2012

Annual Report

vizrt

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Management Report

General

Vizrt Ltd. ("Vizrt" or the "Company") creates leading-edge content production tools for the digital media industry – from award-winning 3D graphics & maps, through integrated video workflow solutions to online publishing tools.

Vizrt proposes a new vision for content creation, management and delivery, with an end-to-end solution from conception to multi-format distribution. Through constant innovation, Vizrt creates software and services that push creative boundaries and develop new ways of telling stories.

"Our goal is to provide the media industry with the best digital solutions to enhance and publish their content, based on the most efficient workflows."

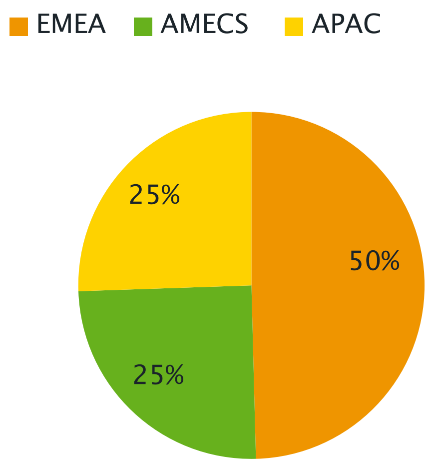
"Inspired by our heritage, we know that a profound understanding of our customers' challenges is essential. To anticipate and respond proactively to our customers' needs, we continuously strive to create a culture of innovation, challenging ourselves to break with conventions and embrace change."

The Company is headquartered in Bergen, Norway and operates a global network of 37 offices. Vizrt generates sales in more than 100 countries and counts 3,500 TV channels along with hundreds of newspapers as its customers. Clients mainly operate in the broadcast industry and the print media, which are the core markets for all of the Company's products. The Company's products are used by the world's leading broadcasters and publishing houses, including: CNN, CBS, Fox, BBC, Sky, ITN, ZDF, Star TV, Network 18, TV Today, CCTV, NHK, The Globe and Mail, The Telegraph, and Welt Online. Furthermore, many world-class production houses and corporate institutions, including both the New York and London Stock Exchange, utilize Vizrt solutions. For more details on Vizrt's products, please refer to our website: www.vizrt.com.

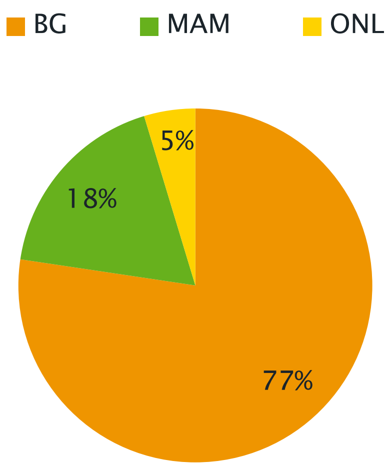
In January 2010, the Company started a reorganization focused on expanding and strengthening its local presence and expertise, in order to market, sell, deliver and support Vizrt's three major product lines. The Regional Presidents, responsible for Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and The Americas, have been, and still are building teams dedicated to each of the product lines in order to achieve greater market penetration. Simultaneously, the teams focus on cross selling to customers who require one or more components of Vizrt's complete workflow solution. While the bulk of the reorganization efforts has been completed, we continue to strengthen our local presence on a global basis.

Product line and Geographical overview

Geographical revenue split



Revenue split by product line



The Company has developed three major product lines: Broadcast Graphics (BG) – Vizrt's core technology with approximately 77% of revenues (same as in 2011), Media Asset Management (MAM), which was developed following the acquisition of Ardendo AB in 2006 – approximately 18% of revenues (compared to 15% in 2011), and Online publishing tools (ONL), developed following the acquisition of Escenic AS in 2008 – approximately 5% of revenues (compared to 8% in 2011).

In terms of geographical revenue split in 2012, EMEA accounted for 50% (compared to 55% in 2011) of revenues, AMECS accounted for 25% (compared to 22% in 2011) of revenues and APAC accounted for 25% (compared to 23% in 2011) of revenues.

Logistics for EMEA and APAC are handled from Vizrt's Austrian subsidiary, while those for The Americas are managed from Vizrt's US subsidiary in New York.

R&D is organized to develop, integrate and support the product lines, and is operated from seven major locations in Norway, Sweden, Austria, Israel, Thailand, Switzerland and Bangladesh.

Business Developments

In November 2011, Vizrt, together with all other shareholders of Stergen Hi-Tec Ltd., exercised its option to maintain its 20% stake in Stergen as part of the Company's strategy to be at the forefront of technological innovation in the industries it serves. Stergen's 2D to 3D stereo conversion tools can complement live stereo 3D sport production, as well as offer a compelling alternative to expensive and logistically complex live stereo 3D sports production.

On July 1, 2011, Vizrt announced the Company had completed the acquisition of the first tranche of 60% of LiberoVision AG, a Swiss company and a leader in the field of virtual 3D sports enhancements. The second and third tranches, each consisting of 20% of LiberoVision AG shares, were closed on March 14, 2012 and February 26, 2013, respectively. Each consideration was paid 80% in cash and 20% in the Vizrt shares. The total consideration, paid in cash and shares, for the purchase of LiberoVision AG amounted to MUSD 10.4.
The acquisition is a natural step in the Company's ongoing endeavor to help its customers tell stories in a more compelling way. The combination of Vizrt's and LiberoVision's technologies allows for on-air graphical analysis of sporting events. LiberoVision revenues are included in the BG product line revenues.

The current Vizrt group structure was set up with a view to optimize operations, while operating in multiple jurisdictions. The board of directors periodically reviews the organization to assess the optimal structure, taking into consideration all aspects that are in the best interest of the Company and its stakeholders.

Markets & Products

In 2012, market weakness, predominantly in Europe, continued and macro-economic related uncertainties resulted in substantially longer investment decision cycles, especially with regards to larger projects. Despite the challenging market conditions for most of 2012, APAC and the Americas posted 9% revenue growth each, partially offsetting the slowdown in Europe.

On July 3, 2012, the Company reduced its revenue guidance for financial year 2012, due to the deterioration of market conditions resulting from continued economic uncertainties.

The media industry is subject to continuous and dynamic changes. This requires broadcasters and other content owners to invest in technology in order to remain competitive in the quest for advertising Dollars and subscription fees. By investing in technology, content owners can develop new business models, address new audiences and increase the economic efficiency of their operations.

Vizrt has always kept these two economic realities firmly in mind when considering the development of its product offering. The Company's technology allows customers to tell a story better and differently, to optimize their workflow and to deliver content to different audiences over a wide variety of access devices, such as TV, tablets, PCs or smart phones.

All Vizrt product lines contribute to increased customers' operational efficiency, providing them with a clear return on technology investments.

Where Vizrt truly stands out, is in its ability to deliver integrated solutions that cover the entire spectrum, from ingest and production, through storage to delivery. This integration means that customers can select one product line, in the knowledge that when future expansion requires this, they can integrate additional product lines or individual building blocks seamlessly. This cross selling is key driver for future expansion of the Company. A substantial number of customers of Vizrt's MAM and ONL product lines deepened their relationship with Vizrt through acquiring the Company's BG products.

In 2012, the Company made further strides in the integration of its products. Vizrt's ability to offer premium products that allow for high quality delivery, channel differentiation and workflow efficiencies, continues to drive its business.

The Company's MAM offering was strengthened by the launch of the Viz Media Engine (VME) in late 2011. VME is a scalable solution that allows the Company to address new markets. The VME has been well received by customers.

Going Concern

In accordance with the requirements of the Norwegian Securities Trading Act, cf. the Norwegian Accounting Act, we confirm that the financial statements have been prepared under the assumption of going concern. The assumption is based on profit forecasts for 2013 and long-term strategic forecasts and the Company's sound economic and financial position.

Review of the Consolidated Financial Statements

The consolidated financial statements for the year ended December 31, 2012 are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

For 2012, Vizrt's revenues were MUSD 121.8, a 3% decrease compared to MUSD 125.3 in 2011, and flat on a dollar neutral basis.

Recurring EBIT for 2012 was MUSD 19.3 (16%), compared to MUSD 18.5 (15%) in 2011. Recurring EBIT for 2012 excludes a non-cash impairment charge of MUSD 10.8 related to the Escenic acquisition, and a MUSD 1.4 revaluation of contingent liability related to the LiberoVision acquisition.

Net income in 2012 was MUSD 1.7, compared to MUSD 16.0 in 2011.

Cash flow from operating activities in 2012 was MUSD 17.1, compared to MUSD 24.6 in 2011.

Vizrt has a strong financial position with no interest-bearing debt and a net cash position of MUSD 78.9 as of December 31, 2012 (including MUSD 0.6 restricted cash), compared to

MUSD 73.1, as of December 31, 2011. Furthermore, shareholders' equity as of December 31, 2012 was MUSD 119.5, which is equivalent to an equity to assets ratio of 75%.

Vizrt has intangible assets of MUSD 5.1 and Goodwill of MUSD 30.7 from the acquisitions of Curious World Maps in 2005, Ardendo AB in 2006, Adactus AS in 2010 and LiberoVision AG in 2011.

All research and development costs are expensed as they occur.

For a further detailed Management Discussion and Analysis, kindly refer to the Management report for Q4 and year-end 2012, released on February 14, 2013, as posted on Vizrt's website.

The Board of Directors and Executive Management are of the opinion that the financial statements provide a true and fair view of Vizrt's assets, liabilities, financial position and results.

Allocation of the Result

For 2012, the Company posted a net income of MUSD 1.7, which reduced the Company's accumulated deficit. On a normalized basis and excluding a non-cash impairment charge of MUSD 10.8, related to the Escenic acquisition and a MUSD 1.4 revaluation of contingent liability related to LiberoVision acquisition, the Company posted a normalized net income of MUSD 13.9.

On April 19, 2013 the Board of Directors decided on the distribution of a gross cash dividend of NOK 0.79 per ordinary share of the Company for a total of approximately NOK 53.1 million (approximately MUSD 9.24). The net dividend to be received per ordinary share of the Company shall be NOK 0.66.

In addition, the Board of Directors has resolved to approach the Israeli District Court for approval of distribution of an additional special dividend, for a gross amount of NOK 1.99 per ordinary share of the Company and a total of approximately NOK 133.0 million (approximately MUSD 23.2) after tax at corporate level, as such proposed special dividend distribution does not meet the Profits Test, as defined under the Israeli Companies Law.

As a consequence of the adopted sustainable dividend policy, with dividends to be paid out of profits generated by the Company, the effective consolidated tax rate, starting 2012, is higher than before. With the Company's existing structure, paying dividends to shareholders entails up-streaming of earnings generated by the group companies to the parent company, for dividend distribution. Such upstreaming creates an additional tax liability.

Outlook for 2013

The Company expects the ongoing economic uncertainties in Europe will continue to affect the business climate for parts of 2013.
Growth is expected to come predominantly from APAC and The Americas, where earlier signs of a recovery are seen, though modest at present.

While no immediate strong catalyst in the external environment is seen, a modest and steady uptake of investments is anticipated.

The Company expects returning mid-to long term to its earlier communicated 13% target revenue growth. For 2013, Management believes the Company will be able to achieve revenue growth in the mid to high single digit range. Vizrt will maintain its focus on cost control, without compromising the strength of the organization. The Company intends to continue investing in expanding its product and market leadership position.

Risk Factors

- Conditions and changes in the global economic environment may adversely affect our business and financial results. Uncertainty about future economic conditions could negatively impact our customers and, among other things, lead them to postponing their decision-making, decrease their spending and jeopardize or delay their ability or willingness to make payments or meet other obligations, any of which could adversely affect our business. Uncertainty about current global economic conditions could also cause volatility of our stock price. We cannot predict the timing, strength or duration of this global economic downturn or subsequent recovery.
- Competition is constantly developing innovations in the field of content production. As a result, Vizrt has to continue to invest significant resources in research and development in order to enhance its products and services. If the Company is unable to predict market preferences or industry changes, or if the Company is unable to modify and improve its products and services on a timely basis, the Company may lose customers.
- The Company closely monitors and measures its allowance for doubtful debts and bad debt expenses. None of the Company's customers represents more than 4% of the Company's total yearly revenue and thus credit risk is spread over a large customer base.

- Volatile currency exchange rates: Vizrt is a globally operating company in a multi-currency environment. The Company reports its financial results in USD. While revenues are generated in two major currencies, USD and Euro, expenses are incurred mainly in USD, Euro, NOK and SEK, which have been volatile vs. the USD. The Company uses hedging instruments to partially protect the budgeted expenses.
- Use of Estimates in Accounting: Contract and projects accounting require judgment relative to assessing risks, estimating revenues and cost and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts and projects, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete a contract or project because costs also include expected increases in wages and employee benefits and allocated fixed costs. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates, and are recorded when there is sufficient information for us to assess anticipated performance. Because of the significance of the judgments and estimation processes, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions, or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future financial performance.
- Political and Legal Factors: The operations and earnings of Vizrt and its group of companies throughout the world have been, and may in the future be, affected from time to time in varying degree by political and legal factors including: (1) political instability or lack of well-established and reliable legal systems in areas where the Company operates or may operate in the future; (2) other political developments and laws and regulations, such as unilateral cancellation or modification of contract terms, and regulation of certain communication markets; (3) restrictions on imports and exports; (4) price controls; (5) tax or royalty increases, including retroactive claims; (6) war or other international conflicts; and (7) civil unrest. Both, the likelihood of these occurrences and their overall effect upon the Company vary greatly from country to country and are not predictable.
- Tax factors: We operate our business in various countries, and accordingly attempt to utilize an efficient operating model to structure our tax payments based on the laws in the countries in which we operate. Likewise, we are subject to audits by tax authorities in some of our jurisdictions. In such audits, our interpretation of tax legislation might be challenged and tax authorities in various jurisdictions may disagree with, and subsequently challenge, the amount of profits taxed in such jurisdictions under our intercompany agreements, or under other local regulations including the utilization of Israeli tax benefit program.

  Our Israeli parent company, Vizrt Ltd., is currently under local tax assessment for the years 2006-2008. A tax order and a tax assessment have been issued for the year 2006 and 2007 respectively (as detailed in the financial statements), both appealed by the Company. No tax assessment has so far been issued for 2008. Currently, the Company's management is unable to predict the outcome of the deliberations with the tax authorities on its consolidated financial results, however the Company has provisions for the amounts deemed to be likely.

Although we believe our estimates are reasonable, the ultimate outcome of such audits and related litigation could be significantly different from our provision for taxes and might have a material adverse effect on our financial statements.

Working Environment

Working conditions and the working environment at Vizrt are considered to be good. No accidents or injuries occurred as a result of performing the tasks and assignments by the employees. Sick leave in Vizrt amounted to 1.2% in 2012. During 2012, the workforce decreased by 10 employees. At year end, Vizrt had 575 employees compared to 585 employees at year-end 2011. The average number of employees in 2012 was 580, compared to 562 in 2011.

Equal Opportunities

By the end of 2012, 18% of employees were women, as compared to 19% at the end of 2011. Vizrt has two women serving as directors on the Board of Directors and one woman in its Senior Management team. The Company seeks to increase the proportion of women through recruitment. Company and management focus, among others, on a personnel policy based on equal pay for equal work, which means that women and men have equal pay when in the same position, provided that other conditions are equal.

Discrimination

Vizrt's aim is to be a non-discriminatory workplace. Within the Company's workforce, over 40 different nationalities are represented as well as over 10 different religions. The Company ensures equal opportunities and rights in recruitment, remuneration and working conditions, as well as promotion, personal development and protection against harassment. Furthermore, Vizrt's aim is to be an all-inclusive organization with regards to reduced functional ability.

Corporate Social Responsibility

2012 was the kickoff year for the Company's Corporate Social Responsibility ("CSR"). Though the Company's employees had been involved in CSR previously, in 2012 it was decided to increase efforts. As such, an EcoBoard, composed of employees representing various positions and coming from all regions was established. The main objectives for the EcoBoard are to establish policy and define goals, focusing on local-level initiatives and corporate-level initiatives that directly enhance Vizrt's CSR performance.

Vizrt is committed to ethical and legal business, environmental, human rights, and labor practices on a worldwide basis.

Our CSR is composed of the following four building's blocks:
Society, Environment, Our People and Governance and Ethics.

Society

Vizrt aspires to make a commitment to society that extends from our employees making donations and doing voluntary work, to programs, nonprofit engagements or other actions benefiting any other organization around the world.

Environment

Recycling

We look carefully at recycling and waste reduction. 75% of our employees are located in offices that have adopted robust recycling programs.
Plastics and paper are recycled in all these offices, while glass, electronic equipment, batteries, printer toners and other materials are recycled in some of them.
The adoption of a recycling program is also dependant on the readiness and awareness of the countries where our offices are located. We plan to continue encouraging recycling, and increase the number of offices that implement recycling programs.

Energy

Our headquarters in Bergen have an advanced environmental set-up for reuse of water and heating. It draws water from the ocean to heat the building, and reuses the hot water to heat other systems as well. Excess heat is re-circulated in the building for reuse and repurposing.

Our Employees

Vizrt provides a diverse and multi-national workplace environment for employees worldwide.

Our employees are experts in development, sales, and business support, with diverse backgrounds, skills, and experience. As of December 31, 2012 we employed 575 people out of which 105 (18%) are female and 470 (82%) are male. Our employees are spread over 37 offices in 29 countries.

Collaboration lies at the heart of our people strategy, which focuses on three key areas:
- Working together: Embedding a collaborative working culture;
- An open and diverse culture: Engaging our employees and promoting diversity and inclusion;
- Employee opportunities: Realizing the potential of our employees through development and training opportunities.

