Orad Reports Financial Results for the Fourth Quarter and for the Full Year of 2013

- Revenues of $8.7 million in Q4/2013 an increase of 22% from Q4/2012
- Revenues increased by 20.6% in the second half of 2013 compared to the first half
- Maintaining positive net income, completing the turnaround
- Continued high level of bookings, three quarters in a row
- Revenues of $31.8 million in 2013 compare to $35 million in 2012

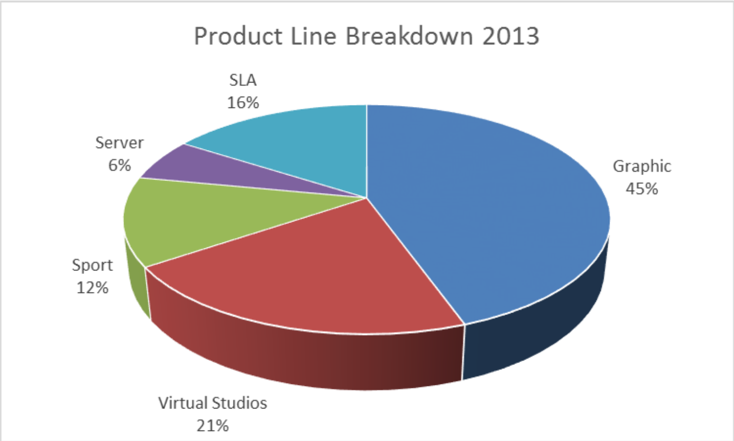
Kfar-Saba, Israel, March 6, 2014 - Orad Hi-Tec Systems Ltd. (Frankfurt - Prime Standard: OHT) (Orad Hi-Tec Systems Ltd ('Orad' or the 'Company'), a world-leading provider of real-time 3D broadcast graphic, video server, and media asset management solutions for the broadcasting markets, today announces its results for 2013 and three months ending December 31, 2013.

Key Figures

$US millions	2013	2012	Δ	H2 2013	H1 2013	Δ	H2 2013	H2 2012	Δ
Revenues	31.8	35.0	-9.2%	17.4	14.4	20.6%	17.4	15.9	9.4%
Gross profit	21.2	23.5	-10.0%	12.0	9.2	31.1%	12.0	10.3	16.5%
Gross margin	66.6%	67.1%		69.1%	63.5%		69.1%	64.9%	
Operating income (loss)	(1.6)	0.7		0.5	(2.1)		0.5	(1.1)	
Net income (loss)	(1.9)	1.2		0.4	(2.2)		0.4	(0.4)	

Management Comments

Avi Sharir, President and CEO of Orad: "I am pleased to announce that we are continuing the positive trend of high level bookings and maintaining a positive net income. We had a very good second half of 2013 with impressive growth figures and profits. The last quarter of 2013 shows a significant increase in bookings of our server products, as well as an increase in bookings of the solutions combining our video servers, graphics, and media asset management products. In Q1 2014 the positive booking trend is evident and 2014 is already showing signs of improvement compared to 2013. We ended 2013 with a net loss of $1.9 million, which was attributed to the difficult economic environment affecting our main markets during the first half of the year, which was partially offset in the second half of the year by an increase in revenues and the cost cutting measures taken by the Company. We were pleased by Orad's strong presence in recent international events, including the recent Sochi Olympics and election broadcasts in several countries around the world".



Financial Highlights

Revenues for 2013 were $31.8 million compared to $35.0 million in 2012, a decrease of 9.2%. Revenues of $8.7M for the three months ending December 2013, same level as in the three months ending September 2013 and increase by 21.9% compared to $7.1 million in the three months ending December 2012.

Gross margin for 2013 decreased to 66.6% from 67.1% in 2012. Gross margin for the three months ending December 2013 decreased to 68.6% compared to 69.5% in the three months ending September 2013 and increased compared to 62.5% in the three months ending December 2012.

Operating loss for 2013 totaled $1.6 million compared to operating income of $0.7 million in 2012. Operating income for the three months ending December 2013 totaled $0.1 million compared to operating income of $0.4 million in the three months ending September 2013 and compared to operating loss of $1.1 million in the three months ending December 2012.

Net loss for 2013 totaled $1.9 million compared to net income of $1.2 million in 2012. Net income for the three months ending December 2013 totaled $0.2 million, same level as in the three months ending September 2013, a significant improvement compared to the net loss of $0.6 million in the three months ending December 2012.

Cash, cash equivalents and restricted cash at the end of December 2013 were $5.8 million compared to $6.1 million at the end of September 2013.

About Orad Hi-Tec Systems

Orad Hi-Tec Systems is a world-leading provider of real-time 3D broadcast graphic, video server solutions, and media asset management 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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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, 2013

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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, 2013, and 2012, 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, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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, 2013 and 2012 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013, in accordance with International Financial Reporting Standards.

Tel-Aviv, Israel
March 5, 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

		December 31,	
	Note	**2013**	**2012**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	5,738	7,093
Restricted cash	2h	38	38
Trade receivable, net	7	9,104	8,490
Other accounts receivable	8	1,071	1,408
Inventories	9	3,548	3,606
		19,499	20,635
NON-CURRENT ASSETS:			
Property, plant and equipment, net	10	1,540	1,843
Deferred taxes	18	1,867	1,804
Long-term investments	11	594	372
Intangible assets	12	308	333
Goodwill	12	1,356	1,346
		5,665	5,698
		25,164	26,333

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2013	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payable		2,141	2,202
Deferred revenues		1,796	1,567
Other accounts payable	13	6,644	6,216
		10,581	9,985
NON-CURRENT LIABILITIES:			
Liability to the Chief Scientist	15	218	250
Employee benefit liabilities	16	743	649
		961	899
		11,542	10,884
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	20		
Share capital		31	31
Share premium		77,932	77,407
Accumulated deficit		(64,037)	(62,152)
Gain from cash flow hedge transactions		73	241
Adjustments arising from translation financial statements of foreign operations		(596)	(582)
		13,403	14,945
Non-controlling interests		219	504
Total equity		13,622	15,449
		25,164	26,333

