Orad Hi-Tec Systems Ltd ('Orad' or the 'Company')

Results for the fourth quarter and for full year of 2012

Orad announces 2012 fiscal year revenues of $35.0 million
Net profit for 2012 of $1.2 million

Kfar-Saba, Israel, March 7, 2013 - Orad Hi-Tec Systems Ltd. (Frankfurt - Prime Standard; Symbol: OHT), a world-leading provider of real-time 3D broadcast graphic, video server, and media asset management solutions for the broadcasting markets, today announces its results for the three months and the full year ended December 31, 2012

Main Highlights:

- **Revenues** for 2012 decreased by 0.8% to $35.0 million compared to $35.3 million in 2011. Revenues for the three months decreased by 25.8% to $7.1 million in Q4/12 compared to $9.6 million in Q4/11. The slowdown in the second half of the year is mainly due to less investments post big events (sports and U.S. elections).

- **Gross profit** for 2012 decreased by 3.2% to $23.5 million compared to $24.3 million in 2011. Gross profit for the three months totaled $4.4 million in Q4/12 compared to $6.2 million in Q4/11.

- **Net profit** for 2012 decreased to $1.2 million compared to $3.7 million in 2011. Net loss for the three months totaled $0.6 million in Q4/12 compared to Net Profit $1.1 million in Q4/11.

- Cash and cash equivalents at the end of December 2012 were $7.1 million.

- During 2012, Orad distributed dividends in the amount of $3 million, $2 million was distributed in March 2012 for 2011 and an additional $1 million was distributed in September 2012 for 2012.

- The financial statements will, for the first time, be set up pursuant to IFRS instead of US GAAP accounting rules. (For more information and reconciliation between US GAAP and IFRS see note 24 to the consolidated financial statements).

Orad celebrated 20 years of landmark broadcast graphics development and innovation. Avi Sharir, CEO and Founder said in a speech to Orad employees at the Company's 20-year celebration event, "When we founded Orad 20 years ago, we wanted to create a company that would be a bit different. Over the past two decades, we have seen our vision come to fruition. Throughout the years, Orad has earned recognition from the world's largest TV networks. Today, our products are used by just about every major broadcaster around the world. We are involved in some of the world's most watched events, including the US elections and major sports events where we won prizes including two Emmy Awards. Today, Orad employs 250 people, 130 of whom are in Israel. About a third is continuously working on developing new products that will keep Orad's leading market position"

Management Comments:

Mr. Avi Sharir, President and CEO of Orad commented, “Our revenues for 2012 of $35 million were almost as the revenues of 2011. We experienced a decline in revenues in the second half of the year, mainly due to the economic weakening of Orad’s target markets, particularly in Europe. As other companies in the broadcast market experienced, the uncertainties in the economic environment have led to lengthening of sales' cycles and to delay of some customers’ investment decisions.

During the year, we have invested a lot of efforts in developing and enhancing our MAM (Media Asset Management) solutions and our video server products in order to create added value to customers by offering integrated solutions and integrated workflows for content creation and delivery.

Having covered most of the world's major electoral events in 2012, Orad has become the global leader in election coverage. Orad was chosen by four leading American broadcasters to cover the 2012 US Presidential Elections. Our powerful and reliable augmented reality, on air and interactive graphics, and studio solutions enable leading broadcasters to captivate their viewers and score high ratings.

As we look ahead to 2013, we are optimistic that Orad will return to a growth path as we stand well positioned to extend our presence within the broadcast markets. Although that near-term visibility of demand remains limited, we remain confident in maintaining our technology and competitive positioning."

About Orad Hi-Tec Systems

Orad Hi-Tec Systems is a world-leading provider of real-time 3D broadcast graphic, video server, and media asset management solutions including news, channel branding, sports production and enhancement, elections and special events, virtual studios, and virtual advertisement. Orad's compelling solutions streamline production workflow, enhance viewer experience, and improve production value. Founded in 1993, Orad is a public company listed on the Frankfurt Stock Exchange (OHT).

For further information:

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Edicto Investor Relations	
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Forward Looking Statements

This press release contains forward-looking statements that are based on the knowledge of the environment in which the Company currently operates, but because of factors beyond its control, actual results may differ materially from the expectations expressed in the forward-looking statements.

Important factors that may cause actual results to differ from anticipated results include, but are not limited to, financial risk, acquisition risk, changes in technology, as well as other risks.

The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. As a result, investors should not place undue reliance on these forward-looking statements.

ORAD HI-TEC SYSTEMS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

ORAD HI-TEC SYSTEMS LTD

We have audited the accompanying consolidated financial statements of Orad Hi-Tec Systems Ltd. ("the Company"), which comprise the consolidated statements of financial position as of December 31, 2012, 2011, and 2010 and as of January 1, 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012, 2011, and 2010 and as of January 1, 2010, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 06, 2013

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2012	December 31, 2011	December 31, 2010	January 1 2010
		U.S. dollars in thousands			
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	6	7,093	11,649	18,912	16,949
Restricted cash		38	304	44	103
Trade receivable	7	8,490	6,758	3,257	3,664
Other accounts receivable	8	1,408	1,205	1,013	793
Inventories	9	3,606	3,654	3,146	1,912
		20,635	23,570	26,372	23,421
NON-CURRENT ASSETS:					
Restricted cash		-	-	170	269
Property, plant and equipment, net	10	1,843	1,177	897	1,105
Deferred taxes	17	1,804	1,100	609	513
Other long-term receivables	11	372	400	-	-
Intangible assets	12	333	554	235	337
Goodwill	12	1,346	1,346	-	-
		5,698	4,577	1,911	2,224
		26,333	28,147	28,283	25,645

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2012	December 31, 2011	December 31, 2010	January 1 2010
		U.S. dollars in thousands			
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Trade payable		2,202	2,882	3,156	1,532
Deferred revenues		1,567	2,117	1,510	1,455
Other accounts payable	13	6,216	5,941	5,822	6,596
		9,985	10,940	10,488	9,583
NON-CURRENT LIABILITIES:					
Liability to the Chief Scientist	15	250	328	435	516
Employee benefit liabilities	16	649	454	304	138
		899	782	739	654
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	19				
Share capital		31	31	30	29
Share premium		77,407	76,911	76,479	76,081
Accumulated deficit		(62,152)	(60,295)	(58,906)	(60,155)
Gain from cash flow hedge transactions		241	73	-	-
Adjustments arising from translation financial statements of foreign operations		(582)	(577)	(547)	(547)
		14,945	16,143	17,056	15,408
Non-controlling interests		504	282	-	-
Total equity		15,449	16,425	17,056	15,408
		26,333	28,147	28,283	25,645

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

, 2013			
Date of approval of the Financial statements	Avi Sharir Chief Executive officer	Dan Falk Chairman of the Board	Ilan Sidi Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31 2012	2011	2010
		U.S. dollars in thousands (except per share data)		
Revenues from sales	21c	27,178	28,793	23,539
Revenues from rendering of services	21c	7,865	6,543	5,620
Total revenues		35,043	35,336	29,159
Cost of sales and rendering of services	21d	11,512	11,035	8,758
Gross profit		23,531	24,301	20,401
Research and development expenses	21e	5,625	4,870	4,222
Selling and marketing expenses	21f	13,302	12,061	9,751
General and administrative expenses	21g	3,878	3,667	2,877
Operating income		726	3,703	3,551
Financing income	21h	277	179	126
Financing expenses	21h	(314)	(501)	(476)
Financing expenses, net		(37)	(322)	(350)
Income before tax benefit		689	3,381	3,201
Tax benefit	17	554	325	-
Net income		1,243	3,706	3,201
Net earnings per share attributable to equity holders of the Company (in dollars)	22			
Basic net earnings		0.11	0.34	0.29
Diluted net earnings		0.11	0.33	0.29

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31		
		2012	2011	2010
		U.S. dollars in thousands (except per share data)		
Net income		1,243	3,706	3,201
Other comprehensive income (loss) (net of tax effect):				
Gain from cash flow hedge transactions		168	73	-
Adjustments arising from the translation financial statements of a foreign operation		(5)	(30)	-
Actuarial loss from defined benefit plans	16	(65)	(134)	(87)
Total other comprehensive income (loss)		98	(91)	(87)
Total comprehensive income		1,341	3,615	3,114

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Accumulated deficit	Capital reserve from cash flow hedge transactions	Capital reserve due to translation financial statements of a foreign operation	Total	Non-controlling interests	Total equity
Balance as of January 1, 2012	31	76,911	(60,295)	73	(577)	16,143	282	16,425
Net income	-	-	1,243	-	-	1,243	-	1,243
Other comprehensive income (loss) (net of tax effect):								
Gain from cash flow hedge transactions	-	-	-	168	-	168	-	168
Adjustments due to translation of financial statements of foreign operations	-	-	-	-	(5)	(5)	-	(5)
Actuarial losses	-	-	(65)	-	-	(65)	-	(65)
Total comprehensive income	-	-	1,178	168	(5)	1,341	-	1,341
Exercise of stock options by employees	(*-	312	-	-	-	312	-	312
Cost of share-based payment	-	184	-	-	-	184	-	184
Dividend distributed to the Company's shareholders	-	-	(3,035)	-	-	(3.035)	-	(3,035)
Payment of share-based payment to holders of non-controlling interests	-	-	-	-	-	-	222	222
Balance as of December 31, 2012	31	77,407	(62,152)	241	(582)	14,945	504	15,449