Working Together

Communication and collaboration are at the heart of our working environment. We promote the use of flexible, cross-functional teams that work together to exploit new business opportunities.

Governance and Ethics

We promote responsible business practices at every level of the Company. We strive to conduct business ethically, honestly, and in accordance with our Code of Business Conduct. The message for each employee is clear: any success that is not achieved ethically is no success at all.
We design our corporate governance policies to foster ethical conduct and comply with regulatory requirements and applicable laws for publicly listed companies. We implement practices that help manage the risks to which we are exposed and we align risk-taking appropriately with efforts to increase shareholder value. See additional corporate governance related data hereunder.

Annual Report on Corporate Governance

Implementation of the Code of Practice

The Norwegian Code of Practice for Corporate Governance (the “Code of Practice”) was adopted in 2004, and last revised on 23 October 2012. The Code of Practice is intended to strengthen trust in listed companies and thereby contribute to the greatest possible value creation over time, to the advantage of shareholders, employees and other stakeholders.

Vizrt Ltd. ("Vizrt" or the "Company") is a company registered under Israeli law and is publicly traded on the Oslo Stock Exchange. Vizrt is required to operate under the provisions of the Israeli Companies Law, 5759-1999 (the "Companies Law").

The Code of Practice is based on a “comply-or-explain” principle: If a company does not intend to comply with the recommendations of the Code of Practice, it must explain why it has chosen a different solution. The Code of Practice contains 15 main principles, and the Israeli Companies Law, under which Vizrt operates, addresses similar issues. The Code of Practice is available in its entirety at the Oslo Stock Exchange website (www.ose.no) and the website of the Norwegian Corporate Governance Board (www.nues.no). Below, we provide a brief account for the Company’s compliance with the recommendations item by item as it applies pursuant to the Companies Law.

1. Reporting on Corporate Governance

Vizrt complies with this recommendation through regular Board of Directors meetings, regular operational monitoring and information provided in annual reports and other materials. In addition to the Code of Practice, the Board of Directors has adopted the following formal policies: Employee Conduct Code, Anti-Fraud and Whistle Blower Policy and Insider Trader Policy. These policies form a comprehensive set of ethical guidelines and guidelines for the corporate social responsibility of the Company.

The Employee Conduct Code defines the Company's standards for conduct of all business, legal, and ethical matters, carried out and arising in daily business, and is meant as a tool and a guide for dealings with customers, licensees, and partners, interaction with competitors and fellow employees, as well as in financial areas. Among others, the Employee Conduct Code addresses conflict of interest, prohibitions on third party gifts, issues regarding mutual respect and harassment.

The Anti-Fraud and Whistle Blower Policy contains controls to aid in the prevention and detection of fraud, theft, waste, or abuse against the Company and applies to any fraud or suspected fraud involving an employee, a consultant, vendor, contractor, or any person doing business, or in any other relationship, with the Company.

The Insider Trading Policy provides guidance to Company personnel and certain representatives with respect to compliance with insider trading legislation. The Insider Trading Policy aims to prevent acts or omissions which may expose the Company, its personnel or representatives to criticism or undermine the general trust in the Company or its securities.

2. Business

Vizrt complies with this recommendation through its Memorandum of Association stating the objectives of Vizrt is to develop technological products intended for the market of television studios and leisure culture and/or engage in any other legal trade. Additional information about the Company's objectives and the principal strategies is provided in Vizrt's annual report and on its website.

3. Equity and Dividends

Equity

As of December 2012, equity totaled MUSD 119.5 and the Company had equity to assets ratio of 75%. The Board of Directors considers this satisfactory given Vizrt's requirement for solidity in relation to its objectives and expressed goals, strategy and risk profile.

Dividend Policy

Vizrt complies with the requirements of the Companies Law and the Code of Practice. The Board of Directors intends to maximize the return to shareholders over time, which necessitates a continual assessment of the investment growth potential of the business in the future versus dividend pay-out. In March 2012 the Company adopted a dividend pay-out policy of 1/3 – 2/3 of the normalized net profit, to be decided annually. On March 16, 2012 the Company announced a dividend distribution based on distributing towards the high-end of the range for distribution – 2/3 of the 2011 net profit. The gross pay-out was NOK 0.86 per share, translating into a total amount of app. MUSD 10.2. On April 19, 2013, the Company announced a dividend distribution. For details please see the 2013 dividend distribution under "Allocation of the result" section above.

Capital Increases

Vizrt complies with the requirements of the Companies Law. According to the Articles, the Board of Directors of Vizrt is permitted to issue shares from the Company's authorized but unissued share capital. The authorized share capital of Vizrt is New Israel Shekel ("NIS") 800,365 divided into 79,900,000 Ordinary Shares, nominal value NIS 0.01 each, and 136,500 Deferred Shares, nominal value NIS 0.01 each. The issued share capital of the Company, as of April 29, 2013 is 66,969,264Ordinary Shares of nominal value NIS 0.01 each, and 27,300 Deferred Shares, nominal value NIS 0.01 each. The increase in authorized share capital requires the approval of Vizrt's shareholders in a shareholders meeting. Since the authority for the Board of Directors of Vizrt to issue shares within the authorized share capital, in accordance with the Companies Law, is not limited to defined purposes or in time, in order to limit the right of the Board of Directors of the Company to issue share capital, without the approval of the shareholders meeting, the Shareholders Meeting of the Company, in its meeting held on November 24, 2011, decreased the registered authorized share capital by NIS 699,635 from NIS 1,500,000 to NIS 800,365 divided into 79,900,000 Ordinary Shares, nominal value NIS 0.01 each (instead of 149,835,500 Ordinary Shares, nominal value NIS 0.01 each, as was the previously) and 136,500 Deferred Shares, nominal value NIS 0.01 each.

Purchase of Own Shares

Vizrt complies with the requirements of the Companies Law, pursuant to which the Company may purchase its own shares provided that such repurchase is performed out of the Company's profits and so long as the Company reasonably believes that such repurchase will not prevent the Company from meeting its existing and future expected obligations as they become due. Any shares repurchased by the Company become dormant shares and such shares do not have any rights whatsoever until resold by the Company. Since the authority for the Board of Directors of Vizrt to purchase its own shares under the Companies Law is not limited in time, Vizrt does not comply with the Code of Practice on this point. However, any purchase of own shares must be approved by the Board of Directors of Vizrt which, when resolving to purchase its own shares, also determines the maximum price to be paid per share, the maximum number of shares to be purchased and the period of time in which such own shares are to be purchased. Such resolutions of the Board of Directors may be amended later by the Board of Directors at its discretion.

4. Equal Treatment of Shareholders and Transactions with Close Associates

Class of Shares

Vizrt's share capital consists of ordinary shares, which entitle their holder to one vote for each share held.

In addition the share capital of Vizrt consists of deferred shares. The sole right of the holders of the deferred shares is to receive the nominal value of the deferred shares upon the liquidation or dissolution of Vizrt. The number of issued and authorized ordinary shares and deferred shares is included under item 3 (Equity and Dividends – Capital Increases) above.

Related Party Transactions

Vizrt complies with the requirements of the Companies Law, which codifies the fiduciary duties that an office holder, including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty.

According to the Companies Law, transactions in which an office holder has a personal interest (not related to terms of office and employment) must be approved in the following manner: non-extraordinary transactions with office holders that are not Directors, requires approval of the Board of Directors and extraordinary transactions with officers that are not Directors require the approval of the Audit Committee and the Board of Directors.

Approval of compensation to office holders that are not Directors or the Company's Chief Executive Officer, in accordance with the Company's Compensation Policy (to be adopted in the coming AGM), requires the approval of the Compensation Committee and thereafter the Board of Directors. Approval of compensation to such office holders, not in accordance with the Company's Compensation Policy, is possible under special circumstances, and provided such compensation shall thereafter be approved by the shareholders meeting by a special majority. In special circumstances the Compensation Committee and the Board of Directors may approve the compensation even if the shareholders' meeting opposes it. Changes to the terms of office and employment that is not material to an existing relationship, may be approved solely by the Compensation Committee.

Approval of compensation of the Chief Executive Officer requires the approval of the Compensation Committee, Board of Directors and shareholders' meeting by a special majority. In special circumstances the Compensation Committee and the Board of Directors may approve the compensation even if the shareholders' meeting opposes it. Approval of compensation to the Chief Executive Officer, not in accordance with the Compensation Policy, is possible under special circumstances, and shall require shareholders' approval by a special majority. Change in the terms of office and employment of the Chief Executive Officer that is not material to an existing relationship, may be approved solely by the Compensation Committee. The Compensation Committee may exempt the transaction with the Chief Executive Officer, who has no relationship with the controlling shareholder of the Company, from shareholder approval if it has found, based on detailed reasoning, that bringing the transaction to the approval of the shareholders' meeting shall prevent the employment of such candidate by the Company.

Approval of compensation of directors requires the approval of the Compensation Committee, Board of Directors and shareholders' meeting. The vote at the shareholders meeting requires a simple majority. Approval of compensation of directors, not in accordance with the Compensation Policy, is possible under special circumstances and shall require shareholders' approval by a special majority.

A Director who has a personal interest in a transaction may not be present at a meeting of the Board of Directors or the Audit Committee/Compensation Committee convened for the purpose of approving such transaction, unless the majority of the members of the Board of Directors or the Audit/Compensation Committee have personal interest in the transaction. The above principles with regard to required approvals for related party transactions provide a mechanism of approval that is intended to protect the shareholders, in line with the purpose of the Code of Practice. In that respect it may be noted that both the Audit Committee and the Compensation Committee, under the Companies Law, must include all the independent ("external") Directors of the Board of Directors and that pursuant to the Companies Law the decisions of the Audit Committee and the Compensation Committee (on matters that pursuant to the Israeli Companies Law vest with such committee) cannot be overruled by the Board of Directors. The Board of Directors, the Audit Committee and the Compensation Committee are aware of the recommendation of the Code of Practice that a valuation from a third party is obtained from an independent third party with respect of non-immaterial related party transactions.

In view of the above, Vizrt considers that it substantially complies with the Code of Practice's recommendation with regard to related party transactions.

5. Freely Negotiable Shares

Vizrt complies with the recommendation. The shares of the Company are freely tradable on the Oslo Stock Exchange.

6. General Meetings

Vizrt complies with this recommendation. A general meeting of the shareholders is held once every fiscal year at a place and time, not being more than 15 months after the date of the last general meeting, as may be prescribed by the Board of Directors. A notice of the general meeting of the shareholders is sent to the shareholders of the Company with a notice period of either 21 or 35 days, subject to the provisions of the Companies Law. Such notice includes a detailed description of the resolutions to be put to the shareholders for their approval in the meeting.

Agenda and proxy are posted on the Company's web site for easy reference and download. Shareholders who are unable to attend the meeting are encouraged to sign their proxy card. Proxy cards for participation in the meeting are to be received by the Company no later than 72 hours prior to the general meeting.

7. Nomination Committee

Vizrt complies with the requirements of the Companies Law. Accordingly, Directors are elected by the shareholders meeting. Despite the fact that there is no requirement under the Companies Law, in order to comply with certain provisions of the Code of Practice the Shareholders Meeting of Vizrt, in its meeting held on November 24, 2011, amended the Company's Articles of Association pursuant to which the Shareholders Meeting shall have the authority to elect a Nomination Committee. In accordance with the amended Articles of Association of the Company the Nomination Committee shall solely be entitled to make recommendations to the Shareholders Meeting, Board of Directors and Audit Committee (now to be replaced in respect of remuneration to directors by the Compensation Committee), as applicable, in respect of the following: (a) identity of proposed members of the Board of Directors; (b) identity of the Chairman and Vice Chairman of the Board of Directors; (c) remuneration to be paid to the members of the Board of Directors; (d) identity of the proposed members of the Nomination Committee; and (e) remuneration to be paid to the members of the Nomination Committee. The members of the Nomination Committee are elected once a year at the annual general meeting of the shareholders.

The Nomination Committee consists of Tore Mengshoel (Chairman), Hogne Tyssøy and Petter Tusvik.

8. Board of Directors: Composition and Independence

Vizrt complies with the requirement of the Companies Law.

Attached is a description of the current Board of Directors members of Vizrt. All seven of the Directors, are independent of the Company's management and material business contacts. All Directors, except Mr. Frode Strand-Nielsen and Mr. Dag J Opedal, are independent of the Company's main shareholders (i.e. shareholders holding more than 10% of the issued shares of the Company).

In order to comply with the Code of Practice, the Shareholders Meeting of Vizrt, in its meeting held on November 24, 2011, amended the Company's Articles of Association such that the Shareholders Meeting shall elect the Chairman of the Board of Directors and the Vice Chairman of the Board of Directors.

The members of the Board of Directors are elected at the annual meeting of the Company's shareholders by regular majority. The term of office of the Directors is until the next annual meeting of shareholders, to be convened no later than 15 months from the last annual shareholders meeting, except that the two external Directors serve for a term of three years, which may be extended twice, each for an additional three years term.

In order to comply with the Code of Practice, the Shareholders Meeting of Vizrt, in their meeting held on November 24, 2011, amended the Company's Articles of Association, such that the Board of Directors may no longer fill vacancies on the Board of Directors and only the Shareholders Meeting may elect Directors. The shareholding in the Company's shares of the members of the Board of Directors is disclosed in Vizrt's financial statements and posted on Vizrt's website.

9. The Work of the Board of Directors

Board Responsibilities
Vizrt complies with the requirement of the Companies Law and the Code of Practice. The Board of Directors outlines the Company's policy and supervises the performance of the functions and acts of the Chief Executive Officer. The Board of Directors is entitled to perform all of the Company's powers and authorities and to perform in its name all the acts that it is entitled to do according to its Memorandum of association and/or Articles and/or law except for those which pursuant to law or the Articles of Association of the Company are vested in the general meeting of the Company.

There is a clear division of responsibilities between the Board of Directors and the executive management. The Chairman is responsible for the Board of Directors' work being conducted in an efficient, correct manner and in accordance with the Board of Directors' terms of reference. The Chief Executive Officer is responsible for the operational management of the Company and its subsidiaries.

The Board of Directors may also appoint committees. Under the Companies Law, each committee of a company's Board of Directors is required to include at least one external director, provided that such committee was delegated powers by the Board of Directors.

Vizrt has two committees (i) an Audit Committee which is required to be appointed in accordance with the Companies Law; and (ii) a Compensation Committee which is required to be appointed in accordance with the Companies Law. In addition, the Shareholders Meeting elects a Nomination Committee, which was not delegated power by the Board of Directors.

The Audit Committee
Pursuant to the Companies Law, the Board of Directors of a public company must appoint an Audit Committee, as well as an internal auditor. The Audit Committee must be comprised of at least three directors, including all of the external directors. The Audit Committee may not include the Chairman of the Board of Directors, any director employed by the Company or the Company's controlling shareholder, a director providing services to the Company or its controlling shareholder on a regular basis, a director whose main income is from the controlling shareholder or a company controlled by the controlling shareholder or a controlling shareholder or his relative. The role of the Audit Committee is to examine, among other things, whether the Company's acts comply with the law and orderly business procedures.

The functions of the Audit Committee are to locate defects in the Company's business administration, inter alia, by consulting with the Company's internal auditor or with the auditors of the Company, and to make proposals to the Board of Directors of the Company regarding ways of correcting such defects. Further, in accordance with the Companies Law, transactions with controlling shareholders and interested parties, not relating to terms of office and employment, require the approval of the Audit Committee.

The Audit Committee consists of Bjørn Olafsson (Chairman), Tali Aben and Thomas Falck.

The Compensation Committee
Pursuant to the Companies Law, the Board of Directors of a public company must appoint a Compensation Committee. The Compensation Committee must be comprised of at least three directors, including all of a company's external directors which must constitute a majority of the committee. One of the external directors serving on the committee shall be nominated as its chairperson. All other members of the compensation committee must be directors who are (a) eligible to serve on a Company's Audit Committee; and (b) whose terms of office have been determined in accordance with the Companies Regulations (Rules regarding Compensation and Expenses of an External Directors), 2000.

The responsibilities of the compensation committee are: (i) making recommendation to the Board of Directors as to the Compensation Policy for office holders, as well as to recommend, once every three years to extend the Compensation Policy subject to the required approvals; (ii) making recommendations to the Board of Directors concerning updates and amendments to the Compensation Policy; (iii) reviewing the implementation of the Compensation Policy; (iv) approving transactions relating to terms of office and employment, which require the approval of the Compensation Committee, as set forth in the Companies Law; and (v) approving exemptions from the requirement of shareholder approval, of certain transactions relating to terms of office and employment.

The Compensation Committee consists of Tali Aben (Chairman), Bjørn Olafsson and Janne T. Morstøl.

10. Risk Management and Internal Control

Internal Control
Vizrt complies with the requirement of the Companies Law and substantially complies with the requirements of the Code of Practice. Accordingly, the Board of Directors appointed an Internal Auditor. The Internal Auditor is appointed based on the proposal of the Audit Committee. The Internal Auditor submits an annual or periodic work program for approval by the Board of Directors or the Audit Committee. The Chairman of the Board of Directors or the Chairman of the Audit Committee may order the Internal Auditor to conduct an internal audit, in addition to the work program, on matters where an urgent need for examination arises. The Internal Auditor further examines whether the Company's acts are correct in terms of obedience to the law and of orderly business practice. The Internal Auditor submits the report of his findings to the Chairman of the Board of Directors, the Chairman of the Audit Committee and the Chief Executive Officer.