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

March 5, 2014			
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

U.S. dollars in thousands (except per share data)

	Note	Year ended December 31 2013	2012	2011
Revenues from sales	22c	23,796	27,178	28,793
Revenues from rendering of services	22c	8,024	7,865	6,543
Total revenues		31,820	35,043	35,336
Cost of sales and rendering of services	22d	10,639	11,512	11,035
Gross profit		21,181	23,531	24,301
Research and development expenses	22e	5,916	5,625	4,870
Selling and marketing expenses	22f	13,245	13,302	12,061
General and administrative expenses	22g	3,615	3,878	3,667
Total expenses		22,776	22,805	20,598
Operating income (loss)		(1,595)	726	3,703
Financing income	22h	277	277	179
Financing expenses	22h	(348)	(314)	(501)
Financing expenses, net		(71)	(37)	(322)
Company's share of income of company accounted for at equity, net		19	-	-
Income (loss) before tax benefit (taxes on income)		(1,647)	689	3,381
Tax benefit (taxes on income)	18	(287)	554	325
Net income (loss)		(1,934)	1,243	3,706
Attributable to:				
Equity holders of the Company		(1,853)	1,243	3,706
Non-controlling interests		(81)	-	-
Net income (loss)		(1,934)	1,243	3,706
Net earnings (loss) per share attributable to equity holders of the Company (in dollars)	23			
Basic net earnings (loss)		(0.16)	0.11	0.34
Diluted net earnings (loss)		(0.16)	0.11	0.33

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Note	Year ended December 31 2013	2012	2011
Net income (loss)		(1,934)	1,243	3,706
Other comprehensive income (loss) (net of tax effect):				
Amounts reclassified or to be reclassified to profit or loss in subsequent periods:				
Gain (loss) from cash flow hedge transactions		(168)	168	73
Adjustments arising from the translation financial statements of a foreign operation		6	(5)	(30)
Net amount to be reclassified		(162)	163	43
Amounts that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement loss from defined benefit plans	16	(32)	(65)	(134)
Total other comprehensive income (loss)		(194)	98	(91)
Total comprehensive income (loss)		(2,128)	1,341	3,615
Attributable to:				
Equity holders of the Company		(2,059)	1,341	3,615
Non-controlling interests		(69)	-	-
		(2,128)	1,341	3,615

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	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 foreign operations	Total	Non-controlling interests	Total equity
Balance as of January 1, 2013	31	77,407	(62,152)	241	(582)	14,945	504	15,449
Net loss	-	-	(1,853)	-	-	(1,853)	(81)	(1,934)
Other comprehensive income (loss) (net of tax effect):								
Loss from cash flow hedge transactions	-	-	-	(168)	-	(168)	-	(168)
Adjustments arising from the translation of financial statements of foreign operations	-	-	-	-	(6)	(6)	12	6
Remeasurement loss from defined benefit plans	-	-	(32)	-	-	(32)	-	(32)
Total comprehensive loss	-	-	(1,885)	(168)	(6)	(2,059)	(69)	(2,128)
Cost of share-based payment	-	167	-	-	-	167	-	167
Share-based payment to holders of non-controlling interests (note 5)	-	-	-	-	-	-	134	134
Transactions with non-controlling interests (note 5)	-	394	-	-	(14)	380	(380)	-
Exercise of option to acquire additional share in subsidiary (note 5)	-	(36)	-	-	6	(30)	30	-
Balance as of December 31, 2013	31	77,932	(64,037)	73	(596)	13,403	219	13,622

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	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 foreign operations	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 arising from the translation of financial statements of foreign operations	-	-	-	-	(5)	(5)	-	(5)
Remeasurement loss from defined benefit plans	-	-	(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)
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

U.S. dollars in thousands

	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 foreign operations	Total	Non-controlling interests	Total equity
Balance as of January 1. 2011	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)
Remeasurement loss from defined benefit plans	-	-	(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
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

U.S. dollars in thousands

	Year ended December 31		
	2013	**2012**	**2011**
Cash flows from operating activities			
Net income (loss)	(1,934)	1,243	3,706
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to profit or loss items:			
Depreciation and amortization	842	808	624
Company's share of income of company accounted for at equity, net	(19)	-	-
Taxes paid	20	15	50
Taxes received	-	(5)	-
Interest received	-	(46)	(167)
Tax benefit	-	(704)	(350)
Cost of share-based payment	167	184	158
Share-based payment to holders of non-controlling interests	129	222	92
Exchange rate differences on restricted cash	-	(4)	27
Change in employee benefit liabilities, net	62	130	16
	1,201	600	450
Changes in asset and liability items:			
Increase in trade receivable, net	(617)	(1,728)	(3,200)
Decrease (increase) in other accounts receivable	213	(34)	(154)
Increase in inventories	(159)	(411)	(845)
Decrease in other long-term receivables	-	45	-
Decrease in trade payable	(61)	(686)	(810)
Increase (decrease) in deferred revenues	225	(560)	(130)
Increase (decrease) in other accounts payable and liability to the Chief Scientist	287	198	(868)
	(112)	(3,176)	(6,007)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31		
	2013	**2012**	**2011**
Cash paid and received during the year for:			
Taxes paid	(20)	(15)	(50)
Taxes received	-	5	-
Interest received	-	46	167
	(20)	36	117
Net cash used in operating activities	(865)	(1,297)	(1,734)
Cash flows from investing activities			
Purchase of property, plant and equipment	(196)	(792)	(414)
Purchase of intangible assets – computer programs	(95)	-	-
Investment in company accounted for at equity	(200)	-	-
Acquisition of initially consolidated subsidiary (a)	-	-	(246)
Change in restricted cash	-	270	(117)
Net cash used in investment activities	(491)	(522)	(777)
Cash flows from financing activities			
Dividend distributed to the Company's shareholders	-	(3,035)	(4,961)
Issuance of shares upon exercise of stock options by employees	-	312	275
Net cash used in financing activities	-	(2,723)	(4,686)
Exchange rate differences on balances of cash and cash equivalents	1	(14)	(66)
Decrease in cash and cash equivalents	(1,355)	(4,556)	(7,263)
Balance of cash and cash equivalents at the beginning of the year	7,093	11,649	18,912
Balance of cash and cash equivalents at the end of the year	5,738	7,093	11,649

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31		
	2013	**2012**	**2011**
(a) 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

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 corporate is located in 15, Atir Yeda street, in the Kfar Saba Industrial Zone.