(* Less than 1$.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Share capital	Share premium	Retained earnings (deficit)	Capital reserve from cash flow hedge transactions	Capital reserve due to translation financial statements of a foreign operation	Total	Non-controlling interests	Total equity
Balance as of January 1, 2010	29	76,081	(60,155)	-	(547)	15,408	-	15,408
Net income	-	-	3,201	-	-	3,201	-	3,201
Other comprehensive loss (net of tax effect):								
Actuarial losses	-	-	(87)	-	-	(87)	-	(87)
Total comprehensive income	-	-	3,114	-	-	3,114	-	3,114
Exercise of stock options by employees	1	208	-	-	-	209	-	209
Cost of share-based payment	-	190	-	-	-	190	-	190
Dividend distributed to the Company's shareholders	-	-	(1,865)	-	-	(1,865)	-	(1,865)
Balance as of December 31, 2010	30	76,479	(58,906)	-	(547)	17,056	-	17,056
Net income	-	-	3,706	-	-	3,706	-	3,706
Other comprehensive income (loss) (net of tax effect):								
Gain from cash flow hedge transactions	-	-	-	73	-	73	-	73
Adjustments due to translation of financial statements of foreign operations	-	-	-	-	(30)	(30)	-	(30)
Actuarial losses	-	-	(134)	-	-	(134)	-	(134)
Total comprehensive income	-	-	3,572	73	(30)	3,615	-	3,615
Exercise of stock options by employees	1	274	-	-	-	275	-	275
Cost of share-based payment	-	158	-	-	-	158	-	158
Dividend distributed to the Company's shareholders	-	-	(4,961)	-	-	(4,961)	-	(4,961)
Non-controlling interests arising from initially consolidated company	-	-	-	-	-	-	190	190
Payment of share-based payment to holders of non-controlling interests	-	-	-	-	-	-	92	92
Balance as of December 31, 2011	31	76,911	(60,295)	73	(577)	16,143	282	16,425

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Cash flows from operating activities			
Net income	1,243	3,706	3,201
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to profit or loss items:			
Depreciation and amortization	808	624	726
Taxes paid	15	50	58
Taxes received	(5)	-	-
Interest received	(46)	(167)	(97)
Tax benefit	(704)	(350)	-
Cost of share-based payment	184	158	190
Share-based payment to holders of non-controlling interests	222	92	-
Exchange rate differences on restricted cash	(4)	27	(15)
Change in employee benefit liabilities, net	130	16	79
	600	450	941
Changes in asset and liability items:			
Decrease (increase) in trade receivable	(1,728)	(3,200)	407
Increase in other accounts receivable and deferred taxes	(34)	(154)	(316)
Changes in other long-term receivables	45	-	-
Increase in inventories	(411)	(845)	(1,395)
Increase (decrease) in trade payable	(686)	(810)	1,624
Increase (decrease) in deferred revenues	(560)	(130)	55
Increase (decrease) in other accounts payable and liability to the Chief Scientist	198	(868)	(855)
	(3,176)	(6,007)	(480)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Cash paid and received during the year for:			
Taxes paid	(15)	(50)	(58)
Taxes received	5	-	-
Interest received	46	167	97
	36	117	39
Net cash provided by (used in) operating activities	(1,297)	(1,734)	3,701
Cash flows from investing activities			
Purchase of property, plant and equipment	(792)	(414)	(261)
Proceeds from the sale of property, plant and equipment	-	-	6
Acquisition of initially consolidated subsidiary (b)	-	(246)	-
Change in restricted cash	270	(117)	173
Net cash used in investment activities	(522)	(777)	(82)
Cash flows from financing activities			
Dividend distributed to the Company’s shareholders	(3,035)	(4,961)	(1,865)
Issuance of shares upon exercise of stock options by employees	312	275	209
Net cash used in financing activities	(2,723)	(4,686)	(1,656)
Exchange rate differences on balances of cash and cash equivalents	(14)	(66)	-
Increase (decrease) in cash and cash equivalents	(4,556)	(7,263)	1,963
Balance of cash and cash equivalents at the beginning of the year	11,649	18,912	16,949
Balance of cash and cash equivalents at the end of the year	7,093	11,649	18,912

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
(a) Non-cash transactions			
Classification between inventories and property, plant and equipment	459	341	161
(b) Acquisition of initially consolidated subsidiary			
The subsidiaries' assets and liabilities at date of acquisition:			
Working capital (excluding cash and cash equivalents)	-	(1,734)	-
Long-term receivables	-	308	-
Property, plant and equipment, net	-	13	-
Intangible assets	-	503	-
Goodwill	-	1,346	-
Non-controlling interests	-	(190)	-
	-	246	-

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

NOTE 1:- GENERAL

a. Description of the Group and its activities:

Orad Hi-Tec Systems Ltd. ("the Company") was incorporated in December 1992 and commenced operations in 1993. The Company's shares are listed for trading on the Frankfurt Stock Exchange under the symbol "OHT".

The Company and its subsidiaries ("the Group") are engaged in the development, production, marketing and distribution of innovative three dimensional real-time graphic solutions, video servers, media assets management (MAM), workflow and retrieval of contents and information, graphics for sports broadcasts, as well as provides virtual studios and virtual advertising solutions for leading TV networks worldwide. The Company's offices are located in 15, Atir Yeda street, in the Kfar Saba Industrial Zone.

The Company operates through its wholly-owned subsidiaries in the United States, France, Poland, Germany, the Netherlands, the United Kingdom, Spain, Israel and Hong-Kong. These subsidiaries are engaged in the selling and marketing of the Company's products, except for the subsidiary in Poland, which is a research and development company and except for IBIS (see below).

On July 29, 2011 the Company completed the acquisition of 75.41% of the outstanding shares of Integrated Broadcast Information Systems Ltd. ("IBIS"), for a total consideration of $ 2,228 thousand (of which $ 1,982 thousand were invested in IBIS). IBIS is registered in United Kingdom and is a provider of MAM applications for TV networks worldwide. During August 2011, the Company closed the acquisition of IBIS and its financial statements were consolidated with those of the Company (see note 5).

b. Definitions:

In these financial statements -

The Company	-	Orad Hi Tec Systems Ltd.
The Group	-	The Company and its subsidiaries
Consolidated subsidiaries	-	Companies that are controlled by the Company (as defined in IAS 27, 2008) and whose financial statements are consolidated with the financial statements of the Company
Related parties	-	As defined in IAS 24
Dollar	-	U.S. dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for: derivative financial instruments, which are presented at fair value, deferred tax assets, employee benefits liabilities, share-based payments and liability to the Chief Scientist.

The Company has elected to present profit or loss items using the function of expense method.

2. Basis of preparation of the financial statements:

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

These financial statements for the year ended 31 December, 2012 are the Company's first financial statements in accordance with IFRS. The date of transition to reporting under IFRS is January 1, 2010.
Prior to adopting IFRS, the Company prepared its financial statements in conformity with Generally Accepted Accounting Principles in the US (U.S. GAAP).
See note 24 regarding reconciliation between reporting US GAAP and reporting under IFRS.
The consolidated financial statements are presented in dollars, which is the Company's functional currency, and all numbers are rounded to the nearest thousand.

b. Consolidated financial statements:

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 Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (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 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.

c. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the U.S. dollar.

The Group determines the functional currency of each Group entity and this currency is used to separately measure each Group entity's financial position and operating results.

When an investee's functional currency differs from the Company's functional currency, that investee represents a foreign operation whose financial statements are translated into the Company's functional currency so that they can be included in the consolidated financial statements.

Assets and liabilities are translated at the closing rate at the end of each reporting period. Goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the date of acquisition of the foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the end of each reporting period. Profit or loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity under "Adjustments due to translation of financial statements of foreign operations".

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the cumulative amount recognized in other comprehensive income is reattributed to non-controlling interests.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or recorded in equity in hedges, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items:

The Company has liabilities to the Chief Scientist which are linked to the changes in the Israeli Consumer Price Index ("Israeli CPI"), if there are payments in arrears. These linkage differences arising from the adjustment are recognized in profit or loss.

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 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.

e. Restricted cash:

Short-term restricted cash is invested in liquid bank deposits (less than 1 year). Long-term restricted cash is invested in bank deposits which are not highly liquid. The bulk of this cash is mainly used to secure the rent of the Company's offices.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Inventory:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw materials - using the weighted average cost method.

Work in progress and finished goods - on the basis of average costs including materials, labor and other direct manufacturing costs.

h. The operating cycle:

The Group's operating cycle is up to one year.

i. Financial Instruments:

1. 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 accounting treatment of financial assets is based on their classification as follows:

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

This category includes financial assets held for trading.

Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

b) 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 borrowings are measured based on their terms, normally at face value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Financial liabilities:

Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss, loans at amortized cost or derivatives designated as effective hedging instruments. The Group determines the classification of the liability on the date of initial recognition. All liabilities are initially recognized at fair value. Loans are presented net of directly attributable transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

a) Financial liabilities at amortized cost:

After initial recognition, loans, including debentures, are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method. The amortization of the effective interest is recognized in profit or loss.

b) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

3. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Derecognition of financial instruments:

a) 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.

A transaction involving factoring of accounts receivable and credit card vouchers is derecognized when the abovementioned conditions are met.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

j. Derivative financial instruments designated as hedges:

The Group enters into contracts for derivative financial instruments such as forward currency contracts and options call and put to hedge risks associated with foreign exchange rates. Such derivative financial instruments are initially recognized at fair value. After initial recognition, the derivatives are measured at fair value. Derivatives are carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge effectiveness is assessed at the end of each reporting period.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Hedges which meet the criteria for hedge accounting are accounted as Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognized or when a forecast sale occurs. Where the hedged item is a non-financial asset or non-financial liability, their cost also includes the other comprehensive income (loss) from the hedging instrument.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are reclassified to profit or loss. If the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

k. Leases:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

<u>The Group as lessee - operating lease</u>

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

<u>The Group as lessor - operating lease</u>

The Group leases equipment as part of its sales. Lease agreements where the Group does not transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term.

l. 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 date of acquisition 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 date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Upon the acquisition of a business, the assets acquired and liabilities assumed are classified and designated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, including separation of embedded derivatives from the host contract of the acquiree.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

m. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

The cost of self-constructed assets includes the cost of materials, direct labor and borrowing costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Motor vehicles	15	15
Office equipment and furniture	6-15	7
Computers and peripheral equipment	20-33	33
Leasehold improvement	See below	10

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 the 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.

n. Intangible assets:

Intangible assets acquired in a business combination are measured at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

The useful life of the intangible assets is as follows:

	Years
Computer software	5
Technology	4
Customer list	4

o. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

Intangible assets

The impairment test for intangible assets with indefinite useful lives is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

p. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government grants received from the Office of the Chief Scientist in Israel ("OCI") are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales.