In addition, as above detailed, the Company has adopted an Employee Conduct Code, Anti-Fraud and Whistle Blower Policy and an Insider Trader Policy and IT policy.

11. Remuneration of the Board of Directors

Vizrt complies with the requirement of the Companies Law and the Code of Practice. The Nomination Committee makes recommendations relating to Director's remuneration, which are brought to the approval of the Compensation Committee, the Board of Directors and the shareholders in a general meeting as required by law.

12. Remuneration of the Executive Management

Vizrt complies with the requirement of the Companies Law and substantially with the Code of Practice. Executive management (excluding the Chief Executive Officer) remuneration is approved by the Compensation Committee and the Board of Directors, as required by the Companies Law, and the Chief Executive Officer remuneration is approved by the Compensation Committee, the Board of Directors and the shareholders meeting. Furthermore, the Board of Directors of Vizrt has established guidelines for the remuneration of the executive management. The performance based incentives are limited.

13. Information and Communications

Vizrt substantially complies with the Code of Practice. The Board of Directors has implemented guidelines for its financial reporting and discloses its financial calendar. Further, information to its shareholders is published on Vizrt’s website.

14. Take-Overs

Vizrt complies with the requirements of the Companies Law. The take-over rules of the Norwegian Securities Trading Act (the “STA”) apply to Vizrt Ltd., as a non-EEA company listed on the Oslo Stock Exchange. The take-over rules of the STA provide rules to protect the interest of all shareholders in case of a public take-over offer, and the Board of Directors will, under the applicable rules, work to protect the interest of all shareholders in such scenarios. The Board of Directors has not established guiding principles for how it will act in the event of a take-over offer. In addition, a take-over offer is subject to the rules of the Israeli Companies Law. It may be noted that a change in control in Vizrt requires the consent of the Israeli Investment Center, which, if not received, will result in the cancellation of the benefits granted by it to the Company. The employees of Vizrt do not have veto rights in connection with a take-over, but may propose steps to assure the rights of the employees in a take-over situation.

15. Auditor

Vizrt complies with the requirement of the Companies Law and substantially with the requirements of the Code of Practice. The Company’s statutory auditors have been Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, since 1997. The report of the independent auditor for the last three years has been without comments, qualifications or reservations. The auditors of the Company are present at each meeting of the Audit Committee in which the financial statements of the Company are presented and in Board meetings as required. Further, the members of the Audit Committee hold a meeting once a year with the auditors without the presence of management.

The auditors are elected by the shareholders meeting of the Company and the Board of Directors fixes their remuneration.

Confirmation from the Board of Directors and CEO

We confirm that, to the best of our knowledge, the financial statements for the period from January 01 to December 31, 2012 have been prepared in accordance with applicable accounting standards and give a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations, and that the Management Report provides a true and fair view of the development and performance of the business and the position of the Group and the Company together with a description of the key risks and uncertainty factors that the company is facing.

Oslo, April 29, 2013

Dag J. Opedal	**Thomas Falck**	**Janne T. Morstøl**
Chairman of the Board	Vice Chairman	Director
Bjørn Olafsson	**Odd Jonny Winge**	**Frode Strand-Nielsen**
Director	Director	Director
Tali Aben		
Director		

* * *

Martin Burkhalter
CEO

Appendix

Board of Directors

Mr. Dag J. Opedal – Chairman, Board of Directors

Mr. Opedal served from 2005 until September 2010 as the President and Chief Executive Officer of Orkla ASA, one of the largest listed companies in Norway operating in the branded consumer goods, aluminum solutions, materials, renewable energy and financial investment sectors. During 2011 he served as Executive Vice President and responsible for strategy and corporate functions of Norgesgruppen, Norway's largest grocery retailer. Until the summer of 2012 he served as the President of Ferd Capital. Currently, he is an independent advisor and board member in Telenor ASA, Nammo AS, the Norwegian Church Aid and Meltwater BV. Opedal holds a degree from the Norwegian School of Economics and Business Administration and an MBA from INSEAD, France. He currently resides in Oslo, Norway.

In December 2010 Mr. Opedal became Chairman of the Board of Directors.

Mr. Thomas Falck – Member, Vice Chairman, Board of Directors

Mr. Thomas Falck is the founder of Agenda Capital AS, an investment and advisory company focusing on active ownership investments. Mr. Falck serves as a board member in Kongsberg Automotive ASA and Eitzen Maritime Services ASA. He is the Chairman of Making Waves Group AS and Filmparken AS and also serves as a member of the Board of Directors of several unlisted asset management and other companies. Mr. Falck holds an MBA from the Darden Graduate School of Business Administration and is also a Graduate of the Royal Norwegian Naval Academy. Mr. Falck currently resides in Oslo, Norway, and has been a member of the Company's Board since November 2010.

Ms. Tali Aben – External Director, Member, Board of Directors and Chairman Compensation Committee

Since 2008, Ms. Aben has been advising international investors on opportunities within the Israeli high-tech sector. In addition, Ms. Aben serves as an external Director for publicly traded Alvarion Ltd. and Attunity Ltd., as well as for several privately-held companies and non-profit organizations. Previously, Ms. Aben was a General Partner with Gemini Israel Funds, a venture capital firm, which she joined in 1994, and was made the first female partner with an Israeli VC. At Gemini, she funded and supported many successful companies, including Verisity, Jacada, Abirnet, Business Layers, Servicesoft, nLayers and others. Her focus has been primarily on software companies, expanding in 2007 to include Cleantech. Ms. Aben resides in Beit Yitzhak, Israel, and joined the Company's board in May 2011.

Ms. Janne T. Morstøl – Member, Board of Directors

Ms. Morstøl is the Chief Marketing and Product Officer at Nevion, a company providing products and solutions for media transport. Late 2012, Nevion merged with T-VIPS, a company Ms. Morstol co-founded and where she served as COO. Ms. Morstøl joined T-

VIPS from TANDBERG Television, where she held several management positions within engineering and business development. Prior to this, Ms. Morstøl worked as Program Director at Zonavi, a Telenor-owned iTV company. Ms. Morstøl holds a Masters degree from the Norwegian University of Science and Technology and an MBA from the Norwegian School of Economics and Business Administration. Ms. Morstøl currently resides in Oslo, Norway, and has been a member of the Company's Board since November 2010.

Mr. Bjørn Olafsson – External Director, Member, Board of Directors and Chairman Audit Committee

Mr. Bjørn Olafsson is a business economic graduate from the Norwegian School of Management. He has many years of experience in executive positions in banking & insurance, from offshore drilling activities and telecom. He has held various executive positions within the Vesta group, as Senior Vice President and Group Controller in Bergen Bank, as Executive Vice President and Head of Corporate functions in Vital Forsikring ASA, and as CFO and later CEO in Nera ASA and thereafter until late 2012 CEO of Frende Livsforsikring AS. Mr. Bjørn Olafsson has run his own businesses for periods and has held a number of directorships and executive positions. Mr. Olafsson, who has been a member of the Company's Board since 2007, is a resident of Bergen, Norway.

Mr. Frode Strand-Nielsen – Member, Board of Directors

Mr. Strand-Nielsen is the Managing Partner of FSN Capital Partners, a Nordic Private Equity Firm. He has entrepreneurial, strategy and M&A experience from Arkwright and Bain & Co. Prior to founding FSN Capital in 1999, Mr. Strand-Nielsen was a founding Director and the Chairman of the Executive Committee of Arkwright, a corporate advisory firm. Mr. Strand-Nielsen holds a B.A. from Simon Fraser University, Vancouver, BC and an MBA from Harvard Business School. Mr. Strand-Nielsen currently resides in Oslo, Norway, and has been a member of the Company's Board since August 2009.

Mr. Odd Jonny Winge – Member, Board of Directors

Mr. Winge is a partner at the investment company Ubon Partners. Previously he served as the Senior Vice President for Cisco's Collaboration Technology Group, where he is responsible for driving all of Cisco's collaboration business. He has been instrumental in the company's successful efforts to establish market leadership in this field._Mr. Winge joined Cisco through the acquisition of Tandberg, where he served in various roles, including Head of Business Development and Strategy, President EMEA sales, and EVP Products. Prior to joining Cisco, he held various leadership positions at McKinsey&Co´s Scandinavian, Johannesburg, and Boston offices.

Mr. Winge holds a Master's Degree in Business and Economics from the Norwegian School of Management. OJ Winge resides in Oslo, Norway and has been a member of Vizrt´s Board since November 2011.

VIZRT LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

U.S. DOLLARS IN THOUSANDS

INDEX

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of

VIZRT LTD.

We have audited the accompanying consolidated financial statements of Vizrt Ltd. and its subsidiaries ("the Company"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011 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 years then ended 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 audit. We conducted our audit 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 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Tel-Aviv, Israel
April 29, 2013

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2012		December 31, 2011	
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	5	$	46,801	$	58,172
Short-term bank deposits			31,496		14,272
Restricted cash			636		165
Trade receivables, net	6		29,873		27,088
Other accounts receivable and prepaid expenses			3,553		2,711
Inventories	7		3,311		3,235
Total current assets			115,670		105,643
NON-CURRENT ASSETS:					
Long term restricted cash			-		453
Long-term deposits			869		598
Deferred taxes	13		724		571
Investment in associate	4		1,434		1,626
Property and equipment, net	8		4,584		5,019
Other intangible assets, net	9		5,134		11,409
Goodwill	10		30,737		36,849
Total non-current assets			43,482		56,525
Total assets		$	159,152	$	162,168

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, 2012	December 31, 2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		$ 3,065	$ 4,302
Deferred revenues		8,496	6,709
Employees and payroll accruals		4,310	8,179
Income tax accruals		12,653	10,147
Other accounts payable and accrued expenses	11	7,297	5,263
Total current liabilities		35,821	34,600
NON-CURRENT LIABILITIES:			
Deferred taxes	13	2,216	683
Other non-current liabilities		-	1,175
Employee benefits liability	17	1,597	944
Total non-current liabilities		3,813	2,802
EQUITY:			
Share capital	15	159	158
Additional paid-in capital		154,673	154,228
Accumulated other comprehensive loss	16	(1,057)	(3,648)
Accumulated deficit		(34,257)	(25,972)
Total equity		119,518	124,766
Total liabilities and equity		$ 159,152	$ 162,168

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

April 29, 2013		
Date of approval of the financial statements	Dag Jakob Opedal Chairman of the Board of Directors	Martin Burkhalter Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Revenues:	20a		
Software licenses		$ 70,518	$ 77,070
Contract revenues		13,201	12,721
Maintenance and services		38,071	35,551
		121,790	125,342
Cost of revenues:	21a		
Software licenses		17,087	22,672
Contract revenues		7,918	8,141
Maintenance and services		14,911	11,688
		39,916	42,501
Gross profit		81,874	82,841
Operating expenses:			
Research and development	21b	18,076	19,154
Selling and marketing	21c	33,356	33,829
General and administrative	21d	11,180	11,369
Reevaluation of contingent consideration	3	1,385	-
Impairment of goodwill and intangible assets	10	10,801	-
Total operating expenses		74,798	64,352
Operating income		7,076	18,489
Financial income	21e	465	1,378
Financial expenses	21e	(230)	(328)
Share in loss of an associate	4	(192)	(339)
Income before taxes on income		7,119	19,200
Taxes on income	13	5,443	3,231
Net income		$ 1,676	$ 15,969
Basic net earnings per share	19	$ 0.03	$ 0.24
Diluted net earnings per share	19	$ 0.02	$ 0.24

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
U.S. dollars in thousands

	Year ended December 31,	
	2012	**2011**
Net income	$ 1,676	$ 15,969
Other comprehensive income (net of tax effect):		
Unrealized gain (loss) from hedging instruments, (net of tax effect of $ 102 and $ (53), respectively)	259	(124)
Reclassification adjustment for net loss (gains) from hedging instruments included in profit and loss	124	(562)
Net actuarial loss related to employee benefit plan	(320)	(123)
Foreign currency translation adjustments	2,528	(2,388)
Total other comprehensive income (loss)	2,591	(3,197)
Total comprehensive income	$ 4,267	$ 12,772

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss (Note 16)	Accumulated deficit	Total equity
Balance as of January 1, 2011	65,536,533	$ 156	$ 152,183	$ (451)	$ (41,941)	$ 109,947
Exercise of options	112,287	-	116	-	-	116
Issuance of shares related to the acquisition of LiberoVision	438,158	2	1,661	-	-	1,663
Share-based compensation	-	-	221	-	-	221
Tax benefit related to exercise of options	-	-	47	-	-	47
Other comprehensive loss	-	-	-	(3,197)	-	(3,197)
Profit for the year	-	-	-	-	15,969	15,969
Total comprehensive income	-	-	-	(3,197)	15,969	12,772
Balance as of December 31, 2011	66,086,978	158	154,228	(3,648)	(25,972)	124,766
Exercise of options	425,713	1	233	-	-	234
Issuance of shares related to the acquisition of LiberoVision	14,264	-	52	-	-	52
Share-based compensation	-	-	120	-	-	120
Tax benefit related to exercise of options	-	-	40	-	-	40
Other comprehensive loss	-	-	-	2,591	-	2,591
Dividend paid	-	-	-	-	(9,961)	(9,961)
Profit for the year	-	-	-	-	1,676	1,676
Total comprehensive income	-	-	-	2,591	1,676	4,267
Balance as of December 31, 2012	66,526,955	$ 159	$ 154,673	$ (1,057)	$ (34,257)	$ 119,518

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities:		
Net income	$ 1,676	$ 15,969
Adjustments required to reconcile net income to net cash provided by operating activities:		
Share-based compensation related to options and restricted shares	120	221
Depreciation	2,773	2,288
Loss from disposal of property and equipment	137	168
Reevaluation of contingent consideration	1,385	-
Amortization of intangible assets	3,603	3,751
Impairment of goodwill and intangible assets	10,801	-
Financial income, net	(346)	(676)
Income tax expense	4,723	5,251
Share in loss of an associate	192	339
Deferred taxes	720	(2,020)
Decrease (increase) in trade receivables, net	(2,507)	267
Decrease (increase) in other accounts receivable and prepaid expenses	(249)	1,050
Increase in inventories	(144)	(136)
Increase in long-term deposit	(256)	(221)
Increase (decrease) in trade payables	(1,492)	17
Increase (decrease) in deferred revenues	1,660	(1,476)
Increase (decrease) in employees and payroll accruals	(3,993)	1,982
Decrease in other accounts payable and accrued expenses	(722)	(116)
Decrease in other non-current liabilities	-	(91)
Non-current employee benefits liability, net	404	141
	18,485	26,708
Cash paid and received during the year for:		
Interest received	423	222
Income tax paid	(1,847)	(2,349)
Net cash provided by operating activities	17,061	24,581
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired (b)	(210)	(6,257)
Investment in short-term bank deposits	(65,405)	(22,168)
Proceeds from short-term bank deposits	48,256	23,722
Purchase of property and equipment	(2,461)	(2,196)
Proceeds from sale of property and equipment	206	-
Investment in associate	-	(135)
Increase in restricted cash, net	6	(150)
Collection of loan	-	397
Net cash used in investing activities	(19,608)	(6,787)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from financing activities:		
Exercise of options	$ 234	$ 116
Dividend paid	(9,961)	-
Net cash provided by (used in) financing activities	(9,727)	116
Effect of exchange rate changes on cash and cash equivalents, net	903	(951)
Increase (decrease) in cash and cash equivalents	(11,371)	16,959
Cash and cash equivalents at the beginning of the year	58,172	41,213
Cash and cash equivalents at the end of the year	$ 46,801	$ 58,172

Supplemental disclosure of cash flow information:

(a) Non-cash activity:

	2012	2011
Issuance of shares related to the acquisition of LiberoVision	$ 52	$ -

(b) Acquisition of LiberoVision in 2011 (Note 3):

	2012	2011
Fair value of assets acquired (excluding cash) and liabilities assumed at the acquisition date:		
Trade and other receivables	-	$ 413
Other intangible assets	-	3,548
Goodwill	-	6,465
Property and equipment	-	321
Trade and other payables	-	(771)
Deferred tax liability	-	(621)
Non cash - issuance of shares related to the acquisition of LiberoVision	-	(1,663)
Non cash - contingent earn out consideration	-	(1,435)
Amount paid in cash, net of cash acquired	$ -	$ 6,257

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

NOTE 1:- GENERAL

a. Vizrt Ltd., is incorporated and domiciled in Israel and its official address is Shefayim Commercial Center, P.O. Box 10, Shefayim 60990, Israel. The Company is publicly traded on the Oslo Stock Exchange. Vizrt Ltd. and its subsidiaries (collectively the "Company", "Vizrt" or the "Group"), (see Note 15e for list of subsidiaries) create content production tools for the digital media industry - from award-winning 3D graphics and maps through integrated video workflow solutions and online publishing tools.

b. The consolidated financial statements were approved by the Company's board of directors on April 29, 2013.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of financial statements:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, that have been measured at fair value. The consolidated financial statements are presented in U.S. dollars ("USD") and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

Consistent accounting policies:

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

b. Judgments:

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

Purchase price allocation:

Fair value of the tangible and intangible assets and liabilities of an acquired subsidiary is determined according to valuation techniques, which include mostly discounting of cash flows. The rate used for discounting the net cash flows expected from the assets has a material impact on the fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company strives to determine a fair value that is as objective as possible, yet the process of estimating the fair value also includes subjective elements, originating inter alia from the past experience of the Company's management and its understanding of expected events in the market wherein the Company operates at the date when the fair value was determined.

In light of the above, the setting of the fair value of the Company calls for implementing judgment.