The Company and its wholly-owned subsidiaries in the United States, France, Germany, Netherlands, United Kingdom, Spain and Hong-Kong are engaged in the selling and marketing of the Company's products. The Company and its subsidiary in Poland and its subsidiary IBIS (see note 5) are engaged in research and development of the Company's products.

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.

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).

The consolidated financial statements are presented in Dollars, which is the Company's functional currency, and all numbers are rounded to the nearest thousand.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are 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. Intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

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

c. 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.

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.

d. Investment in joint arrangements:

Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture is accounted for at equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Investments accounted for using the equity method:

Under the equity method, the investment in the joint venture is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the Company and of the joint venture are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the joint venture are uniform and consistent with the policies applied in the financial statements of the Group.

f. 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.

g. 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.

h. Restricted cash:

Restricted cash is invested in liquid bank deposits (less than 1 year). This cash is used to secure the Chamber of Commerce.

i. 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.

j. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

k. The operating cycle:

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

l. 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.

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 and other liabilities measured at amortized cost are presented net of directly attributable transaction costs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 the existence of an embedded derivative and whether it is required to be separated from a host contract when the Group first becomes party to the contract. Reassessment of the need to separate an embedded derivative 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. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

m. 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.

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.

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 other comprehensive income (loss) 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 other comprehensive income (loss) remain in other comprehensive income (loss) until the forecast transaction or firm commitment occurs.

n. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

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).

o. 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.

The Group as lessee - operating lease

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.

The Group as lessor - operating lease

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. 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.
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.

q. 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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

r. 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Investment in joint ventures:

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in joint ventures. The Company determines at reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

s. 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 related 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 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 related expenses.

t. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 rate that is 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 reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date 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.

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

u. 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 21**.**

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Employee benefit liabilities:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the 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.

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 expected salary increases and rates of employee turnover 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 is consistent with the estimated term of the severance pay 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

w. 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.

x. 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.

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.

y. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Revenues from sales

Comprised of revenues from sales of goods and revenues from 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

Comprised of 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred revenues

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

z. 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, if occur. The Group does not manage the cost of sales separately for cost of inventory and cost of rending of services.

aa. Research and development costs:

Research and development costs are expensed as incurred.

bb. Financing income and expenses:

Financing income include interest income in respect of amounts invested, gains on exchange rate differences and gains on financial derivatives recognized in profit or loss.

Financing expenses include changes in respect of the time value of financial liabilities, losses on exchange rate differences and losses from financial derivatives recognized in profit or loss.

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

cc. 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.

dd. 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.

ee. 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.

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.

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

- 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.

- 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

a. 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 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted. Upon initial application, IFRS 9 should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in IFRS 9.

2. Amendments regarding derecognition and financial liabilities (Phase 2) were published. 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 IASB did not set a mandatory effective date for the amendments. Early application is permitted provided that the Company also adopts the provisions of IFRS 9 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.

3. In November 2013, the IASB issued Phase 3 of IFRS 9 ("Phase 3 of IFRS 9") as part of the complete version of IFRS 9. Phase 3 of IFRS 9 includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39.

   The IASB did not set a mandatory effective date for Phase 3 of IFRS 9. Entities may apply Phase 3 of IFRS 9 early provided that they also adopt the other provisions of IFRS 9.

   The Company believes that IFRS 9 (including all its phases) is not expected to have a material impact on the financial statements.

b. Amendments to IAS 36, "Impairment of Assets":

   In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

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

The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

c. Amendment to IAS 39, "Financial Instruments: Recognition and Measurement" regarding "Novation of Derivatives and Continuation of Hedge Accounting":

The Amendment to IAS 39 ("IAS 39") provides an exception to the requirement to discontinue hedge accounting. The amendment added conditions that must be met so replacement or rollover of a hedging instrument with another hedging instrument will not be considered an expiration or termination.

The amendment is effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

d. Amendment to IAS 19 regarding the accounting for contributions linked to service:

The IASB issued an amendment to the existing requirements of IAS 19 regarding contributions made by employees or third parties that are linked to service.

According to the amendment, if the amount of the contributions is independent of the number of years of service (such as in cases where contributions are computed as a fixed percentage of employee's salary, the contributions are in fixed amount over the service period, the contributions are determined by the employee's age), contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributing them to periods of service.

If contributions depend on the number of years during which service is rendered, these contributions should be attributed to periods of service by applying the same method of attribution in accordance with IAS 19.70 regarding attribution of benefit to periods of service. The amendments to IAS 19 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The Company believes that IAS 19 amendment is not expected to have a material impact on the financial statements.

NOTE 5:- BUSINESS COMBINATIONS

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 (of which $ 1,982 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.

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.

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.

During 2013, following the termination of employment of one of the IBIS shareholders in this period of 24 months above, the Company acquired its shares without consideration which resulted in the increase of the Company's holding in the outstanding shares of IBIS to 80%.

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, 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. The period of the 24 months ended in July 2013 therefore losses of IBIS has been allocated to non-controlling interests for the period from the date of acquisition until July 2013 in an amount of $ 380. In addition, from July 2013 the non-controlling interests received its share of losses of IBIS.

