TAKING DISTRIBUTED TRAINING SIMULATION PERSONALLY

'12

SIMIGON

2012 ANNUAL REPORT

About SimiGon

SimiGon (AIM: SIM) is a leading developer and supplier of distributed simulation solutions for defence and civilian applications. SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation-based content across multiple domains. Through its off-the-shelf training solutions for demanding high-skill occupations, SimiGon provides diverse organizations with faster and more cost-effective training. SimiGon's growing client base includes blue-chip training and simulation systems providers as well as over 20 air forces and commercial airlines worldwide. Founded in 1998, SimiGon maintains offices in Israel and the United States.

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TAKING DISTRIBUTED TRAINING SIMULATION PERSONALLY

When it comes to distributed simulation solutions, SimiGon technology is the way to go. Leading the industry shift away from inflexible, stationary and expensive training systems, offering personal, portable and cost-effective training solutions optimized for the PC or laptop. Our off-the-shelf platform and products – for air, land, sea and industrial applications – are highly flexible, adaptable and robust. This "personal" approach enables multiple high-skill users to train simultaneously on multiple platforms, saving defence and civilian organizations significant time and money. We offer state-of-the-art simulation solutions for non-training applications, bringing the best of personal simulation to wider audiences.

Financial Highlights

- Revenues increased by 24% to $6.81 million (2011: $5.48 million)
- Net profit increased by 97% to $0.69 million (2011: $0.35 million)
- Gross margin of 80% (2011: 85%)
- Increased positive cash flow from operations by 9% to $2.5 million (2011: $2.3 million)
- Significant increase in cash and cash equivalents and short term bank deposits at the year end at $7.11 million (31 December 2011: $4.74 million) and the Company has no debt

Operational Highlights

New significant contracts:

- Awarded a second and third contract from key long term strategic European customer. The total value of all three contracts totals US$2.77 million
- Signed substantial contract to provide a South American country's entire armed forces with SimiGon's SIMbox training and simulation technology platform
- Awarded contract from TAISR Group (TAISR) to support the Joint Close Air Support (JCAS) and manned/unmanned Intelligence, Surveillance and Reconnaissance (ISR) community

Significant first time revenues from contracts awarded in the previous year:

- First year with material revenue stream outside aerospace and defence industry with significant contributions from Check-6, SimiGon's first major contract outside the aerospace and defence
- First year of generating revenue as prime contractor after successfully implementing SIMbox based T-6A Modular Training Devices (MTD) for the U.S. Air Force Air Education Training Command (AETC)

Longer term contracts:

Long-term contracts continue to progress well as revenues ramped up through 2012, including the Lockheed Martin's F-35 Lightning II Joint Strike Fighter training program (JSF), the UK's Military Flying Training System and the Unmanned Aerial Vehicle training program.

Post period-end events:

Secured an additional contract from the U.S. Air Force Air Education Training Command to support and maintain all of the T-6A Modular Training Devices used in the training of all Remote Piloted Aircraft (RPA) students.

LEVERAGING GROWING MARKETS FOR PERSONAL TRAINING & SIMULATION

The need for personal, flexible solutions in the fast growing training and simulation market is driven by numerous factors.

Key Trends

Growing demand for flexible and cost efficient training solutions that serve to simplify complex and stressful operating environments:

With highly skilled operational environments such as aircraft, air defence, air traffic control systems, UAVs and deep sea oil rigs becoming increasingly powerful, complex and potentially more dangerous and expensive to train on, simulation based training technologies are proven to be more cost effective and efficient alternatives to real-life equipment training.

Governments and commercial customers worldwide are seeking more sophisticated training programmes than ever before and no longer accept inflexible, expensive solutions provided by large suppliers. These organisations have very detailed and specific demands for individual and collective training tasks and require flexibility and extensibility from their training systems providers.

Government and commercial customers are also seeking flexible off-the-shelf solutions. SimiGon's advanced Commercial-Off-The-Shelf (COTS) technology products not only meet these requirements but also save the client considerable time and money throughout all facets of the programme, including system design, development and implementation.

Fast Growing Market

With these market trends and the budget constraints many governments are experiencing, the industry is turning away from traditional, expensive and stationary training systems and moving towards more robust, flexible, reconfigurable and cost-effective PC-based or laptop-based COTS training solutions.

The interactive, "Learning by doing" methodology championed by SimiGon's software systems has become recognised as the most effective way to train users, especially those in demanding high-skill occupations, in military and civilian markets.

In spite of a difficult macro-economic environment, and the ensuing pressure on defence budgets, the training & simulation market continues to thrive as its cost-saving benefits are recognised by Government and civilian leaders. According to a report from Global Industry Analysts, the greater Modelling & Simulation market is valued at more than $20 billion annually and the projection for the global eLearning market is $107.3 billion by 2015. The primary driver of the training and simulation market is the defence industry, particularly the US Department of Defence (DOD), a key long term customer of the Company, and a leading adopter of advanced training and simulation solutions. As the US DoD continues to trim operational costs, we believe that it will aggressively transfer more military training to cost-effective virtual training to ensure military fighter pilots maintain an adequate level of mission readiness.

In the military pilot training market alone, Forecast International projects 1,600 new fixed wing military training aircraft over the next ten years and the market for fighter aircraft will be worth nearly $194.5 billion as approximately 3,150 fighters will be manufactured.

Another important market segment, Intelligence, Surveillance and Reconnaissance, estimated at $9 billion in 2012, will continue to grow globally. The US market is the largest Commercial and Military Flight Simulation segment while the Asia-Pacific region is the fastest growing market. The Civilian aviation market continues to be a driver in the simulation market with more than 11,850 large commercial jets forecast to be produced by 2021, valued at $1.4 trillion.

SimiGon, with its industry leading technology, and well established position in strategic programmes, is poised to successfully leverage this global opportunity. The Company's training methodologies and solutions are quantified by customers and partners as delivering better and faster training at a lower cost. Success in the military training market has landed SimiGon new contracts in the civilian sector, including training systems for the oil and gas industry, further strengthening SimiGon's market leading position and diversifying its revenues.

The potential for further significant business opportunities for the Company exist in many disciplines: commercial flight training, air traffic control, homeland security, maritime operations, nuclear and electric power plant operator training, mining, crane operations, driving and medical care. Organisations and operators in these domains require the advanced, holistic Simulation Based Training and Learning Management Systems provided by SimiGon to reach and maintain high levels of operational skill.

GETTING PERSONAL
WITH DISTRIBUTED SIMULATION SOLUTIONS

SimiGon's comprehensive portfolio of off-the-shelf solutions – including a state-of-the-art simulation platform and range of compelling products – "closes the knowledge gap" for professional users. At the same time, SimiGon's flexible solutions are easily integrated either by customer organizations or third-party systems integrators for both military and civilian applications.

SIMbox

SimiGon is the creator of SIMbox, a leading PC-based platform for creating, managing and deploying simulation based content across multiple domains including training, mission debriefing, homeland security and entertainment. SIMbox is a flexible, off-the-shelf 3D simulation engine comprised of a wide array of software modules that empowers users to create an unlimited range of new products and content. Built from the ground up as a robust and flexible platform, SIMbox has been deployed successfully by large training and simulation systems providers, leading military contractors, and over 20 air forces and commercial airlines worldwide. SIMbox is comprised of three main environments:

- SIMbox Toolkit development environment: SIMbox Toolkit is an easy-to-use development suite, empowering non-programmers to create, reuse and control simulation-based applications.
- SIMbox Server management environment: SIMbox Server which serves as the Learning Management System (LMS), contains various software modules used for configuration management of developed content, control over content distribution, data gathering from end users, and data analysis and report generation.
- SIMbox Runtime delivery environment: SIMbox Runtime provides hi-fidelity 3D distributed simulations that place the user in a virtual or constructive environment with numerous viewpoints for both military and civilian applications.

KnowBook™ Family

KnowBook is a family of PC-based COTS training applications used by leading organisations for training professional users. KnowBook provides a common platform for learning, training, planning and debriefing.

The key members of the KnowBook family are:

- **AirBook™**: the family's flagship application that enables aircrew and organisations to remain completely updated with the rapidly changing demands of the military and civilian aviation world.

GroundBook, MarineBook and CarBook: the newest members of the KnowBook family designed for ground, maritime and driving training scenarios.

AirTrack™

AirTrack represents the next generation of passenger in-flight entertainment (IFE) solutions. Successfully installed and operational on airlines worldwide, AirTrack is a cost-effective, rapidly deployable solution for airlines seeking to upgrade their IFE systems. Based on advanced SIMbox technology, the system's capabilities include hi-fidelity 360º 3D simulation views, moving maps, external plane views, dynamic media, and real-time flight data and news. AirTrack is provided with an easy-to-use, PC-based software configuration tool that enables airlines to independently and rapidly customize and upload in-flight content based on specific needs.

Debriefing Systems

SimiGon offers advanced post-mission debriefing applications that provide critical feedback and improve operational readiness. Utilizing a standard Windows graphical user interface (GUI), the PC-based systems can be deployed at any location and are extremely simple to operate. SimiGon's debriefing systems include **D-Brief PC** and **MDDS Pro**. Operated from a server connected to multiple client workstations, the systems analyse flight data stored on the aircraft's PMC or RMM cartridge. D-Brief PC is used to support real-time air combat debriefing. MDDS Pro is a digital debriefing solution incorporating video with 3D simulation.

Air Traffic Control

SimiGon's successfully deployed Air Traffic Control training solution includes instructor operator stations, virtual pilots, voice recognition and the ability for instructors to modify training sessions in real time. The systems are used by ATC instructors to train new controllers in guiding aircraft through take-off and landing procedures as well as for recurrent and operational training. The Company aims to leverage its success in this market to compete for additional military and civilian ATC training contracts.

SHARING PERSONAL MESSAGES FROM CORPORATE LEADERSHIP

Chairman & CEO Reviews

Chairman's Statement

I am pleased to report a second successive year of revenue growth and increased profits. The positive results and continued growth further validates the managements strategic decision to align itself with some of the largest global simulation and training projects in the world, including four of the world's largest military flight training programmes,. This strategy and the excellent foundations now in place continue to bear fruit for the Company as it establishes its long term growth prospects.

In 2012, Company achieved its key objective of becoming a prime contractor. In addition to this objective, 2012 also saw SimiGon sign four new contracts including a landmark agreement to provide a South American country's entire armed forces with SimiGon's training and technology platforms. Each contract reaffirms the Company's market leading position in the aerospace and defence sector. The decision to diversify and expand beyond aerospace and defence and into the oil and gas sector is also increasingly justified with first time revenue contributions now evident from Check-6, SimiGon's first major contract outside the aerospace and defence sector.

Going forward, leveraging SimiGon's enhanced reputation from its position as a prime contractor, the Company's strategy is to continue to build new partnerships and expand its customer base. The foundations for long term growth that were put in place in 2011 and further justified in 2012 have also enabled SimiGon to target much larger contracts than ever before.

The last two years have been truly transformational for the Company and I am delighted to say by building upon 2011 and 2012's success SimiGon is in the strongest position it has ever been. The progress made over the last 12 months combined with the maintained momentum that has continued in Q1 2013 gives me confidence that 2013 will be another impressive year for the Company.