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 assumptions used in the model include expected volatility, expected life and expected dividend.

c. Estimates and assumptions:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management determines estimates based upon past experience, various factors, external sources and reasonable assumptions according to the circumstances appropriate to each estimate. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Company that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences 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. For further information, see Note 13.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Impairment of goodwill:

  The Company reviews goodwill for impairment at least annually and when circumstances indicate that the carrying value may be impaired. This requires management to make an estimate of the projected future cash flows from continuing use of the cash-generating unit and also to choose a suitable discount rate and long term growth rate for those cash flows. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 10.

d. Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effects of potential voting rights that are exercisable at the reporting date 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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

e. Foreign currency translation:

Functional and presentation currency:

The consolidated financial statements are presented in USD, which is also the Company's functional currency (and is the currency that best reflects the economic environment in which the Company operates and conducts most of its transactions). Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

1. Transactions and balances:

   Transactions in foreign currencies are initially recorded by the Company at their respective functional currency rates prevailing at the date of the transaction.

   Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

   All differences are taken to the income statement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2. Companies in the Group for which their functional currency was determined as other than the USD:

a) Assets and liabilities are translated into USD at the rate of exchange prevailing at the reporting date. Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate.

b) Income and expenses for each of the periods presented are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

c) Share capital, additional paid-in capital and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.

d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date

e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity.

f. Cash equivalents:

Cash equivalents are short-term, highly liquid investments that are readily convertible into cash with original maturities of three months or less at acquisition.

g. Short-term bank deposits:

Bank deposits with original maturities of more than three months but less than one year are classified as short-term bank deposits. The majority of the deposits is in U.S. dollars and at December 31, 2012, bears interest at rates ranging from 0.05% to 3.2%. The deposits are presented at cost, including accrued interest.

h. 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. The Company also recognizes a provision for groups of customers that are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Inventories:

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method.
The Company evaluates periodically the quantities on hand relative to current and historical selling prices and forecasted sales volume, technological obsolescence and the market conditions. Based on these evaluations, provisions are recorded in each period to write inventory down to its net realizable value if required. An inventory write-off in the amount of $ 150 and $ 90 was recorded in 2012 and 2011, respectively.
Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs.

j. Investment in associate:

Investment in a company in which Vizrt is able to exercise significant influence, but that is not a subsidiary is accounted for using the equity method. When Vizrt's share of losses exceeds its interest in an associate accounted under the equity method, the carrying amount of that investment is reduced to zero and the recognition of further losses is discontinued except to the extent that the Company has an obligation to support the investee or has granted it loans or provided guarantees on its behalf.

k. Financial instruments:

- Financial assets:

The Company's financial assets include cash and cash equivalents, short-term deposits, trade and other receivables, restricted cash and other financial assets.

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the statement of income.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets carried at amortized cost:

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Such objective evidence of impairment could include significant financial difficulty of the issuer or counterparty.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For certain financial assets, such as trade receivables, the Company evaluates impairment on a specific basis, in reliance on past experience and changes in the level of delinquency in payments, as well as economic changes related to the sector and the economic environment in which it operates.

The amount of the loss carried to the statement of income is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, as above, is credited to the statement of income up to the amount of any previous impairment.

- Financial liabilities:

Financial liabilities measured at amortized cost:

Short-term credit (such as trade and other payables) are measured based on their terms, normally at nominal value. Gains and losses are recognized in the statement of income when the financial liability is derecognized as well as through the systematic amortization process.

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

l. Derivatives and hedging:

The Company recognizes all derivatives at fair value. If the derivatives meet the definition of a hedge and are so designated the effective portion of the gain or loss is recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge effectiveness is assessed at each reporting date.
The Company entered into forward exchange contracts in order to hedge the variability of anticipated payroll and other expenses denominated in Norwegian Krones, Swedish Krones and New Israeli Shekel, due to changes of the U.S. dollar against the respective currencies.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Property and equipment:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and other equipment	20 - 33 (mainly 33)
Office furniture, equipment and other	7 - 17 (mainly 10)
Leasehold improvements	(*)

(*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected useful life of the improvement.

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

n. Intangible assets, net:

Intangible assets acquired in a business combination are identified and recognized separately from goodwill when they meet the definition of intangible asset and their fair value can be measured reliably. The cost of these intangible assets is their fair value on the date of the business combination. In subsequent periods, intangible assets are presented at cost less any accumulated amortization and accumulated impairment loss. Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used.

Intangible assets are amortized using the straight-line method over the estimated useful life, according to the following weighted average number of years:

	Years
Core technology	6.0
Customer relationship	6.6
Backlog	3.0

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Impairment of non-financial assets:

At each reporting date, the Company evaluates the carrying amount of its tangible and intangible assets for the purpose of determining whether there are any indications that the carrying amount of such assets is not recoverable. Should there be any such indications; the recoverable amount of the asset is estimated for the purpose of determining the amount of the impairment loss. 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 the statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of the Company's cash-generating units that is expected to benefit from the synergies of the combination.

The Company reviews goodwill for impairment once a year on December 31 for each of its cash generating units, or more frequently if events or changes in circumstances indicate that there is impairment.

Impairment is recognized for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. 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.

During 2012, following indicators for impairment, the Company recorded an impairment loss in respect with goodwill and other intangibles associated with its Online CGU (see note 10).

o. Business combination and goodwill:

Business combinations are accounted for by applying the acquisition method. Under the acquisition method, the assets and liabilities of the acquired business are measured at fair value on the acquisition date. The cost of an acquisition is the aggregate fair value of the assets acquired, liabilities assumed and equity rights issued by the acquirer on the date of acquisition. Direct costs relating to the acquisition are carried immediately as an expense in the income statement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On the acquisition date, the existing assets and liabilities are reclassified and redesignated in accordance with the contractual terms, economic circumstances and other pertinent conditions that exist at the acquisition date, except for lease contracts that have not been modified on the acquisition date and whose classification as finance or operating leases is therefore not reexamined.

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

Goodwill acquired in a business combination is initially measured as the difference between the cost of the acquisition and the Company's interest in the net fair value of the acquired business identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less, if appropriate, any accumulated impairment losses. Goodwill is not systematically amortized.

Contingent consideration is recognized at fair value on the acquisition date. If the contingent consideration is classified as a financial liability in accordance with IAS 39, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement. In any event, if the changes arise from adjustments resulting from the provisional purchase price allocation during the measurement period, they are recognized as adjustments to goodwill.

p. Revenue recognition:

The Company's revenues are derived from sales of products to end-customers and resellers, who are also considered end-customers. The Company also generates revenues from professional services, including graphic services, training, maintenance and support.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenues can be reliably measured and when specific criteria have been met for each of the Company's activities as described below.

Revenue is measured at the fair value of the consideration received.

Revenues from sale agreements that do not contain a general right of return and that are composed of multiple components such as products, and maintenance and support services are split into separate accounting units and recognized for each accounting unit separately. A component constitutes a separate accounting unit if and only if it holds a separate value to the customer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The consideration received is allocated between the products and services, if there is evidence as to the fair value of the last undelivered element (mostly maintenance and support) with a consideration allocated to the services equal to their fair value. Fair value is generally determined based on their sale price when sold separately.

Revenue from the various accounting units is recognized when the criteria for revenue recognition regarding the components of that accounting unit have been met according to their type and only to the extent of the consideration that is not contingent upon completion or performance of the remaining components in the contract.

The Company considers all arrangements with payment terms extending beyond the Company's customary payment terms not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer provided that all other revenue recognition criteria have been met.

The Company recognizes revenues from professional services and training as performed. Such services when combined with sales of product are not essential to the functionality of the delivered product.

Maintenance and support revenues included in multiple element arrangements are deferred and recognized on a straight-line basis over the term of the maintenance and support agreement.

Deferred revenues represent mainly the unrecognized fees billed for maintenance and support services. Deferred revenue also includes advances and payments received from customers, for which revenue has not yet been recognized.

Revenue from software arrangements that require significant customization, integration and installation, are recognized in accordance with IAS 11, using contract accounting and the percentage of completion method, based on the relationship of actual labor hours incurred to total labor hours estimated to be incurred over the duration of the contract. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first identified, in the amount of the estimated loss on the entire contract.

q. Research and development costs and capitalized development costs:

Research costs are charged to operations as incurred. IAS 38, "Intangible Assets", requires capitalization of certain development costs when all the following indicators can be demonstrated by the Company:

- There is technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Based on the Company's product development process, technical feasibility is established for certain software development costs upon the completion of a working model. The Company does not incur any significant costs between the completion of the working model and the point at which the product is ready for general release. Therefore, the Company has charged all software development costs to the statement of income in the periods incurred.

r. Income taxes:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that the related tax benefit will be realized. Similarly, temporary differences (such as carry-forward tax losses) for which deferred tax assets have not been recognized are reviewed, and deferred tax assets are recognized to the extent that their utilization has become probable. Any resulting reduction or reversal is recognized in profit or loss.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred taxes are not recognized on investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Basic and diluted net earnings per share:

Basic net earnings per share are calculated by dividing net income by the weighted number of Ordinary shares outstanding during the period.

Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during the year, plus the effect of dilutive potential Ordinary shares outstanding during the year.

t. Accounting for share-based compensation:

At December 31, 2012, the Company has three share-based compensation plans, which are further described in Note 17.

The cost of equity-settled transactions with employees is measured at the grant date at fair value. The fair value is determined by using an appropriate option-pricing model or share price. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement.

The Company recognizes compensation expense for the value of its awards over the requisite service period of each of the awards, net of estimated forfeitures. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. No expense is recognized for awards that do not ultimately vest.

For equity settled transactions with employees that have performance based vesting, the Company evaluates at each reporting date the probability that the employees will meet the targets and updates the total number of instruments expected to vest accordingly.

u. Employee benefit liability:

The Company has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Post-employment benefits:

The Company has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and defined benefit plans.

The Company operates a defined benefit plan in respect of severance pay pursuant to the Israeli, Swiss and Austrian severance pay laws (the "Laws"). According to these Laws, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method. The actuarial assumptions include future 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 on high quality corporate bonds (Israel-Government bonds) with maturity that matches the estimated term of the benefit payments.

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

The liability for employee benefits in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs and any unrecognized actuarial gains and losses. Actuarial gains and losses are recognized directly in other comprehensive income in the period in which they occur.

v. Lease payments:

Lease agreements where the Company does not actually accept substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease.

w. Royalty-bearing grants:

Grants received from the Binational Industrial Research and Development Foundation ("BIRD") for supporting research and development activities and that contain an obligation to pay royalties depending on future sales, were recognized upon receipt as a liability as there were expected future economic benefits from the research activity that will lead to sales entitling the BIRD to royalties. Any difference between amount of the grant and the fair value of the liability is recognized as a reduction from research and development expenses. Amounts paid as royalties are recognized as settlement of liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

At each reporting date, the Company evaluates whether there is reasonable assurance that the liability, in whole or in part, will not be settled (since the Company will not be required to pay royalties) based on the best estimate of future sales, if any, and if so, the appropriate liability is derecognized and a gain is recognized with a corresponding reduction of research and development expenses.

x. Financial income and expenses:

Financial income includes interest on deposit and exchange differences. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial expenses include bank charges.

Gains and losses deriving from changes in currency exchange rate are reported on a net basis.

y. Provisions:

A provision in accordance with IAS 37 is recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

z. New standards and interpretations not yet adopted:

IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosure:

The IASB issued certain amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities.

The IASB also issued amendments to IFRS 7 regarding disclosure of rights of set-off and related arrangements (such as collateral agreements).

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2014, or thereafter. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2013, or thereafter.

The Company estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 9 - Financial Instruments:

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

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost if certain conditions are met.

   Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

   Subsequent measurement of all other debt instruments and financial assets should be at fair value.

   Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently reclassified to profit or loss). If equity instruments are held for trading, they should be measured at fair value through profit or loss.

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

The standard and the amendments are effective commencing from January 1, 2015. Earlier application is permitted. The Company believes that the Standard is not expected to have a material effect on the financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 10 Consolidated Financial Statement, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statement that addresses the accounting for consolidated financial statements.
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.
The Company believes the adoption of IFRS 10 is not expected to have an impact on its financial statement.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously in IAS 31and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Company believes the adoption of IFRS 12 is not expected to have an impact on its financial statement.

IFRS 13 - Fair Value Measurement:

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as 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. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants.
The Company believes that the adoption of the standard will not have materiel impact on its financial statements.

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

NOTE 3:- BUSINESS COMBINATIONS

On July 1, 2011, Vizrt through its wholly owned subsidiary, Vizrt Switzerland Sarl., signed a Share Purchase Agreement (the "SPA") with LiberoVision AG ("LiberoVision"), a company based in Switzerland, and its shareholders to purchase all issued and outstanding share capital of LiberoVision in three tranches: 60% of the shares upon the First Closing Date, 20% of the shares upon approval of LiberoVision's 2011 audited financial statements (the "Second Closing") and 20% of the shares upon approval of LiberoVision's 2012 audited financial statements (the "Third Closing"). The consideration for all tranches consist of 80% cash and 20% Vizrt's Ltd. shares. The shares consideration shall be calculated as the average closing price of the Company's shares in the market during 20 consecutive trading days prior to the respective closing. The total value of consideration for the First Closing was $8,405 consisting of 80% cash in the amount of $6,742 and 20% of Vizrt shares equivalent to $1,663.

The consideration for each of the two additional 20% tranches of the issued share capital of LiberoVision (upon the Second and the Third Closing) was calculated as 20% of ten times the EBIT (Earnings before Interest and Tax) for the applicable fiscal year (2011 and 2012).

Pursuant to the Second Closing in March 2012 and based on LiberoVision 2011 EBIT, the total value of consideration was in the amount of $262, consisting of 80% cash in the amount of $210 and 20% of Vizrt shares equivalent to $52.

On the purchase date the consideration for the Second and Third additional 20% tranches were accounted for as a forward purchase contract as the ownership risks and rewards of the shares relating to the tranches have substantially been transferred to the Company. Accordingly, the Company had recorded the acquisition of 100% of LiberoVision, and concurrently recorded a liability for the estimated contingent consideration to be paid for the two tranches. The Company estimated the contingent consideration to be paid pursuant to the Second and the Third Closing in the total amount of $ 1,435. An amount of $ 260 was presented in other accounts payable and accrued expenses and the balance of $ 1,175 was presented as other non-current liabilities in the 2011 consolidated statements of financial position. In 2012 the Company re-evaluated the contingent consideration under the Third Closing which occurred in March 2013 (see note 22), pursuant to which the Company recorded an additional expense of $ 1,385 as reevaluation of contingent consideration in the consolidated statement of income for the year 2012.

The total consideration at the date of acquisition was comprised as follows:

Cash paid	$ 6,742
Contingent earn-out consideration	1,435
Issuance of Ordinary shares	1,663
Total	9,840
Cash and cash equivalents acquired	(485)
Net cash	$ 9,355

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

NOTE 3:- BUSINESS COMBINATIONS (Cont.)

Purchase price allocation:

The total purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as set forth below as of the acquisition date. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

The fair value of the intangible assets was based on a third party valuation.

The fair values of the assets acquired and liabilities assumed at the date of acquisition (July 1, 2011) are as follows:

Cash and cash equivalents	$ 485
Trade and other receivables	413
Property and equipment	321
Trade and other payables	(771)
Backlog	667
Core technology	1,850
Customer relationships	1,031
Deferred tax liability	(621)
Goodwill	6,465
Total purchase price	$ 9,840

A deferred tax liability of $ 710 was recorded for the difference between the assigned value and the tax base of the intangible assets (except goodwill) acquired in the acquisition.

Goodwill of $ 6,465 represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The goodwill is attributed to the expected benefits arising from the synergies of the combination of the activities of the Company and of LiberoVision.

The results of operations of LiberoVision are included in the consolidated statement of income from the date of acquisition. The following table presents pro forma results of operations for 2011 and gives effect to the acquisition of LiberoVision as if the acquisition had been consummated at January 1, 2011. The pro forma results of operations are not necessarily indicative of what would have occurred had the acquisition been made as of January 1, 2011, or of the results that may occur in the future. Proforma net income for 2011 includes amortization of intangible assets related to the acquisition of $ 377 and deferred income tax benefit of $ 75.

	Year ended December 31, 2011
Revenues	$ 126,597
Net income	$ 15,506

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

NOTE 4:- INVESTMENT IN ASSOCIATE

On October 26, 2010, the Company acquired approximately 24% interest (approximately 20% on a fully diluted basis) in Stergen High-Tech Ltd. ("Stergen"), a developer of 2D to stereoscopic 3D video conversion software, based in Israel, for a consideration of $ 1,862 comprising of a cash payment of $ 1,462 and $ 400 which shall be paid through the provision of certain marketing services to be provided by the Company until December 2012. As of December 31, 2012, the total value of services provided was in the accumulated amount of $ 236. The remaining amount of $164 is presented in other accounts payables and accrued expenses in the consolidated statements of financial position. The investment in Stergen is accounted for based on the equity method. The Company allocated the excess of the purchase price over the carrying value of the investment mainly to goodwill in the amount of approximately of $ 1,700.

In consideration of the investment, Stergen issued to the Company 282,350 series A Preferred shares which are convertible to Ordinary shares at ratio of 1:1.

In November 2011 the Company together with all other shareholders invested to maintain their holding percentage in Stergen. The Company invested additional $ 135 in consideration of 48,318 ordinary shares of Stergen.

For the year ended December 31, 2012 and 2011, the Company's share in losses of Stergen amounted to $ 192 and $ 339, respectively.

