

Emblaze Ltd. ("Emblaze" or "the Group")

Interim results for the six months ended 30 June 2004:

Financial Highlights:

- Increase in revenue by 117% to \$5 million (H1 2003: \$2.3 million*), representing the continuation of an improvement in global telecom industry
- Group net loss of \$29.4 million (H1 2003: \$25.2 million)
- Net cash used in operating activities from continuing operations fell to \$10.6 million (H1 2003: \$13.9 million)
- Strong balance sheet with cash portfolio balance of \$222.8 million (before proceeds from the sale of the Semiconductor business unit) and no debt
- Full year 2004 revenues projected to increase six-fold to \$40 million (FY 2003: \$6.5 million*)
- Group expects to move into profits in 2005 due to positive outlook for all group business units and renewed spending by telcos and network operators
- Going forward, the company expects growth in all areas to be driven both by internal business as well as M&A activities

* amounts from prior year have been reclassified to conform to the current period's presentation to exclude discontinued operations of Emblaze Semiconductor. The reclassification had no effect on previously reported net loss, shareholder's equity or cash flows

Operational Highlights:

- Restructured the Group for renewed growth after almost four years of a severe downturn in telecom sector
- Sale of Emblaze Semiconductor to Zoran for \$54.2 million in cash
- Merged Emblaze Systems and Emblaze Mobile to set up an unified entity offering complete backend and handset solutions to global operators
- Set up Emblaze Transcoding business with separate corporate identity. Since the end of the period Emblaze Transcoding merged with Philips transcoding business creating world's leading media adaptation software products company
- Established Emblaze Defence to leverage the Group's expertise in mobile communication technologies
- Groundbreaking contracts by Orca resulting in the Group's decision to partially float Orca as pure-play IPTV middleware leader
- First-ever nationwide commercial launch of Emblaze-powered 2.5G handsets by Partner Communications (owned by Hutchison Whampoa) under the Orange brand
- Strong demand from Far East for handsets
- Further commercial deployments by Emblaze Systems of video and value added services infrastructure worldwide such as Optimus and Orange Suisse

Eli Reifman, Chief Executive Officer of Emblaze, said: "The first half of this year marks an important turning point for Emblaze. We have restructured Emblaze into a leaner more focused group to take advantage of improving market conditions in the global telecoms industry after a three year downturn.

"Recurring revenues, sales pipeline and enquiries across the whole group have increased steadily throughout the first half. These trends have continued through to the second half and, subject to certain imminent deals under consideration, are expected to enable Emblaze to deliver a sixfold revenue growth in 2004 and move the group into profitability by the end of 2005. My management and I remain optimistic as ever on the group's prospects and positioning going forward"

CHAIRMAN'S STATEMENT



Neftali Shani
Chairman

The period saw a significant restructuring of the businesses to take advantage of the increased activity in the telecoms industry. Emblaze now comprises four divisions with their own management team to position them for strong growth anticipated over the coming years as delivery of rich media through wireless and broadband networks become the norm. These are: Emblaze Mobile, Orca Interactive, Adamind (formerly Emblaze Transcoding) and Emblaze Defense.

Emblaze Semiconductor was sold to Zoran Corporation for \$54.2 million in cash. The Board felt that ownership of the semiconductor business was no longer central to its vision. Under the ownership of the Group, Emblaze Semiconductor achieved significant design wins with handset manufacturers including Samsung, Telson, DBTell, Bird and many others. However, the Board decided that the next phase of development would be best achieved with the support and direction of a leading semiconductor solutions provider such as Zoran.

We also merged Emblaze Systems, a provider of solutions for wireless multimedia and Emblaze Mobile, the developer of customised rich media handsets for 2.5G and 3G networks that are being deployed worldwide. The merged division, operating under the name "Emblaze Mobile", provides end-to-end backend and handset solutions to global operators for the introduction of rich-media value added services.