A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales and using the original effective interest method, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Taxes on income:

Taxes on income in profit or loss comprise current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity. In such cases, the tax effect is also recognized in the relevant item.

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 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 taxes are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

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 utilized. Temporary differences (such as carryforward losses) for which deferred tax assets had not been recognized are reviewed at the end of each reporting period and a respective deferred tax asset is recognized to the extent that their utilization is probable.

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 from a subsidiary that would trigger an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Share-based payment transactions:

The Company's employees are entitled to remuneration in the form of equity-settled share-based payment 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 using an acceptable option pricing model. see additional details in note 20**.**

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group'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.

No expense is recognized for awards that do not ultimately vest.

s. Employee benefit liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee 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 Company 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 plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Company has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company also 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.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs.

Actuarial gains and losses are recognized in the statement of comprehensive income in the period in which they occur.

t. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

u. Provisions:

A provision in accordance with IAS 37 is recognized when the Group 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.

Following are the types of provisions included in the financial statements:

Warranty:

The Group recognizes a provision for warranty in respect of products sold to customers. The warranty is limited to predefined technical malfunctions and does not include a warranty that covers damages caused by the customer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

v. 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.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from sales of goods and royalties (revenues sharing)

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

Revenues from royalties (revenues sharing) is recognized on a cumulative basis in accordance with the terms of the agreement.

Revenues from the rendering of services and from rental income from operating lease

Revenues from the rendering of services, which usually include training and installation, are recognized by reference to the stage of completion at the end of the reporting period. The stage of completion is measured based on the proportion of actual labor hours incurred to the estimated total labor hours for the entire contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable. When significant acceptance provisions are included in the arrangement, revenue are deferred until the acceptance occurs.

Rental income from operating lease arising from the lease of Company equipment to its customers is recognized on a straight-line basis over the lease term. Scheduled increases in rental fees over the term of the contract are recognized as income on a straight-line basis over the lease period.

Interest income

Interest income on financial assets is recognized as it accrues using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Sales agreements with several components

Income from sales agreements consisting of several components such as goods and service, is divided into separate accounting units and recognized separately with respect to each accounting unit. Revenue from the different accounting units is recognized when the terms for revenue recognition have been met with respect to the components included in the same accounting unit.

Deferred revenues

Payments received from customers, which do not meet one or more of the criteria for revenue recognition, are carried to deferred revenues.

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w. Cost of sales:

Cost of sales mainly includes the cost of inventory in respect of which revenue was recognized, payroll and related expenses refers to rendering of services and sales of goods and expenses for conveyance of inventories to the end point of sale. Cost of sales also includes impairment of inventories. The Group doesn't manage the cost of sales separately for cost of inventory and cost of rending of services.

x. Research and development costs:

Research and development costs are expensed as incurred.

y. Financing income and expenses:

Financing income include interest income in respect of amounts invested, changes in the fair value of financial assets measured at fair value through profit or loss, gains on exchange rate differences and gains on hedging instruments recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method.

Financing expenses include changes in respect of the time value of provisions, changes in the fair value of financial assets that are measured at fair value through profit or loss, losses from the decrease in value of financial assets and losses from hedging instruments recognized in profit or loss.

Gains and loss on exchange rate differences are reported on a net basis.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Operating segments:

The Company operates in one operating segments which is the development, production, marketing and distribution of innovative three dimensional real-time graphic solutions, video servers, workflow and retrieval of contents and information, graphics for sports broadcasts, as well as provides virtual studios and virtual advertising solutions for leading TV networks worldwide.

aa. Presentation of a statement of comprehensive income:

The Company has elected to present a statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income, which presents, apart from the net income amount which was taken from the statement of income, all the items that were recognized in other comprehensive income.

bb. Changes in other comprehensive income items:

The Group presents the changes between the opening and the closing balances of each component of other comprehensive income in the statement of changes in equity.

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 Group 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 non-controlling interests

  In a business combination, when the Group elects to measure non-controlling interests at fair value, the Group determines the fair value based on a valuation technique.

- 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.

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

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 Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Government grants:

  Government grants received from the Office of the Chief Scientist at the Ministry of Industry, Trade and Labor are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows and the estimated discount rate used to measure the amount of the liability. As for the accounting treatment of grants received from the OCI, see also note 15 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.

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows.

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

- Pension and other post-employment benefits:

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

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

IFRS 9 - Financial Instruments:

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

   The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

2. The IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, 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.

   The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

   The Company believes that the Standard is not expected to have a material effect on the financial statements.

NOTE 5:- BUSINESS COMBINATIONS

As stated in note 1a, on July 29, 2011 ("date of acquisition"), the Company signed the acquisition of 75.41% of the shares of IBIS Ltd ("IBIS") for a total cash consideration of $ 2,228 thousand, of which $1,982 thousand were invested in IBIS.

On the date of acquisition, in accordance with the acquisition method, the Company recognized the acquired identifiable assets, incurred liabilities and non-controlling interests in the acquiree. The Company measured the acquired identifiable assets and incurred liabilities at fair value on the date of acquisition.

	Fair value at August 30, 2011
	U.S. dollars in thousands
Cash and cash equivalents	1,983
Trade receivable	309
Receivables	481
Inventories	4
Property, plant and equipment	13
Technology	332
Customer list	125
	3,247
Trade payables	2,175
Net identifiable assets	1,072
Goodwill arising on acquisition	1,346
Non-controlling interests	(190)
Total purchase cost	2,228
Cash outflow on the acquisition:	
Overdrawn account acquired with the acquiree at the acquisition date	63
Cash paid	183
Net cash	246

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

From the date of acquisition and year-end 2011, IBIS contributed a loss of $ 223 thousand to the Company's consolidated income (excluding amortization of intangible assets in the amount of $ 48 thousand related to technology and customer list) and $ 636 thousand to the consolidated revenues.

If the business combination had been made at the start of 2011, the consolidated net profit for 2011 would have totaled $ 3,397 thousand and the consolidated turnover for 2011 would have totaled $ 36,750 thousand.

Increased interest in the acquired company

Since pursuant to the acquisition agreement, the existing shareholders of IBIS (holding 24.59%) will be eligible for shares in IBIS provided they continue to work at IBIS for a period of 24 months from the acquisition date and if IBIS' shareholders fail to meet the above condition, the Company has the right to acquire the shares of those shareholders without consideration, the Company shall record compensation costs with respect to IBIS' existing shareholder over the 24 months period against non-controlling interests.

As part of the acquisition agreement, the existing shareholders of IBIS granted the Company a option to purchase their remaining shares in three tranches, the first tranche 22 months after the acquisition date and the last tranche 46 months after acquisition date. If such option is not fully exercised within 54 months from the date of completion of the transaction, the option will expire. The existing shareholders of IBIS shall be eligible for shares in IBIS provided they continue to work at IBIS for a period of 24 months from the date of acquisition.

In the event the Company's option expires (and the Company's option is not fully or partially exercised within 54 months from the date of completion of the transaction), and under some circumstances as defined in the agreement, the existing shareholders of IBIS shall have the option to buy all the shares owned by the Company.

As of the acquisition date, the existing shareholders of IBIS also held fully vested options, however, as stated above, also with respect to the said options, the existing shareholders of IBIS shall be eligible for options in IBIS provided they continue to work at IBIS for a period of 24 months from the date of acquisition. As such, the Company recorded a non-controlling interest in the amount of $ 190 thousand, which represent the proportionate share of the service provided by the existing shareholders prior to the acquisition, while the remaining amount will be recorded as compensation costs with respect to IBIS' existing shareholders during the 24 months period against non-controlling interests. See additional details in note 25.

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Cash for immediate withdrawal	7,093	6,953	5,397	3,568
Cash equivalents - short-term deposits	-	4,696	13,515	13,381
	7,093	11,649	18,912	16,949

NOTE 7:- TRADE RECEIVABLE

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Open accounts	8,691	6,899	3,245	3,777
Checks receivable	90	71	220	71
Less - allowance for doubtful accounts	(291)	(212)	(208)	(184)
Trade receivable, net	8,490	6,758	3,257	3,664

Impaired debts are accounted for through recording an allowance for doubtful accounts.

Below is an ageing analysis of trade receivable balance in respect of which impairment was not recognized (allowance for doubtful debts), net trade receivables, by period of collection in arrears as of balance sheet dates:

	Trade receivables not yet past due	Trade receivables past due with collection in arrears of				
		Up to 90 days	90-180 days	180-270 days	Above 270 days	Total
	U.S. dollars in thousands					
December 31, 2012	5,312	2,090	452	300	336	8,490
December 31, 2011	4,426	1,875	219	132	106	6,758
December 31, 2010	2,470	694	92	1	-	3,257
January 1, 2010	2,254	1,093	196	112	9	3,664

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Government authorities	499	324	311	177
Prepaid expenses	474	445	382	299
Financial derivative	264	225	-	-
Other accounts receivable	171	211	320	317
	1,408	1,205	1,013	793

NOTE 9:- INVENTORIES

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Raw materials	2,061	1,978	1,836	771
Work in progress and finished goods	1,545	1,676	1,310	1,141
	3,606	3,654	3,146	1,912

In the year ended on December 31, 2012, the impairment of inventories recognized in cost of sales amounted to $ 129 thousand (2011 - $ 153 thousand, 2010 - $ 165 thousand).