The prospects for SimiGon in 2013 are excellent and we are looking forward to ensuring those expectations are met.

On behalf of the board I would like to thank the management, employees and all those involved and associated with SimiGon for their hard work over the last few years and their continued commitment in 2013 and beyond.

Alistair Rae
Chairman

Chief Executive's Review

Overview

We are delighted to announce another year of revenue growth and increased profits as we continue to execute our long term strategic plan and deliver on the targets that we set ourselves. This growth is as a result of increasing revenue from existing agreements, the ramping-up of long-term contracts, as well as the number of new contracts won this year. Our move to become a prime contractor has further enhanced SimiGon's reputation in the market. We continue to leverage our leading position in the market to build new partnerships, expand our customer base, and target larger contracts.

Looking ahead, we have entered 2013 with a stronger order book than at the same time last year as there is continued demand for our solutions from organisations looking to deliver effective training programmes and save on costs at the same time. As a result, we look forward to the future with confidence.

SimiGon is pleased to report strong revenue and profit growth in 2012. Revenues increased 24% to $6.81 million (2011: $5.48 million), resulting in a $0.69 million profit (2011: $0.35 million). The positive results in 2012 and the continued growth further validates the managements strategic decision to align itself with some of the largest global simulation and training projects in the world, including four of the world's largest military flight training programmes. This strategy and the excellent foundations now in place continue to bear fruit for the Company as it establishes its long term growth prospects.

Sharing Personal Messages From Corporate Leadership (Cont.)

Moving up in the supply chain and becoming a prime contractor, involves an increase in hardware sales alongside SimiGon's software which affected its margins (lower at 80% compared with 85% last year), but the Company continues to believe these remain higher than the sector average. The sale of third-party hardware along with our software technology solutions enables SimiGon to provide a total and comprehensive solution to its customers and was a stated target for the Company. Being prime contractor gives the Company a direct relationship with the customer, further secures us with increased visibility of long term revenues and opens up new and potentially significantly larger opportunities with customers.

Operational Overview

With a strong foundation firmly established, SimiGon targeted three key areas to help continue to drive growth. These were: to become a prime contractor; to expand military training beyond air forces, into land and sea simulation environments; and to move into the non-military training such as the oil and gas industry. SimiGon has met all of these targets and continues to deliver on its deliberate long term strategy to push the company forward.

Major contract

The strong operational progress seen in the first half of 2012 continued in the second half as the Company achieved several significant contract wins.

In a milestone agreement signed in August 2012, SimiGon secured a substantial contract to provide a South American country's armed forces with its SIMbox training and simulation technology platform. Significantly, this contract marks the first time a country's entire armed forces has chosen SIMbox as the training system to be deployed across air, sea and land components, which is a strong endorsement of SimiGon's solutions. This initial contract contributed significant revenues in 2012 and is expected to continue to do so in 2013.

SIMbox will be the baseline training technology used by its local partner, a newly formed government-owned company dedicated to the development of training and simulation systems. SIMbox-based training solutions will be deployed by the armed forces in training centres as well as for operational training and distributed joint forces training exercises.

In addition to this contract, SimiGon's local partner will be required to purchase SIMbox Runtime licenses for the delivery of content to trainees adding an additional revenue stream.

In July and December, SimiGon signed a second and third contract with one of its major existing European customers. The deal expands and enhances SimiGon's relationship with the customer.

The second contract is for the development of an initial aircraft training program within its SIMbox simulation environment. The Simulation Based Training (SBT) systems will be installed at the end user site and will be the backbone of its new Academic Training Center (ATC). The third contract is for licenses of SimiGon's SIMbox technology at the development labs of this customer's ATC. The combined values of the three contracts with this customer currently total US$2.77 million. Further maintenance and support service agreements are expected to follow and hence the Company is confident that this figure will continue to increase and contribute towards future revenues.

New markets

In May 2012, SimiGon moved into another new market within the defence sector when it signed an agreement with TAISR, to support the Joint Close Air Support and manned/unmanned Intelligence, Surveillance and Reconnaissance community.

This agreement demonstrates that SimiGon is the partner of choice for simulated training in the defence sector and expands the Company's reach into the ISR market, a new, fast growing and substantial sector, estimated at $9 billion in 2012 at the Performance Audit of USA Department of Defense Intelligence, Surveillance, and Reconnaissance. JCAS and ISR technology seeks to improve mission success rates and the survival potential of those who operate in extremely hostile environments.

Revenue from this initial contract was realised in 2012. SimiGon expects that this initial contract will contribute to improved revenue visibility, underpinning the company's growth expectations.

Sharing Personal Messages From Corporate Leadership (Cont.)

2012 saw the first full year of revenue contribution from Check-6, a company with worldwide operations and clients including industry leaders such as Chevron, Diamond Offshore and BP. SimiGon's training solutions have adapted to the oil and gas market and are performing well. The Company believes there is scope for further expansion not only with Check-6 but throughout the oil and gas sector.

A Visiongain industry report has calculated that the oil & gas virtual reality training and simulation market was worth $2.24 billion in 2011. This has strong growth potential over the next ten years from a combination of increasing demand, improving technologies, and increasing safety concerns helping simulation training technologies become more widespread.

Long-term contracts

SimiGon achieved a significant milestone when, in late 2011, it was selected as prime contractor for AETC for the delivery of SIMbox based T-6A Modular Training Devices. 2012 saw the first year of revenues from this contract as SimiGon successfully delivered part of SIMbox based T-6A Modular Training Devices to the AETC. This contract remains on course and additional units are due to be delivered in 2013.

In addition, as announced last week, SimiGon secured a further contract from AETC to support and maintain all of the T-6A Modular Training Devices used in the training of all RPA students.

SimiGon's entry into the fast growing RPA market and the successful deliverables in 2012, as prime contractor, of SimiGon's T-6A Modular Training Devices demonstrates how SIMbox can be adapted to provide companies and agencies with the ability to quickly build simulation based training in a variety of fields. This will help to further enhance SimiGon's market leading offering and positions the Company for similar opportunities globally.

The Company entered the fifth year of supporting Lockheed Martin's F-35 Lightning II Joint Strike Fighter training program and the fourth year for the UK Military Flying Training System. SimiGon continues to deliver on all its milestones for these projects which continue to progress and ramp up as the project develops.

SimiGon continue its great work on providing successful training solutions solution for Unmanned Aerial Vehicle training program for a leading provider in the small tactical unmanned aircraft systems.

The market opportunity

SimiGon believes the market in which it operates to be very attractive, and accordingly has positioned itself well to take advantage of opportunities as and when they arise. With operational environments such as aircraft cockpits, air traffic control systems, UAVs and other weapons systems becoming increasingly complex, expensive and dangerous to train on, simulation software is a more cost effective and efficient alternative to real live equipment training..

According to a report from Global Industry Analysts the greater Modelling & Simulation market is valued at more than $20 billion annually and the projection for the global eLearning market is $107.3 billion by the year 2015.

The biggest driver of the training and simulation market growth is the defence industry. Despite the US defence budget cuts, the US Department of Defence remains the undisputed leader in seeking training and simulation solutions for military preparedness and readiness for symmetric and asymmetric warfare.

SimiGon has seen a continuing increase in the industry trend towards usage of simulation based training as the US, and other governments, seek more ways to reduce costs while meeting the increasing pressure to develop innovative training solutions to keep military personnel trained to the exacting standards required.

In the military pilot training market alone, Forecast International projects 1,600 new fixed wing military training aircraft over the next ten years and the market for fighter aircraft will be worth nearly $194.5 billion as approximately 3,150 fighters will be manufactured.

SimiGon is well positioned with its industry leading technology, and well established position, to take advantage of this global opportunity. Its solutions are not only cost efficient but also deliver better pass rates than conventional means giving customers the best possible training at less cost.

Financial Performance

Revenue for the year ended 31 December 2012 was $6.81 million, compared to $5.48 million in 2011, reflecting increase of 24%. In terms of regional breakdown, 73% of SimiGon's revenues came from North America (2011: 71%), 25% from Europe and the Middle East (2011: 27%) and 2% from the Far East (2011: 2%).

Net profit for the fiscal year increased by 97% to $0.69 million (2011: profit of $0.35 million).

Total operating expenses for the year increased by 9% to $4.74 million (2011: $4.35 million). Research and development expenses increased to $2.16 million (2011: $1.68 million) reflecting the investment made in recruiting new employees an area that SimiGon believe is integral to its future development. Sales and marketing expenses decreased by 7% to $1.57 million mainly due share based compensation expenses (2011: $1.70 million). General and administration expenses increased to $1.02 million (2011: $0.98 million).

The operating profit therefore is $0.69 million (2011: $0.31 million) and the net profit is $0.69 million in 2012 compared to net profit of $0.35 million in 2011. This resulted in a net basic and diluted earnings per share of $0.02 (2011: Basic and diluted earnings per share of $0.01).

SimiGon generated positive cash flow from operations of $2.5 million in 2012 (2011: $2.3 million) resulting in the Company having cash, cash equivalents and deposits totaling $7.11 million as of 31 December 2012 (31 December 2011: $4.74 million). This was after the Company including fully repaying of it entire bank debt that was outstanding as at 31 December 2011, as stated in the interim results on 27 September 2012.

Outlook

The momentum from the good results in 2012 has continued into 2013 as sales to the Company's long-term partners and recent contract wins ramp up. In addition, the move to become a prime contractor has helped SimiGon target new opportunities and significantly larger scale contracts than in previous years.

Looking ahead, with excellent revenue visibility and a strong order book in place, the Board expects continuing year-on-year sales and profit growth in 2013 and looks forward to the future with ever increasing confidence.

Amos Vizer
President & CEO

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS

Board of Directors

Alistair Rae, Non-Executive Chairman
Alistair is currently chief executive of LTG Technologies Plc, an AIM traded company, having been a non-executive director from 2002 to 2005. He was the group finance director of Jarvis Plc from 2004 to 2005, guiding the company through a period of reconstruction. Prior to this he was a director in the corporate finance department of HSBC Investment Bank from 1996 to 2002, and before that he worked in corporate finance at Cazenove for ten years in the UK and the Far East. Alistair qualified as a chartered accountant with KPMG.

Eitan Cohen, Non-Executive Director
Eitan Cohen is a Co-Founder and Chief Executive Officer of ASIC Depot OOD an EDA and Semiconductor design centre. Eitan previously held positions as CEO and Country manager for Semiconductor and EDA companies, in which he led to the award of multi-million dollar deals with tier-one companies and managed business development activities with potential partners worldwide.

Amos Vizer, President & CEO
Prior to founding SimiGon, Amos founded Logi-Cali, a software development house specializing in data storage applications. He previously served as marketing and business development manager of ISYS Operational Management Systems, an international IT company. Amos also previously worked for the missiles division of RAFAEL Armament Development Authority Ltd. Additionally, he served ten years in the Israeli Air Force (IAF) as an F-4 Phantom Fighter navigator, a flight school course commander, and a Popeye missile weapons officer. With extensive training in advanced software development, Amos holds a BA in business administration.