We created a stand-alone division under the name "Emblaze Transcoding" whose key product, EMcoder™, has been deployed in over 50 MMS carrier installations worldwide making it the core MMS transcoding engine on over 30 countries. Recently we merged this division with Philips transcoding business to create one of the world's leading media adaptation software products company to exploit the opportunities opening up in this segment. The merged company, Adamind Ltd., will be based in Ra'anana, Israel, with sales offices in San Jose, California and Eindhoven, The Netherlands. After the merger, Emblaze will hold 70% in Adamind with 30% owned by Philips.

After the end of the period, we also established Emblaze Defense to leverage the Group's expertise in mobile technologies for global defense and homeland security markets. The division draws upon all the other Emblaze units' technologies and products and is not expected to take up a large amount of capital investment.

In February, Guy Bernstein replaced Tamar Rapaport-Dagim as our Chief Financial Officer. Guy was previously the chief financial and operation officer of Magic Software Enterprises (NASDAQ:MGIC), a subsidiary of Formula Systems (NASDAQ:FORTY), where he was responsible for worldwide legal and financial matters.

The Group has a strong management team in place as well as a robust balance sheet. With our cash resources, a fully developed product and solutions portfolio, we are uniquely well positioned to benefit from the upturn now becoming evident in the telecom markets worldwide.

Results

Turnover for the six month period ending 30 June 2004 was \$5 million compared with \$2.3 million for the same period last year. There was a net loss of \$29.4 million for the period (H1 2003: \$25.2 million net loss). The increase in net loss reflects a \$3.5 million charge against impairment of property and equipment and provision in respect of inventory purchase commitment associated with the launch of Emblaze mobile handset.

Operating expenses include cost of \$9.9 million for R&D expenses, \$7.4 million for sales & marketing expenses, \$5.4 million for general and administrative expenses and \$2.1 million from amortization and impairment of intangible assets.

Net cash used in operating activities from continuing operations fell to \$10.6 million (H1 2003:

\$13.9 million). The Group has a strong balance sheet with \$235.4 million in total shareholders equity, \$222.8 million of cash portfolio and no debt.

Cash investments portfolio of \$222.8 million is presented in the balance sheet under the following breakdown:

	30 June 2004
	\$ m
Cash and cash equivalents	29.8
Short-term bank deposits and marketable securities	62.9
Long-term (over 1 year to maturity) marketable securities*	130.1
Total	222.8

* Marketable securities are mainly comprised of US Government Treasuries and other agencies and highly rated corporate debentures.

In accordance with the Israeli Court's approval to repurchase up to 13% of the issued ordinary shares of the Group, Emblaze has to date purchased approximately 4.64% of the ordinary share capital. During the period the Group utilised \$3.5 million for the repurchase of 1.8 million shares representing 1.29% of the issued share capital.

We continue to regularly review costs in relation to our view on how our markets are developing.

Operational Review

Emblaze Mobile

Emblaze Mobile provides end-to-end backend and handset solutions to global operators for the introduction of rich-media value added services over 2.5G and 3G networks.

During the first half, the division was formed by the merger of Emblaze Systems and Emblaze Mobile. Merged managements and reduced headcount are expected to result in significant annualised cost savings of estimated \$10 million.

A keynote achievement during the period was the delivery of Emblaze designed and manufactured handsets after 24 months of intensive development. This is the first mobile handset developed by an Israeli company and also the world's first customised multimedia handset providing advanced functionality such as still images as well as TV quality video clips. The Group started volume shipments during the first half. Of these revenues for only 15,000 handsets were recognised in the period ended June 30th.

Emblaze Mobile works to achieve penetration in the Far East via distribution partners and is in talks with approximately 20 operators looking to penetrate predominantly European markets over the next year.

In February it was confirmed by Orange Switzerland that they would use Emblaze's backend solution for a full commercial launch of revenue-generating media services to its Swiss based subscribers.

Emblaze Mobile is seeking to acquire a handset manufacturing factory in the far-east in order to secure production capacity for 2005 and beyond against growth in demand and achieve lower unit costs. The company is currently under negotiations in this respect.

Orca Interactive

Orca is a provider of broadband and content management solutions to broadband TV networks, telcos, cable and operators alike.