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

2012 :

	Computers and peripheral equipment	Vehicles	Furniture and office equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost					
Balance at January 1, 2012	3,707	125	304	2,252	6,388
Additions during the year	720	-	159	372	1,251
Adjustments arising from translating financial statements of foreign operations	41	-	-	-	41
Disposals during the year	(15)	-	-	-	(15)
Balance at December 31, 2012	4,453	125	463	2,624	7,665
Accumulated depreciation					
Balance at January 1, 2012	2,752	48	249	2,162	5,211
Additions during the year	486	16	29	56	587
Adjustments arising from translating financial statements of foreign operations	39	-	-	-	39
Disposals during the year	(15)	-	-	-	(15)
Balance at December 31, 2012	3,262	64	278	2,218	5,822
Depreciated cost at December 31, 2012	1,191	61	185	406	1,843

2011:

	Computers and peripheral equipment	Vehicles	Furniture and office equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost					
Balance at January 1, 2011	3,056	74	296	2,224	5,650
Additions during the year	676	51	9	28	764
Initially consolidated subsidiary	12	-	1	-	13
Adjustments arising from translating financial statements of foreign operations	(28)	-	(2)	-	(30)
Disposals during the year	(9)	-	-	-	(9)
Balance at December 31, 2011	3,707	125	304	2,252	6,388
Accumulated depreciation					
Balance at January 1, 2011	2,422	32	229	2,070	4,753
Additions during the year	366	16	22	92	496
Adjustments arising from translating financial statements of foreign operations	(27)	-	(2)	-	(29)
Disposals during the year	(9)	-	-	-	(9)
Balance at December 31, 2011	2,752	48	249	2,162	5,211
Depreciated cost at December 31, 2011	955	77	55	90	1,177

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2010:

	Computers and peripheral equipment	Vehicles	Furniture and office equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost					
Balance at January 1, 2010	2,946	93	275	2,211	5,525
Additional during the year	311	16	28	13	368
Disposals during the period	(201)	(35)	(7)	-	(243)
Balance at December 31, 2010	3,056	74	296	2,224	5,650
Accumulated depreciation					
Balance at January 1, 2010	2,296	61	215	1,848	4,420
Additions during the year	327	6	21	222	576
Disposals during the year	(201)	(35)	(7)	-	(243)
Balance at December 31, 2010	2,422	32	229	2,070	4,753
Depreciated cost at December 31, 2010	634	42	67	154	897

During the years ended on December 31, 2012, 2011 and 2010 no impairment of property, plant and equipment was recognized.

NOTE 11:- OTHER LONG-TERM RECEIVABLES

During 2011, prior to the date of acquisition, IBIS signed a loan agreement with one of its shareholder pursuant to which IBIS would provide a loan to its shareholder which does not bear interest.

NOTE 12: – GOODWILL AND INTANGIBLE ASSETS

Computer programs were acquired during previous years. Technology, customer list and goodwill were acquired as part of the business combination (see note 5).

Composition and movement:

2012:

	Computer programs	Technology	Customer list	Goodwill	Total
	U.S. dollars in thousands				
Cost					
Balance as of January 1, 2012 and as of December 31, 2012	526	332	125	1,346	2,329
Accumulated amortization					
Balance as of January 1, 2012	381	35	13	-	429
Amortization recognized during the period	107	83	31	-	221
Balance as of December 31, 2012	488	118	44	-	650
Net balance					
Balance as of December 31, 2012	38	214	81	1,346	1,679

2011:

	Computer programs	Technology	Customer list	Goodwill	Total
	U.S. dollars in thousands				
Cost					
Balance as of January 1, 2011	511	-	-	-	511
Additions during the year	15	-	-	-	15
Initially consolidated subsidiary	-	332	125	1,346	1,803
Balance as of December 31, 2011	526	332	125	1,346	2,329
Accumulated amortization					
Balance as of January 1, 2011	276	-	-	-	276
Amortization recognized during the year	105	35	13	-	153
Balance as of December 31, 2011	381	35	13	-	429
Net balance					
Balance as of December 31, 2011	145	297	112	1,346	1,900

NOTE 12: – GOODWILL AND INTANGIBLE ASSETS (Cont.):

2010:

	Computer programs
	U.S. dollars in thousands
Cost	
Balance as of January 1, 2010 and as of December 31, 2010	511
Accumulated amortization	
Balance as of January 1, 2010	174
Amortization recognized during the year	102
Balance as of December 31, 2010	276
Net balance	
Balance as of December 31, 2010	235

Testing impairment of goodwill arising from the acquisition of IBIS

For determining the recoverable amounts of IBIS as of December 31, 2012, the Company's management used the value in use, which is calculated using the estimated future cash flow expected to be generated from this cash-generating unit, as determined in the budget for the next five years (and additional residual year) and used third party's evaluations. The pre-tax discount rate which was used to discount the cash flow is 15%. The projected cash flow for a period exceeding five years was estimated using a permanent growth rate of 3%. This growth rate is determined based on the Company’s long-term growth expectations and market expectations regarding future inflation.

After testing goodwill for impairment as aforesaid, no impairment loss was recorded in respect of goodwill.

Amortization expenses of intangible assets are classified in profit or loss as follows:

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
Cost of sales and rendering of services	106	58	22
Selling and marketing expenses	31	13	-
General and administrative expenses	84	82	80
	221	153	102

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Advances from customers	382	462	35	550
Financial derivative	-	87	-	-
Accrued expenses	664	719	1,154	675
Employees and payroll accruals	1,120	1,118	810	335
Government authorities	111	148	181	43
Provision for vacation and recreation	957	904	935	803
Provision for commission to employees and distributors	1,273	800	640	762
Provision for warranty	256	266	221	350
Liability to the Chief Scientist	1,369	1,416	1,819	3,010
Other accounts payable	84	21	27	68
	6,216	5,941	5,822	6,596

NOTE 14:- FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Financial assets				
Financial assets at fair value:				
Hedging financial derivatives	261	132	-	-
Non-hedging financial derivatives	4	93	-	-
	265	225	-	-
Loans and receivables *)	12,086	10,595	6,206	6,953
Financial liabilities				
Financial liabilities at fair value:				
Hedging financial derivatives	-	59	-	-
Non-hedging financial derivatives	-	28	-	-
	-	87	-	-
Financial liabilities measured at amortized cost	1,619	1,744	2,254	3,526
	1,619	1,831	2,254	3,526
Trade payable and other accounts payable	6,563	6,711	6,940	4,528

*) Trade receivables do not include an allowance for doubtful debts and balances in respect of deferred revenues, which are deducted from trade balances in the statement of financial position in the amount of $ 3,052 thousand, $ 3,268 thousand, $ 2,714 thousand, and $ 2,972 thousand for the years ended on December 31, 2012, December 31, 2011, December 31, 2010 and January 1, 2010, respectively.

b. Financial risk factors:

The Group's activities expose it to various financial risks such as market risk (foreign exchange risk, Israeli CPI risk and interest rate risk), credit risk and liquidity risk. The Group utilizes derivatives in order to hedge certain exposures to risks.

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

1. Market risks:

   a) Foreign exchange risk:

      The Group operates in a large number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the Euro and the NIS. Foreign exchange risk arises on forward commercial transactions, recognized assets and liabilities that are denominated in a foreign currency other than the functional currency.

   b) Interest rate risk:

      The Group is exposed to the risk of changes in the LIBOR interest rate, as a result of commitment to pay royalties to the Chief Scientist at the Ministry of Industry, Trade and Labor, for financial support provided to the Company's R&D operations as well as in respect of the valuation of financial derivatives.

   c) Israeli CPI risk:

      The Company has a long-term lease agreement, where the monthly rent is linked to the Israeli Consumer Price Index.

2. Credit risk:

   Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will be similarly affected by changes in economic or other conditions.

   The Company regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables. The Company provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

   The Group maintains cash and cash equivalents and other financial instruments in various financial institutions. These financial institutions are located in different geographical areas around the world. The Company's policy is to diversify its investments among the various institutions. According to the Company's policy, the relative credit stability of the various financial institutions is evaluated on a regular basis.

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

As of December 31, 2012, cash and cash equivalents totaled $ 7,093 thousand (December 31, 2011 - $ 11,649 thousand, December 31, 2010 - $ 18,912 thousand and January 1, 2010 - $ 16,949 thousand). In management's opinion, All deposits are invested with high quality financial corporations.

Other collateral and credit enhancements

As of December 31, 2012, credit provided by the Company to its customers in the amount of $ 5,430 thousand is secured with collateral provided to these customers by third parties. This amount is before the deduction of deferred revenues, which is presented in the consolidated statement of financial position as deducted from trade receivable in the amount of $ 901 thousand.

3. Liquidity risk:

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments, insofar as relevant):

December 31, 2012

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
	U.S. dollars in thousands						
Trade payables	2,202	-	-	-	-	-	2,202
Other accounts payable	4,361	-	-	-	-	-	4,361
Liability to the Chief Scientist measured at amortized cost	1,385	120	120	120	-	-	1,745
	7,948	120	120	120	-	-	8,308

December 31, 2011

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
	U.S. dollars in thousands						
Trade payables	2,882	-	-	-	-	-	2,882
Other accounts payable	3,828	-	-	-	-	-	3,828
Hedging financial derivatives	59	-	-	-	-	-	59
Non-hedging financial derivatives	28	-	-	-	-	-	28
Liability to the Chief Scientist measured at amortized cost	1,430	140	120	120	120	-	1,930
	8,227	140	120	120	120	-	8,727

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2010

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
	U.S. dollars in thousands						
Trade payables	3,156	-	-	-	-	-	3,156
Other accounts payable	3,784	-	-	-	-	-	3,784
Liability to the Chief Scientist measured at amortized cost	1,853	190	140	120	120	120	2,543
	8,793	190	140	120	120	120	9,483

January 1, 2010

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
	U.S. dollars in thousands						
Trade payables	1,532	-	-	-	-	-	1,532
Other accounts payable	2,996	-	-	-	-	-	2,996
Liability to the Chief Scientist measured at amortized cost	2,805	621	190	140	120	240	4,116
	7,333	621	190	140	120	240	8,644

The maturity profile of the Group's financial assets are up to one year except for IBIS's loan to one of its shareholders, see note 11.

c. Fair value:

The carrying balance of cash and cash equivalents, trade receivable, other accounts receivable, trade payable and other accounts payable approximate their fair value. The liability to the Chief Scientist is measured at amortized cost which is identical to its fair value, based on the current value of cash flows using a 16% discount rate, which is customary for debts with similar characteristics.

d. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3: inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

Financial assets measured at fair value

	December 31, 2012	December 31, 2011
	Level 3	
	U.S. dollars in thousands	
Hedging financial derivatives	261	132
Non-hedging financial derivatives	4	93
	265	225

Financial liabilities measured at fair value

	December 31, 2012	December 31, 2011
	Level 3	
	U.S. dollars in thousands	
Hedging financial derivatives	-	59
Non-hedging financial derivatives	-	28
	-	87

As of December 31, 2010 and as of January 1, 2010 the Group did not have financial assets and financial liabilities measured at fair value.