Nevat Simon, Independent Non-Executive Director
Nevat has practiced as a certified public accountant in his own accounting firm since 1991, providing both accounting and other financial services to the firm's clients. He has previously served on the board of Sprint Investments Ltd. and Multimetrics Ltd., both publicly listed companies on the Tel Aviv Stock Exchange, and on the board of a number of private companies. Nevat has a BA in accounting and marketing from the Business College of Management in Tel Aviv and has been a member of the Certified Public Accountant Council in the Justice Department of the State of Israel since 1991.

Efraim Manea, CFO
Mr Manea joined the Company as its finance controller in June 2008, managing its financial aspects including financial reporting, corporation accounting and tax preparation, budget and forecasting and risk management. He has more than seven years of accounting and management experience and before joining SimiGon served for approximately four years as an Audit Team Manager at Ernst & Young's High-Technology sector. Mr Manea is a Certified Public Accountant and holds a BA in Accounting and Business Administration from the College for Management in Israel.

Dr. Vered Shany, Independent Non-Executive Director
Since March 2002, Vered has managed Tashik Consultants, providing strategic consulting and corporate analysis in the life sciences sector. Previously, Vered served as managing director of Up-Tech Ventures Ltd., as a member of the board of directors of the Weizmann Science Park Incubator, and as vice president of marketing for Arad Technological Incubator. Prior to that, she was business and marketing manager of Medun Ltd., a medical start-up company, from 1995 to 1998. Vered received her masters' degree in business administration from Heriot–Watt University, Edinburgh Business School, and gained her doctorate of medical dentistry and her B.Med.Sc. from the Hebrew University of Jerusalem.

DISPLAYING PERSONAL COMMITMENT TO ORGANIZATIONAL SUCCESS (CONT.)

Management

Amos Vizer, President & CEO

Prior to founding SimiGon, Amos founded Logi-Cali, a software development house specializing in data storage applications. He previously served as marketing and business development manager of ISYS Operational Management Systems, an international IT company. Amos also previously worked for the missiles division of RAFAEL Armament Development Authority Ltd. Additionally, he served ten years in the Israeli Air Force (IAF) as an F-4 Phantom Fighter navigator, a flight school course commander, and a Popeye missile weapons officer. With extensive training in advanced software development, Amos holds a BA in business administration.

Efraim Manea, CFO

Mr Manea joined the Company as its finance controller in June 2008, managing its financial aspects including financial reporting, corporation accounting and tax preparation, budget and forecasting and risk management. He has more than seven years of accounting and management experience and before joining SimiGon served for approximately four years as an Audit Team Manager at Ernst & Young's High-Technology sector. Mr Manea is a Certified Public Accountant and holds a BA in Accounting and Business Administration from the College for Management in Israel.

John Schverak, VP Programs

Mr. Schverak, is a results-oriented, certified Project Management Professional (PMP) with over 20 years of experience in Program Management, Project Management, Product Management, and Operations Management. Mr. Schverak has a proven track record of successfully developing, managing, and executing project plans to meet customer and product requirements, including product features, technical performance, quality standards, and supportability. He has directed all phases of programs with responsibility for cost, schedule, technical performance, and quality. Mr. Schverak has a MBA in MIS and BS in Operations Management and Procurement Management.

Alon Shavit, VP Business Development

Before joining SimiGon, Alon served 15 years in the Israeli Air Force (IAF), having flown F-16s for the past 20 years. He was an instructor in the Operational Training Unit (OTU) on A-4s for two years and a commander of the F-16 OTU for 18 months. His last role in the IAF was managing the planning, coordination, synchronization, and monitoring of the training program. Alon holds an MBA and bachelor’s degrees in economics and psychology.

Koby Ben Yakar, VP Product

Koby, has a distinguished record as an experienced manager with extensive technical skills and knowledge. Mr. Ben Yakar has led a wide range of projects with cross-functional teams, including serving as SimiGon’s Information Technology team leader and overseeing the architecture, design and development of the SIMbox LCMS Server infrastructure. Mr. Ben Yakar has over 10 years of experience in large training and simulation technologies enterprise projects with a proven ability to manage business and technical relationships for large-scale projects.

Jeff Annis, VP Sales & Marketing

Mr Annis, joined SimiGon in 2011 and has a career in the Sales & Marketing of simulation, training, and software development technology, primarily in the Aerospace/Defense and Automotive sectors. Before joining SimiGon he held Director positions at Adacel Systems, Advanced Rotorcraft Technology, and Engenuity Technologies each specializing in high-tech, advanced pilot training software systems. Prior to this Mr. Annis founded American Data-Pro, a company specializing in the development of database and network systems. Mr. Annis has a Bachelor degree in Management and Marketing from Troy University in Alabama.

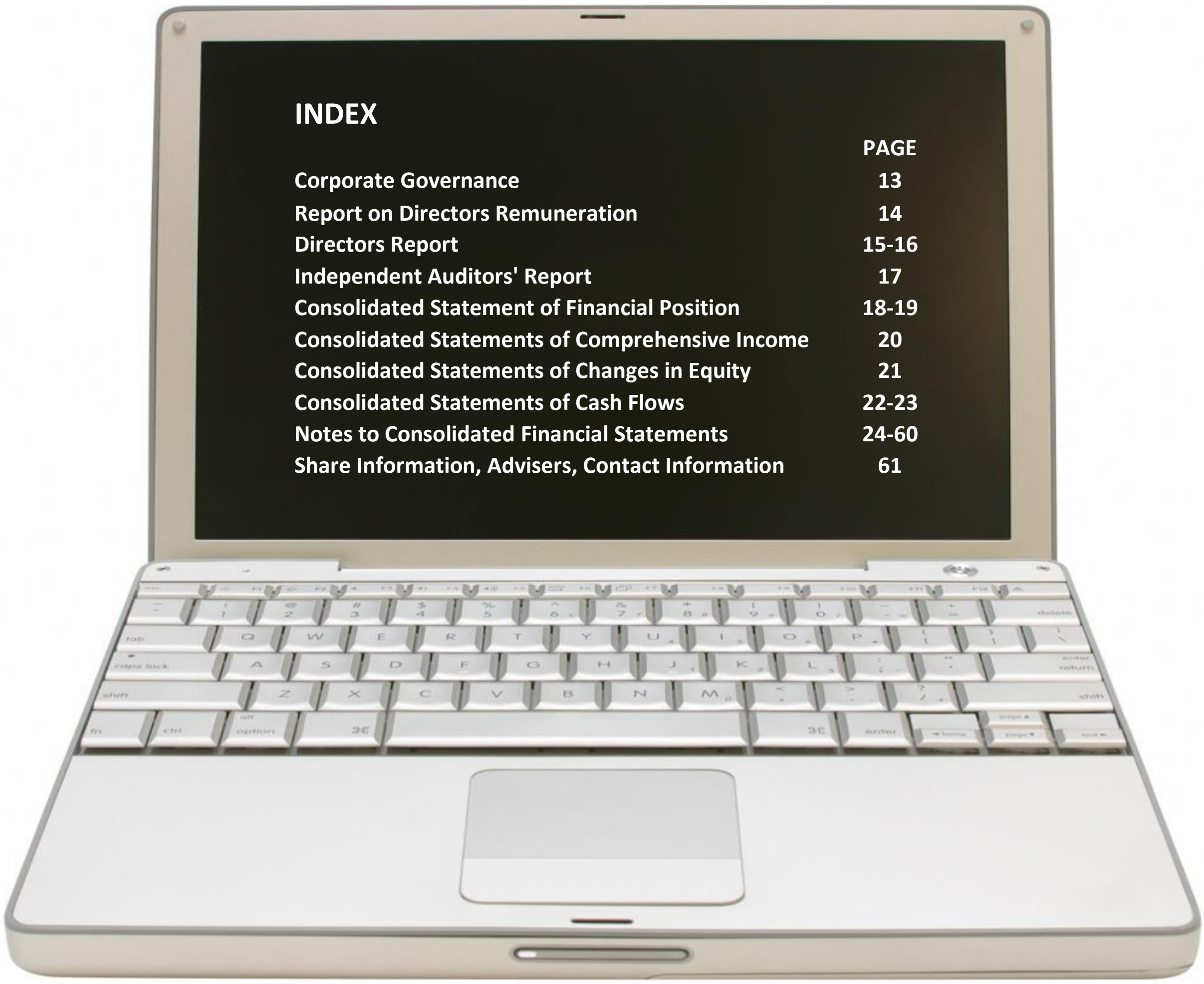
Merav Nachmani, Director of Human Resources

Ms. Nachmani, joined SimiGon in November 2005 and has been managing SimiGon’s HR Department since July 2009. Ms. Nachmani has more than ten years of experience in financial aspects including payroll controlling, accounts payable, accounts receivable , cash flow and tax reporting. Before joining SimiGon Ms. Nachmani served as a bookkeeping & salary controller in several High-Technology companies. Ms. Nachmani has a Bookkeeping&Salary controller diploma.

FINANCIALS

Consolidated Financial Statements of SimiGon Ltd. and Its Subsidiaries as of December 31, 2012

(U.S. Dollars in Thousands)



Corporate Governance For The Period Ended 31 December 2012

Introduction
SimiGon Ltd. commenced trading on the AIM Market operated by the London Stock Exchange on 2 November 2006. Although the rules of AIM do not require the Company to comply with the Combined Code on corporate governance ("the Code") published by the Financial Reporting Council, the Company fully supports the principles set out in the Code and will attempt to comply with them wherever appropriate, given the Company's size, the constitution of the Board and the resources available to the Company. Details are provided below of how the Company applies those parts of the Code, which it believes to be appropriate.

Directors
The Board comprises two executive Directors, two Non- Executive Directors and two independent Non-Executive Directors nominated by the majority shareholders of the Company. The Board generally meets a minimum five times a year and receives a Board pack comprising a report from senior management together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility for formulating, reviewing and approving the Group's strategy, budgets, major items of expenditure and acquisitions.

Audit Committee
The audit committee consists of Eitan Cohen, Dr. Vered Shany and Nevat Simon and meets at least twice a year. The role of the audit committee is to review the management and systems of internal control of the company, including in consultation with the internal auditor and the company's independent auditor and to recommend any remedial action. In addition, the approval of the audit committee is required to effect certain related-party transactions.

Remuneration Committee
The remuneration committee consists of Alistair Rae, Dr. Vered Shany and Nevat Simon. The Remuneration Committee has a primary responsibility to review the performance of the Company's executive directors and the senior employees and to recommend their remuneration and other terms of employment.

Shareholder Relations
The Company meets with its shareholders and analysts periodically to encourage communication with shareholders. In addition, the Company intends to facilitate communication with shareholders through the annual report and accounts, interim statement, press releases as required during the ordinary course of business and the Company website (www.simigon.com).

Going Concern
The directors have satisfied themselves that the Company has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements are prepared on a going concern basis.

Internal Control
The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the audit committee reviews the effectiveness of these systems. This is achieved primarily by considering risks potentially affecting the Group and from discussions with the external auditors. Each year, the Group is subject to internal audit, the results of which are presented to the audit committee.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, as compared against budget, are reported to the Board on a quarterly basis and discussed in detail at each meeting of the Board. The Group maintains appropriate insurance cover in respect of any legal actions against the Directors as well as against material loss or claims against the Group and reviews the adequacy of the cover regularly. To comply with AIM rules, the Company has adopted a code for dealings in its shares by directors and employees.