NOTE 5:- CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Cash at banks and petty cash	$ 40,135	$ 34,957
Bank deposits	6,666	23,215
	$ 46,801	$ 58,172

Cash at banks earn interest at floating rates based on daily bank deposit rates. Bank deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

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

NOTE 6:- TRADE RECEIVABLES, NET

		December 31,		
		2012		2011
Trade receivables *)	$	26,996	$	24,214
Unbilled revenues		2,877		2,874
	$	29,873	$	27,088
*) Net of allowance for doubtful accounts	$	1,422	$	1,783

Trade receivables are non-interest bearing and generally have up to 90 days payment terms.

During the years ended December 31, 2012 and 2011, the Company recognized $ 691 and $ 1,153, respectively, as doubtful debts in the statements of income

As of December 31, the aging analysis of trade receivables is as follows:

		Past due but not impaired					
	Neither past due nor impaired	< 30 days	30–60 days	60–90 days	90–120 days	> 120 days	Total
2012	$ 22,241	$ 2,618	$ 1,062	$ 796	$ 1,090	$ 2,066	$ 29,873
2011	$ 18,459	$ 3,141	$ 750	$ 1,704	$ 863	$ 2,171	$ 27,088

NOTE 7:- INVENTORIES

		December 31,		
		2012		2011
Contracts in progress	$	176	$	111
Finished products		3,135		3,124
	$	3,311	$	3,235

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

NOTE 8:- PROPERTY AND EQUIPMENT, NET

	Computer and other equipment	Office furniture, equipment and other	Leasehold improvements	Total
Cost:				
As of January 1, 2011	$ 12,913	$ 3,823	$ 1,671	$ 18,407
Additions	1,704	324	168	2,196
Acquisition of subsidiary	289	32	-	321
Disposals	(1,617)	(1,452)	(15)	(3,084)
Exchange rate adjustments	75	43	24	142
As of December 31, 2011	13,364	2,770	1,848	17,982
Additions	2,232	135	94	2,461
Transfer from inventory	95	-	-	95
Disposals	(513)	(221)	(130)	(864)
Exchange rate adjustments	262	74	18	354
As of December 31, 2012	15,440	2,758	1,830	20,028
Accumulated depreciation:				
As of January 1, 2011	10,135	2,508	682	13,325
Depreciation charge for the year	1,680	457	151	2,288
Disposal	(1,617)	(1,296)	(3)	(2,916)
Exchange rate adjustments	222	36	8	266
As of December 31, 2011	10,420	1,705	838	12,963
Depreciation charge for the year	2,242	376	155	2,773
Disposal	(282)	(219)	(20)	(521)
Exchange rate adjustments	184	39	6	229
As of December 31, 2012	12,564	1,901	979	15,444
Net book value:				
As of December 31, 2012	$ 2,876	$ 857	$ 851	$ 4,584
As of December 31, 2011	$ 2,944	$ 1,065	$ 1,010	$ 5,019

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

NOTE 9:- INTANGIBLE ASSETS, NET

	Core technology	Customer relationship	Trade name	Backlog	Total
Cost:					
As of January 1, 2011	$ 21,176	$ 6,332	$ 2,447	$ 544	$ 30,499
Acquisition of a subsidiary	1,850	1,031	-	667	3,548
Exchange rate adjustment	(513)	(208)	(31)	(84)	(836)
As of December 31, 2011	22,513	7,155	2,416	1,127	33,211
Exchange rate adjustment	1,411	422	138	56	2,027
As of December 31, 2012	23,924	7,577	2,554	1,183	35,238
Accumulated amortization:					
As of January 1, 2011	13,018	2,656	2,315	544	18,533
Amortization	2,775	739	132	105	3,751
Exchange rate adjustment	(319)	(117)	(31)	(15)	(482)
As of December 31, 2011	15,474	3,278	2,416	634	21,802
Impairment (Note 10)	2,275	928	-	-	3,203
Amortization	2,593	810	-	200	3,603
Exchange rate adjustment	1,081	232	138	45	1,496
As of December 31, 2012	21,423	5,248	2,554	879	30,104
Net book value:					
As of December 31, 2012	$ 2,501	$ 2,329	$ -	$ 304	$ 5,134
As of December 31, 2011	$ 7,039	$ 3,877	$ -	$ 493	$ 11,409

The following table represents the weighted average remaining years of amortization:

	Years
Core technology	2.9
Customer relationship	3.6
Backlog	1.5

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

NOTE 10:- GOODWILL

a. Composition and movement:

	December 31,	
	2012	2011
Balance at the beginning of the year	$ 36,849	$ 31,482
Goodwill acquired during year	-	6,465
Goodwill impairment	(7,598)	-
Exchange rate adjustment	1,486	(1,098)
Balance at the end of the year	$ 30,737	$ 36,849

Goodwill in the amounts of $ 6,465 was recorded as a result of the acquisitions of LiberoVision in July 2011 (Note 3).

During the year 2012, the Company did not meet the Online Cash Generating Unit ("CGU") products revenues projections, which the Company considered as a negative indicator, pursuant to which it had performed an impairment test which indicated an impairment loss in amount of $ 10,801 at a CGU level. The impairment loss fully impaired the remainders of the Online CGU goodwill and intangible assets of $ 7,598 and $ 3,203, respectively. The recoverable amount of the On-Line unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 20.9% in 2012, (post tax discount rate in 2012 were 17.5%) and cash flows beyond the five-year period are extrapolated using a 3% growth rate.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The goodwill is attributed to the expected benefits arising from the synergies of the combination of the activities of the Company and acquired company.

b. Impairment testing of goodwill:

Goodwill acquired through business combinations has been allocated to three cash-generating units for impairment testing as follows:

- Broadcast Graphics ("BG") cash-generating unit
- Media Asset Management ("MAM") cash-generating unit
- On-Line ("ONL") cash-generating unit

The goodwill acquired following the LiberoVision acquisition was assigned to BG CGU.

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

NOTE 10:- GOODWILL (Cont.)

Carrying amount of goodwill allocated to each of the cash-generating units:

	BG unit		MAM unit		ONL unit		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Goodwill	$15,577	$14,970	$15,160	$ 14,281	$ -	$ 7,598	$30,737	$36,849

1. Broadcast Graphics cash-generating unit:

   The recoverable amount of the BG unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections in 2012 and 2011 was 16% for both years (post tax discount rate in 2012 and 2011, 15% and 14%, respectively) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate both in 2012 and 2011. As a result of the analysis, management did not identify impairment for this cash-generating unit to which goodwill of $ 15,577 is allocated as of December 31, 2012.

2. Media Asset Management cash-generating unit:

   The recoverable amount of the MAM unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections in 2012 and 2011 were 17.5% and 19%, respectively (post tax discount rate in 2012 and 2011 was 15%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate both in 2012 and 2011. As a result of the analysis, management did not identify impairment for this cash-generating unit to which goodwill of $15,160 is allocated as of December 31, 2012.

c. Key assumptions used in value-in-use calculations:

The calculation of value-in-use for all units is most sensitive to the following assumptions:

- Operating margin;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Operating margins - Operating margins are based on average values achieved in previous years preceding the start of the budget period and as reflected by industrial trends.

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

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

NOTE 10:- GOODWILL (Cont.)

Growth rate estimates - Rates are based on published industry research.

d. Sensitivity to changes in assumptions:

With regard to the assessment of value-in-use of the BG and MAM units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

NOTE 11:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2012	2011
Accrued expenses	$ 3,094	$ 2,935
Government authorities	1,405	1,142
Payable in respect with LiberoVision acquisition	2,431	260
Other	367	926
Total	$ 7,297	$ 5,263

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitments:

The Company's facilities are leased under operating lease agreements for periods ending in 2018. Future minimum lease commitments under non-cancelable operating leases as of December 31, 2012, are as follows:

2013	$ 3,469
2014	2,958
2015	2,845
2016	2,071
2017 and thereafter	3,551
	$ 14,894

Rent expense for the years ended December 31, 2012 and 2011 amounted to approximately $ 3,457 and $ 3,309, respectively.

NOTE 13:- INCOME TAXES

a. Israeli taxation:

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

   The effect of the aforementioned change on the deferred taxes balances has resulted in additional tax benefit of approximately $ 28 in 2011.

2. Tax benefits under the Law for the Encouragement of Capital Investment, 1959 ("the Law"):

   The Company's production facilities in Israel have been granted "Approved Enterprise" status, for three investment programs approved in 1996, 2000 and 2005, under the Law. According to the provisions of the Law, the Company has elected the "alternative benefits" track - which allows for a tax exemption for a period of two years commencing with the year it first earns taxable income and to a reduced tax rate of 10% to 25% for an additional period of five to eight years (depending on the share of foreign shareholders in the Company).

   The entitlement to the above benefits is conditional upon the fulfillment of the conditions stipulated by the above Law, regulations published there under and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, including consumer price index linkage and interest. As of December 31, 2012, the Company is of the opinion that it fully complies with all requirements.
   Of the Company's earnings available for distribution as of December 31, 2012, approximately $ 35,345 are tax-exempt attributable to its Approved Enterprise programs. If such tax-exempt income is distributed in a manner other than upon the complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%) and an income tax liability of up to approximately $ 7,069 would be incurred as of December 31, 2012. The tax-exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without imposing a tax liability on the Company only upon the complete liquidation of the Company.

   The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from the approval date. The Company believes that these limitations do not apply to the tax exempt period of the first two years.

NOTE 13:- INCOME TAXES (Cont.)

Income from sources other than an "Approved Enterprise" during the benefit period is taxable at the statutory tax rate.

On April 1, 2005, an amendment to the Law came into effect ("the First Amendment") and has significantly changed the provisions of the Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a Beneficiary Enterprise, such as provisions generally requiring that at least 25% of the Beneficiary Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

However, the First Amendment provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the law as they were on the date of such approval.

Therefore, the Company's existing Approved Enterprise will generally not be subject to the provisions of the Amendment. As a result of the Amendment, tax-exempt income generated under the provisions of the Law, will subject the Company to taxes upon distribution or liquidation and the Company may be required to record a deferred tax liability with respect to such tax-exempt income. As of December 31, 2012, the Company did not generate income subject to the provisions of the Law.

In December 2010, the Knesset passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, amendments in the Law (the "Second Amendment"). The Second Amendment became effective as of January 1, 2011, (however was substantially enacted as of December 31, 2010). According to the Second Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to make a non-revocable election to apply the Amendment and thereafter it will be subject to the amended tax rates that are: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

The Company has examined the effect of the adoption of the Second Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company estimates that it will not apply the Second Amendment. Accordingly, the Company has not adjusted its deferred tax balances as of December 31, 2012.

NOTE 13:- INCOME TAXES (Cont.)

On November 5, 2012, the Israeli Parliament approved a final bill regarding repatriations of trapped earnings out of Approved or Privileged Enterprises. The temporary provisions have come into effect as of its official publication (December 2012). The Israeli government agreed to grant relief of 30%-60% on the amount of tax which should have been paid on distributable earnings in order to encourage companies to pay the reduced taxes during the next 12 months (the "Temporary Order"). The Temporary Order provides partial relief from Israeli corporate income tax for companies which opt to enjoy the privilege, on a linear basis: greater release of "trapped" retained earnings will result in a higher relief from corporate income tax. According to the new linear statutory formula, the corporate income tax to be paid, would vary from 6% to 17.5% effective tax rate (depends on the Company's corporate tax rate in the year in which the income was derived and the amount of "trapped" retained earnings elected to be relieved), without taking into account the 15% dividend withholding tax (which should be levied only upon actual distribution, if any). The reduced corporate tax is payable within 30 days of making the election. The new temporary order does not require the actual distribution of the retained earnings, nor does it provide any relief from the 15% dividend withholding tax. Earnings, related to Privileged Enterprise, if distributed to Israeli companies, will be exempt from the 15% withholding tax.

The partial corporate income tax relief is available to companies that elect to implement the temporary reduced tax relief by November 12, 2013 in respect of exempt retained earnings accrued up until December 31, 2011, provided that up to 30% (the exact rate is calculated by a new statutory formula) of the "released" earnings are re-invested in Israel in at least one of the following: Industrial activities, Research and development activities, Assets used by the company, Salaries of newly recruited employees.
The Company is examining the effect of the adoption of the Temporary Order on its financial statements, and as of the date of the approval of the financial statements, the Company estimates that it will not apply the Second Amendment. Accordingly, the Company has not adjusted its deferred tax balances as of December 31, 2012. The Company's estimate may change in the future.

b. Income taxes applicable to non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. The tax rate of the subsidiaries ranges between 11% and 40%.

c. Carryforward losses:

As of December 31, 2012, the Company has a capital loss carryforward of approximately $ 44,161 which may be carried forward and offset against capital gains in the future for an indefinite period.

NOTE 13:- INCOME TAXES (Cont.)

As of December 31, 2012, the U.S. subsidiary had a federal net operating tax loss carryforward of approximately $ 13,899. The federal operating loss carryforward can be offset against taxable income for 20 years and expires from 2020-2025. The Company believes that, as a result of having undergone an "ownership change" within the meaning of Section 382 of the Internal Revenue Code, its ability to use its net operating loss carryforward and other tax attributes to offset future U.S. taxable income, and thereby reduce its tax liability, is severely limited.

As of December 31, 2012, the Norwegian subsidiaries had a net operating tax loss carryforward of approximately $10,160 with no expiration date.

As of December 31, 2012, the Thai subsidiary had a net operating tax loss carryforward of approximately $ 1,712. The operating loss carryforward can be offset against taxable income for 5 years and expires from 2013-2015.

As of December 31, 2012, the Swiss subsidiaries had a net operating tax loss carryforward of approximately $ 22,336 to be used against a Federal taxable income through 2017. The operating loss carryforward can be offset against taxable income with no limitation on expiration.

Deferred tax assets of approximately $ 642 relating to these losses were recognized in the financial statements.

Deferred tax asset relating to carryforward operating losses of other subsidiaries of approximately $ 2,621 were not recognized because their utilization in the foreseeable future is not probable.

d. Deferred taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

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

NOTE 13:- INCOME TAXES (Cont.)

	Consolidated statement of financial position		Consolidated statement of income	
	December 31,			
	2012	2011	2012	2011
Carryforward tax losses	$ 642	$ 1,403	$ 289	$ (660)
Allowances, provisions and other temporary differences	485	490	(85)	152
Property, plant and equipment	138	151	13	(49)
Deferred tax asset	1,265	2,044		
Intangible assets	(1,265)	(1,743)	(478)	(1,468)
Allowances, provisions and other temporary differences	(1,492)	(413)	981	5
Deferred tax liability	(2,757)	(2,156)		
Deferred tax liability, net	$ (1,492)	$ (112)		
Change in deferred taxes			$ 720	$ (2,020)

	December 31,	
	2012	2011
Deferred tax liability, net as of January 1	$ 112	$ 1,764
Deferred tax expenses (income) during the period recognized in profit or loss	720	(2,020)
Deferred tax expense during the period recognized against tax accrual	473	-
Deferred tax (income) expense during the period recognized in other comprehensive income	154	(253)
Deferred taxes liability recorded in business combinations	-	621
Exchange rate adjustment	33	-
Deferred tax liability, net as of December 31	$ 1,492	$ 112

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

NOTE 13:- INCOME TAXES (Cont.)

e. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Current tax expense	$ 4,786	$ 4,697
Adjustments in respect of prior years, net	(63)	554
Deferred taxes	720	(1,992)
Adjustment of deferred taxes due to change in tax rates	-	(28)
	$ 5,443	$ 3,231

f. Reconciliation of the theoretical tax expense:

Reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of operations is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Income before taxes, as reported in the consolidated statements of income	$ 7,119	$ 19,200
Statutory tax rate	25%	24%
Theoretical tax provision at the Israeli statutory tax rate	$ 1,780	$ 4,608
Losses and tax benefits with respect to which deferred taxes were not recognized	366	191
Decrease in respect of losses, reserves and allowance which deferred tax asset was not initially recognized	(215)	(692)
Change in deferred taxes in respect of prior years	823	-
Change in tax rate applicable to temporary differences	-	(28)
Difference in tax rates of subsidiaries	58	(878)
Tax in respect of prior years	(63)	554
Non-deductible expenses	(305)	(532)
Impairment of goodwill and intangible assets	2,982	-
Other	17	8

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

Actual tax expense	$ 5,443	$ 3,231

NOTE 13:- INCOME TAXES (Cont.)

g. The Israeli parent company, Vizrt Ltd., is currently under audit by the Israeli tax authorities. The tax year periods under review are 2006-2010.

In December 2011, the Israeli Tax Authorities ("ITA") issued a tax assessment for the year 2006. The ITA challenged several tax positions taken by the Company. The assessment demanded an additional tax payment in the aggregate approximate amount of $ 1,000 with respect to 2006 including interest as of the assessment date. In December 2012, the ITA issued a legal order (which constitutes the final position of the ITA which may be appealed to the District Court), with an adjusted tax assessment for the year 2006 in the amount of approximately $670. The Company believes it has valid arguments to support its positions and intends to vigorously defend against such legal order. As such the Company appealed the legal order in respect with year 2006 in January 2013.

In addition, in December 2012, the ITA issued an assessment document in respect with the year 2007, pursuant to which the Company's additional income tax liability is in the total amount of approximately $2,000 (including linkage differences). The Company believes it has valid arguments to support its positions and intends to vigorously defend against such tax assessments. As such the Company appealed the assessments in respect with year 2007 in January 2013.