The changes in financial assets classified in level 3 are not material.

e. Derivatives and hedging:

Cash flow hedges:

As of December 31, 2012 and December 31, 2011 the Company held forward foreign currency contracts and options designated as hedges of expected future sales in Euro and future wage expenses in NIS and Zloty, which the Company has highly probable forecasted transactions.

	December 31, 2012	December 31, 2011	
	Assets	Asset	Liability
	U.S. dollars in thousands		
Fair value of forward foreign currency contracts	-	132	-
Fair value of options	261	-	59
	261	132	59

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

f. Sensitivity tests relating to changes in market factors:

	December 31, 2012	December 31, 2011	December 31, 2010	January 1 2010
	U.S. dollars in thousands			
Sensitivity tests for changes in the $/NIS exchange rate: Gain (loss) from the change:				
10% increase	(113)	(98)	(199)	(158)
10% decrease	113	98	199	158
Sensitivity tests for changes in the $/EUR exchange rate: Gain (loss) from the change:				
10% increase	669	475	309	535
10% decrease	(669)	(475)	(309)	(535)

	Sensitivity test for changes in the $/NIS exchange rate – Profit (loss) from the change			
	5% rate increase	5% rate decrease	5% rate increase	5% rate decrease
	December 31, 2012		December 31, 2011	
	U.S. dollars in thousands			
$/NIS call options	(52)	19	(96)	57
$/NIS put options	(133)	228	(16)	51
Net exposure	(185)	247	(112)	108

	Sensitivity test for changes in the $/EUR exchange rate – Profit (loss) from the change			
	5% rate increase	5% rate decrease	5% rate increase	5% rate decrease
	December 31, 2012		December 31, 2011	
	U.S. dollars in thousands			
$/EUR call options	(14)	3	-	-
$/EUR put options	(4)	16	-	-
Forward options for the sale of $/EUR	(30)	30	(107)	107
Net exposure	(48)	49	(107)	107

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

	Sensitivity test for changes in the $/Zloty exchange rate			
	Profit (loss) from the change			
	5% rate increase	5% rate decrease	5% rate increase	5% rate decrease
	December 31, 2012		December 31, 2011	
	U.S. dollars in thousands			
$/Zloty call options	(3)	1	(19)	16
$/Zloty put options	(26)	32	(3)	6
Net exposure	(29)	33	(22)	22

Sensitivity tests and main work assumptions

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant. The sensitivity test to the Israeli CPI risk and to the interest rate risk is not material.

Sensitivity tests for options were conducted using the Black & Scholes pricing model. As of December 31, 2012, the standard deviation for the dollar/NIS exchange rate was 8%-17.5%, dollar/EUR exchange rate was 8.5% and dollar/Zloty exchange rate was 17%-25%. As of December 31, 2011 the standard deviation for the dollar/NIS exchange rate was 6.1%-12.1%, dollar/EUR exchange rate was 16% and dollar/Zloty exchange rate was 17%-25%.

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

g. Linkage terms for financial assets and liabilities groups of financial instruments pursuant to IAS 39:

1. Linkage terms for financial assets:

	Unlinked	In or linked to foreign currency Euro	NIS	Other	Total
	U.S. dollars in thousands				
December 31, 2012					
Cash and cash equivalents	5,091	1,051	645	306	7,093
Restricted cash	-	-	38	-	38
Trade receivable *)	4,708	6,305	425	104	11,542
Other accounts receivable	63	36	43	29	171
Hedging financial derivatives	-	-	202	59	261
Non-hedging financial derivatives	-	4	-	-	4
	9,862	7,396	1,353	498	19,109

	Unlinked	In or linked to foreign currency Euro	NIS	Other	Total
	U.S. dollars in thousands				
December 31, 2011					
Cash and cash equivalents	7,639	1,627	1,768	615	11,649
Restricted cash	207	97	-	-	304
Trade receivable *)	6,254	3,635	86	51	10,026
Other accounts receivable	389	42	91	47	569
Hedging financial derivatives	132	-	-	-	132
Non-hedging financial derivatives	93	-	-	-	93
	14,714	5,401	1,945	713	22,773

	Unlinked	In or linked to foreign currency Euro	NIS	Other	Total
	U.S. dollars in thousands				
December 31, 2010					
Cash and cash equivalents	15,656	1,231	1,972	53	18,912
Restricted cash	192	22	-	-	214
Trade receivable *)	3,207	2,424	340	-	5,971
Other accounts receivable	92	40	90	13	235
	19,147	3,717	2,402	66	25,332

	Unlinked	In or linked to foreign currency Euro	NIS	Other	Total
	U.S. dollars in thousands				
January 1, 2010					
Cash and cash equivalents	13,730	2,638	487	94	16,949
Restricted cash	273	99	-	-	372
Trade receivable *)	2,979	3,350	307	-	6,636
Other accounts receivable	141	70	91	15	317
	17,123	6,157	885	109	24,274

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

*) Trade receivables do not include an allowance for doubtful debts and balances in respect of income in advance, which are deducted from trade balances in the statement of financial position in the amount of $3,052 thousand, $ 3,268 thousand, $ 2,714 thousand, and $ 2,972 thousand for the years ended on December 31, 2012, December 31, 2011, December 31, 2010 and January 1, 2010, respectively..

2. Linkage terms for financial liabilities:

		In or linked to foreign currency			
	Unlinked	**Euro**	**NIS**	**Other**	**Total**
	U.S. dollars in thousands				
December 31, 2012					
Trade payables	1,154	244	670	134	2,202
Other accounts payable	1,762	460	1,815	324	4,361
Liability to the Chief Scientist measured at amortized cost	1,619	-	-	-	1,619
	4,535	704	2,485	458	8,182

		In or linked to foreign currency			
	Unlinked	**Euro**	**NIS**	**Other**	**Total**
	U.S. dollars in thousands				
December 31, 2011					
Trade payables	1,553	347	650	332	2,882
Other accounts payable	814	302	2,276	437	3,829
Hedging financial derivatives	-	-	59	-	59
Non-hedging financial derivatives	-	-	-	28	28
Liability to the Chief Scientist measured at amortized cost	1,744	-	-	-	1,744
	4,111	649	2,985	797	8,542

		In or linked to foreign currency			
	Unlinked	**Euro**	**NIS**	**Other**	**Total**
	U.S. dollars in thousands				
December 31, 2010					
Trade payables	656	318	2,158	24	3,156
Other accounts payable	1,105	310	2,238	131	3,784
Liability to the Chief Scientist measured at amortized cost	2,254	-	-	-	2,254
	4,015	628	4,396	155	9,194

		In or linked to foreign currency			
	Unlinked	**Euro**	**NIS**	**Other**	**Total**
	U.S. dollars in thousands				
January 1, 2010					
Trade payables	456	263	785	28	1,532
Other accounts payable	637	550	1,675	134	2,996
Liability to the Chief Scientist measured at amortized cost	3,526	-	-	-	3,526
	4,619	813	2,460	162	8,054

NOTE 15:- LIABILITY TO THE CHIEF SCIENTIST

a. Composed as follows:

	December 31, 2012	2011	2010
	U.S. dollars in thousands		
Balance as of January 1	1,744	2,254	3,526
Payments	(163)	(659)	(1,575)
Amounts recognized in the statement of income	38	149	303
Balance as of end of the year	1,619	1,744	2,254

b. Presented in the statement of financing position under:

	December 31, 2012	2011	2010	January 1 2010
	U.S. dollars in thousands			
Current liabilities – other accounts payable	1,369	1,416	1,819	3,010
Non-current liabilities	250	328	435	516
	1,619	1,744	2,254	3,526

c. Repayment dates:

	December 31 2012
	U.S. dollars thousands
2013	1,385
2014	120
2015	120
2016	120
Total	1,745
Less – the discount component	(126)
Balance in the financial statements	1,619

d. In accordance with the Company's agreements with the Chief Scientist in Israel ("the Chief Scientist") regarding its research and development and pursuant to the applicable law in this regard, the Company is required to pay royalties of 3.5% of revenues from products developed with the financing of the Chief Scientist, up to an amount equal to 100% of the Chief Scientist's grants for the Company's R&D, linked to the dollar, including accrued interest at the LIBOR's rate. The Company undertakes to pay back these grants to the State of Israel only if there are sales of product financed by the Chief Scientist.

NOTE 15:- LIABILITY TO THE CHIEF SCIENTIST

e. The grants were received until 2001. The total amount received was $ 5,638 thousand while the amount of grants paid until December 31, 2012 was $ 4,529 thousand

f. As of January 1, 2010, the discount rate of the liability in respect of Chief Scientist grants is the cost of the Company's debt – 16%, in accordance with the provisions of IAS 20. This discount rate has not changed since then.

g. The liability to the Chief Scientist also includes amounts in respect of disputed that were settled in 2010 and were therefore measured at fair value.

NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

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.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below.

a. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Company into pension funds and/or policies of insurance companies release the Company from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans.

	Year ended December 31		
	2012	**2011**	**2010**
	U.S. dollars in thousands		
Expenses in respect of defined contribution plans	133	89	52

NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

b. Defined benefit plan:

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

1. Expenses recognized in profit or loss:

	Year ended December 31		
	2012	**2011**	**2010**
	U.S. dollars in thousands		
Current service cost	346	346	307
Interest cost on benefit obligation	130	130	115
Expected return on plan assets	(105)	(112)	(104)
Real return reclassified from severance pay to benefits	32	34	39
Total employee benefit expenses	403	398	357
Actual return on plan assets	160	94	119
The expenses are presented in the statement of income as follows:			
Cost of sales	46	49	49
Research and development expenses	75	83	73
Selling and marketing expenses	94	74	65
General and administrative expenses	58	62	55
Financing expenses	130	130	115
	403	398	357

2. The Plan assets and liabilities, net:

	December 31,			**January 1**
	2012	**2011**	**2010**	**2010**
	U.S. dollars in thousands			
Defined benefit obligation	3,300	2,792	2,523	1,904
Fair value of the plan's assets	2,666	2,338	2,219	1,766
Total liabilities, net *)	634	454	304	138

NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

*) The balance as of December 31, 2012 in the consolidated statement of financial position includes a balance of $ 15 thousand attributed to the retirement plan for employees of the subsidiary in France.