REPORT ON DIRECTORS REMUNERATION

Remuneration Policy

The remuneration packages for non-executive directors are based principally on annual salaries. The remuneration packages for independent non-executive directors are based on an annual fixed fee and till October 2009 were including payment for each Board or Board committee meeting attended. The remuneration packages for executives are based on annual salaries and benefits.

	Total 2012	**Total 2011**
Executive	**$**	**$**
Ami Vizer *	404,926	402,251
Efraim Manea	111,566	107,038
Non-Executive		
Alistair Rae	49,014	48,080
Eitan Cohen	23,430	22,440
Nevat Simon	24,600	24,000
Dr. Vered Shany	24,600	24,000
Total	638,136	605,809

* Year 2012 does not include $72,305 paid in respect of vacation days, additional $35,901 paid in respect of severance allocation transfer, a bonus of $30,000 paid in respect to year 2011 performance.

Year 2011 amount does not include $39,150 paid in respect of vacation days and does not include $31,107 paid in respect of transfer of severance allocation

Please see the Directors Report below for details of options and shares granted to directors.

DIRECTORS REPORT

The directors submit their report and the financial statements of the Group for the period ended 31 December 2012.

Incorporation and Admission onto the AIM Market

The Company was incorporated on 1 October 1998. On November 2006 the Company commenced trading on AIM and issued 6,076,811 new Ordinary Shares of NIS 0.01 at price of £0.88 per share. The number of Ordinary Shares issued immediately following the admission were 37,250,666.

Shares

As of December 31, 2012 the total numbers of Ordinary Shares Issued were 47,153,179.

Share Options

As of 31 December 2012, the outstanding balance of options granted to certain employees of SimiGon is approximately 10.5 percent of the Company's issued and outstanding shares at an average exercise price of $0.108. The majority of the options vest in four years from the date of grant. The options expire in ten years from the date of grant.

Review of Business and Future Developments

The business review is given within the Chief Executive Officer's statement.

Dividends

The Company has not declared a dividend in respect of the relevant period.

Suppliers Payment Policy

The Group does not operate a standard code in respect of payment to suppliers. It has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 60 days of the date of invoice, except where different arrangements have been arranged with suppliers.

Directors

The following directors have held office during the year:

- Amos Vizer has been an executive director of the Company since 4 November 1998.
- Efraim Manea was appointed as an executive director on July 30, 2010.
- Alistair Rae, appointed as a director and Chairman of the Board on 27 October 2006.
- Nevat Simon, appointed as an independent director on 27 October 2006.
- Dr. Vered Shany, appointed as an independent director on 27 October 2006.
- Mr. Eitan Cohen was appointed a non-executive director on June 3, 2008.

Directors Interest in Shares and Share Options

The interest of directors in the issued share capital of the company at 31, December 2012 were as follows.

Directors	Number of Ordinary Shares Capital	Percentage of Ordinary shares	Options
Alistair Rae*)	118,272	0.25	0
Eitan Cohen *)	48,000	0.10	0
Dr. Vered Shany *)	48,000	0.10	0
Nevat Simon *)	48,000	0.10	0
Ami Vizer	8,327,782	17.66	3,336,533
Efraim Manea	189,264	0.40	170,082

Substantial Shareholdings

At 31, December 2012 the Company was informed of the following interests of 3% or more in its ordinary shares issued at that date:

Shareholder	Number Of Ordinary Shares	Percentage of issued
A. Vizer Holdings A. Vizer	8,327,782	17.66
Jeffrey Braun	6,543,039	13.88
Packet Science Rami Weitz	6,244,944	13.24
Herald Investment Management Limited	5,000,000	10.60
G. Poran Holding Ltd	3,778,444	8.01
Green Venture Capital Ltd.	3,067,848	6.51
Shroder Euroclear Nominees Limited	1,711,070	3.71
Moldavski High-tech Ltd	1,750,297	2.46
S.S.D.E Technologies (1999) Ltd.	1,161,895	13.88

* On January 2010 the Non-Executive Board members were granted a total of 119,727 Ordinary shares of the Company as part of a yearly 15% salary reduction, with an equivalent fair value on date of grant of $ 0.165. Messrs. Alistair Rae, Nevat Simon, Vered Shany and Eitan Cohen, Non-Executive Directors of the Company, were granted 47,727, 24,000, 24,000 and 24,000 Ordinary Shares, respectively; The shares were vested in 12 equal monthly instalments, and as of December 31, 2011 were fully vested.

The salary reduction of 15% for the Non-Executive Board members remains in effect for additional 2 years. As of December 31, 2012, Messrs. Alistair Rae, Nevat Simon, Vered Shany and Eitan Cohen, Non-Executive Directors of the Company, are to be granted 47,727, 24,000, 24,000 and 24,000 Ordinary Shares, respectively, in return for the third year salary reduction; this will represent in aggregate 119,727 Ordinary Shares and 0.25% of the total issued share capital of the Company. Following this transaction, Messrs. Alistair Rae, Nevat Simon, Vered Shany and Eitan Cohen shall have a beneficial interest of • Ordinary Shares (0.35%), • Ordinary Shares (0.15%), • Ordinary Shares (0.15%) and • Ordinary Shares (0.15%), respectively.

Auditors

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of

SIMIGON LTD.

We have audited the accompanying consolidated financial statements of SimiGon Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended December 31, 2012, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Kost Forer Gabbay and Kasierer

April 19, 2013
Tel-Aviv, Israel

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2012	2011
	Note	U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		6,550	4,231
Short-term bank deposits	3	556	508
Trade receivables	4	656	1,240
Other accounts receivable and prepaid expenses		41	410
Total current assets		7,803	6,389
NON-CURRENT ASSETS:			
Restricted cash		23	-
Long-term prepaid expenses		25	23
Fixed assets, net	5	132	87
Intangible assets, net	6	1,274	1,324
Total non-current assets		1,454	1,434
Total assets		9,257	7,823

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2012	December 31, 2011
		U.S. dollars in thousands	
EQUITY AND LIABILITIES			
CURRENT LIABILITIES:			
Current maturities of loan	7	-	188
Trade payables		140	174
Deferred revenues		1,005	113
Other accounts payable and accrued expenses	8	678	762
Total current liabilities		1,823	1,237
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net	9	141	108
Other non-current liabilities	12a	748	746
Total non-current liabilities		889	854
Total liabilities		2,712	2,091
EQUITY:	10		
Share capital		113	105
Additional paid-in capital		16,110	15,997
Accumulated deficit		(9,678)	(10,370)
Total equity		6,545	5,732
Total liabilities and equity		9,257	7,823

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

April 19, 2013			
Date of approval of the financial statements	Alistair Rae Non-Executive Chairman	Ami Vizer Chief Executive Officer	Efi Menea Chief Financial Officer

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2012	2011	2010
		U.S. dollars in thousands (except share and per share amounts)		
Revenues	14	6,805	5,484	5,207
Cost of revenues	13a	1,367	826	804
Gross profit		5,438	4,658	4,403
Operating expenses:				
Research and development, net	13b	2,157	1,675	1,760
Selling and marketing	13c	1,569	1,696	1,711
General and administrative	13d	1,018	975	1,478
Total operating expenses		4,744	4,346	4,949
Operating profit (loss)		694	312	(546)
Other income		26	-	-
Finance income	13e	126	305	75
Finance expense	13f	154	267	207
Net income (loss) and total comprehensive income (loss)		692	350	(678)
Basic and diluted earnings (loss) per share in U.S. dollars	15	0.02	0.01	(0.02)
Weighted average number of shares used in computing basic earnings (loss) per share (in thousands)	15	44,617	42,867	41,361
Weighted average number of shares used in computing diluted earnings (loss) per share (in thousands)	15	45,187	42,932	41,361

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total equity
	U .S. dollars in thousands (except share amounts)					
Balance as of January 1, 2010	41,522,556	98	15,295	(3)	(10,042)	5,348
Total comprehensive loss	-	-	-	-	(678)	(678)
Issuance of shares (Note 10b)	119,727	*) -	*) -	-	-	*) -
Share-based compensation	-	-	320	-	-	320
Issuance of Treasury shares	-	-	29	3	-	32
Balance as of December 31, 2010	41,642,283	98	15,644	-	(10,720)	5,022
Total comprehensive income	-	-	-	-	350	350
Issuance of shares (Note 10c)	2,444,984	7	-	-	-	7
Share-based compensation	-	-	353	-	-	353
Exercise of stock options (Note 10d)	47,502	*) -	-	-	-	*) -
Balance as of December 31, 2011	44,134,769	105	15,997	-	(10,370)	5,732
Total comprehensive income	-	-	-	-	692	692
Issuance of shares (Note 10b and 10e)	3,009,106	8	-	-	-	8
Share-based compensation	-	-	112	-	-	112
Exercise of stock options (Note 10f)	9,304	*) -	1	-	-	1
Balance as of December 31, 2012	47,153,179	113	16,110	-	(9,678)	6,545

*) Represents an amount lower than $ 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
Cash flows from operating activities:			
Net income (loss)	692	350	(678)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	98	85	110
Disposal of fixed assets	(26)	-	-
Finance expense (income), net	(3)	16	22
Accrued interest on long-term loan and non-current liabilities	(12)	(124)	(33)
Share-based compensation	112	353	320
Change in employee benefit liabilities, net	33	(14)	21
Changes in asset and liability items:			
Decrease (increase) in trade receivables	584	2,137	(76)
Decrease (increase) in other accounts receivable and prepaid expenses (including long-term)	260	(222)	34
Increase (decrease) in trade payables	(34)	(31)	48
Increase (decrease) in deferred revenues	892	(296)	204
Increase (decrease) in other accounts payable and accrued expenses	(84)	72	(39)
Cash paid and received during the year for:	1,820	1,976	611
Interest paid	(1)	(24)	(33)
Interest received	4	9	7
	3	(15)	(26)
Net cash provided by (used in) operating activities	2,515	2,311	(93)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
Cash flows from investing activities:			
Proceeds from disposal of fixed assets	36	-	-
Increase in restricted cash	(23)	-	-
Increase in Short-term bank deposits	(45)	-	-
Purchase of fixed assets	(103)	(37)	(40)
Net cash used in investing activities	(135)	(37)	(40)
Cash flows from financing activities:			
Proceeds from treasury shares	-	-	32
Proceeds from share issuance	2	*) -	-
Exercise of stock options	1	*) -	-
Repayment of long-term bank loan	(188)	(563)	(919)
Proceeds from refundable grants	124	410	327
Proceeds from long-term bank loans	-	-	750
Net cash provided by (used) financing activities	(61)	(153)	190
Increase (decrease) in cash and cash equivalents	2,319	2,121	57
Cash and cash equivalents at beginning of year	4,231	2,110	2,053
Cash and cash equivalents at end of year	6,550	4,231	2,110
(a) Supplemental disclosure of non-cash financing activities:			
Receivable in respect of issuance of shares	6	6	-

*) Represents an amount lower than $ 1 thousand.