As part of the acquisition agreement, the existing shareholders of IBIS granted the Company an 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.

U.S. dollars in thousands

NOTE 5:- BUSINESS COMBINATIONS (Cont.)

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.

During 2013 the Company exercised the option specified above and purchased 33.33% of the shares of the existing shareholders of IBIS, representing 7% of the total outstanding shares the existing shareholders of IBIS held, which resulted the Company's holding in the outstanding shares of IBIS increasing further to 87%.

NOTE 6:- CASH AND CASH EQUIVALENTS

All the cash and cash equivalents is cash for immediate withdrawal.

NOTE 7:- TRADE RECEIVABLE, NET

	December 31,	
	2013	2012
Open accounts	9,539	8,691
Checks receivable	18	90
Less - allowance for doubtful accounts	(453)	(291)
Trade receivable, net	9,104	8,490

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
December 31, 2013	6,334	1,408	943	179	240	9,104
December 31, 2012	5,312	2,090	452	300	336	8,490

U.S. dollars in thousands

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2013	**2012**
Government authorities	322	499
Prepaid expenses	445	474
Financial derivative	136	264
Other accounts receivable	168	171
	1,071	1,408

NOTE 9:- INVENTORIES

	December 31,	
	2013	**2012**
Raw materials	1,706	2,061
Work in progress and finished goods	1,842	1,545
	3,548	3,606

In the year ended on December 31, 2013, the Company did not recognize impairment of inventories (2012 - $ 129, 2011 - $ 153).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

2013 :

	Computers and peripheral equipment	Vehicles	Furniture and office equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2013	4,453	125	463	2,624	7,665
Additions during the year	314	-	16	54	384
Adjustments arising from translating financial statements of foreign operations	20	-	-	-	20
Disposals during the year	(4)	-	-	-	(4)
Balance at December 31, 2013	4,783	125	479	2,678	8,065
Accumulated depreciation					
Balance at January 1, 2013	3,262	64	278	2,218	5,822
Additions during the year	573	15	34	65	687
Adjustments arising from translating financial statements of foreign operations	19	-	-	-	19
Disposals during the year	(3)	-	-	-	(3)
Balance at December 31, 2013	3,851	79	312	2,283	6,525
Depreciated cost at December 31, 2013	932	46	167	395	1,540

2012 :

	Computers and peripheral equipment	Vehicles	Furniture and office equipment	Leasehold improvements	Total
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

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

During the years ended on December 31, 2013 and 2012 no impairment of property, plant and equipment was recognized.

NOTE 11:- LONG-TERM INVESTMENTS

The balance includes investment in joint venture in an amount of $ 219. On August 8, 2012 the Company signed an agreement with Shanghai Aogine Info Tech Co., Ltd. ("Aogine") to establish a Sino-foreign joint venture company in the People's Republic of China ("Joint Venture"). The purposes of the Joint Venture is to fully make use of efficient and advanced technology of the parties, product planning and management, promotion and sales techniques to develop, manufacture and sell the products in the People's Republic of China market and sell the same worldwide in accordance with market demands and the requirements of the Joint Venture improve the value and competitive edge of such products, introduce new products, and to obtain satisfactory economic benefits for the parties. Orad contributed $ 54 in cash, accounting for 27% of the registered capital of the Joint Venture. Aogine contributed $ 146 in cash, accounting for 73% of the registered capital of the Joint Venture. Sogine Technologies Inc. ("Sogine") has asked Orad to grant Sogine a loan in the principle amount of $ 146 (the "Loan Amount"), for the purpose of assisting Aogine in investing an equivalent amount in a Joint Venture. The Loan Amount shall bear interest at a rate of 3% per annum compounded annually and will be returned following the receipt of Aogine of any dividends from the Joint Venture and up to full repayment of the loan. The Loan Amount should also be returned following the occurrence of any of the following events, whichever occurred first:

- 10 years following the receipt of the Loan Amount by Sogine;
- Any sale by Aogine of its interest in the Joint Venture;
- Dissolution or liquidation of the Joint Venture, provided that prior to and/or within the frame of such dissolution or liquidation, Aogine has received from the Joint Venture dividends or other proceeds in an amount exceeding the Loan Amount.

Aogine granted the Company an option to purchase from Aogine any part of Aogine's share in the registered capital of the Joint Venture (the "Option"), in the period comprised between 12 and 48 months from the Effective Date, as defined in the agreement (the "Option Period"), dated July 2013.

U.S. dollars in thousands

NOTE 12: - GOODWILL AND INTANGIBLE ASSETS

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

2013:

	Computer programs	Technology	Customer list	Goodwill	Total
Cost					
Balance as of January 1, 2013	526	332	125	1,346	2,329
Additions during the year	178	-	-	-	178
Adjustments arising from translating financial statements of foreign operations	-	1	2	10	13
Balance as of December 31, 2013	704	333	127	1,356	2,520
Accumulated amortization					
Balance as of January 1, 2013	488	118	44	-	650
Amortization recognized during the year	90	82	32	-	204
Adjustments arising from translating financial statements of foreign operations	-	1	1	-	2
Balance as of December 31, 2013	578	201	77	-	856
Net balance					
Balance as of December 31, 2013	126	132	50	1,356	1,664

U.S. dollars in thousands

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

2012:

	Computer programs	Technology	Customer list	Goodwill	Total
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 year	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

Testing impairment of goodwill arising from the acquisition of IBIS

For determining the recoverable amounts of IBIS as of December 31, 2013, 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 19%. 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,		
	2013	2012	2011
Cost of sales and rendering of services	99	106	58
Selling and marketing expenses	32	31	13
General and administrative expenses	73	84	82
	204	221	153

U.S. dollars in thousands

NOTE 13:- OTHER ACCOUNTS PAYABLE

	December 31, 2013	December 31, 2012
Advances from customers	449	382
Financial derivative	111	-
Accrued expenses	528	664
Employees and payroll accruals	1,111	1,120
Government authorities	201	111
Provision for vacation and recreation	1,113	957
Provision for commission to employees and distributors	1,579	1,273
Provision for warranty	219	256
Liability to the Chief Scientist	1,279	1,369
Other accounts payable	54	84
	6,644	6,216

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, 2013	December 31, 2012
Financial assets		
Financial assets at fair value:		
Hedging financial derivatives	113	261
Non-hedging financial derivatives	23	4
	136	265
Loans and receivables *)	12,763	12,086
Financial liabilities		
Financial liabilities at fair value:		
Hedging financial derivatives	38	-
Non-hedging financial derivatives	73	-
	111	-
Financial liabilities measured at amortized cost	1,497	1,619
	1,608	1,619
Trade payable and other accounts payable	6,745	6,563

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

*) 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 $ 3,117 as of December 31, 2013 and $ 3,052 as of December 31, 2012.

