claim over the settlement amount was recorded as income in the profit or loss from discontinued operations in the nine months ended September 30, 2013.
- 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 73.3 million (approximately US\$ 20.7 million as of September 30, 2013). Defense was filed in August, 2012. The claim was referred by the court to mediation between the various parties.
- c. In June, 2012, several other creditors of Mr. Reifman filed a claim against Emblaze, some of its directors and officers as well as against its external legal advisor and auditors. The claim is for a sum of NIS 86.6 million (approximately US \$24.5 million as of September 30, 2013). Defense was filed in October 2012. In June, 2013 the District Court has accepted in-part the request for dismissal filed by the Company and some of its directors and officers. The District Court dismissed the claim with respect to two of the claimants, thus reducing the total sum of the claim to NIS 81.8 million (approximately US\$ 23.1 million as of September 30, 2013). The Company still waits decision of the Supreme Court on its appeal against the permission granted on December 26, 2011 by the Bankruptcy Court in Israel to the trustee to Mr. Reifman's bankruptcy to represent the majority of the Mr. Reifman's creditors in this claim.
- d. In November, 2012, two creditors of Mr. Reifman have filed a claim for NIS 30 million against the attorneys involved in their transactions with Mr. Reifman. The said attorneys submitted a third-party notification against numerous parties that were involved in the transaction, as well as against Emblaze and some of its directors and officers, asserting that they are to be indemnified in the event that the claim will be ruled against them. The third party notification is for a sum of NIS 7.6 million (approximately US\$ 2.1 million as of September 30, 2013). Defense was filed in January, 2013. 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 the cases described in 1(b), (c) and (d) above are still in preliminary stages, the Company's legal advisors are of the opinion that the chances of success of these claims are remote.

NOTE 5:- LEGAL PROCEEDINGS (cont.)

- e. At the request of the Administrator for Mr. Reifman's bankruptcy (who was later appointed as the trustee to Mr. Reifman's bankruptcy), the Tel- Aviv District court issued an ex-parte temporary injunction on 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.
2. The Company and/or its subsidiaries may be 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 such disputes is immaterial.