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

NOTE 1:- GENERAL

a. The Company commenced its operations on October 1, 1998, and is engaged in developing advanced learning, training and simulation technologies and applications for use in professional communities. The Company's registered office is in Herzlia, Israel.

b. The Company has two wholly-owned subsidiaries in the United States, SimiGon Inc., which is engaged in the marketing of the Company's products in the United States and National Simulation Services Inc., which is engaged in marketing of the Company's products in the United States.

c. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8.4 million.

d. Definitions:

In these financial statements:

The Group	-	SimiGon Ltd. and its subsidiaries.
The Company	-	SimiGon Ltd.
Subsidiaries	-	Companies that are controlled by the Company.
Related parties	-	As defined in IAS 24.
Dollar	-	U.S. dollar

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of preparation of the financial statements:

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

b. Functional currency, presentation currency and foreign currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.
The functional currency of the subsidiaries is U.S. dollars.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

c. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

d. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition.

e. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

f. Allowance for doubtful accounts:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Financial instruments:

1. Financial assets:

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

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following four categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Loans and Receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value.

2. Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Treasury shares:

Company shares held by the Company are recognized at cost and deducted from equity. Any gain or loss arising from a purchase, sale, issuance or cancellation of treasury shares is recognized directly in equity. Voting rights attached to treasury shares are revoked.

i. Presentation of statement of comprehensive income:

The Company has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

j. Leases:

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

The Group as leases:

Operating leases:

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

k. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses.

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

	%
Computers and peripheral equipment	33
Office furniture and equipment	7 - 15 (mainly 15%)
Leasehold improvements	Over the term of the lease or the expected life, whichever is shorter

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

l. Intangible assets:

Intangible assets acquired in a business combination are included at fair value at the acquisition date (see Note 6). After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

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

The useful life of the Technology is 10 years.

m. Research and development:

Research and development costs are charged to profit or loss as incurred as development costs do not meet the criteria for recognition as an intangible asset.

n. Impairment of non-financial assets:

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

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

Goodwill in respect of business combination:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

o. Government grants:

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

Government grants received from the Office of the Chief Scientist ("OCS") and the Korea Israel Industrial R&D Foundation as support for research and development projects which grants include an obligation to pay royalties that are conditional on future sales arising from the project, are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties). If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as a reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

Grants received after January 1, 2009, which are recognized as a liability, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IAS 39.AG8.
Royalty payments are treated as a reduction of the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Revenue recognition:

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

The Company generates revenues mainly from licensing the software products and sales of software licenses that require significant customization. The Company also generates revenues from maintenance, support and training. The resellers usually add an additional component to the package sold or include the Company's products as part of a broader package.

Revenues from software licensing that requires significant customization are recognized by reference to the stage of completion of the transaction at the end of the reporting period. When the outcome of the transaction cannot be estimated reliably, revenues are recognized only to the extent of the costs recognized that are recoverable. A provision for estimated losses on uncompleted contracts is recorded in the period in which such losses are first identified. As of December 31,2012 and 2011, no provision for such losses has been identified.

Maintenance and support revenue included in multiple element arrangements is deferred and recognized on a straight-line basis over the term of the maintenance and support agreement. The fair value of the undelivered elements (maintenance and support services) is determined based on the price charged for the undelivered element when sold separately.

Deferred revenue includes unearned amounts received under maintenance and support contracts, and amounts received from customers but not recognized as revenues.

Revenues from software arrangements:

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

The Company recognizes revenues from the sale of software only after the significant risks and rewards of ownership of the software have been transferred to the buyer for which a necessary, but not sufficient condition, is delivery of the software, either physically or electronically, or providing the right to use or permission to make copies, of the software. The Company recognizes revenues from providing software related services when the outcome can be measured reliably by reference to the stage of completion of the transaction at the end of the reporting period. If the services consist of a number of activities that are not defined over a specified period of time, 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

r. 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.

s. Employees benefit liabilities:

The Company's liability for severance pay pursuant to the Israel's Severance Pay Law (for those who elected not to be fully included under section 14 of the Severance Pay Law, 1963) is based on the last monthly salary of the employee multiplied by the number of years of employment, as of the date of severance.

The cost of providing severance pay is determined using an independent actuary. Actuarial gains and losses are recognized immediately in the statements of comprehensive income in the period in which they occur.

Pursuant to Section 14 of the Severance Pay Law, which covers 75% of most of the employees' severance pay, monthly deposits with insurance companies release the Company from any future severance obligations in respect of those employees (defined contribution). Deposits under Section 14 are recorded as an expense in the Company's statements of comprehensive income.

t. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables, other accounts receivable, short-term bank loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Share-based payment transactions:

The Company applies the provisions of IFRS 2, "Share-Based Payment". IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The Company's employees/other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model .

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted .

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

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date

v. Finance income and expenses:

Finance income includes interest income on amounts invested and exchange rate gains. Finance expenses comprise interest expense on bank loan fees and exchange rate loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Significant accounting judgments, estimates and assupmtions used in the preparation of the financial statements. In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Judgments:

- Determining the fair value of share-based payment transactions:

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

b. Estimates and assumptions:

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

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

- Chief Scientist grants:

  Government grants received from the Office of the Chief Scientist at the Ministry of Industry, Trade and Labor are recognized as a liability if future economic benefits are expected from the research and development activity that will result in royalty-bearing sales. There is uncertainty regarding the estimated future cash flows and the estimated discount rate used to measure the amount of the liability. As for the accounting treatment of grants received from the OCS, see also Note 12.

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit to which the goodwill has been allocated and also to choose a suitable discount rate for those cash flows. Further details are given in Note 6.

- Pensions and other post-employment benefits:

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 9.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Disclosure of new standards in the period prior to their adoption

IAS 19 (Revised) - Employee Benefits:

The IASB made several changes to IAS 19, the principal of which are as follows:

- The remeasurement of the net defined benefit liability (formerly - actuarial gains and losses) are recognized in other comprehensive income t and not in profit or loss.

- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.

- Income from the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities. The return on plan assets excluding the aforementioned income recognized in profit or loss is included in the remeasurement of the net defined benefit liability.

- The distinction between short-term employee benefits and long-term employee benefits is based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.

- Past service cost arising from changes in the plan is recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company estimates that the Standard is not expected to have a material impact on its financial statements.

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. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The new disclosures are to be applied prospectively and they do not apply to comparative figures.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

IFRS 9 - Financial instruments: Classification and Measurement

IFRS 9 reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The Standard is effective for annual periods beginning on or after 1 January 2015.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates that the Standard is not expected to have a material impact on its financial statements .

IFRS 10 - Consolidated Financial Statements

IFRS 10 addresses the accounting for consolidated financial statements. It establishes a single control model that applies to all entities. The Standard is effective for annual periods beginning on or after 1 January 2013.

The Company estimates that the Standard is not expected to have a material impact on its financial statements.

NOTE 3:- SHORT-TERM BANK DEPOSITS

The short-term bank deposits (between three months and a year) as of December 31, 2012 and 2011 in a total of $ 556 thousand and $ 508 thousand, respectively, bearing an annual interest rate of 0.3%.

NOTE 4: - TRADE RECEIVABLES

	December 31,	
	2012	**2011**
	U.S. dollars in thousands	
Trade receivables (1)	656	1,240
(1) Net of allowance for doubtful debts	369	394

Trade receivables are non-interest bearing and are generally on 30 - 90 days' terms.

The aging analysis of trade receivables is as follows:

		Past due but not impaired				
	Neither pas due nor impaired	**< 30 days**	**30 - 60 days**	**60 - 90 day**	**> 90 days**	**Total**
	U.S. dollars in thousands					
2012	407	153	80	16	*) -	656
2011	947	293	-	*) -	*) -	1,240

*) Represents an amount lower than $ 1 thousands.

NOTE 5:- FIXED ASSETS, NET

Composition and movement:

	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands			
Cost:				
Balance as of January 1, 2011	773	165	54	992
Disposal during the year	(111)	(17)	-	(128)
Acquisitions during the year	24	13	-	37
Balance as of December 31, 2011	686	161	54	901
Disposal during the year	(6)	(18)	-	(24)
Acquisitions during the year	42	61	-	103
Balance as of December 31, 2012	722	204	54	980
Accumulated depreciation:				
Balance as of January 1, 2011	728	126	53	907
Disposal during the year	(111)	(17)	-	(128)
Depreciation during the year	26	9	-	35
Balance as of December 31, 2011	643	118	53	814
Disposal during the year	(6)	(8)	-	(14)
Depreciation during the year	32	16	*) -	48
Balance as of December 31, 2012	669	126	53	848
Depreciated cost as of December 31, 2012	53	78	1	132
Depreciated cost as of December 31, 2011	43	43	1	87

*) Represents an amount lower than $ 1 thousands.

NOTE 6:- GOODWILL AND AN INTANGIBLE ASSET

The carrying amount of intangible assets acquired as of December 31, 2012 and 2011 in the accounts of the Company was as follows:

	Carrying amount as of December 31,	
	2012	2011
	U.S. dollars in thousands	
Technology **)	206	256
Goodwill	1,068	1,068
Total	1,274	1,324

As the activities of VTSG have been fully integrated into those of the Company, the goodwill arising in the acquisition of VTSG is evaluated for impairment purposes as part of the cash generating unit representing the Company. As of December 31, 2012, the recoverable amount determined based on the value in use exceeded the carrying amount of the Company's net assets (equity).

**) During the years ended December 31, 2012, 2011 and 2010, the Company recorded amortization in the amount of $ 50 thousand, $ 50 thousand and $ 51 thousand, respectively, which was recorded in cost of revenues.

NOTE 7:- CURRENT MATURITIES OF LOAN

On November 16, 2008, the Company signed a loan agreement ("the Loan Agreement") with Bank Mizrahi Ltd. ("Mizrahi"), according to which Mizrahi provided a loan to the Company in the amount of $ 1 million. The loan bears an annual interest rate of LIBOR+4% and is repayable in 12 equal monthly payments commencing December 25, 2009. As part of the Loan Agreement, the Company issued to Mizrahi 374,240 Ordinary shares, which were recorded as transaction costs, based on the market price of the shares on the date of issuance. In addition, the Company paid loan origination fees of $ 10,000.

According to the Loan Agreement, the Company is obligated to maintain cash, cash equivalents and trade receivables at more than 125% of the loan value. The Company complied with those obligations.

On May 24, 2010, the Company signed a refinance loan agreement ("Refinance Loan") with Bank Mizrahi Ltd. ("Mizrahi"), according to which the Company will repay Mizrahi the initial Loan Agreement in a total of $ 590 thousand and Mizrahi will provide the Company with a Refinance Loan in a total amount of $ 750 thousand. The Refinance Loan bears an annual interest rate of LIBOR+4% and is repayable in 12 equal monthly payments commencing April 26, 2011.

NOTE 7:- CUREENT MATURITIES OFLOAN (Cont.)