In discussions concerning the following fiscal years under assessment, the ITA has challenged certain tax positions taken by the Company. Such challenge may significantly unfavorably affect the Company's tax liabilities. The tax assessment process is still underway, and the ITA has not issued to date a formal tax assessment for such years. The Company intends to vigorously defend its positions with respect to the matters raised by tax authorities during the assessment process. At this time the Company is unable to predict the ultimate outcome of the assessments. The Company believes that it has recorded sufficient accrual with respect to its uncertain tax positions, based on information available at this time.

h. The Company operates in multiple jurisdictions throughout the world, and its tax returns are periodically audited or subject to review by both domestic and foreign authorities. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. The following describes the open tax years, by major tax jurisdiction, as of December 31, 2012:

U.S. - 2009 – present
Swiss- 2006- present
Sweden-2007-present
Norway-2002-present
Austria-2006-present

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

NOTE 14:- RELATED PARTIES

a. Transactions with related parties:

	Year ended December 31, 2012	Year ended December 31, 2011
General and administrative expenses (*)	$ 327	$ 322

(*) Directors' fees and related expenses.

b. Balances with related parties:

	December 31, 2012	December 31, 2011
Other accounts payable and accrued expenses (*)	$ 70	$ 13

(*) Directors' fees and related accruals.

c. The following table summarizes remuneration and benefits related to executive employees of the Company and their holdings of the Company's shares and options as of December 31, 2012:

Employee's position	Remuneration	Contribution pension plan	Benefits and other	Outstanding number of RSUs	Number of shares	Outstanding number of options
CEO	$ 562	$ 88	$ 63	-	16,840	200,000
CFO	340	12	32	12,675	91,578	241,667
CCO	270	11	-	12,791	-	26,389
CTO	322	12	-	14,508	477,589	16,667
CDO	177	11	-	-	43,503	-
	$ 1,671	$ 134	$ 95	39,974	629,510	484,723

d. The CEO of the Company, Mr. Martin Burkhalter (the "CEO") has a pension and post requirement agreement that includes the following benefits:

- The CEO shall retire from his position as CEO at the age of 65 and take up a part-time (50%) position in the Company, if not otherwise agreed by the parties.

- The CEO has the right to retire from his position as CEO between the age of 62 and 65 and take up a part-time (50%) position in the Company.

- In case of transfer to a part-time position, the annual salary shall at all times be 50% of the base salary at the time of retirement from the position as CEO. The salary due to the part-time position shall increase by 3% every year.

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

NOTE 14:- RELATED PARTIES (Cont.)

- The CEO shall perform specified duties for the Company, as defined by the Company, until he reaches the age of 67.

- The CEO shall be guaranteed an annual retirement pension from the age of 67 and through the age of 77 in the amount of $ 44 as of May 1, 2011. The pension shall be adjusted according to the Norwegian National Insurance base rate ("G-regulation") every year, from May 1, 2011 through May 1, 2018.

e. List of subsidiaries and affiliates:

Company's name	Percentage owned	Country of registration
Vizrt Inc.	100%	US
Peak Broadcast Systems AS	100%	Norway
Vizrt Austria GMBH	100%	Austria
Vizrt UK	100%	UK
Ardendo AB	100%	Sweden
Vizrt Spain & Portugal S.L.	100%	Spain
Vizrt (Thailand) Limited	100%	Thailand
Vizrt Switzerland Sarl	100%	Switzerland
Vizrt India Private Limited	100%	India
Vizrt CIS, LLC (Russia)	100%	Russia
Vizrt Australia Pty Ltd	100%	Australia
Vizrt Finance Sarl	100%	Switzerland
Vizrt Sweden AB	100%	Sweden
Vizrt USA LLC	100%	US
Vizrt Norway Holdings AS	100%	Norway
Vizrt Argentina SA	100%	Argentina
Escenic AS	100%	Norway
Escenic Asia	100%	Bangladesh
LiberoVision AG	100%	Switzerland
Vizrt (Beijing) Technology Ltd.	100%	China
Stergen Hi-Tech Ltd.	24%	Israel

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

NOTE 15:- SHARE CAPITAL

a. Composition of share capital:

	December 31,			
	2012		2011	
	Authorized (1)	Issued and outstanding	Authorized (1)	Issued and outstanding
Ordinary shares of NIS 0.01 par value each	79,900,000	66,526,955	79,900,000	66,086,978
Deferred shares of NIS 0.01 par value each	136,500	-	136,500	-

(1) On November 24, 2011 the Shareholders Meeting of the Company decreased the registered authorized share capital by NIS 699,635 from NIS 1,500,000 to NIS 800,365 divided into 79,900,000 Ordinary Shares, nominal value NIS 0.01 each (instead of 149,835,500 Ordinary Shares, nominal value NIS 0.01 each, as was the previously) and 136,500 Deferred Shares, nominal value NIS 0.01 each.

b. Rights attached to the Ordinary shares:

1. Voting rights at the general meeting, right to dividend, rights upon liquidation of the Company and right to nominate the directors in the Company.

2. The Ordinary Shares are admitted to trading and quoted on the Oslo Stock Exchange whereas the Deferred Shares are not admitted to trading. The sole right of the Deferred Shares is to receive their nominal value upon liquidation or dissolution of the Company.

c. On March 3, 2012, the Company distributed a gross cash dividend of a total of NOK 57 million (approximately $ 9,961) paid on March 29, 2012. In addition, the Company has decided on a dividend policy going forward, aimed at distributing between one third and two thirds of the annual normalized profits. Each such distribution is subject to annual BOD resolution.

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

NOTE 15:- SHARE CAPITAL (Cont.)

d. Shareholders' information:

Cap table of the Company as of December 31, 2012 (as per Norwegian Central Securities Depository (VPS)):

Shareholder	Shares	Ownership
FSN CAPITAL III via DOROTHY HOLDING AB *)	10,664,003	16.03%
FERD AS INVEST	6,015,630	9.04%
ORKLA ASA	5,009,972	7.53%
NORDEA FONDENE NORGE	4,829,233	7.26%
HOME CAPITAL AS	3,678,587	5.53%
Odin Forvaltning AS	3,504,759	5.27%
Employees	1,492,425	2.24%
Directors & officers	644,510	0.97%
Public	30,687,836	46.13%
Total	66,526,955	100.0%

*) Controlled or owned by a member of the Company's Board - see also table below.

e. Shares owned or controlled by members of the Board (as per Norwegian Central Securities Depository (VPS)):

Board's member	Shares	Ownership
Frode Strand-Nielsen - FSN Capital III via Dorothy Holding AB	10,664,003	16.03%
Thomas Falck - SØLEN AS	15,000	0.02%
Total	10,679,003	16.05%

f. Share option plans:

On January 22, 2003, the Board of Directors of the Company adopted the "2003 Share Option Plan" (the "Plan") which replaced the previous Share Option Plans of the Company. The Company has reserved 3,000,000 shares to be issued in accordance with the Plan to Israeli employees. As to non-Israeli employees, no "pool" was adopted and options may be issued in accordance with resolutions of the Board.

Option awards are generally granted with an exercise price equal to the market price of the Company's share at the date of grant; those option awards generally vest over the period of 2 to 4 years of continuous service and have 5 to 10-year contractual terms and generally, the options will expire 4 years after termination of employment.

In accordance with the Plan, dividend cash payments are not paid on unexercised options. As of December 31, 2012, there were 1,733,834 options available for future grants.

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

NOTE 15:- SHARE CAPITAL (Cont.)

In the event of change in control, each outstanding option shall be assumed or an equivalent option or right substituted by the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, then the board may, at its sole discretion, determine to accelerate, in full or in part, all or a portion of the options then outstanding.

In December 2009, the Company's Board (the "BOD") approved a performance-based share option incentive plan (the "Incentive Plan") for the Company's executive management. The BOD will grant options divided into three equal vesting tranches over a consecutive period of three years (the "2010 tranche, 2011 tranche and 2012 tranche respectively"). The vesting for each tranche will be subject to: 1) the continued employment of the executive 2) meeting the performance goals defined by the BOD.

On March 1, 2011, the BOD replaced the 2011 tranche and 2012 tranche (prior to setting the performance goals for these years) with the 2011 Long Term Incentive Plan ("LTIP"), according to which executive management employees will receive restricted share units ("RSU") if the Company will reach certain performance conditions (including regional targets as well as consolidated targets). The award is subject to a continued service provision through December 31, 2013. As part of the LTIP adoption process, the Company requested all executives, who were eligible for the 2011 tranche and 2012 tranche (except for the Company's CEO), to waive their right to such options. All executives approached, waived their 2011 tranche and 2012 tranche. The Company's CEO maintained his eligibility for the incentive plan.

As of December 31, 2011, the Company had granted 99,819 RSUs to its employees. The total intrinsic value of these RSU's was $ 326; hence, $120 and $ 74 compensation cost was recorded in 2012 and 2011, respectively in the consolidated statement of income. In addition, compensation in the amount of $0 and $ 147 was recorded in the 2012 and 2011, respectively in consolidated statement of income in respect of the 133,333 options that were granted to the CEO in 2011.

The following table is a summary of activity for the Company's share option plans:

	2012	
	Number of options	Weighted average exercise price
		$
Outstanding at beginning of year	2,646,126	1.32
Exercised	(425,713)	0.56
Forfeited or expired	(13,500)	1.33
Outstanding at end of year	2,206,913	1.46
Exercisable options at end of year	2,206,913	1.46

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

NOTE 15:- SHARE CAPITAL (Cont.)

	2011	
	Number of options	Weighted average exercise price
		$
Outstanding at beginning of year	2,969,414	1.52
Granted	133,333	3.85
Exercised	(112,287)	1.03
Forfeited or expired	(344,334)	4.12
Outstanding at end of year	2,646,126	1.32
Exercisable options at end of year	2,646,126	1.32

The following table summarizes significant ranges of outstanding and exercisable options as of December 31, 2012:

	Options outstanding		Options exercisable	
Range of exercise prices	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share
$		$		$
-	810	-	810	-
0.18	390,000	0.18	390,000	0.18
0.24-0.26	749,400	0.26	749,400	0.26
1.33-1.61	446,482	1.40	446,482	1.40
3.53-3.57	241,500	3.55	241,500	3.55
3.85	309,721	3.85	309,721	3.85
4.08-4.65	69,000	4.27	69,000	4.27
	2,206,913	1.46	2,206,913	1.46

The total intrinsic value of options exercised during the years ended December 31, 2012 and 2011 was $ 1,278 and $ 246, respectively, based on the Company's closing share price of $ 3.56 and $ 3.22 for the years then ended, respectively.

The following table lists the inputs to the Black and Scholes model used for the fair value measurement of equity-settled share options for the above plan:

	2011
Share price	$ 4.01
Expected life of options (years)	3
Risk-free interest rate	0.54%
Expected volatility	38%
Dividend yield	0%

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

NOTE 15:- SHARE CAPITAL (Cont.)

The following table is a summary of activity for the Company's RSU's:

	2012 Number of RSU's
Outstanding at beginning of year	99,819
Forfeited or expired	(5,663)
Outstanding at end of year	94,156

	2011 Number of RSU's
Outstanding at beginning of year	-
Granted	99,819
Outstanding at end of year	99,819

The total intrinsic value of RSU's outstanding at the ended December 31, 2012 and 2011 was $ 336 and $326, respectively.

NOTE 16:- ACCUMULATED OTHER COMPREHENSIVE LOSS

	Hedging	Currency translation adjustment	Employee benefit	Total
January 1, 2011	$ 562	$ (1,013)	$ -	$ (451)
Unrealized gain (loss) from hedging instruments	(124)	-	-	(124)
Realized loss from hedging	(562)	-	-	(562)
Foreign currency translation adjustments	-	(2,388)	-	(2,388)
Net actuarial loss related to employee benefit plan	-	-	(123)	(123)
December 31. 2011	(124)	(3,401)	(123)	(3,648)
Unrealized gain (loss) from hedging instruments	259	-	-	259
Realized loss from hedging	124	-	-	124
Foreign currency translation adjustments	-	2,528	-	2,528
Net actuarial loss related to employee benefit plan	-	-	(320)	(320)
December 31, 2012	$ 259	$ (873)	$ (443)	$ (1,057)

NOTE 17:- EMPLOYEE BENEFITS

The Company provides retirement and other post-employment benefits to its employees in four locations and to the CEO of the Company (as described in note 15f).

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

a. Post-employment benefits:

Israel - 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 as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

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

Switzerland - According to the Law in Switzerland, the Swiss subsidiary is committed to have a retirement pension plan with pension funds for all its employees. The plan defines a retirement payments depending on the employee insured salary, age of the employee and interest rate determined yearly by the pension funds.

The retirement benefits are financed by saving contributions equally shared by employer and employees.

Austria - Employees hired before January 1, 2003, are entitled to receive termination benefit payments in case of termination by the employer or termination by the employee for valid reasons.
The severance pay amount depends on the employee´s salary and period of service on date of termination.

Thailand - According to the Labor Protection Act (A.D. 1988) in Thailand, the Company is required to pay compensation to an employee upon retirement, involuntary separation or termination without a cause as specified hereunder. The Company's liability is accounted for as a post-employment benefit. The computation of the employee benefit liability is made based on salary and duration of employment as stipulated by the law.

b. Defined benefit plans:

The Company accounts for payment of compensation as a defined benefit plan for which an employee benefits liability is recognized and for which the Company contributes amounts in central severance pay funds and in qualifying insurance policies.

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

NOTE 17:- EMPLOYEE BENEFITS (Cont.)

1. Expense charged to the statement of income:

	Year ended December 31, 2012	Year ended December 31, 2011
Current service cost	$ 608	$ 376
Interest cost , net	48	44
Total expenses in respect of employee benefits	$ 656	$ 420

Expenses presented in the statements of income are as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Cost of sales	$ 59	$ 15
Research and development expenses	231	187
Sales and marketing expenses	166	58
General and administrative expenses	200	160
	$ 656	$ 420

2. Plan liabilities, net:

	December 31, 2012	December 31, 2011
Defined benefit obligation	$ (3,886)	$ (3,010)
Fair value of plan assets	2,289	2,066
Total liabilities, net	$ (1,597)	$ (944)

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

NOTE 17:- EMPLOYEE BENEFITS (Cont.)

3. Defined benefit obligation:

a) Changes in present value defined benefit obligation:

	2012	2011
Balance as of January 1	$ 3,067	$ 2,030
Acquisition of subsidiary	-	715
Interest expense, net	48	44
Current service cost	608	376
Benefits paid	(186)	(94)
Actuarial gain (loss) for changes in financial assumptions	281	77
Exchange rate differences	68	(220)
Other	-	82
Balance as of December 31	$ 3,956	$ 3,067

4. Plan assets:

a) Plan assets:

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

b) Movement in fair value of plan assets:

	2012	2011
Balance as of January 1	$ 2,123	$ 1,665
Acquisition of subsidiary	-	400
Employer contributions to the plan	296	270
Employee contributions to the plan	65	32
Benefits paid	(218)	(87)
Net actuarial loss :Return on plan assets (less interest income)	(39)	(46)
Exchange rate differentials	62	(168)
Balance as of December 31	$ 2,359	$ 2,123

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

NOTE 17:- EMPLOYEE BENEFITS (Cont.)

c) The Company's actual plan asset allocations at December 31, 2011 and 2012 are as follows:

Asset category:	2012	2011
Linked to the inflation	$ 1,311	$ 1,316
Debt instrument	515	432
Equity	321	175
Other	212	200
Balance as of December 31	$ 2,359	$ 2,123

5. Weighted average of principal assumptions used in determining the defined benefit obligation:

	2012	2011
Discount rate of the plan liability	3.1%	3.8%
Expected salary annual increase rate	3.2%	3.4%

6. Uncertainties of future cash flows:

December 31, 2012:	**Defined benefit obligation**
Sensitivity to changes in rate of expected salary increase(*):	
Change arising from Salary increase of 4%	$ 206
Sensitivity to changes in discount rate of plan assets and liabilities(*):	
Change arising from increase of 0.5% in discount rate	(197)
Change arising from decrease of 0.5% in discount rate	229

(*) Analysis is conducted only for significant entities, namely Israel and Switzerland, which comprise 85% of the Company defined benefit obligations.

NOTE 18:- FINANCIAL INSTRUMENTS

Financial risk management objectives:

The Company is exposed to credit and market risks as part of its ordinary course of business. The Company's risk management objective is to monitor risks and minimize the possible influence that results from this exposure, according to its evaluations and expectations of the parameters that affect the risks. The Company uses derivative instruments in order to partially hedge its exposure to foreign currency exchange rate fluctuations.

The Company's senior management oversees the management of these risks.

All derivative activities for risk management purposes are carried out by senior management that has the appropriate skills and experience. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The financial risks are summarized herein:

1. Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Financial instruments affected by market risk include derivative financial instruments.

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company manages its foreign currency risk by hedging mainly monthly payrolls denominated in New Israeli Shekels and in Norwegian Krones ("NOK") that are expected to be expensed within a 12 month period. The Company also manages bank accounts that are denominated in a currency other than its respective functional currency, primarily NOK and Euro.

Hedging activities and derivatives:

Cash flow hedges:

Foreign currency risk:

As of December 31, 2012, the Company held forward foreign currency contracts

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

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

designated as hedges to manage some of its transactions exposure to fluctuations in exchange rates of the NOK, SEK and ILS versus the USD. These forward foreign currency contracts are designated as cash flow hedge.

	December 31,			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Foreign currency forward contracts	$ 368	$ 7	$ 116	$ 293

The cash flow hedges of the expected future hedged expenses in 2012 were assessed to be highly effective and as of December 31, 2012, a net unrealized gain of $ 259 with a related deferred tax liability of $ 102 was included in other comprehensive income in respect of these contracts.