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.

1. Market risks:

a) Foreign exchange risk:

The Group operates in 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.

U.S. dollars in thousands

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

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.

As of December 31, 2013, cash and cash equivalents totaled $ 5,738 (December 31, 2012 - $ 7,093). In management's opinion, All deposits are invested with high quality financial corporations.

Other collateral and credit enhancements

The Trade receivables amount is after the deduction of 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 $ 3,117.
As of December 31, 2013, credit provided by the Company to its customers in the amount of $ 4,181 is partial secured with collateral provided to these customers by third parties.

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, 2013

	Up to 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Above 5 years**	**Total**
Trade payables	2,141	-	-	-	-	-	2,141
Other accounts payable	4,604	-	-	-	-	-	4,604
Hedging financial derivatives	38	-	-	-	-	-	38
Non - hedging financial derivatives	73	-	-	-	-	-	73
Liability to the Chief Scientist measured at amortized cost	1,288	120	120	60	-	-	1,588
	8,144	120	120	60	-	-	8,444

U.S. dollars in thousands

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2012

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Above 5 years	Total
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

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).

Financial assets measured at fair value

	December 31, 2013	December 31, 2012
	Level 2	
Hedging financial derivatives	113	261
Non-hedging financial derivatives	23	4
	136	265

U.S. dollars in thousands

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

Financial liabilities measured at fair value

	December 31, 2013	December 31, 2012
	Level 2	
Hedging financial derivatives	38	-
Non-hedging financial derivatives	73	-
	111	-

e. Derivatives and hedging:

Cash flow hedges:

As of December 31, 2013 and December 31, 2012 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, 2013		December 31, 2012	
	Asset	Liability	Asset	Liability
Fair value of forward foreign currency contracts	-	38	-	-
Fair value of options	113	-	261	-
	113	38	261	-

U.S. dollars in thousands

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

f. Sensitivity tests relating to changes in market factors:

	December 31 2013	December 31 2012
Sensitivity tests for changes in the $/NIS exchange rate:		
Gain (loss) from the change:		
10% increase	(99)	(113)
10% decrease	99	113
Sensitivity tests for changes in the $/EUR exchange rate:		
Gain (loss) from the change:		
10% increase	672	669
10% decrease	(672)	(669)

	Sensitivity test for changes in the $/NIS exchange rate			
	5% rate increase	5% rate decrease	5% rate increase	5% rate decrease
	December 31, 2013		December 31, 2012	
Effect on equity of hedging financial derivatives				
$/NIS call options	(9)	1	(52)	19
$/NIS put options	(42)	60	(133)	228
Effect on Profit (loss) of non-hedging financial derivatives				
Forward options for the sale of $/NIS	(13)	13	-	-
Net exposure	(64)	74	(185)	247

	Sensitivity test for changes in the $/EUR exchange rate			
	5% rate increase	5% rate decrease	5% rate increase	5% rate decrease
	December 31, 2013		December 31, 2012	
Effect on equity of hedging financial derivatives				
$/EUR call options	-	-	(14)	3
$/EUR put options	-	-	(4)	16
Forward options for the sale of $/EUR	(74)	74	-	-
Effect on Profit (loss) of non-hedging financial derivatives				
Forward options for the sale of $/EUR	(132)	132	(30)	30
Net exposure	(206)	206	(48)	49

U.S. dollars in thousands

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, 2013		December 31, 2012	
Effect on equity of hedging financial derivatives				
$/Zloty call options	(5)	2	(3)	1
$/Zloty put options	(28)	38	(26)	32
Net exposure	(33)	40	(29)	33

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, 2013, the standard deviation for the dollar/NIS exchange rate was 9.2%-13.6% and standard deviation for the dollar/Zloty exchange rate was 14%-16%. 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%.

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

1. Linkage terms for financial assets:

		In or linked to foreign currency			
	Unlinked	Euro	NIS	Other	Total
December 31, 2013					
Cash and cash equivalents	2,603	1,751	849	535	5,738
Restricted cash	-	-	38	-	38
Trade receivable *)	6,023	5,926	258	14	12,221
Other accounts receivable	71	44	34	18	167
Hedging financial derivatives	-	-	62	51	113
Non-hedging financial derivatives	-	-	23	-	23
	8,697	7,721	1,264	618	18,300

U.S. dollars in thousands

NOTE 14:- FINANCIAL INSTRUMENTS (Cont.)

		In or linked to foreign currency			
	Unlinked	Euro	NIS	Other	Total
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

*) 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 $ 3,117 as of December 31, 2013 and $ 3,052 as of December 31, 2012.