In addition, the Company paid loan commission of $ 20 thousand. According to the Loan Agreement, the Company is obligated to maintain cash, cash equivalents and trade receivables at more than 150% of the loan value and to maintain a cash and cash equivalent balance of $ 500 thousand under Mizrahi

As of April 30, 2012, the loan was fully repaid.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2012	2011
	U.S. dollars in thousands	
Employees and payroll accruals	342	351
Accrued expenses	336	411
	678	762

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET

Employee benefits consist of short-term benefits, post-employment benefits, other long-term benefits and termination benefits.

a. Post-employment benefits:

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

b. The amounts recognized in the balance sheet are as follows:

	December 31,	
	2012	2011
	U.S. dollars in thousands	
Liability at the beginning of the year	108	122
Expense (income) recognized in the profit or loss	68	(52)
Benefits paid	(35)	38
Liability at the end of the year	141	108

NOTE 9:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

b. Amounts recognized in the statements of comprehensive income are as follows:

	December 31,	
	2012	2011
	U.S. dollars in thousands	
Current service cost	46	2
Interest cost	5	*) -
Net actuarial loss (gain) recognized in the year	17	(54)
Total expense (income) included in profit or loss	68	(52)

*) Represents an amount lower than $ 1 thousand.

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

Composition:

	December 31,	
	2012	2011
	U.S. dollars in thousands	
Balance at January 1	108	122
Interest cost	5	*) -
Current service cost	46	2
Benefits paid	(35)	38
Net actuarial loss (gain)	17	(54)
Balance at December 31	141	108

*) Represents an amount lower than $ 1 thousand.

d. The actuarial assumptions used are as follows:

	Year ended December 31,		
	2012	2011	2010
Discount rate	4.57%	4.83%	5.10%
Future salary increases	4.72%	2%	2%
Average expected remaining working years	6.30	6.38	6.44

NOTE 10:- EQUITY

a. On November 2, 2006, the Company completed its Initial Public Offering ("IPO") on the Alternative Investment Market ("the AIM") on the London Stock Exchange, by issuing 6,076,811 Ordinary shares of NIS 0.01 par value each at a price of £ 0.88 ($ 1.65) per share for a total net consideration of $ 8,411 thousand.

b. On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, the individuals, in exchange for the reduction on salary, are to be granted 2,263,383 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will vest in 12 equal monthly installments. Out of the issued shares, a total of 380,313 Ordinary shares were returned to the Company due to departure of employees and recorded as treasury shares ("the Treasury Shares"). On November 30, 2010, Mr. Ami Vizer, the Chief Executive Officer of the Company and also a Director of the Company, acquired the Treasury Shares at a price of £ 0.0512 ($ 0.7979) per share, reflecting the fair market value of the stock on the purchase date.

   Further to the Reduction Plan, on July 27, 2009, the Non-Executive Board members also decided to implement a one-year salary reduction of 15% and instead will be granted 119,727 Ordinary shares of the Company, with an equivalent fair value on date of grant of $ 0.165, which will vest in 12 equal monthly installments. The shares were issued to the trustee in January 2010.

   The salary reduction of 15% for the Non-Executive Board members will be effective for additional 2 years, and the Non-Executive Board members will be granted additional Ordinary shares of the Company.

   On April 12, 2012 the Company issued a total of 72,000 and 47,727 Ordinary Shares of 0.01 NIS each to the Company's Non-Executive Directors and to Non-Executive Chairman of the Board respectively in return for a one year salary reduction.

c. On November 2, 2010, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan").

   According to the Share Bonus Plan, the Bonus Compensation will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of November 2, 2010, which is equal to $ 0.0821 per Ordinary share ("the Bonus Shares"). The Bonus Shares will vest upon receiving actual payment from the customer under the relevant PO ("the Bonus Shares Vested Date").
   The fair value on date of grant equal to $ 0.08 per Ordinary Share

   On July 4, 2011 the Company issued a total of 2,444,984 ordinary shares of 0.01 NIS each ("Ordinary Shares") to its senior management and other employees. Out of the shares issued, 1,984,530 and 103,703 Ordinary Shares were issued to the Company's Chief Executive Officer and Chief Finance Officer, who are also Directors of the Company, respectively.

   As of December 31, 2010 the Company recorded share-based compensation expenses of $ 212 thousand, in respect of the bonus compensation.

NOTE 10:- EQUITY (Cont.)

d. On August 10, 2011, a total of 47,502 options were exercised under the Company's Stock Option Plan at an exercise price of NIS 0.01.

e. On September 12, 2011, the Board of Directors approved the implementation of a share bonus plan ("the Share Bonus Plan") for year 2011.

According to the Share Bonus Plan, the Bonus Compensation will be granted with an equivalent value of Ordinary shares based on the quoted fair market price of the shares as of September 12, 2011, which is equal to $ 0.0812 per Ordinary share ("the Bonus Shares"). The Bonus Shares will vest upon receiving actual payment from the customer under the relevant PO ("the Bonus Shares Vested Date").
The fair value, on date of grant equal to $ 0.08 per Ordinary Share.

Based on full vesting as of December 31, 2011, the Company's senior management and other employees are entitled to a total of 2,889,379 Ordinary Shares and a total of 3,141,288 Options at an exercise price of NIS 0.01 per share of the Company, which Ordinary Shares and Options were issued in 2012.

On April 12, 2012 the Company issued a total 2,055,838 Ordinary Shares of 0.01 NIS each ("Ordinary Shares") and 3,141,288 Options at an exercise price of 0.01 NIS each ("Options") to its senior management and other employees. Out of the shares issued, 1,972,233 and 22,109 Ordinary Shares were issued to Mr. Ami Vizer the Company's Chief Executive Officer and to Mr. Efraim Manea Chief Finance Officer, who are also Directors of the Company, respectively. Out of the Options issued, 2,926,533 and 37,582 Options were issued to Mr. Ami Vizer the Company's Chief Executive Officer and to Mr. Efraim Manea Chief Finance Officer, who are also Directors of the Company, respectively.

Further to the above, on October 11, 2012, a total of 833,541 Ordinary Shares of 0.01 NIS each have been issued to senior management and employees, including 516,921 Ordinary Shares to Mr. Ami Vizer the Chief Executive Officer of the Company and also a Director of the Company.

The Company recorded share-based compensation expenses of $ 53 thousand and $298 thousand, in respect of the bonus compensation for year 2012 and 2011, respectively.

f. On October 17, 2012, a total of 9,304 options were exercised under the Company's Stock Option Plan at an average exercise price of $ 0.09.

g. Composition of share capital:

	December 31, 2012, 2011 and 2010	December 31, 2012	December 31, 2011	December 31, 2010
	Authorized	Issued and outstanding		
	Number of shares			
Ordinary shares of NIS 0.0 par value each	100,000,000	47,153,179	44,134,769	41,642,283

NOTE 10:- EQUITY (Cont.)

h. Stock option plan:

In August 2000, the Company's Board of Directors authorized an incentive share option plan ("the Option Plan") and has since granted options to purchase Ordinary shares to employees and consultants. Under the Option Plan, options generally vest ratably over a period of four years, commencing with the date of grant. The exercise price of the options granted under the Option Plan may not be less than the par value of the shares. The options generally expire no later than 10 years from the date of the grant, and are non-transferable, except under the laws of succession. On November 2, 2010, the Company decided to increase its Option Plan reserves by 8,000,000 options to accumulate a total of 17,500,000. As of December 31, 2012, an aggregate of 2,288,879 Ordinary shares of the Company are still available for future grant.

The fair value of share options is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The following are the inputs to the model used for the three years ended December 31, 2012: risk-free interest rates of 1% in year 2012 and a risk-free interest rates for years 2011 and 2010 ranging from 0.87%-1.92%; a dividend yield of 0%; volatility factor of the expected market price of the Company's Ordinary shares of 80%; and a weighted average expected life of the options of 6 years.

On January 31, 2012 the Board of Directors granted to the Company employees a total of 190,000 options to purchase Ordinary shares of the company. Such options are granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price of US$0.14.

The weighted average fair values of the options granted in 2012, 2011 and 2010 were $ 0.01, $ 0.15 and $ 0.03, respectively.

A summary of the activity in options to employees, consultants, and directors (including the senior management, see i. below) for the years 2012, 2011 and 2010 is as follows:

	Year ended December 31,					
	2012		2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,993,248	$ 0.315	2,673,444	$ 0.371	2,207,822	$ 0.693
Granted	3,331,288	$ 0.01	315,000	$ 0.148	1,234,000	$ 0.031
Exercised	(9,304)	$ 0.09	(47,502)	$ 0.002	-	-
Expired	(103,946)	$ 0.6	(110,245)	$ 0.617	(110,245)	$ 0.461
Forfeited	(189,498)	$ 0.17	(837,449)	$ 0.453	(658,133)	$ 0.741
Outstanding at end of year	5,021,788	$ 0.133	1,993,248	$ 0.315	2,673,444	$ 0.371
Exercisable options	1,067,526	$ 0.428	648,683	$ 0.834	1,192,198	$ 0.781

NOTE 10:- EQUITY (Cont.)

The options outstanding as of December 31, 2012, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2012	Weighted average remaining contractual life (years)	Options exercisable as of December 31, 2012
$ 0.003-0.127	4,179,288	9.00	631,861
$ 0.129-0.630	642,500	6.09	250,665
$ 1.33-2.170	200,000	4.33	185,000
	5,021,788		1,067,526

i. Options to the CEO and senior employees:

1. On January 27, 2010, the Board of Directors granted 1,249,000 options as follows:

a) A total of 360,000 options were granted to the CEO at an exercise price of NIS 0.01 per share.

b) A total of 312,000 options were granted to senior management at an exercise price of NIS 0.01 per share.

c) A total of 132,000 options were granted to employees at an exercise price of NIS 0.01 per share.

d) A total of 304,000 options were granted to employees at an exercise price of $ 0.13 per share.

e) A total of 141,000 options were granted to the former CFO at an exercise price of NIS 0.01 per share.

The options will vest in 3 tranches annually equal amounts commencing as of January 1, 2010 and will be conditional upon the following:

a) Employee being employed by the Company, and

b) The EBITDA of the Company (on a consolidated basis) for the relevant fiscal year (2011, 2012 and 2013) shall increase by more than 20% compared to the previous year.

As of December 31 2012, the 2011 EBITDA performance goal was not achieved therefore the first tranche forfeited.

The 2012 EBITDA performance goal was achieved.

NOTE 10:- EQUITY (Cont.)

Vesting will be fully accelerated in the event of any of the following:

a) Merger, acquisition or reorganization of the Company with one or more other entities;

b) A sale of all or substantially all of the assets or shares of the Company;

c) An investment in the Company of at least $ 2 million.

As of December 31, 2012 a total of 280,667 options have been vested and the Company recorded share-based compensation expenses in a total of $15 thousand, $12 thousands and $6 thousands in respect to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, to senior management and to employees, respectively.

2. On July 28, 2010, the Board of Directors approved that all vested options granted to the former CFO in total amount of 319,388 options at the date of termination of his engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   On September 27, 2010, the Board of Directors approved that all vested options granted to a former senior employee in total amount of 90,171 options at the date of termination of her engagement by the Company will be exercisable until December 31, 2011, or an M&A event (whichever is sooner).

   The effect of the modification in terms of the options was an increase in their fair value in the amount of $49 thousand which was recorded as share based compensation expense in 2010.

