

EMBLAZE LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2013

IN U.S. DOLLARS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

EMBLAZE LTD.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Beer-Sheva, Israel
27 March 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

27 March 2014			
Date of approval of the financial statements	Abraham Wolff Chairman of the Board	Israel Jossef Schneorson CEO and Vice Chairman of the Board	Eyal Merdler CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of presentation of the consolidated financial statements:

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

1. Measurement basis:

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

2. Basis of preparation of the consolidated financial statements:

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

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

- b. Functional and presentation currency:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Basis of consolidation:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**d. Business combinations and goodwill:**

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

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

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

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

e. Cash and cash equivalents:

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

f. Short-term deposits:

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

g. Financial assets:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial assets: (Cont.)

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

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

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

b) Available-for-sale financial assets:

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

c) Loans and receivables:

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

2. Fair value:

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

3. Derecognition of financial assets:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial assets: (Cont.)

4. Impairment of financial assets:

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

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

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

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

h. Equipment, net:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

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

Revenues from sale of software

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

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

Interest income:

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

j. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Taxes on income: (Cont.)

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

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

k. Treasury shares:

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

l. Employee benefits liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Employee benefits liabilities: (cont.)

2. Post-employment benefits: (Cont.)

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

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

3. Share-based payment transactions:

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

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

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

m. Provisions:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- n. Research and development expenditures:

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

- o. Discontinued operations:

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

- p. New and amended standards and interpretations:

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

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

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

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

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

- b. Estimates and assumptions:

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

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

Legal claims:

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

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

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

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

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

- b. IFRS 9, "Financial Instruments":

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

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

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

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

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

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

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

NOTE 5:- CASH AND CASH EQUIVALENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SHORT-TERM DEPOSITS

a. Short-term deposit

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

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

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

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

b. Short-term deposit held in trust

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

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

NOTE 7:- PREPAID EXPENSES AND OTHER RECEIVABLES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- DEFERRED REVENUES AND ACCRUED EXPENSES

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

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES

a. Post-employment benefits:

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

Defined benefit plans:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

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

2013:

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

2012:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

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

2011:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

b. Defined benefit plans: (Cont.)

2. Plan assets:

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

3. Plan assets (liabilities), net:

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

4. The principal assumptions used in defined benefit plan:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

a. Guarantees:

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

b. Legal proceedings:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Legal proceedings: (Cont.)

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Legal proceedings: (Cont.)

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

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

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

c. Operating lease obligation:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - FINANCIAL INSTRUMENTS

a. Classification of financial assets:

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

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

b. Management of financial risks:

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

1. Market risks:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11: - FINANCIAL INSTRUMENTS (Cont.)

b. Management of financial risks: (Cont.)

3. Fair value of financial assets and liabilities

a) Fair values versus carrying amounts:

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

b) Fair value hierarchy:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY

a. Ordinary shares:

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

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

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

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

b. Treasury stock:

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

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

c. Employee stock option plans:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

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

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

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

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

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

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

d. Expenses recognized in the financial statements:

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

e. (Cont.)

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

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

f. Options granted by subsidiary to its employees:

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

As of 31 December 2013 all options were expired.

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

a. General and administrative

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

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

(2) See Note 1 (c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

b. Financial Income and Expenses

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

c. Income (Loss) from discontinued operation, net

1. ELSE:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAX ON INCOME

a. Israeli income tax rates:

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

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

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

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

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

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

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

c. Subsidiaries outside Israel:

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

d. Final tax assessment:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAX ON INCOME (Cont.)

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

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

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

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

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

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

NOTE 15:- EARNINGS PER SHARE

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2013:

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

As of 31 December 2012:

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

As of 31 December 2011:

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

b. Benefits to key management personnel:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SUBSEQUENT EVENTS

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SUBSEQUENT EVENTS (Cont.)

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