2. Linkage terms for financial liabilities:

		In or linked to foreign currency			
	Unlinked	Euro	NIS	Other	Total
December 31, 2013					
Trade payables	907	400	744	90	2,141
Other accounts payable	2,373	485	1,512	345	4,715
Liability to the Chief Scientist measured at amortized cost	1,497	-	-	-	1,497
Hedging financial derivatives	-	38	-	-	38
Non-hedging financial derivatives	-	73	-	-	73
	4,777	996	2,256	435	8,464

		In or linked to foreign currency			
	Unlinked	Euro	NIS	Other	Total
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

U.S. dollars in thousands

NOTE 15:- LIABILITY TO THE CHIEF SCIENTIST

a. Composed as follows:

	December 31, 2013	December 31, 2012
Balance as of January 1	1,619	1,744
Payments	(99)	(163)
Amounts recognized in the statement of income	(23)	38
Balance as of end of the year	1,497	1,619

b. Presented in the statement of financing position under:

	December 31, 2013	December 31, 2012
Current liabilities – other accounts payable	1,279	1,369
Non-current liabilities	218	250
	1,497	1,619

c. Repayment dates:

	December 31 2013
2014	1,288
2015	120
2016	120
2017	60
Total	1,588
Less – the discount component	(91)
Balance in the financial statements	1,497

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.

e. The grants were received until 2001. The total amount received was $ 5,638 while the amount of grants repaid through royalties until December 31, 2013 was $ 4,628.

U.S. dollars in thousands

NOTE 15:- LIABILITY TO THE CHIEF SCIENTIST (Cont.)

f. As of December 31, 2012, 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.

NOTE 16:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

The Plan assets and liabilities, net:

	December 31,		
	2013	2012	2011
Defined benefit obligation	3,793	3,300	2,792
Fair value of the plan assets	(3,068)	(2,666)	(2,338)
Net defined benefit liability *)	725	634	454

*) The balance as of December 31, 2013 and as of December 31, 2012 in the consolidated statement of financial position includes a balance of $ 18 and $ 15, respectively attributed to the retirement plan for employees of the subsidiary in France.

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 according to the current 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 benefits represent defined contribution plans.

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

	Year ended December 31		
	2013	**2012**	**2011**
Expenses in respect of defined contribution plans	124	133	89

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

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

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

2013:

	Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income					Contributions	
	Balance at January 1, 2013	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	Actuarial gain (loss) arising from changes in demographic assumptions	Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	by employer	Balance at December 31, 2013
Defined benefit obligation	**3,300**	362	128	**490**	**(365)**	7	68	37	**112**	**259**	**-**	**3,793**
Fair value of plan assets	**(2,666)**	-	(85)	**(85)**	**251**	(1)	(1)	(78)	**(80)**	**(209)**	**(279)**	**(3,068)**
Net defined benefit liability	**634**	362	43	**405**	**(114)**	6	67	(41)	**32**	**50**	**(279)**	**725**

2012:

	Expenses recognized in profit or loss					Gain (loss) from remeasurement in other comprehensive income					Contributions	
	Balance at January 1, 2012	Current service cost	Net interest expense	Total expense recognized in profit or loss for the period	Payments from the plan	Actuarial gain (loss) arising from changes in demographic assumptions	Actuarial gain (loss) arising from changes in financial assumptions	Actuarial gain (loss) arising from experience adjustments	Total effect on other comprehensive income for the period	Effect of changes in foreign exchange rates	by employer	Balance at December 31, 2012
Defined benefit obligation	**2,792**	346	130	**476**	**(168)**	(11)	146	(15)	**120**	**80**	**-**	**3,300**
Fair value of plan assets	**(2,338)**	-	(72)	**(72)**	**154**	-	(10)	(45)	**(55)**	**(64)**	**(291)**	**(2,666)**
Net defined benefit liability	**454**	346	58	**404**	**(14)**	(11)	136	(60)	**65**	**16**	**(291)**	**634**

U.S. dollars in thousands

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

2. The principal assumptions underlying the defined benefit plan:

	December 31,		
	2013	**2012**	**2011**
Discount rate	4.5%	5.18%	5.44%
Expected rate of salary increase	5%	5%	5%

3. Amount, timing and uncertainty of future cash flows:

Below are reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant:

	Change in defined benefit obligation
December 31, 2013:	
Sensitivity test for changes in the expected rate of salary increase:	
The change as a result of:	
Salary increase of 6 % (instead of 5%)	359
Salary increase of 4 % (instead of 5%)	(299)
Sensitivity test for changes in the discount rate of the plan assets and liability:	
The change as a result of:	
Increase of 1 % in discount rate	(328)
Decrease of 1 % in discount rate	397

4. The following are expected contributions to the plan in future years:

	2013	**2012**
Within the next 12 months	295	304
Between 1 and 2 years	299	306
Between 3 and 5 years	923	942
Between 6 and 10 years	1,630	1,638
Total expected payments	3,147	3,190

U.S. dollars in thousands

NOTE 17: - INVESTMENTS IN INVESTEES

Investments in a subsidiary IBIS - implications of changes in ownership interests that do not involve loss of control:

	Year ended December 31,	
	2013	**2012**
Change in equity attributable to equity holders of the Company arising from:		
Transactions with non-controlling interests (see note 5)	380	-
Exercise of option to acquire additional share in subsidiary (see note 5)	(30)	-

NOTE 18:- 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:

Tax benefits 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).

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.

Following the enactment of Amendment No. 60 to the Law, subsequent to April 1, 2005, companies under the tax benefits track are no longer required to obtain a letter of approval from the Investment Center but rather must make a notification of the year of election for the beneficiary enterprise status and 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, which must be carried out within three years. The minimum qualifying investment required for setting up a "new 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. In this

NOTE 18:- TAXES ON INCOME (Cont.)

context, 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 tax benefits 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. The Law specifies the types of qualifying income that is entitled to tax benefits under the tax benefits track both in respect of an industrial enterprise, 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).
A subsidiary has an "approved program" status under the alternative benefits track and a "beneficiary enterprise" status pursuant to criteria established in the Law under the tax benefits track. Accordingly, income derived from the approved enterprise / beneficiary enterprise is subject to the benefits and conditions, as above.

In respect of plant expansions executed following 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 and for new plants in development area A - 14 years 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 tax benefits track. The Company's policy is not to distributes dividends as above.