3. On June 29, 2011 the Company’s Board of Directors approved. the extension in terms of options granted to former senior employee according to which, options in a total of 75,000 will be exercisable until June 10, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan). All other vested options in a total of 85,400 will be exercisable until December 7, 2012 only in case of a Transaction (as defined in the Company's Share Option Plan).

4. On November 28, 2011 the Annual General meeting of the Company’s approved the grant of 40,000 options to purchase ordinary shares of the Company to Mr. Efraim Manea, a director of the Company and its CFO. Such options are granted to Mr. Manea in accordance with the Company's Employees' Stock Option Plan (the “ISOP”) and in the same terms that similar options are granted to the employees of the Company. The options will be vested over 36 months commencing September 2012 at an exercise price of US$0.08. The Vested Options are exercisable only in an event of an Transaction as defined under the ISOP.

5. Further to note 10e, on April 12, 2012, the Company issued 2,926,533 and 182,541 Options to Mr. Ami Vizer, the Company's Chief Executive Officer who is also a Director of the Company, and to senior management, respectively.

NOTE 10:- EQUITY (Cont.)

As of December 31, 2012, the Company recorded share-based compensation expenses in a total of $51 thousand in respect to the CEO.

Further to note 10e, on December 20, 2012 the Annual General meeting of the Company's approved the grant of 37,582 options to purchase Ordinary Shares to Mr. Efraim Manea, a director of the Company and its CFO.

j. Shares to the CEO and senior employees:

1. The Reduction Plan as mentioned under Note 10b above includes a total of 342,717 and 435,495 Ordinary shares of the Company which were granted to the CEO and senior management; respectively, with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by the Company's trustee, are fully vested.

2. The Share Bonus Plan as mentioned under Note 10c includes a total of 1,984,530 and 333,601 Ordinary shares of the Company that were granted to the CEO and senior management, respectively, with an equivalent fair value on date of grant equal to $ 0.0821 per Ordinary Share.

   As of December 31, 2010, the Company recorded share-based compensation expenses in a total of $ 163 thousand and $ 28 thousand in respect to the CEO and senior management, respectively.

3. Further to Note 10e, on April 12, 2012 the Company issued a total 1,972,233 and 66,291 Ordinary Shares to Mr. Ami Vizer the Company's Chief Executive Officer who is also a Director of the Company and to senior management, respectively.

   Further to the above, on October 11, 2012, a total of 516,921 and 309,711 Ordinary Shares of 0.01 NIS each have been issued, to Mr. Ami Vizer the Chief Executive Officer of the Company and also a Director of the Company and to senior management, respectively.

   As of December 31, 2012 and 2011 the Company recorded share-based compensation expenses in a total of $51 thousand and $ 248 thousand in respect to the share granted to the CEO and as of December 31, 2011 the Company recorded share-based compensation expenses in a total of $45 thousand in respect to the share granted to the senior management.

NOTE 11:- INCOME TAXES

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959:

The Company has been granted an "Approved Enterprise" status for an original program and an additional expansion program, ("the programs") under the Law for the Encouragement of Capital Investments, 1959 ("the Law"). According to the provisions of the Law, the Company has elected to enjoy the "alternative benefits track" - a waiver of grants in return for tax holidays. The "Approved Enterprise" status will allow the Company a tax holiday on undistributed income derived from the "Approved Enterprise" program. The income derived from this "Approved Enterprise" will be tax-exempt for a period of two years, and may enjoy a reduced tax rate of 10% to 25% (based on percentage of foreign ownership) for an additional five years. The seven-year period of benefits will commence with the first year in which the Company earns taxable income.

The Company completed the implementation of its original and expansion programs.

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 receiving the approval. The period of benefits has not yet commenced, and will expire in the year 2016.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the above Law, regulations published thereunder 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 canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

Should the Company derive income from sources other than the "Approved Enterprise" during the period of benefits, such income shall be taxable at the regular corporate tax rate.

If tax-exempt profits are distributed to shareholders, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently between 10%-25% for an "Approved Enterprise".

An amendment to the Law, which became effective in 2005 ("the Amendment") changed certain provisions of the Law. As a result of the Amendment, a company is no longer obliged to implement an "Approved Enterprise" status in order to receive the tax benefits previously available under the alternative benefits provisions, and therefore there is no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking grants). Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set out by the Amendment. A company is also granted a right to approach the Israeli Tax Authorities for a pre-ruling regarding their eligibility for benefits under the Amendment.

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of the company's business income from export. In order to receive the tax benefits, the Amendment states that a company must make an investment in the beneficiary enterprise exceeding a minimum amount specified in the Law. Such investment may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the beneficiary enterprise ("the Year of Election").

NOTE 11:- INCOME TAXES (Cont.)

Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a beneficiary enterprise and the company's effective tax rate will be the result of a weighted combination of the applicable rates. In this case, the minimum investment required in order to qualify as a beneficiary enterprise is required to exceed a certain percentage of the company's production assets before the expansion. The duration of tax benefits is subject to a limitation of the earlier of 7 years from the Commencement Year, or 12 years from the first day of the Year of Election.

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

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011.

According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. Commencing from the 2011 tax year, the Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2011 and 2011 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

b. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increases in the Israeli Consumer Price Index ("CPI"). As explained in Note 2d, the financial statements are presented in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a difference between taxable income or loss and the income or loss before taxes reflected in the financial statements.

c. Tax reconciliation:

In 2012, 2011 and 2010, the main reconciling item between the statutory tax rate of the Company and the effective tax rate (0%) is carryforward tax losses and tax exemption for which no deferred taxes were provided.

d. Carryforward losses:

Domestic:

As of December 31, 2012, 2011 and 2010, the Company had accumulated losses for Israeli tax purposes of approximately $ 5.3 million, $ 6.5 million and $ 6.8 million, respectively, which may be carried forward, in order to offset taxable income in the future, for an indefinite period.

NOTE 11:- INCOME TAXES (Cont.)

Foreign:

As of December 31, 2012, 2011 and 2010, the federal tax loss carryforwards of the U.S. subsidiaries amounted to approximately $ 6.1 million, $ 5.5 million and $ 5.9 million, respectively. Such losses are available for offset against future U.S. taxable income of the subsidiaries and will expire in the years 2023-2026.

Due to the uncertainty of the utilization of these carryforward losses, no deferred tax assets have been recorded.

e. Tax rates applicable to the income of the Company and its subsidiaries:

Domestic:

The Israeli corporate tax rate was 26% in 2009, 25% in 2010 and 24% in 2011.

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale. A temporary provision for 2006-2009 stipulates that the sale of an asset other than a quoted security (excluding goodwill that was not acquired) that had been purchased prior to January 1, 2003, and sold by December 31, 2009, is subject to corporate tax as follows: the part of the real capital gain that is linearly attributed to the period prior to December 31, 2002 is subject to the corporate tax rate in the year of sale as set forth in the Israeli Income Tax Ordinance, and the part of the real capital gain that is linearly attributed to the period from January 1, 2003, through December 31, 2009, is subject to tax at a rate of 25%.

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

Foreign:

The subsidiaries were incorporated in Orlando, Florida, U.S.A., and are taxed according to U.S. tax laws. The statutory federal tax rate is 35%.

f. Tax assessments:

The Company's tax assessments in Israel for the years until and including 2006 are considered final, subject to the powers vested with the director of the Tax Authority pursuant to sections 145, 147 and 152 to the Income Tax Ordinance.

g. Deferred taxes:

On December 31, 2012, there was no recognized deferred tax liability for taxes that would be payable on unremitted earnings of the Company and its subsidiaries.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Royalty commitments:

1. In June 2001, the Company and a third party signed a Cooperation and Project Funding Agreement with Britech, which is an establishment of the United Kingdom-Israel Industrial Research and Development Fund.

   According to the agreement, Britech agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company and the third party for a research and development project in the maximum amount of £ 227 thousand.

   The Company shall make repayments to Britech, based on gross sales derived from the sale, leasing or other marketing or commercial exploitation of the innovation, including service or maintenance contracts, commencing with the first commercial transaction. Such payments shall be repaid in Pounds Sterling at the rate of 2.5% of the first year's gross sales and, in succeeding years, at the rate of 5% of the gross sales until 100%-150% of the conditional grant and other sums have been repaid (incremental 50% based upon agreed milestone which was not fulfilled).

   The Company received a total amount of $ 324 thousand, of which $ 150 thousand and $ 174 thousand were deducted from the research and development expenses in 2001 and 2003, respectively.

   Although the development of technology had been completed by the third party and the Company, the Company has never received the third party's portion of the developed technology upon completion of the project although it requested it from both the third party and Britech. Therefore, since the Company cannot utilize the developed technology without the essential portion developed by the third party, the Company has not paid any royalties to Britech and the Company's management believes that it will not be required to pay royalties in the future for the abovementioned project. In addition, the Company did not submit any patent applications in connection with the Britech grant.

2. On September 1, 2009, the Company and a third party signed a Cooperation and Project Funding Agreement with KORIL (“the Agreement”), which is an establishment of the Korea-Israel Industrial Research and Development Fund. According to the agreement, KORIL agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company (“the proposal”) and the third party for a research and development project in the maximum amount of $ 273 thousand.

   As of December 31, 2012, the Company received a total amount of $ 254 thousand.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

The Company shall make repayments to KORIL, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in U.S. dollars at the rate of 2.5% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

The total non-current liability for the years ended December 31, 2012 and 2011 was $ 197 thousand and $ 208 thousand, respectively.

As of the financial statement approval date, the Company has not paid any royalties to KORIL as no related gross sales were recorded.

3. On September 16, 2010, the Company signed a Project Funding Agreement ("the Agreement") with the Israeli Chief Scientist ("the OCS"). According to the Agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development project in the maximum amount of $ 365 thousand.

   On March 29, 2011, the Company signed on a supplement to the Agreement (“the Supplement”). According to the Supplement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company for a research and development continued project in the maximum amount of $ 278 thousand.

   As of December 31, 2012, the Company received total amount of $ 611 thousand.

   The Company shall make repayments to the OCS, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposals (gross sales). Such payments shall be repaid in NIS at the rate of 3% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

   The total non-current liability for the years ended December 31, 2012 and 2011 was $ 483 thousand and $ 479 thousand, respectively.

4. On April 7, 2011, the Company and a third party signed a Cooperation and Project Funding Agreement with the Israeli Chief Scientist ("the OCS"), which is an establishment of the Italian-Israel Industrial Research and Development Fund. According to the agreement, the OCS agreed to fund, by conditional grant, the implementation of the proposal submitted by the Company (“the proposal”) and the third party for a research and development project in the maximum amount of $ 91 thousand.

   As of December 31, 2012, the Company received a total amount of $ 98 thousand.

NOTE 12:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

The Company shall make repayments to the OCS, based on gross sales derived from the gross invoiced sales value of the products, processes, inventions, technology, discoveries, improvements, modifications, methods, software, specifications, or any form of technical information developed or arising from the proposal (gross sales). Such payments shall be repaid in NIS at the rate of 3% of the first year's gross sales until 100% of the conditional grant and other sums have been repaid.

The total non-current liability for the year ended December 31, 2012 and 2011was $ 68 thousand and $ 59 thousand, respectively.