The cash flow hedges of the expected future hedged expenses in 2011 were assessed to be highly effective and as of December 31, 2011, a net unrealized loss of $ 124 with a related deferred tax asset of $ 53 was included in other comprehensive income in respect of these contracts.

2. Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

Cash and cash equivalents and short-term deposits are deposited with major banks in Israel, Europe and the United States, and invested mostly in U.S. dollars and Euros. Such deposits may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear low risk.

Most of the Company's cash and cash equivalents, short term bank deposits and restricted cash were deposited with U.S., European and Israeli banks, amounting to $ 76,079 at December 31, 2012.

The Company's trade receivables are derived from sales to customers in various locations. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. Management periodically evaluates the collectability of these receivables and adjusts the allowance for doubtful accounts to reflect the amounts estimated to be uncollectible.

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

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

The exposure of credit risks relating to trade receivables is limited, due to the relatively large number of customers and their wide geographic distribution. The Company performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts and generally does not require collateral. An appropriate allowance for doubtful accounts is included in the accounts.

In certain regions with similar economic environmental characterizes that increase the credit risk, it is the Company's policy to request a letter of credit from a primary bank to ensure collectability.

During the years ended December 31, 2012 and 2011, the Company recognized $ 691 and $ 1,153, respectively, as doubtful debts.

3. Foreign currency sensitivity:

The Company believes that no reasonable change in foreign currency exchange rates would have a material impact on the profit and loss or equity.

4. Financial assets and financial liabilities

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

	December 31,			
	2012		**2011**	
Financial assets:				
Loans and receivables:				
Trade and other receivables	$	33,058	$	29,683
Derivative instrument	$	368	$	116
Financial liabilities:				
Trade payables and other liabilities	$	35,814	$	34,307
Other non-current liabilities	$	-	$	1,175
Derivative instrument	$	7	$	293

5. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, trade payables, employees and payroll accruals, and other liabilities approximate their fair values due to the short-term maturity of these instruments.

The fair value of foreign currency contracts (used for hedging purposes) is estimated by obtaining current quotes from investment bankers.

6. The financial instruments presented in the balance sheet 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:

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

NOTE 18:- FINANCIAL INSTRUMENTS (Cont.)

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).

7. Financial assets and financial liabilities:

Financial assets (liabilities) measured at fair value:

December 31, 2012:

	Level 1	Level 2	Level 3
Foreign currency derivatives contracts	$ -	$ 361	$ -

NOTE 19:- NET EARNINGS PER SHARE

The following reflects the net income and share data used in the basic and diluted net earnings per share ("EPS") computations:

	Year ended December 31, 2012	Year ended December 31, 2011
Net income	$ 1,676	$ 15,969
Weighted average Ordinary shares outstanding - basic EPS	66,410,010	65,817,876
Dilutive effect: Employee share options	1,432,908	1,771,801
Weighted average Ordinary shares outstanding - diluted EPS	67,842,918	67,589,677
Basic net earnings per share	$ 0.03	$ 0.24
Diluted net earnings per share	$ 0.02	$ 0.24

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

NOTE 20:- GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Company operates in one operating segment, and this segment comprises of three major product lines: Broadcast Graphics ("BG"), Media Asset Management ("MAM") and On Line ("ONL").

Revenues are attributed to geographic areas based on the location of the customers.

The following tables present total revenues for the years ended December 31, 2012 and 2011:

	Year ended December 31, 2012	Year ended December 31, 2011
Revenues from sales to unaffiliated customers:		
Europe (excluding Germany)	$ 42,312	$ 47,162
Germany	8,212	11,069
United States	22,823	18,969
Asia	31,162	28,510
Other	17,281	19,632
	$ 121,790	$ 125,342

Revenues by product lines:

	Year ended December 31, 2012	Year ended December 31, 2011
BG	$ 94,251	$ 96,692
MAM	21,884	20,381
ONL	5,655	8,269
	$ 121,790	$ 125,342

b. Non-current assets (excluding financial instruments) are located in the following countries:

	December 31, 2012	December 31, 2011
Norway	$ 4,731	$ 17,490
Sweden	15,220	15,103
Swiss	8,764	9,693
Israel	9,100	8,783
Other	2,640	2,208
	$ 40,455	$ 53,277

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

NOTE 21:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF INCOME ITEMS

	Year ended December 31, 2012	Year ended December 31, 2011
a. Cost of revenues		
Employees related costs	$ 13,896	$ 16,788
Materials	19,898	16,459
Amortization of intangible assets	2,594	2,810
Sub-contracted work	1,532	3,275
Other	1,996	3,169
	$ 39,916	$ 42,501
b. Research and development expenses		
Employees related costs	$ 15,347	$ 15,367
Office related expenses	2,085	2,078
Other	644	1,709
	$ 18,076	$ 19,154
c. Sales and marketing expenses		
Employees related costs	19,977	$ 19,791
Office related expenses	3,919	3,781
Amortization of intangible assets	1,009	941
Subcontractors	2,130	2,987
Depreciation	918	1,070
Other	5,403	5,259
	$ 33,356	$ 33,829
d. General and administrative expenses		
Employees related costs	$ 6,484	$ 6,695
Office related expenses	1,052	830
Professional services	2,336	2,833
Other	1,308	1,011
	$ 11,180	$ 11,369

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

NOTE 21:- SUPPLEMENTARY INFORMATION TO STATEMENTS OF INCOME ITEMS (Cont.)

e. Financial income and financial expenses:

	Year ended December 31, 2012	Year ended December 31, 2011
Financial income:		
Interest on deposits	$ 496	$ 500
Foreign currency exchange differences and other, net	(31)	878
	465	1,378
Financial expenses:		
Bank charges and interest	(232)	(328)
Foreign currency exchange differences and other, net	2	-
	(230)	(328)
	$ 235	$ 1,050

f. During 2012, the Company paid or incurred $ 947 for accounting and related services, consisting of $ 524 for audit services, $ 127 for audit related services and $ 296 for tax related services.

NOTE 22:- SUBSEQUENT EVENTS

a. On February 26, 2013, pursuant to the Share Purchase Agreement with LiberoVision, the Company executed the Third Closing (Note 3) pursuant to which an additional 20% of the outstanding shares of LiberoVision were acquired. The total value of consideration for the Third Closing was in the amount of $2,400 consisting of 80% cash in the amount of $1,900 and 20% of Vizrt shares equivalent to $500. Following the Third Closing the total consideration in cash and shares for the purchase of Liberovision was in the amount of $ 11,067

b. On April 19, 2013 the Board of Directors has decided on the distribution of a gross cash dividend of NOK 0.79 per ordinary share of the Company for a total of approximately NOK 53.1 million (approximately US$ 9.24 million). The net dividend to be received per ordinary share of the Company shall be NOK 0.66.
In addition, the Board of Directors has resolved to approach the Israeli District Court for approval of distribution of an additional special dividend, in a gross amount of NOK 1.99 per ordinary share of the Company and a total of approximately NOK 133.0 million (approximately US$ 23.2 million) after tax at corporate level as such proposed special dividend distribution does not meet the Profits Test, as defined under the Israeli Companies Law. The abovementioned NOK amounts are based on the exchange rate as of April 17, 2013.

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VIZRT LTD.

PARENT COMPANY FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

U.S. DOLLARS IN THOUSANDS

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AUDITORS' REPORT

To the Shareholders of

Vizrt LTD.

We have audited the accompanying statements of financial position of Vizrt Ltd. ("the Company") as of December 31, 2012 and 2011, and the related statements of income, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1a, the accompanying financial statements are parent company financial statements. The Company separately prepares and publishes consolidated financial statements in accordance with International Financial Reporting Standards.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of operations, changes in shareholders' equity and cash flows for each of the years then ended, in conformity with generally accepted accounting principles in Israel.

Tel-Aviv, Israel
April 29, 2013

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

STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2012	December 31, 2011
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	$ 7,339	$ 10,430
Short-term bank deposits		26,239	14,091
Trade receivables, net	4	5,792	4,627
Other accounts receivables and prepaid expenses	5	574	402
Inventories		114	55
Receivables from investees		1,719	2,344
Total current assets		41,777	31,949
NON-CURRENT ASSETS:			
Investments in investees and associate company	6	94,797	108,694
Deferred taxes	13	-	56
Property and equipment, net	7	178	247
Total non-current assets		94,975	108,997
Total assets		$ 136,752	$ 140,946

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

STATEMENT OF FINNACIAL POSITION

U.S. dollars in thousands

	Note	December 31, 2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables		$ 231	$ 466
Other accounts payable and accrued expenses	8	13,396	11,328
Payables to investees		2,780	4,618
Total current liabilities		16,407	16,412
NON-CURRENT LIABILITIES:			
Deferred taxes	13	791	-
Accrued severance pay, net	9	237	224
Total non-current liabilities		1,028	224
SHAREHOLDERS' EQUITY:			
Share capital	11	159	158
Additional paid-in capital		155,647	155,202
Other reserves		(955)	(3,620)
Accumulated deficit		(35,534)	(27,430)
Total shareholders' equity		119,317	124,310
Total liabilities and shareholders' equity		$ 136,752	$ 140,946

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

April 29, 2013		
Date of approval of the financial statements	Dag Jakob Opedal Chairman of the Board of Directors	Martin Burkhalter Chief Executive Officer

STATEMENTS OF INCOME

U.S. dollars in thousands

	Note	Year ended December 31, 2012		Year ended December 31, 2011	
Revenues from sales, royalties and other services	12	$	29,244	$	33,414
Cost of revenues			13,252		18,199
Gross profit			15,992		15,215
Operating expenses:					
Selling and marketing			4,742		4,165
General and administrative			1,782		1,458
Total operating expenses			6,524		5,623
Operating income			9,468		9,592
Financial income			67		387
Income before taxes on income			9,535		9,979
Taxes on income	13c		4,182		3,903
Income before equity in the gain (loss) of investees			5,353		6,076
Equity in the gain (loss) of investees			(3,496)		9,507
Net income		$	1,857	$	15,583

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total equity
Balance as of January 1, 2011	65,536,533	$ 156	$ 153,157	$ (451)	$ (43,013)	$ 109,849
Exercise of options	112,287	-	116	-	-	116
Issuance of shares related to the acquisition of LiberoVision	438,158	2	1,661	-	-	1,663
Share-based compensation	-	-	221	-	-	221
Tax benefit related to exercise of options	-	-	47	-	-	47
Foreign currency translation differences	-	-	-	(3,169)	-	(3,169)
Net income	-	-	-	-	15,583	15,583
Balance as of December 31, 2011	66,086,978	158	155,202	(3,620)	(27,430)	124,310
Exercise of options	425,713	1	233	-	-	234
Issuance of shares related to the acquisition of LiberoVision	14,264	-	52	-	-	52
Share-based compensation	-	-	120	-	-	120
Tax benefit related to exercise of options	-	-	40	-	-	40
Foreign currency translation differences	-	-	-	2,665	-	2,665
Dividend paid	-	-	-	-	(9,961)	(9,961)
Net income	-	-	-	-	1,857	1,857
Balance as of December 31, 2012	66,526,955	159	155,647	(955)	(35,534)	119,317

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

STATEMENTS OF STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from operating activities:		
Net income	$ 1,857	$ 15,583
Adjustments required to reconcile net income to net cash provided by operating activities:		
Share-based compensation related to options and restricted shares	120	221
Depreciation	115	160
Accrued interest, net	24	(35)
Deferred taxes, net	807	(19)
Increase in trade receivables, net	(1,165)	(431)
Increase in other accounts receivable	(134)	(57)
Decrease (increase) in inventories	(59)	41
Decrease in trade payables	(235)	(350)
Increase in other accounts payable	2,295	3,571
Receivables from investees, net	8,224	(1,840)
Accrued severance pay, net	13	1
Equity in the loss (gain) of investees	3,496	(9,507)
Net cash provided by operating activities	15,358	7,338
Cash flows from investing activities:		
Investment in short-term bank deposits	(44,660)	(22,168)
Proceeds from short-term bank deposits	32,488	22,352
Purchase of property and equipment	(46)	(86)
Disposal of property and equipment	-	4
Investment in an associate	-	(135)
Investments in subsidiaries	(98)	-
Dividend received from subsidiaries	3,594	-
Net cash used in investing activities	(8,722)	(33)

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

STATEMENTS OF STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31, 2012	Year ended December 31, 2011
Cash flows from financing activities:		
Exercise of options	234	116
Dividend paid	(9,961)	-
Net cash provided by (used in) financing activities	(9,727)	116
Increase (decrease) in cash and cash equivalents	(3,091)	7,421
Cash and cash equivalents at the beginning of the year	10,430	3,009
Cash and cash equivalents at the end of the year	$ 7,339	$ 10,430
Supplemental disclosure of cash flow information:		
Non-cash activity:		
Investment in a subsidiary (Note 6c)	$ 52	$ 1,663

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

NOTE 1:- GENERAL

a. Vizrt Ltd. (the "Company"), is incorporated and domiciled in Israel and its official address is Shefayim Commercial Center, P.O. Box 10, Shefayim 60990, Israel. The Company is publicly traded on the Oslo Stock Exchange. Vizrt Ltd. and its subsidiaries (collectively, "Vizrt" or the "Group"), create content production tools for the digital media industry - from award-winning 3D graphics and maps through integrated video workflow solutions and online publishing tools.

These financial statements are parent company financial statements that have been prepared for statutory purposes in Norway. As further described in Note 2, these parent company financial statements have been prepared in accordance with generally accepted accounting principles in Israel. The Company separately prepares and publishes consolidated financial statements in accordance with International Financial Reporting Standards.

b. Definitions:

In these financial statements:

Subsidiary	-	company that is controlled by the Company (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel).
Associate	-	company over which the Company has significant influence and that is not a subsidiary.
Related parties	-	as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.
Investees	-	subsidiary or associate

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

NOTE 1:- GENERAL (Cont.)

c. List of investees:

Company's name	Percentage owned	Country of registration
Vizrt Inc.	100%	US
Peak Broadcast Systems AS	100%	Norway
Vizrt Austria GMBH	100%	Austria
Vizrt UK Limited	100%	UK
Ardendo AB	100%	Sweden
Vizrt Spain & Portugal S.L.	100%	Spain
Vizrt (Thailand) Limited	100%	Thailand
Vizrt Switzerland Sarl	100%	Switzerland
Vizrt India Private Limited	100%	India
Vizrt CIS, LLC (Russia)	100%	Russia
Vizrt Australia Pty Ltd	100%	Australia
Vizrt Finance Sarl	100%	Switzerland
Vizrt Sweden AB	100%	Sweden
Vizrt USA LLC	100%	US
Vizrt Norway Holdings AS	100%	Norway
Vizrt Argentina SA	100%	Argentina
Escenic AS	100%	Norway
Escenic Asia	100%	Bangladesh
LiberoVision AG	100%	Switzerland
Vizrt (Beijing) Technology Ltd.	100%	China
Stergen Hi-Tech Ltd.	24%	Israel

d. Pursuant to a license agreement, the Company entered into with one of its subsidiaries, Vizrt Switzerland Sarl ("the Swiss Subsidiary"), for a period of two years (that may be further extended), certain rights in its technology that was developed up until the commencement of the agreement and which it owns, were licensed to the Swiss Subsidiary in consideration of royalties. The royalty rate set between the Company and the Swiss subsidiary with this respect leaves the Company with substantial economic benefit and risks related to the ownership of the technology and as a result the Company views itself as the owner of the technology developed up until the commencement of the agreement. Further, the Company entered into an agreement with the Swiss Subsidiary for provision of research, development and administrative services based on to a cost+ remuneration model. The agreements became effective on July 1, 2008.

Commencing upon that date, the new technology that is developed by the Group, including future distribution rights, is owned by the Swiss subsidiary which finances the research and development at the Company.

As a result, the Company's income in Israel is composed of three types of activities: income from its activities as a limited risk distributor, income from royalties and income from certain development and administrative services.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the financial statements on a consistent basis are as follows:

a. Reporting basis of the financial statements:

The financial statements are prepared in nominal amounts based on the historical cost.

b. Functional and foreign currencies:

1. Functional and presentation currencies:

The financial statements are presented in U.S. dollars, which is the Company's functional currency.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities that are denominated in foreign currency are translated at each balance sheet date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in the statement of income as financial expenses. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are retranslated into the functional currency using the exchange rate prevailing at the date when the cost was accrued.

3. Translation of financial statements of foreign operations:

a) Integral foreign operation:

In accordance with Accounting Standard No. 13 with respect to the effect of changes in foreign exchange rates, the financial statements of foreign operations that are integral to the operations of the Group companies are translated from foreign currency into Israeli currency as follows: non-monetary items are translated at historical exchange rates, monetary items are translated at the exchange rates as of the balance sheet date and the components of the statement of income are translated at average exchange rates. Differences arising from the translation are included in financial expenses or income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Foreign operation that is classified as a foreign autonomous entity ("the entity"):

In accordance with Accounting Standard No. 13, assets and liabilities, both monetary and non-monetary, of the entity are translated at the closing rate. The components of the statement of income and of the statement of cash flows of the entity are translated at the exchange rates at the dates of the transactions or at average exchange rates for the period, which rates approximate the actual exchange rates. All exchange rate differences resulting from the translation, as above, are recorded as a separate component of shareholders' equity ("Foreign currency translation differences") until the disposal of the investment.

c. Cash equivalents:

The Company considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

d. Short-term deposits:

Short-term bank deposits are deposits purchased with original maturities of more than three months.

e. 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.

f. Inventories:

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.

g. Investments in investees and associate company:

The Company's investment in investees and investment in associate company is presented in accordance with the equity method of accounting.