3. Changes in the present value of defined benefit obligation:

	2012	2011	2010
	U.S. dollars in thousands		
Balance as of January 1	2,792	2,523	1,904
Interest cost	130	130	115
Current service cost	346	346	307
Benefits paid	(168)	(120)	(34)
Net actuarial loss	120	122	96
Exchange differences	80	(209)	135
Balance at December 31,	3,300	2,792	2,523

4. Plan's assets:

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

b) The movement in the fair value of the plan assets:

	2012	2011	2010
	U.S. dollars in thousands		
Balance at January 1	2,338	2,219	1,766
Expected return	105	113	104
Contributions by employer	291	305	285
Benefits paid	(154)	(76)	(27)
Real return reclassified from severance pay to benefits	(33)	(34)	(39)
Net actuarial gain (loss)	55	(12)	9
Exchange differences	64	(177)	121
Balance at December 31,	2,666	2,338	2,219

NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

5. The principal assumptions underlying the defined benefit plan:

	December 31, 2012	December 31, 2011	December 31, 2010	January 1 2010
	%			
Discount rate of the plan liability	5.18%	5.44%	5.95%	5.68%
Expected rate of return on plan assets	5.18%	5.44%	5.95%	5.68%
Future salary increases	5%	5%	5%	5%

6. The amounts for the current and previous years:

	December 31, 2012	December 31, 2011	December 31, 2010	January 1 2010
	U.S. dollars in thousands			
Present value of defined benefit obligation	3,300	2,792	2,523	1,904
Fair value of plan assets	2,666	2,338	2,219	1,766
Deficit in the plan	634	454	304	138
Experience adjustments on:				
Plan liabilities – actuarial losses (profits)	139	71	113	(19)
Plan assets – actuarial losses (profits)	(10)	(10)	(17)	6

NOTE 17:- TAXES ON INCOME

a. Tax laws applicable to the Company:

<u>The Law for the Encouragement of Capital Investments, 1959:</u>

According to the Law, the company is entitled to various tax benefits by virtue of the "approved enterprise" and "beneficiary enterprise" status granted to part of it enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

NOTE 17:- TAXES ON INCOME (Cont.)

Tax benefits and reduced tax rates:

Alternative track:

Under this track, the Company is tax exempt in the first two years of the benefit period and subject to tax at the reduced rate of 10%-25% for a period of five to eight years for the remaining benefit period (dependent on the level of foreign investments).

Following the enactment of Amendment No. 60 to the Law, subsequent to April 1, 2005, companies under the alternative benefits track are no longer required to obtain a letter of approval from the Investment Center. In addition, programs whose year of election entitled them to a beneficiary enterprise status are required, among others, to make a minimum qualifying investment. This condition requires an investment in the acquisition of productive assets such as machinery and equipment (and for hotels, buildings as well), which must be carried out within three years. The minimum qualifying investment required for setting up a plant is NIS 300 thousand, linked to the Israeli CPI in accordance with the guidelines of the Israeli tax authorities.

As for plant expansion, the minimum qualifying investment is the higher of NIS 300 thousand, linked to the Israeli CPI as stated above, and an amount equivalent to the "qualifying percentage" of the value of the productive assets. Productive assets that are used by the plant but not owned by it will also be viewed as productive assets.

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law ("a beneficiary company"), and which is derived from an industrial enterprise or a hotel. The Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track both in respect of an industrial enterprise and of a hotel, whereby income from an industrial enterprise includes, among others, revenues from the production and development of software products and revenues from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

In respect of programs approved prior to the enactment of Amendment No. 60 to the Law, the benefit period starts with the first year the approved enterprise earns taxable income, provided that 12 years have not passed since the enterprise began operating and 14 years have not passed since the approval was granted.

In respect of expansion programs pursuant to Amendment No. 60 to the Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election.

If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise / beneficiary enterprise in the year in which the income was earned, as if it was not under the alternative track. The Company's policy is not to distribute dividends as above.

NOTE 17:- TAXES ON INCOME (Cont.)

As for programs under the grants track which were approved after April 1, 2005 and beneficiary enterprises pursuant to Amendment No. 60 to the Law, the basic condition for receiving the benefits under this track is that the enterprise contributes to the country's economic growth and is a competitive factor for the Gross Domestic Product ("a competitive enterprise"). In order to comply with this condition, the Law prescribes various requirements regarding industrial enterprises and hotels.

As for industrial enterprises, in each tax year during the benefit period, one of the following conditions must be met:

1. The industrial enterprise's main field of activity is biotechnology or nanotechnology as approved by the Head of the Administration of Industrial Research and Development, prior to the approval of the relevant program.

2. The industrial enterprise's sales revenues in a specific market during the tax year do not exceed 75% of its total sales for that tax year. A "market" is defined as a separate country or customs territory.

3. At least 25% of the industrial enterprise's overall revenues during the tax year were generated from the enterprise's sales in a specific market with a population of at least 12 million.

Conditions for the entitlement to the benefits:

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published hereunder and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The managements believe that the companies are meeting the aforementioned conditions.

The Company has six investment programs under the Alternative Track. Four programs of the Company have been granted the status of an "Approved Enterprise" and two expansion programs of the Company have been granted the status of a "Beneficiary Enterprise". As of December 31, 2012, the Company has three valid investment programs under the Alternative Track.

NOTE 17:- TAXES ON INCOME (Cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959:

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2011 and 2012 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

The Company has examined the effect of the adoption of the Amendment on its financial statements, and as of the date of the publication of the financial statements, the Company estimates that it will not apply the Amendment. Accordingly, the Company has not adjusted its deferred tax balances as of December 31, 2012. The Company's estimate may change in the future.

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

The Company has the status of an "industrial company", as implied by this law. According to this status and by virtue of regulations published hereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or a patent or knowhow usage right that are used in the enterprise's development or promotion, to deduct listed share issuance expenses and to file consolidated financial statements under certain conditions.

b. Tax rates applicable to the Group:

1. The Israeli corporate tax rate was 25% in 2010, 24% in 2011 and 25% in 2012.

   On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, 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.

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are: 16.5%-39%.

NOTE 17:- TAXES ON INCOME (Cont.)

c. Final Tax assessments:

The Company received final tax assessments up to and including tax year 2007, subject to the powers conferred on the General Manager of the Tax Authority, in accordance with Sections 145, 147 and 152 of the Income Tax Ordinance.

d. Carryforward losses for tax purposes:

Carryforward capital losses of the Group total approximately $ 6 million as of December 31, 2012. Carryforward operating tax losses of the Group total approximately $ 31 million as of December 31, 2012.

In respect of carryforward business losses deferred tax assets were recognized in the financial statements as December 31, 2012 in the amount of $ 1,804 thousand. No deferred tax assets were recognized in respect of carryforward business losses in the amount of $ 22,500 thousand as of December 31, 2012, since it is not expected that they will be utilized in the foreseeable future.

e. Deferred taxes:

The deferred taxes are reflected in the statement of financial position as follows:

	Statements of financial position			
	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Deferred tax assets				
Non-current assets	1,804	1,100	609	513

The deferred taxes are computed at the average tax rate of 27% (2011 - 25%) based on the tax rates that are expected to apply upon realization.

f. Taxes on income included in statement of income:

	December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
Deferred taxes	555	350	-
Current taxes	(6)	(25)	-
Taxes in respect of previous years	5	-	-
	554	325	-

NOTE 17:- TAXES ON INCOME (Cont.)

g. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31		
	2012	**2011**	**2010**
	U.S. dollars in thousands		
Income before taxes on income	689	3,381	3,201
Statutory tax rate	25%	24%	25%
Tax computed at the statutory tax rate	172	811	800
Increase (decrease) in taxes on income resulting from the following factors:			
Unrecognized temporary differences	(405)	(75)	(206)
Update of deferred tax balances due to changes in tax rates	(41)	-	-
Utilization of previously unrecognized tax losses	(192)	(960)	(594)
Tax adjustment in respect of different tax rates and "Approved Enterprise" status	(87)	(76)	-
Tax return from previous years	5	-	-
Tax paid	(6)	(25)	-
Tax benefit	(554)	(325)	-

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Lawsuits

On April 7, 2008 Malam Systems Ltd ("Malam") filed a claim with the Tel Aviv District Court against the Company for a sum of NIS 2,506 thousand. The claim was filed after the Company informed Malam that it was cancelling an agreement dated January 18, 2008, between Malam and the Company for the implementation and deployment of an ERP system ("the Agreement").

The Company filed a counterclaim against Malam in the amount of NIS 3,512 thousand following which Malam filed a statement of defense, where it repeated the allegations stated in the statement of claim.

NOTE 18:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

On July 6, 2011 the parties signed an arbitration agreement which stated that the disputes would be referred to an arbitrator and dismissed by the court. On July 14, 2011 the parties' settlement was validated by the court.

On April 24, 2012, the appointed expert submitted a draft opinion stating that both parties bear responsibility for the project.

As of the date of the financial statements, in management's estimation, based on the opinion of its legal counsels, at this stage the odds that the Company would pay material amounts in connection with this lawsuit are less than 50%. Therefore, the Company did not include any provision in respect of this lawsuit in the financial statements.

b. Commitments:

Operating lease obligation

1. The Group (as lessee) has entered into operating lease agreements for private vehicles.

   The future minimum lease fees payable as of December 31, 2012 are as follows:

	U.S. dollars in thousands
2013	358
2014	209
2015	31
	598

2. The Group (as lessee) has entered into commercial real estate lease agreements which consist of the office building.

   The future minimum lease fees payable as of December 31, 2012 are as follows:

	U.S. dollars in thousands
2013	1,062
2014	905
2015	1,053
2016	975
2017 and thereafter	800
	4,795

NOTE 19:- EQUITY

a. Composition of share capital:

	December 31,						January 1.	
	2012		2011		2010		2010	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares							
Ordinary shares of NIS 0.01 par value each	27,000,000	11,240,585	27,000,000	11,100,147	27,000,000	10,978,621	27,000,000	10,820,550

As of December 31, 2012, 2011, 2010 and as of January 1, 2010 the Company's issued share capital comprises 11,749,304 ordinary shares of NIS 0.01 par value each.