As for programs under the grants track which were approved after April 1, 2005 and beneficiary enterprises in the context of 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 makes a competitive contribution to the Gross Domestic Product ("a competitive enterprise").

In order for industrial enterprises to comply with this condition, 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.

NOTE 18:- TAXES ON INCOME (Cont.)

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 14 million.

As for programs under the grants track, this condition will be evaluated for the part added due to the expansion.

Conditions for the entitlement to the benefits:

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder 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 seven investment programs under the Alternative Track. Four programs of the Company have been granted the status of an "Approved Enterprise" and three expansion programs of the Company have been granted the status of a "Beneficiary Enterprise". As of December 31, 2013, the Company has four valid investment programs under the Alternative Track.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

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 privileged income under its status as a privileged company with a privileged enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates. The tax rates under the Amendment are: 2011 and 2012 - 15% (in development area A - 10%) and in 2013 - 12.5% (in development area A - 7%).

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income form a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

NOTE 18:- TAXES ON INCOME (Cont.)

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

The Company has evaluated the effect of the adoption of the Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company believes that it will not apply the Amendment. Accordingly, the Company has not adjusted its deferred tax balances as of December 31, 2013. The Company's may change its position in the future.

b. Tax rates applicable to the Group:

1. The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and 2013.

   On December 5, 2011, the "Knesset" (Israeli parliament) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled 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%, as above, the real capital gain tax rate and the real betterment tax rate were also increased accordingly.

   On August 5, 2013, the "Knesset" issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years.

   These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere) and, in certain cases, increasing the rate of dividend withholding tax within the scope of the Law for the Encouragement of Capital Investments to 20% effective from January 1, 2014. There are also other changes such as taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of overseas assets. As of the date of approval of these financial statements, these regulations have not been issued.

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are: 16.5%-40%.

c. Final Tax assessments:

The Company received final tax assessments up to and including tax year 2009, 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.

U.S. dollars in thousands

NOTE 18:- TAXES ON INCOME (Cont.)

d. Carryforward losses for tax purposes:

Carryforward capital losses of the Group total approximately $ 7 million as of December 31, 2013. Carryforward operating tax losses of the Group total approximately $ 30 million as of December 31, 2013.
In respect of carryforward business losses deferred tax assets were recognized in the financial statements as December 31, 2013 in the amount of $ 1,867. No deferred tax assets in the amount of approximately $ 7.8 million were recognized in respect of carryforward business losses as of December 31, 2013, 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:

	December 31,		
	2013	2012	2011
Non-current assets	1,867	1,804	1,100

The deferred taxes are computed at the average tax rate of 32% (2012 - 22%) based on the tax rates that are expected to apply upon realization.

f. Income tax benefit (expense) included in statement of income:

	December 31,		
	2013	2012	2011
Deferred taxes	(11)	555	350
Current taxes	(239)	(6)	-
Taxes in respect of previous years	(37)	5	(25)
	(287)	554	325

U.S. dollars in thousands

NOTE 18:- 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:

	December 31,		
	2013	2012	2011
Income (loss) before taxes on income	(1,647)	689	3,381
Statutory tax rate	25%	25%	24%
Tax (tax saving) computed at the statutory tax rate	(412)	172	811
Increase (decrease) in taxes on income resulting from the following factors:			
Changes in unrecognized deferred tax assets for tax losses	765	(886)	(1,400)
Tax adjustment in respect of different tax rates and "Approved Enterprise" status	(222)	133	(107)
Taxes in respect of prior years	37	(5)	25
Nondeductible expenses and other differences	114	32	346
Company's share of income of company accounted for at equity, net	5	-	-
Taxes on income (tax benefit)	287	(554)	(325)

NOTE 19:- 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.

U.S. dollars in thousands

NOTE 19:- 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.

On August 14, 2013, an interim award was given, stating, inter alia, that cancelling the agreement by the Company was made duly. Though, the interim award also stated that the Company is responsible for contributing 30% of the situation of the project. The Company has filed for an approval of the interim award, though the Tel Aviv District Court stated this resolution is only conclusive for the liability matters and the distribution of the blame.

On December 28, 2013, the arbitrator defined a set of matters to be discussed in the second phase of the arbitration and instructed the parties to file depositions. As of the date of the financial statements, Malam and the Company have not delivered their depositions.

As of the date of the financial statements, in management's estimation, based on the opinion of its legal counsels, at this stage the probability that the Company would pay material amounts in connection with this lawsuit is 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, 2013 are as follows:

2014	297
2015	131
2016	32
	460

U.S. dollars in thousands

NOTE 19:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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, 2013 are as follows:

2014	1,058
2015	1,029
2016	958
2017	579
2018 and thereafter	131
	3,755

c. Guarantees:

The Company obtained a bank guarantee of approximately $ 239, mainly used as security for the Company's office lease agreement.

NOTE 20:- EQUITY

a. Composition of share capital:

	December 31,					
	2013		2012		2011	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding	Authorized	Issued and outstanding
Ordinary shares of NIS 0.01 par value each	27,000,000	11,240,585	27,000,000	11,240,585	27,000,000	11,100,147

As of December 31, 2013, 2012 and 2011 the Company's issued share capital comprises 11,749,304 ordinary shares of NIS 0.01 par value each.

b. Dividend:

During the years ended on December 31, 2013, December 31, 2012 and December 31, 2011, the Company paid dividends of $ 0, $ 3,035 and $ 4,961, 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.

U.S. dollars in thousands

NOTE 21:- 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		
	2013	2012	2011
Equity-settled share-based payment plans	167	184	158

The share-based payment transactions that the Company granted to its employees are described below. During the years ended on December 31, 2013, 2012 and 2011, 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.
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.

U.S. dollars in thousands

NOTE 21:- SHARE-BASED PAYMENTS (Cont.)