As of the financial statement approval date, the Company has not paid any royalties to the OCS as no related gross sales were recorded.

b. Lease commitments:

1. Premises occupied by the Company are rented under various non-cancelable lease agreements until December 31, 2014.

2. The Company has leased various motor vehicles under cancelable operating lease agreements, which expire on various dates, the latest of which is in 2014.

3. Premises occupied by the subsidiaries are rented under non-cancelable lease agreements. The latest rental agreement for the premises expires in March 2016 as determined under the new lease agreement signed on December 14, 2011 by SimiGon Inc.

4. Future minimum rental payments under non cancellable operating leases are as follows:

Year ended December 31,	U.S. dollars in thousands
2013	286
2014	269
2015	69
2016	69
	693

The total expense for the years ended December 31, 2012, 2011 and 2010 was $ 301 thousand, $ 367 thousand and $ 350 thousand, respectively.

c. Floating charge:

The Company recorded a first priority unlimited floating charge on all of its assets, in favor of a bank, in consideration of the Loan Agreement as described in Note 7.
Following the completion of the Loan Agreement and its fully return, the first priority unlimited floating charge on all of its assets, in favor of a bank was removed.

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
a. Cost of revenues:			
Salaries and related benefits	468	602	406
Lease and office maintenance	54	124	132
Travel expenses, net	64	(50)	35
Depreciation and amortization	57	59	61
Share-based compensation	10	8	6
Subcontractors	714	83	164
	1,367	826	804
b. Research and development expenses:			
Salaries and related benefits	1,805	1,433	1,466
Lease and office maintenance	323	245	297
Depreciation and amortization	28	16	32
Share-based compensation	24	21	22
Other	1	1	4
Government grants	(12)	(41)	(61)
	2,157	1,675	1,760
c. Selling and marketing expenses:			
Salaries and related benefits	1,001	965	919
Lease and office maintenance	70	105	132
Consultant fees	123	141	241
Advertising and sales promotion	70	54	45
Travel expenses	113	106	142
Depreciation	8	6	10
Share-based compensation	67	296	219
Commission	117	23	3
	1,569	1,696	1,711

NOTE 13:- SUPPLEMENTARY INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME (Cont.)

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
d. General and administrative expenses:			
Salaries and related benefits	611	539	547
Lease and office maintenance	60	67	95
Consultant fees	-	-	10
Travel expenses	21	21	22
Professional fees and public company expenses	356	327	436
Depreciation	5	4	7
Share-based compensation	22	28	73
Doubtful debt provision	(25)	(18)	282
Other	(32)	7	6
	1,018	975	1,478
e. Finance income:			
Exchange rate differences	122	296	68
Interest income from banks	4	9	7
	126	305	75
f. Finance cost:			
Exchange rate differences	147	231	131
Government grants interest	7	3	-
Bank loans and fees	-	33	76
	154	267	207

NOTE 14:- REVENUES

The Company manages its business on the basis of one reportable segment.

a. Revenues:

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
Software licenses	4,604	3,954	3,666
Software licenses customization	816	553	1,161
Recurring Maintenance & Support	1,342	910	296
Training	43	67	84
	6,805	5,484	5,207

b. Geographical information:

Revenues classified by geographical destinations based on the customer location:

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
EMEA (1)	1,730	1,475	1,388
North America	4,928	3,892	3,509
Asia Pacific	147	117	310
	6,805	5,484	5,207

(1) Europe, South America, Middle East, Australia and Africa.

The carrying amounts of non-current assets (fixed assets, investment property and intangible assets) in the Company's country of domicile (Israel) and in foreign countries, based on the location of the assets, are as follows:

	December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
EMEA	37	54	60
North America	1,369	1,357	1,399
	1,406	1,411	1,459

NOTE 14:- REVENUES (Cont.)

c. Information about major customers:

Revenues from major customers, each of whom amount to 10% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2012	2011	2010
Customer A	24%	49%	48%
Customer B	8%	12%	13%
Customer C	17%	13%	2%
Customer D	19%	-	-
Customer E	13%	-	-

NOTE 15:- EARNINGS (LOSS) PER SHARE

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

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
Income (loss) for the year	692	350	(678)

	2012	2011	2010
Weighted average number of Ordinary shares fo computing basic earnings (loss) per share	44,617	42,867	41,361
Effect of dilution:			
Share options	570	65	-
Weighted average number of Ordinary shares adjusted for the effect of dilution	45,187	42,932	41,361

There have been no significant transactions involving Ordinary shares or potential Ordinary shares between the balance sheet date and the date of approval of these financial statements.

Share options and warrants (see Note 10) were not included in the 2010 earnings (loss) per share calculation due to their antidilutive effect.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
a. Expenses to related party of a shareholder:			
Sales and marketing *)	18	-	-

*) As part of a sales consulting agreement signed with a company whom one of its shareholder is also a shareholder in SimiGon, holding less than 10%.

	Year ended December 31,		
	2012	2011	2010
	U.S. dollars in thousands		
b. Compensation of key management personnel of the Company:			
Employee benefits *)	1,448	1,281	1,200
Share-based payments **)	87	314	256
	1,535	1,595	1,456

*) Includes increase in long-term employee benefits due to change in provision for severance pay in a total amount of $ 47 thousand, $ 37 thousand and $ 43 thousand for the years ended December 31, 2012, 2011 and 2010, respectively.

Year 2012 and 2011 include the provision for sales bonus in a total of $ 2 thousand and $ 10 thousand to the VP of Business Development, respectively.

Year 2012 includes sales bonus in a total of $ 30 thousand and a provision of $114 thousand for sales bonus to the CEO in respect of the fiscal year 2011and 2012; respectively (see Note 16c).

**) Year 2012 includes share-based compensation in a total of $ 51 thousand due the Share Bonus Plan as described under Note 10e, in respect to the CEO.

Year 2012 includes share-based compensation in a total of $ 15 thousand and $12 thousands due Options granted in section 1 under Note 10i, in respect to the CEO and senior management, respectively.

Year 2011 includes share-based compensation in a total of $ 248 thousand and $ 45 thousand due the Share Bonus Plan as described under Note 10e, in respect to the CEO and senior management, respectively.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

Year 2010 includes share-based compensation in a total of $ 163 thousand and $ 28 thousand due the Share Bonus Plan as described under Note 10c, in respect to the CEO and senior management, respectively.

c. Agreement with CFO:

On December 6, 2012, the Board of Directors approved the grant of a one-time cash bonus to Mr. Efraim Manea, a director of the Company and its CFO with respect to fiscal year 2013 in the amount of up to $34 thousands per year, subject to revenues, net profit and share price criteria and milestones.

d. Significant agreements with shareholders:

1. On September 21, 2006, the Company signed an agreement with Mr. Ami Vizer, the Chief Executive Officer of the Company, according to which Mr. Ami Vizer is engaged with a current salary of $ 313 thousand per annum (excluding bonuses and benefits), terminable by either party on nine months' notice. In addition, pursuant to this agreement, Mr. Vizer received options.

   On April 23, 2009, the Board of Directors approved the implementation of a one-year plan for salary reduction of 15% for senior management and other employees ("the Reduction Plan"). According to the Reduction Plan, Mr. Ami Vizer, in exchange for the reduction on salary, was granted 342,717 Ordinary shares of the Company with an equivalent fair value on date of grant of $ 0.15. The shares which have been issued and are being held by a trustee will vest in 12 equal monthly installments.

   On January 27, 2010, the Board of Directors approved an increase of 10% in his salary effective January 1, 2010.

   On December 6, 2012, the Board of Directors approved a one-time cash bonus grant to Mr Ami Vizer with respect to fiscal year 2011 in the amount of $30 thousands. It has also approved the grant of a one-time cash bonus to Mr Ami Vizer with respect to fiscal years 2012 and 2013 in the amount of up to $125 thousands per year, subject to revenues, net profit and share price criteria and milestones.

   Total salary (excluding share bonus grant mentioned under Notes 10e) of Mr. Ami Vizer during year 2012 amounted to an annual salary of $ 344 thousand, related benefits include bonus for 2011 fiscal year of $30 thousands, annual social benefits of $ 43 thousands (12.5% out of his annual salary), expenses allowance of $6K severance pay of $29 thousands, vacation days of $39 thousands and health insurance of $28 thousands. In addition, the Company has made a provision for 2012 bonus in a total of $ 114 thousands.

NOTE 16:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

2. On September 27, 2006, the Company signed an agreement with Mr. Simi Efrati, pursuant to which Mr. Efrati receives a fee of $ 122 thousand per annum for consulting services. The agreement may be terminated by either party on six months' written notice. In addition, pursuant to this agreement Mr. Efrati received options (see Note 10h). Prior to this agreement, Mr. Simi Efrati had been a Non-Executive director of the Company. The agreement was terminated effective February 1, 2010.

3. On September 27, 2006, the Company entered into an agreement with Mr. Rami Weitz, pursuant to which Mr. Weitz receives a fee of $ 122 thousand per annum in consideration of consulting services. The agreement may be terminated by either party by at least six months' written notice. In addition, pursuant to this agreement, Mr. Weitz received options. Prior to this agreement, Mr. Rami Weitz had been the Chairman of the Board of Directors of the Company.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management:

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and sufficient capital in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

Financial risks factors:

The Company's activities expose it to various financial risks such as market risk (including foreign exchange risk), credit risk and liquidity risk.

a. Foreign exchange risk:

The Company operates in a number of countries and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the NIS. As of December 31, 2012, balances in foreign currency are immaterial.

b. Credit risk:

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

Cash and cash equivalents and short-term bank deposits are invested in major banks in Israel and the United States. Management believes that the financial institutions that hold investments of the Company and its subsidiaries are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

NOTE 17:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

The Company trades only with creditworthy customers. The Company performs ongoing credit evaluation of its customer's financial condition and requires collateral as deemed necessary.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

The Company has no significant concentrations of credit risk. The Company has a policy to ensure collection through sales of its products to wholesalers with an appropriate credit history and through retail sales in cash or by credit card.

As of December 31, 2012, cash and cash equivalents together with the Company’s short time bank deposits amounted to $ 7,106 thousand.

c. Liquidity risk:

The table below presents the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

December 31, 2012:

	Less than one year	3 to 4 Years	Total
	U.S. dollars in thousands		
Government grants	38	748	786
Trade payables	140	-	140
Other accounts payable and accrued expenses	640	-	640
	818	748	1,566

December 31, 2011:

	Less than one year	3 to 4 Years	Total
Current maturities	188	-	188
Government grants	49	746	795
Trade payables	174	-	174
Other accounts payable and accrued expenses	697	-	697
	1,108	746	1,854

NOTE 18:- SUBSEQUENT EVENT

On April 11, 2013 the Board of Directors granted to the Company employees a total of 175,000 options to purchase Ordinary shares of the Company. Such options are granted in accordance with the Company's Employees' Stock Option Plan and will vest quarterly over a period of 4 years commencing from the grant date at an exercise price that will be determined immediately after the end of the blackout period for share trading.

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SHARE INFORMATION

SimiGon is listed on the AIM. The shares of the Company are available through the Crest settlement system, enabling immediate, secured electronic trading and registration of shareholders' assets. Symbol: SIM Financial Year End: 31 December

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