NOTE 19:- EQUITY (Cont.)

b. Dividend:

During the years ended on December 31, 2012, December 31, 2011 and December 31, 2010, the Company paid dividends of $ 3,035, $ 4,961 thousand and $ 1,865 thousand, respectively.

c. Capital management in the Company:

The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

NOTE 20:- SHARE-BASED PAYMENTS

a. Expenses recognized in the financial statements:

The expense recognized in the financial statements for services received from directors, officers and employees of the Company, is presented in the table below:

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Equity-settled share-based payment plans	184	158	190

The share-based payment transactions that the Company granted to its employees are described below. During the years ended on December 31, 2012, 2011 and 2010, no changes or cancellations were made in the said employee benefit plans.

b. Equity-settled share options:

In 1996 the board of directors approved an options plan, which was expanded in 2000 and 2002 ("the 1996 Plan"). The 1996 Plan maintained 1,000,000 options exercisable into ordinary shares of NIS 0.01 par value each of the Company ("the Options"). The Options are to be granted to directors, officer and employees of the Group. On May 28, 2003, the board of directors of the Company approved a new options plan ("the 2003 Plan"). The Company's board of directors approved that the number of options maintained under the 1996 Plan will be part of the 2003 Plan. During 2007, the Company's board of directors approved that 500,000 additional options would be maintained under the 2003 Plan. In 2011, the Company's board of directors approved that 500,000 additional options would be maintained under the 2003 Plan.

The options vest at the end of each year from the date of award, during a period of 3 or 4 years.

NOTE 20:- SHARE-BASED PAYMENTS (Cont.)

Unexercised options shall expire at the end of the tenth or sixth year from the date of award. Each cancelled or forfeited options can be granted again.

The Company has granted stock options settled in equity instruments only, with each option exercisable into one shares of NIS 0.01 par value.

The Company measures the fair value of the option granted to employees and others, which provide similar services on the date of award by using the Black and Scholes pricing model. The options pricing model requires several assumptions, such as the expected volatility of the share's price and the expected life of the option.

The calculation of the expected volatility is based on the historic volatility of the Company's share price, assuming that the historic volatility of the share's price is a good indication of future trends. The expected life of the option represents the period in which the Company's options are expected to be exercised and based on the average between the vesting period and the remaining life of the options until expiration. The risk-free interest rate is based on the yields published for short-term Treasury Bills for the same period.

In addition, the calculation of the fair value if the options based on the Black and Scholes model takes into account the Company's dividend policy. The Company announced that it has adopted a policy whereby from 2010, the Company will distribute at least 1/3 (33.3%) of the annual net profit as dividend, following approval of the financial results for each fiscal year.

Pursuant to the provisions of the 1996 and 2003 Plans, the grant of options to employees (who are not controlling shareholders in Israel) shall be in accordance with the provisions of Section 102 of the Income Tax Ordinance. On May 28, 2003, the Company's Board of Directors approved that each award of options in accordance with Section 102 shall be made under the Capital Track unless the Board of Directors decides otherwise, and they shall be deposited with a trustee. The award of options under Section 3(i) of the Income Tax Ordinance shall be to counsels, service providers and controlling shareholders only.

The following table lists the inputs used in the measurement of the fair value of options settled in the Company's equity instruments, in accordance with the Black & Scholes model options pricing model, with respect to the above plans:

	Year ended December 31		
	2012	**2011**	**2010 *)**
	U.S. dollars in thousands		
Risk-free interest rate (%)	0.32%	0.82%	-
Dividend yield in respect of the share (%)	4.5%	3.56%	-
Expected volatility of the share prices (%)	56.1%	60%	-
Contractual life of the options (in years)	5.46	4.25	-

*) The Company didn’t grant options during 2010.

NOTE 20:- SHARE-BASED PAYMENTS (Cont.)

c. Movement during the year:

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans during the current year:

	Year ended December 31,					
	2012		2011		2010	
	Number of options	Weighted average exercise price U.S. dollars	Number of options	Weighted average exercise price U.S. dollars	Number of options	Weighted average exercise price U.S. dollars
Share options outstanding at beginning of year	979,188	3.83	798,214	3.56	1,036,035	4.78
Share options granted during the year	100,000	3.02	317,500	3.68	-	-
Share options exercised during the year	(140,438)	2.23	(121,526)	1.89	(158,071)	1.32
Share options expired/forfeited during the year	(33,750)	3.30	(15,000)	2.07	(79,750)	23.86
Share options outstanding at end of year	905,000	4.01	979,188	3.83	798,214	3.56

The weighted average remaining contractual life for the share options outstanding as of December 31, 2012 was 3.27 years (as of December 31, 2011 – 3.06 years and as of December 31, 2010 – 2.65 years).

The range of exercise prices for share options outstanding as of December 31, 2012 was $1.28-4.6 (as of December 31, 2011- $ 1.28-4.6 and as of December 31, 2010- $ 1.28-4.6).

NOTE 21:– ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS

a. The Company has several key suppliers. In year ended on December 31, 2012, acquisitions from three suppliers accounted for 40% of total acquisitions during the year.

b. During the year ended December 31, 2012 the Company has no revenues from one customer that exceeds 10% of the total revenues.

c. Geographic information:

The Company operates in one operating segment which is the development, production and marketing of real-time three-dimensional graphics and video servers for TV stations.

1. Revenues reported in the financial statements based on the location of the customers, are as follows:

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Europe	16,752	16,920	11,859
Asia	7,400	7,117	6,736
America	10,159	10,485	10,097
Other	732	814	467
	35,043	35,336	29,159

2. The carrying amounts of property, plant and equipment based on the location of the assets, are as follows:

	Statements of financial positions			
	December 31,			January 1
	2012	2011	2010	2010
	U.S. dollars in thousands			
Israel	1,330	741	599	868
Europe	361	396	266	171
America	121	23	15	31
Other	31	17	17	35
	1,843	1,177	897	1,105

NOTE 21:- ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS (Cont.)

		Year ended December 31		
		2012	2011	2010
		U.S. dollars in thousands		
d.	Cost of sales and rending of services			
	Cost of inventories and payroll, wages and related expenses	8,416	8,048	6,339
	Subcontractors	560	575	410
	Depreciation and amortization	269	225	253
	Rent and buildings' maintenance	336	264	258
	Other	1,931	1,923	1,498
		11,512	11,035	8,758
e.	Research and development expenses			
	Payroll, wages and related expenses	4,366	3,688	3,081
	Rent and buildings' maintenance	241	175	169
	Subcontractors	146	124	112
	Other	872	883	860
		5,625	4,870	4,222
f.	Selling and marketing expenses			
	Payroll, wages and related expenses	5,480	4,649	3,831
	Commission	1,969	1,993	1,110
	Advertising and marketing	302	277	244
	Depreciation and amortization	256	159	160
	Rent an d buildings' maintenance	430	347	364
	Trade exhibitions	1,048	913	925
	Overseas travels	1,605	1,370	1,132
	Other	2,212	2,353	1,985
		13,302	12,061	9,751
g.	General and administrative expenses			
	Payroll, wages and related expenses	1,642	1,648	1,236
	Professional consulting	625	349	348
	Rent and buildings' maintenance	110	102	85
	Depreciation and amortization	133	126	146
	Other	1,368	1,442	1,062
		3,878	3,667	2,877

NOTE 21:- ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS (Cont.):

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
h. Financing income (expenses)			
Financial income			
Financing income in respect of financial derivatives	238	29	-
Interest income from bank deposits	39	150	126
	277	179	126
Financing expense			
Loss from changes in exchange rates, net	(27)	(190)	(96)
Financing expenses in respect of financial derivatives	-	-	(83)
Bank fees	(85)	(89)	(67)
Financing expenses in respect of the time value of financial liabilities	(202)	(222)	(230)
	(314)	(501)	(476)
Financing expense, net	(37)	(322)	(350)

NOTE 22:- NET EARNINGS PER SHARE

Details of the number of shares and income used in the calculation of net earnings per share

	Year ended December 31					
	2012		2011		2010	
	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company
	In thousands	U.S. dollars in thousand	In thousands	U.S. dollars in thousand	In thousands	U.S. dollars in thousand
Number of shares and income for calculating basic net earnings	11,213	1,243	11,030	3,706	10,866	3,201
Effect of potential dilutive ordinary shares	18	-	162	-	165	-
Number of shares and income for calculating diluted net earnings	11,231	1,243	11,192	3,706	11,031	3,201

NOTE 23:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Other accounts payable (*)	402	590	535

(*) In respect of Payroll and related provisions not paid to related parties. The balance is not linked to the CPI and does not accrued interest.

b. Transactions with related parties:

	Year ended December 31		
	2012	2011	2010
	U.S. dollars in thousands		
Professional consulting fees (*)	18	23	68

(*) see clause d in this note.

c. Benefits to key managerial personnel employed in the Company:

	Year ended on December 31,					
	2012		2011		2010	
		Amount		Amount		Amount
	No. of people	U.S. dollars in thousands	No. of people	U.S. dollars in thousands	No. of people	U.S. dollars in thousands
Payroll and related expenses	6	1,521	6	1,904	6	1,837
Expenses in respect of provision for vacation and recreation	6	-	6	(8)	6	(2)
Expenses in respect of provision for severance pay	6	49	6	27	6	59
Cost of share-based payment	6	95	6	96	6	61
Total	6	1,665	6	2,019	6	1,955

NOTE 23:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

Benefits in respect of directors not employed in the Company:

	Year ended on December 31,					
	2012		2011		2010	
		Amount		Amount		Amount
	No. of people	U.S. dollars in thousands	No. of people	U.S. dollars in thousands	No. of people	U.S. dollars in thousands
Total benefits in respect of a non-employed director	7	122	7	113	7	122
Total	7	122	7	113	7	122

d. Commitments:

The Company has an agreement with Arba Financing Company Ltd ("Arba"), which is a related party, pursuant to which Arba will identify companies that engage in the Company's business activity with an investment potential, for an annual fee of $ 36 thousand. In addition, Arba is entitled to remuneration for each executed transaction.

e. List of subsidiaries that are held by the Company:

Company's name	Country of incorporation	Company's interests in the capital, voting rights and authority to appoint directors
IVSM B.V	Netherlands	100%
Orad Inc.	United States	100%
Orad GMBH	Germany	100%
GETRIS	France	100%
IVSM UK	United Kingdom	100%
Orad North Asia	Hong-Kong	100%
Orad Iberia	Spain	100%
IBIS WW	United Kingdom	*) 75%
IBIS Inc.	United States	*) 75%
IBIS Ltd.	United Kingdom	*) 75%
Orad poland	Poland	100%
Oradnet Ltd.	Israel	100%

*) See Note 5.