Orca has achieved significant progress in establishing its middleware technology as a preferred solution for telcos facing the triple play threat from cable and satellite operators. There is increasing evidence that telecom operators are stepping up their investment in the provision of television over telephone lines with the global IPTV market expected to be worth \$17.8bn by 2007. The majority of initial deployments are in India and Asia Pacific although European telcos are also becoming increasingly active.

After the end of the period Orca announced three ground breaking deals. The first was an expansion of licences to Taiwan's Chunghwa Telecom. The other two contracts were for a total of 100,000 initial licences signed with two telecom services providers in India.

After the period, the Group has initiated a share listing for Orca Interactive on the Alternative Investment Market of the London Stock Exchange.

Adamind (formerly known as Emblaze Transcoding)

Emblaze Transcoding was set up as a separate unit in June 2004 to capitalise on the fast growing market for multimedia messaging services (MMS). Emblaze Transcoding had over 50% of all Multimedia Messaging Services Centre (MMSC) installations globally for which Emblaze is receiving significant royalties.

After the end of the period, in September 2004, the Group announced the merger of Emblaze Transcoding with Philips transcoding business unit (MP4NET Ltd.) to create Adamind. MMS enables people to exchange images, audio and video via handsets over mobile networks. Adamind's transcoding software component resides in the heart of every MMSC and facilitates MMS interaction between various handsets by adapting the multimedia part of the transmitted messages so that these can be viewed by any receiving device irrespective of the make, type, screen size, computing power etc.

Adamind's products are sold through its strategic channel partners such as Openwave, Ericsson, LogicaCMG and system integrators to mobile telcos worldwide. The business currently has over 70 commercial tier-1 and tier-2 operator customer deployments across the globe.

Outlook

The early signs of a recovery in telecoms industry spending first seen in the second half of last year have continued to gather pace in the first half of this year and through to the beginning of the second half. The Group's restructuring programme, coupled with its lower cost base, positions Emblaze to benefit from this upturn.

We expect to see Orca take its place as a leader in the IPTV middleware market and enjoy rapid growth in revenue moving into operational profit within 12 -18 months.

Going forward, Adamind will benefit from a steady increase in revenue flow from its more than 70 operator clients worldwide as the MMS business expands and gains momentum.

Emblaze Mobile plans to introduce five new models during 2005 and is seeking to invest in additional manufacturing capacity to meet increasing demand forecast for 2005 and beyond, while lowering unit costs and increasing margins per device.

This together with the growth in recurring revenues, stronger sales pipeline and enquiries across the whole group are expected to result in a six-fold revenue growth in 2004 and move the Group into operational profits in 2005, a year earlier than expected.



Naftali Shani

CHAIRMAN, Emblaze Ltd.

EMBLAZE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2004	December 31, 2003
	<u>Unaudited</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 29,830	\$ 39,404
Short-term marketable securities and accrued interest	62,898	75,239
Trade receivables	2,245	3,347
Other receivables and prepaid expenses	3,528	2,817
Inventories	2,659	1,410
Assets of discontinued operation	5,451	5,725
Total current assets	106,611	127,942
LONG-TERM MARKETABLE SECURITIES AND OTHER LONG-TERM INVESTMENTS	130,106	133,444
SEVERANCE PAY FUNDS	1,767	1,725
PROPERTY AND EQUIPMENT, NET	9,129	10,371
GOODWILL, NET	2,532	2,532
INTANGIBLE ASSETS, NET	11,252	13,346
	\$ 261,397	\$ 289,360
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 4,005	\$ 2,398
Deferred revenues	689	254
Other payables and accrued expenses	12,642	9,577
Liabilities of discontinued operation	4,301	4,560
Total current liabilities	21,637	16,789
ACCRUED SEVERANCE PAY	2,724	2,554
LONG-TERM RESTRUCTURING ACCRUAL	1,641	1,881
SHAREHOLDERS' EQUITY:		
Share capital	414	414
Additional paid-in capital	464,960	465,056
Deferred stock compensation	-	(219)
Treasury stock, at cost	(9,084)	(5,702)
Accumulated other comprehensive income	-	66
Accumulated deficit	(220,895)	(191,479)
Total shareholders' equity	235,395	268,136
	\$ 261,397	\$ 289,360