The Company evaluates in each reporting period the necessity to record an impairment loss, in accordance with the provisions of Accounting Standard No. 15.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and other equipment	33
Office furniture, equipment and other	6 - 20
Leasehold improvements	(*)

*) Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and the expected useful life of the improvement.

i. Impairment of 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 the net selling price and value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset.

j. Taxes on income:

Taxes on income in the statement of income comprise current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statement of income except to the extent that the tax arises from items which are recognized directly in equity.

1. Income taxes:

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

2. Deferred taxes:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are taken to the statement of income, based on tax laws that have been enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported period.

k. Revenue recognition:

Revenues are recognized in the statements of income when they can be measured reliably, the economic benefits associated with the transaction are expected to 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 in the transaction less commercial rebates, volume discounts and returns.

The following specific recognition criteria must also be met before revenue is recognized:

1. Revenues from software transactions:

Software transactions are multi-component sale transactions (software, integration, installation, upgrades, support, training, consultation etc.). The Company examines the transaction's components, including those supplied on an "if and when available basis", in order to determine if the components can be separately identified.

The Company recognizes revenues from the sale of software related goods only after the significant risks and rewards of ownership of the goods have been transferred to the buyer, when a necessary but insufficient condition involves the delivery of the software, whether physically, electronically, through the grant of a right to use the software or a license to duplicate existing copies. The Company recognizes revenues relating to the supply of software related services when the outcome can be measured reliably by reference to the stage of completion of the transaction at the balance sheet date. If the services consist of a number of acts whose number cannot be determined and over a specified period of time, the revenues are recognized on a straight-line basis over the specified period, unless there is evidence that some other method better represents the stage of completion.

2. Revenues from rendering of services:

Revenues from the rendering of services are recognized by reference to the stage of completion at the balance sheet date. Under this method, revenues are recognized in the accounting periods in which the services are rendered.

3. Revenues from royalties:

Revenues from royalties are recognized on an accrual basis based on the respective amount of revenues subject to royalty arrangements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Cost of revenues:

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes impairment losses in respect of inventories, inventory write offs and provisions for slow-moving inventories.

m. Accounting for share-based compensation:

At December 31, 2012, the Company has three share-based compensation plans. The cost of equity-settled transactions with employees is measured at the grant date at fair value. The fair value is determined by using an appropriate option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's income statement.

The Company recognizes compensation expense for the value of its awards over the requisite service period of each of the awards, net of estimated forfeitures. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. No expense is recognized for awards that do not ultimately vest.

For equity settled transactions with employees that have performance based vesting, the Company evaluates at each reporting date the probability that the employees will meet the targets and updates the total number of instruments expected to vest accordingly.

n. Financial income and expenses:

Financial income includes interest on deposit and exchange differences.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial expenses include bank charges.

Gains and losses deriving from changes in currency exchange rate are reported on a net basis.

o. Use of estimates for the preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

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

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
Cash at banks and petty cash	$ 2,688	$ 2,335
Short-term bank deposits	4,651	8,095
	$ 7,339	$ 10,430

NOTE 4:- TRADE RECEIVABLES, NET

	December 31, 2012	December 31, 2011
Trade receivables *)	$ 5,428	$ 4,574
Unbilled revenues	364	53
	$ 5,792	$ 4,627
*) Net of allowance for doubtful accounts	$ 414	$ 255

NOTE 5:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2012	December 31, 2011
Other receivables	230	22
Prepaid expenses	189	206
Deferred Tax	155	174
	574	402

NOTE 6:- INVESTMENTS IN INVESTEES AND ASSOCIATE COMPANY

a.

	December 31, 2012	December 31, 2011
Investment in investees, at equity	$ 76,710	$ 81,170
Loans *)	18,087	27,524
	$ 94,797	$ 108,694

*) linked to USD and do not bear interest.

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

NOTE 6:- INVESTMENTS IN INVESTEES AND ASSOCIATE COMPANY (Cont.)

As of December 31, 2012 and 2011, the goodwill amount included in the statement of the financial position was $ 30,737 and $ 36,849, respectively.

	December 31, 2012	December 31, 2011
Opening balance	$ 108,694	$ 88,391
Additional investments	150	1,798
Equity in the profit (loss) of investees	(3,496)	9,507
Foreign currency translation difference	2,480	(2,908)
Dividend received from subsidiaries	(3,594)	-
Changes in loans, net	(9,437)	11,906
Closing balance	$ 94,797	$ 108,694

b. Transactions with investees (included in the statements of income):

	Year ended December 31, 2012	Year ended December 31, 2011
Revenues	$ 13,982	$ 14,810
Cost of revenues	$ 4,920	$ 7,795
Operating expenses	$ 3,092	$ 1,994

c. On July 1, 2011 the Company through its wholly owned subsidiary, Vizrt Switzerland Sarl, signed on a Share Purchase Agreement (the "SPA") with LiberoVision AG. ("LiberoVision"), a company based in Switzerland, and its shareholders to purchase all issued and outstanding share capital of LiberoVision in three tranches: 60% of the shares upon the First Closing Date, 20% of the shares upon approval of LiberoVision's 2011 audited financial statements (the "Second Closing") and the remaining 20% of the shares upon approval LiberoVision's 2012 audited financial statements (the "Third Closing"). The consideration for all tranches consist of 80% cash and 20% Vizrt's Ltd. shares. The consideration on the First Closing Date was $ 6,742 in cash (paid by subsidiary) and $ 1,663 in the Company shares.

The consideration for each of the two additional 20% tranches of the issued share capital of LiberoVision (upon the Second and the Third Closing) shall be calculated as 20% of ten times the EBIT for the applicable fiscal year (2011 and 2012).

Pursuant to the Second Closing in March 2012, based on LiberoVision 2011 EBIT, the total value of consideration paid was $ 262, which consists of 80% cash in the amount of $ 210 and 20% of Vizrt shares equivalent to $ 52.

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

NOTE 6:- INVESTMENTS IN INVESTEES AND ASSOCIATE COMPANY (Cont.)

According to the SPA, the Third Closing shall occur no later than 30 days following the approval of the Company's 2012 audited financial statements provided however that such approval shall not occur later than January 31, 2013 (see also note 14).

During 2012, the Company reevaluated the consideration to be paid by Vizrt Switzerland Sarl pursuant to the Third Closing in the total amount of $ 1,385, thus the third tranche payment would be in the total amount of $ 2,400 (see also note 14).

d. On October 10, 2012 the Company invested additional $98 in its wholly owned subsidiary, Vizrt (Thailand) Limited.

NOTE 7:- PROPERTY AND EQUIPMENT, NET

	Computer and other equipment	Office furniture equipment and other	Leasehold improvements	Total
Cost as of December 31, 2012	$ 3,320	$ 240	$ 252	$ 3,812
Accumulated depreciation as of December 31, 2012	3,224	190	220	3,634
Net cost as of December 31, 2012	$ 96	$ 50	$ 32	$ 178
Net cost as of December 31, 2011	$ 139	$ 55	$ 53	$ 247

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2012	December 31, 2011
Deferred revenues	$ 935	$ 888
Accrued expenses	837	1,026
Employees and payroll accruals	578	932
Government authorities	10,882	8,032
Other	164	450
Total	$ 13,396	$ 11,328

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

NOTE 9:- ACCRUED SEVERANCE PAY, NET

	December 31, 2012	December 31, 2011
Accrued severance pay	$ 2,039	$ 1,968
Severance pay fund	1,802	1,744
	$ 237	$ 224

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitments:

The Company's facilities are leased under operating lease agreements for periods ending in 2017. Future minimum lease commitments under non-cancelable operating leases as of December 31, 2012, are as follows:

2013	$ 319
2014	300
2015	300
2016	300
2017	150
	$ 1,369

The total rent and motor vehicle operating lease expense for the years ended December 31, 2012 and 2011 was approximately $ 383 and $ 436, respectively.

NOTE 11:- SHARE CAPITAL

Composition of share capital:

	December 31, 2012		December 31, 2011	
	Authorized (1)	Issued and outstanding	Authorized	Issued and outstanding
Ordinary shares of NIS 0.01 par value each	79,900,000	66,526,955	79,900,000	66,086,978
Deferred shares of NIS 0.01 par value each	136,500	-	136,500	-

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

NOTE 11:- SHARE CAPITAL (Cont.)

(1) On November 24, 2011 the Shareholders Meeting of the Company decreased the registered authorized share capital by NIS 699,635 from NIS 1,500,000 to NIS 800,365 divided into 79,900,000 Ordinary Shares, nominal value NIS 0.01 each (instead of 149,835,500 Ordinary Shares, nominal value NIS 0.01 each, and 136,500 Deferred Shares, nominal value NIS 0.01 each.

(2) On March 3, 2012, the Company distributed a gross cash dividend of a total of NOK 57 million (approximately $ 9,961) paid on March 29, 2012. In addition, the Company has decided on a dividend policy going forward, aimed at distributing between one third and two thirds of the annual normalized profits. Each such distribution is subject to annual BOD resolution.

NOTE 12:- REVENUES FROM SALES, DISTRIBUTION, ROYALTIES AND SERVICES

	Year ended December 31,	
	2012	**2011**
Revenues from sales, distribution, royalties and services:		
Revenues from sales	$ 15,262	$ 18,604
Revenues from development services to a investee	2,394	2,421
Revenues from corporate services to a investee	1,981	2,315
Royalties from investee	9,607	10,074
	$ 29,244	$ 33,414

NOTE 13:- INCOME TAXES

a. Israeli taxation:

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

   The effect of the aforementioned change on the deferred taxes balances has resulted in additional tax benefit of approximately $ 28 in 2011.

NOTE 13:- INCOME TAXES (Cont.)

2. Tax benefits under the Law for the Encouragement of Capital Investment, 1959 ("the Law"):

   The Company's production facilities in Israel have been granted "Approved Enterprise" status, for three investment programs approved in 1996, 2000 and 2005, under the Law. According to the provisions of the Law, the Company has elected the "alternative benefits" track - which allows for tax exemption for a period of two years commencing with the year it first earns taxable income and to a reduced tax rate of 10% to 25% for an additional period of five to eight years (depending on the share of foreign shareholders in the Company).

   The entitlement to the above benefits is conditional upon the fulfillment of the conditions stipulated by the above Law, regulations published there under and the letters of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be cancelled and the Company may be required to refund the amount of the benefits, in whole or in part, including consumer price index linkage and interest. As of December 31, 2012, the Company is in the opinion that it fully complies with all requirements.

   Out of the Company's earnings available for distribution as of December 31, 2012 approximately $ 35,345 are tax-exempt attributable to its Approved Enterprise programs. If such tax-exempt income is distributed in a manner other than upon the complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%) and an income tax liability of up to approximately $ 7,079 would be incurred as of December 31, 2012. The tax exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without imposing a tax liability on the Company only upon the complete liquidation of the Company.

   The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from the approval date. The Company believes that these limitations do not apply to the tax exempt period of the first two years.

   Income from sources other than an "Approved Enterprise" during the benefit period is taxable at the statutory tax rate.

   On April 1, 2005, an amendment to the Law came into effect ("the First Amendment") and has significantly changed the provisions of the Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a Beneficiary Enterprise, such as provisions generally requiring that at least 25% of the Beneficiary Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

NOTE 13:- INCOME TAXES (Cont.)

However, the Law provides that terms and benefits included in any letter of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore, the Company's existing Approved Enterprise will generally not be subject to the provisions of the Amendment. As a result of the amendment, tax-exempt income generated under the provisions of the law, will subject the Company to taxes upon distribution or liquidation and the Company may be required to record deferred tax liability with respect to such tax-exempt income. As of December 31, 2012, the Company did not generate income subject to the provisions of the law.

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, amendments in the Law (the "Second Amendment"). The new amendment became effective as of January 1, 2011 (however was substantially enacted as of December 31, 2010). According to the new amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to make a non-revocable election to apply the Amendment and thereafter it will be subject to the amended tax rates that are: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

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

On November 5, 2012, the Israeli Parliament approved a final bill regarding repatriations of trapped earnings out of Approved or Privileged Enterprises. The temporary provisions have come into effect as of its official publication (December 2012). The Israeli government agreed to grant relief of 30%-60% on the amount of tax which should have been paid on distributable earnings in order to encourage companies to pay the reduced taxes during the next 12 months (the "Temporary Order"). The Temporary Order provides partial relief from Israeli corporate income tax for companies which opt to enjoy the privilege, on a linear basis: greater release of "trapped" retained earnings will result in a higher relief from corporate income tax.

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

NOTE 13:- INCOME TAXES (Cont.)

According to the new linear statutory formula, the corporate income tax to be paid, would vary from 6% to 17.5% effective tax rate (depends on the Company's corporate tax rate in the year in which the income was derived and the amount of "trapped" retained earnings elected to be relieved), without taking into account the 15% dividend withholding tax (which should be levied only upon actual distribution, if any). The reduced corporate tax is payable within 30 days of making the election. The new temporary order does not require the actual distribution of the retained earnings, nor does it provide any relief from the 15% dividend withholding tax. Distribute to Israelis companies relief the Company from the 15% dividend withholding tax Earnings, related to Privileged Enterprise, if distributed to Israeli companies, will be exempt from the 15% withholding tax.

The partial corporate income tax relief is available to companies that elect to implement the temporary reduced tax relief by November 12, 2013 in respect of exempt retained earnings accrued up until December 31, 2011, provided that up to 30% (the exact rate is calculated by a new statutory formula) of the "released" earnings are re-invested in Israel in at least one of the following: Industrial activities, Research and development activities, Assets used by the company, Salaries of newly recruited employees.
The Company is examining the effect of the adoption of the Temporary Order on its financial statements, and as of the date of the approval of the financial statements, the Company estimates that it will not apply the Second Amendment.

Accordingly, the Company has not adjusted its deferred tax balances as of December 31, 2012. The Company's estimate may change in the future.

b. Carry forward losses:

As of December 31, 2012, the Company has a capital loss carry forward of approximately $ 44,103 which may be carried forward and offset against capital gains in the future for an indefinite period.

c. Taxes on income are comprised as follows:

	December 31, 2012	December 31, 2011
Current taxes	$ 2,907	$ 3,304
Adjustments in respect of prior years, net	468	618
Deferred taxes	807	(19)
	$ 4,182	$ 3,903

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

NOTE 13:- INCOME TAXES (Cont.)

d. Deferred taxes

Deferred tax assets are recorded in respect with temporary differences in recognition of expenses (such as severance pay, vacation accrual and allowance for bad debts).
Deferred tax liability are recorded in light of the Company's dividend distribution policy (see note 11 (2) above) in respect with Vizrt Swiss Sarl net income for year 2012.

Deferred taxes are presented in the statement of financial position as follows:

	December 31, 2012	December 31, 2011
Current-other receivables	$ 155	$ 174
Non-current assets	59	56
Non-current liabilities	(850)	-
	$ (636)	$ 230

g. The Israeli parent company, Vizrt Ltd., is currently under audit by the Israeli tax authorities. The tax year periods under audit are 2006-2010.

In December 2011, the Israeli Tax Authorities ("ITA") issued a tax assessment for the year 2006. The ITA challenged several tax positions taken by the Company. The assessment demanded an additional tax payment in the aggregate approximate amount of $ 1,000 with respect to 2006 including interest as of the assessment date. In December

2012, the ITA issued a legal order, with an adjusted tax assessment for the year 2006 in the amount of approximately $670. The Company believes it has valid arguments to support its positions and intends to vigorously defend against such legal order. As such the Company appealed the legal order in respect with year 2006 in January 2013.

In addition, in December 2012, the ITA issued an assessment document in respect with the year 2007, pursuant to which the Company's additional income tax liability is in the total amount of approximately $2,000 (including linkage differences). The Company believes it has valid arguments to support its positions and intends to vigorously defend against such tax assessments. As such the Company appealed the assessments in respect with year 2007 in January 2013.

In discussions concerning the following fiscal years under assessment, the ITA has challenged certain tax positions taken by the Company. Such challenge may significantly unfavorably affect the Company's tax liabilities. The tax assessment process is still underway, and the ITA has not issued to date a formal tax assessment for such years. The Company intends to vigorously defend its positions with respect to the matters raised by tax authorities during the assessment process. At this time the Company is unable to predict the ultimate outcome of the assessments. The Company believes that it has recorded sufficient accrual with respect to its uncertain tax positions, based on information available at this time.

NOTE 14:- SUBSEQUENT EVENTS

a. On February 26, 2013, pursuant to the Share Purchase Agreement with LiberoVision, the Company executed the Third Closing (see also note 6) pursuant to which an additional 20% of the outstanding shares of LiberoVision were acquired. The cash consideration, consisting of 80%, for the third tranche, is approximately $ 2,400. The Company issued 135,908 of its Ordinary shares which reflect the 20% of the third tranche consideration in the amount of $ 500. Consequently the number of shares outstanding is 66,955,763.

b. On April 19, 2013 the Board of Directors has decided on the distribution of a gross cash dividend of NOK 0.79 per each one ordinary share of the Company for a total of approximately NOK 53.1 million (approximately US$ 9.24 million). The net dividend to be received per ordinary share of the Company shall be NOK 0.66.
In addition, the Board of Directors has resolved to approach the Israeli District Court for approval of distribution of an additional special dividend, in a gross amount of NOK 1.99 per ordinary share of the Company and a total of approximately NOK 133.0 million (approximately US$ 23.2 million) after tax at corporate level as Such proposed special dividend distribution does not meet the Profits Test, as defined under the Israeli Companies Law. The abovementioned NOK amounts are based on the exchange rate as of April 17, 2013.

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