NOTE 24:- RECONCILIATION BETWEEN US GAAP AND IFRS

As stated in note 2a, these financial statements for the year ended 31 December, 2012 are the first annual financial statements of the Company that are prepared in accordance with IFRS. The Company initially adopted IFRS on the date of transition to reporting under IFRS – January 1, 2010. The Company has prepared an opening balance sheet as of the transition date from which reporting under IFRS began.

Prior to adopting IFRS, the Company prepared its financial statements in accordance with US GAAP. The Company's last annual financial statements to be prepared in accordance with US GAAP were drawn up as of December 31, 2011 and for the year then ended.

Accordingly, the Company is presenting the following reconciliations between US GAAP and IFRS as of January 1, 2010 (the date of transition to reporting under IFRS) and as of December 31, 2011, and for the year then ended. This note explains the principal adjustments made by the Group in restating US GAAP financial statements, including the statement of financial position as at 1 January 2010 and the financial statements as at and for the year ended 31 December 2011.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- The Company elected to adopt the relief regarding employee benefits, under all the cumulative actuarial gains or losses as of January 1, 2010 (net of tax) are recognized in retained earnings.

- IFRS 2 Share-based Payment has not been applied to equity instruments in share-based payment transactions that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2010.

NOTE 24:- RECONCILIATION BETWEEN US GAAP AND IFRS (Cont.)

a. Reconciliation in the consolidated statements of financial position:

	December 31, 2011			January 1, 2010		
	U.S. GAAP (** (*	Effect of transition to IFRS	IFRS	U.S GAAP (** (*	Effect of transition to IFRS	IFRS
	U.S. dollars in thousands					
CURRENT ASSETS:						
Cash and cash equivalents	11,649	-	11,649	16,949	-	16,949
Restricted cash	304	-	304	103	-	103
Trade receivables	6,758	-	6,758	3,664	-	3,664
Other accounts receivable	1,755	(550)	1,205	1,306	(513)	793
Inventories	3,654	-	3,654	1,912	-	1,912
	24,120	(550)	23,570	23,934	(513)	23,421
NON-CURRENT ASSETS:						
Restricted cash	-	-	-	269	-	269
Property, plant and equipment, net	1,322	(145)	1,177	1,442	(337)	1,105
Deferred taxes	550	550	1,100	-	513	513
Other long-term receivables	400	-	400	-	-	-
Intangible assets	409	145	554	-	337	337
Goodwill	1,346	-	1,346	-	-	-
	4,027	550	4,577	1,711	513	2,224
	28,147	-	28,147	25,645	-	25,645
CURRENT LIABILITIES:						
Trade payables	2,882	-	2,882	1,532	-	1,532
Deferred revenues	2,117	-	2,117	1,455	-	1,455
Other accounts payable	4,584	1,357	5,941	4,971	1,625	6,596
	9,583	1,357	10,940	7,958	1,625	9,583
Non-current liabilities						
Liability to the Chief Scientist	-	328	328	-	516	516
Employee benefit liabilities	812	(358)	454	544	(406)	138
	812	(30)	782	544	110	654
Share capital	31	-	31	29	-	29
Premium on shares	76,914	(3)	76,911	75,917	164	76,081
Accumulated deficit	(58,971)	(1,324)	(60,295)	(58,256)	(1,899)	(60,155)
Gain from cash flow hedges transactions	73	-	73	-	-	-
Adjustments arising from translation financial statements of foreign operations	(577)	-	(577)	(547)	-	(547)
	17,470	(1,327)	16,143	17,143	(1,735)	15,408
Non-controlling interests	282	-	282	-	-	-
Total equity	17,752	(1,327)	16,425	17,143	(1,735)	15,408
	28,147	-	28,147	25,645	-	25,645

*) Liabilities due to employee benefits are presented in net terms.

**) Reclassification:

During the year balances were reclassified from trade receivable to other accounts payable and from restricted cash in the current assets to restricted cash in non-current assets in order to better reflect the nature of their activity. The reclassification did not affect the previously reported net income or shareholders' equity. The balances presented according to IFRS were adjusted accordingly.

NOTE 24:- RECONCILIATION BETWEEN US GAAP AND IFRS (Cont.)

b. Reconciliation in the consolidated statement of income:

	Year ended December 31, 2011		
	U.S. GAAP (**	Effect of transition to IFRS	IFRS
	U.S. dollars in thousands		
Revenues from sales	28,793	-	28,793
Revenues from rending of services	6,543	-	6,543
	35,336		35,336
Cost of sales and rending of services	11,044	(9)	11,035
Gross profit	24,292	(9)	24,301
Research and development expenses	5,033	(163)	4,870
Selling and administrative expenses	12,378	(317)	12,061
General and administrative expenses	3,771	(104)	3,667
Operating income	3,110	(593)	3,703
Financing income	-	(179)	179
Financing expenses	(55)	446	(501)
Income before tax benefit	3,055	326	3,381
Tax benefit	325	-	325
Net income	3,380	326	3,706

c. Reconciliation in the consolidated statement of comprehensive income:

	Year ended December 31, 2011		
	U.S. GAAP (**	Effect of transition to IFRS	IFRS
	U.S. dollars in thousands		
Net income	3,380	326	3,706
Other comprehensive income (loss) (net of tax effect):			
Gain from cash flow hedge transactions	73	-	73
Adjustments arising from the translation financial statements of a foreign operation	(30)	-	(30)
Actuarial loss from defined benefit plans	-	(134)	(134)
Total other comprehensive income (loss)	43	(134)	(91)
Total comprehensive income	3,423	192	3,615

NOTE 24:- RECONCILIATION BETWEEN US GAAP AND IFRS (Cont.)

**) Reclassification

During the year expenses were reclassified from selling and marketing expenses to cost of sales in order to better reflect the nature of their activity. The reclassification did not affect the previously reported net profit or shareholders' equity.

d. Explanations to reconciliations in the financial statements:

1. Employee benefits:

In accordance with US GAAP, the liability for employee benefits was measured based on the multiplication of the number of years of employment by the last monthly salary of the employee at each reporting date and the amounts funded with severance pay funds were measured based on their redemption values at each reporting date.

In accordance with IAS 19 "Employee Benefits", the Company's severance pay plan is considered a defined benefit plan, and therefore it is required to present the liability for employee benefits on an actuarial basis. The actuarial calculation takes into account future wage increases and the percentage of employee turnover, based on the timing of payments.

The amounts are presented based on discounted expected future cash flows using the interest rate on government bonds, whose term to maturity is similar to the period of obligation relating to the severance pay.

Pursuant to the provisions of IFRS, the Company chose a relief whereby it recognized all the actuarial gains or losses, net, as of January 1, 2010. Upon the transition to reporting under IFRS, the net balance of liability for employee benefits has decreased by $ 406 thousand.

2. Liability to the Chief Scientist in respect of government grants:

Royalties that constitute reimbursement of expenses were recognized in selling and marketing expenses on the date of actual payment. In accordance with US GAAP, Chief Scientist grants were recorded as an income on the date of receipt thereof.

Upon the transition to IFRS, and in accordance with IAS 37 – "Contingent Liabilities", Chief Scientist grants are to be recognized as a liability up to the amount that is expected to be reimbursed. The amount of the liability is reviewed each reporting period, and the changes are recognized in the statement of comprehensive income.

As of January 1, 2010, the Company has been implementing the provisions of IAS 20 (Revised).

NOTE 24:- RECONCILIATION BETWEEN US GAAP AND IFRS (Cont.)

3. Share-based payments:

   In accordance with US GAAP, the Company recognized a benefit from options granted under share-based payments settled in equity instruments, as an expense in the statement of income against a corresponding increase in premium on shares, while the expense is recognized on a straight line basis over the vesting period.

   Upon the transition to IFRS, the Company has been implementing the provisions of IFRS 2 "Share-Based Payment", which provides that the benefit in respect of a share-based payment will be recognized in the statement of income while the expenses is recognized using the accelerated amortization method over the vesting period.

   The effect of the transition to IFRS on January 1, 2010, was reflected in a $ 164 thousand increase in equity.

4. Deferred tax:

   Under US GAAP, deferred taxes are presented as current and noncurrent assets while IFRS does not allow deferred taxes to be presented as current.

5. Computer programs:

   Under US GAAP purchased of computer programs is accounted for as an Property, plant and equipment while in IFRS as intangible asset.

6. Financing income and expenses:

   In line with US GAAP, financing income and expenses, net, were recognized in the statement of income. According to IFRS, financing income and financing expenses should be presented separately in the statement of income. Therefore, financing income of $ 277 thousand and financing expenses of $ 317 thousand for the year ended on December 31, 2012, were presented in the statement of income.

NOTE 25:- SUBSEQUENT EVENT

During February 2013, one of the shareholders of IBIS ceased his work at IBIS. The Company intends to exercise its right to acquire his shares (see note 5).

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