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		
	2013	**2012**	**2011**
Risk-free interest rate (%)	0.55%	0.32%	0.82%
Dividend yield in respect of the share (%)	-	4.5%	3.56%
Expected volatility of the share prices (%)	49.9%	56.1%	60%
Contractual life of the options (in years)	4.25	5.46	4.25

U.S. dollars in thousands

NOTE 21:- 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, 2013		2012		2011	
	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	905,000	4.01	979,188	3.83	798,214	3.56
Share options granted during the year	295,500	1.99	100,000	3.02	317,500	3.68
Share options exercised during the year	-	-	(140,438)	2.23	(121,526)	1.89
Share options expired during the year	(230,000)	2.82	(33,750)	3.30	(15,000)	2.07
Share options outstanding at end of year	970,500	3.68	905,000	4.01	979,188	3.83

The weighted average remaining contractual life for the share options outstanding as of December 31, 2013 was 4.08 years (as of December 31, 2012 - 3.27 years and as of December 31, 2011 - 3.06 years).

The range of exercise prices for share options outstanding as of December 31, 2013 was \$1.28- \$3.68 (as of December 31, 2012 \$1.28- \$4.6 and as of December 31, 2011 \$1.28- \$4.6).

NOTE 22:– ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS

a. The Company has several key suppliers. In year ended on December 31, 2013, acquisitions from three suppliers accounted for 35% of total acquisitions during the year.

b. During the year ended December 31, 2013 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.

U.S. dollars in thousands

NOTE 22:- ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS (Cont.)

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

	Year ended December 31		
	2013	**2012**	**2011**
Europe	13,862	16,752	16,920
Asia	6,886	7,400	7,117
America	9,909	10,159	10,485
Other	1,163	732	814
	31,820	35,043	35,336

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

	Year ended December 31	
	2013	**2012**
Israel	1,076	1,330
Europe	342	361
America	90	121
Other	32	31
	1,540	1,843

U.S. dollars in thousands

NOTE 22:- ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS (Cont.)

	Year ended December 31		
	2013	**2012**	**2011**
d. Cost of sales and rending of services			
Cost of inventories and payroll, wages and related expenses	7,697	8,416	8,048
Overseas travels	1,074	950	709
Subcontractors	447	560	575
Rent and buildings' maintenance	347	336	264
Depreciation and amortization	305	269	225
Other	769	981	1,214
	10,639	11,512	11,035
e. Research and development expenses			
Payroll, wages and related expenses	4,641	4,366	3,688
Rent and buildings' maintenance	244	241	175
Depreciation and amortization	225	220	176
Subcontractors	73	146	124
Other	733	652	707
	5,916	5,625	4,870
f. Selling and marketing expenses			
Payroll, wages and related expenses	5,429	5,480	4,649
Commission	2,073	1,969	1,993
Subcontractors	588	531	637
Overseas travels	1,502	1,605	1,370
Trade exhibitions	1,093	1,048	913
Rent and buildings' maintenance	428	430	347
Advertising and marketing	333	302	277
Depreciation and amortization	287	256	159
Other	1,512	1,681	1,716
	13,245	13,302	12,061
g. General and administrative expenses			
Payroll, wages and related expenses	1,667	1,642	1,648
Professional consulting	495	625	349
Rent and buildings' maintenance	144	110	102
Depreciation and amortization	73	133	126
Other	1,236	1,368	1,442
	3,615	3,878	3,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 22:- ADDITIONAL DETAILS ON PROFIT AND LOSS ITEMS (Cont.):

	Year ended December 31		
	2013	**2012**	**2011**
h. Financing income (expenses)			
Financial income			
Income from changes in exchange rates, net	276	-	-
Financing income in respect of financial derivatives	-	238	29
Interest income from bank deposits	1	39	150
	277	277	179
Financing expense			
Loss from changes in exchange rates, net	-	(27)	(190)
Financing expenses in respect of financial derivatives	(91)	-	-
Bank fees	(85)	(85)	(89)
Financing expenses in respect of the time value of financial liabilities	(172)	(202)	(222)
	(348)	(314)	(501)
Financing expense, net	(71)	(37)	(322)

NOTE 23:- 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					
	2013		2012		2011	
	Weighted number of shares	Net loss 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	11,241	(1,853)	11,213	1,243	11,030	3,706
Effect of potential dilutive ordinary shares	-	-	18	-	162	-
Number of shares and income for calculating diluted net earnings	11,241	(1,853)	11,231	1,243	11,192	3,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 24:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances with related parties:

	Year ended December 31		
	2013	2012	2011
Other accounts payable (*)	480	402	590

(*) In respect of payroll and related provisions to related parties. The balance does not accrue interest.

b. Transactions with related parties:

	Year ended December 31		
	2013	2012	2011
Professional consulting fees (*)	36	18	23

(*) see clause d in this note.

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

	Year ended on December 31,					
	2013		2012		2011	
		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	1,531	6	1,521	6	1,904
Expenses in respect of provision for vacation and recreation	6	16	6	-	6	(8)
Expenses in respect of provision for severance pay	6	50	6	49	6	27
Cost of share-based payment	6	73	6	95	6	96
Total	6	1,670	6	1,665	6	2,019

NOTE 24:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

Benefits in respect of directors not employed in the Company:

	Year ended on December 31,					
	2013		2012		2011	
		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	134	7	122	7	113

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. 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 outstanding shares, voting rights and authority to appoint directors
Orad Netherlands B.V.	Netherlands	100%
Orad Inc.	United States	100%
Orad Hi-Tec Systems Deutschland GMBH	Germany	100%
GETRIS	France	100%
IVSM Limited	United Kingdom	100%
Orad Hi-Tec Systems (North Asia) Limited	Hong-Kong	100%
Orad Hi-Tec Systems Iberia SL	Spain	100%
IBIS WW	United Kingdom	*) 87%
Integrated Broadcast Services Limited	United Kingdom	*) 87%
Orad Hi-Tec Systems Poland Sp. z o. o	Poland	100%
Oradnet Ltd.	Israel	100%

*) See Note 5

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