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

EMBLAZE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Six months ended June 30,		Year ended December 31,
	2004	2003	2003
	<u>Unaudited</u>		
Revenues	\$ 5,040	\$ 2,324	\$ 6,472
Operating expenses:			
Cost of revenues	4,950	1,928	2,727
Research and development, net	9,956	11,186	21,360
Sales and marketing	7,444	7,156	13,489
General and administrative	5,370	3,801	8,877
Amortization of intangible assets	2,125	2,743	5,643
Impairment of property and equipment and provision in respect of inventory purchase commitment	3,522	-	-
Total operating expenses	33,367	26,814	52,096
Operating loss	28,327	24,490	45,624
Financial income and other expenses, net	4,029	5,121	9,878
Net loss from continuing operations	24,298	19,369	35,746
Net loss from discontinued operation	5,118	5,805	10,300
Net loss	\$ 29,416	\$ 25,174	\$ 46,046
Basic and diluted net loss per share:			
From continuing operations	\$ 0.18	\$ 0.14	\$ 0.26
From discontinued operation	\$ 0.04	\$ 0.05	\$ 0.08
Net loss	\$ 0.22	\$ 0.19	\$ 0.34
Weighted average number of shares used in computing basic and diluted net loss per share	135,303,314	135,820,135	135,628,372

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

EMBLAZE LTD. AND ITS SUBSIDIARIES
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Deferred stock compensation	Treasury stock, at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total comprehensive loss	Total
Balance as of January 1, 2003	\$ 412	\$ 464,798	\$ (1,200)	\$ (2,909)	\$ 19	\$ (145,433)		\$ 315,687
Repurchase of shares, net	-	-	-	(2,793)	-	-		(2,793)
Issuance of shares upon exercise of stock options	2	258	-	-	-	-		260
Amortization of deferred stock compensation	-	-	981	-	-	-		981
Comprehensive loss:								
Unrealized gain on put and call option contracts, net	-	-	-	-	47	-	\$ 47	47
Net loss	-	-	-	-	-	(46,046)	\$ (46,046)	(46,046)
Total comprehensive loss							\$ (45,999)	
Balance as of December 31, 2003	\$ 414	\$ 465,056	\$ (219)	\$ (5,702)	\$ 66	\$ (191,479)		\$ 268,136
Repurchase of shares, net	-	-	-	(3,537)	-	-		(3,537)
Re-issuance of shares upon exercise of stock options	-	(129)	-	155	-	-		26
Issuance of shares upon exercise of stock options	*	41	-	-	-	-		41
Amortization of deferred stock compensation, net	-	(8)	219	-	-	-		211
Comprehensive loss:								
Unrealized loss on put and call option contracts, net	-	-	-	-	(66)	-	\$ (66)	(66)
Net loss	-	-	-	-	-	(29,416)	\$ (29,416)	(29,416)
Total comprehensive loss							\$ (29,482)	
Balance as of June 30, 2004 (unaudited)	\$ 414	\$ 464,960	\$ -	\$ (9,084)	\$ -	\$ (220,895)		\$ 235,395

*) Represents an amount lower than \$ 1

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

EMBLAZE LTD. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

Cash flows from operating activities:

Net loss

Less: Net loss from discontinued operation

Adjustments to reconcile net loss from continuing operations to net cash used in operating activities from operations:

Depreciation and amortization

Impairment of property and equipment

Amortization of marketable debt securities premium and accretion of discounts, net

Stock compensation expenses, net

Net gain on sales of marketable securities

Write down of investments in companies

Decrease (increase) in trade receivables, other receivables and prepaid expenses, inventories and accrued interest

Increase (decrease) in trade payables, other payables and accrued expenses and accrued severance pay, net

Increase (decrease) in deferred revenues

Decrease in long-term restructuring accrual

Other

Net cash used in operating activities from continuing operations

Net cash used in operating activities from discontinued operation

Net cash provided by operating activities

Cash flows from investing activities:

Purchase of property and equipment, net

Proceeds from sale of property and equipment

Investment in short-term marketable securities

Proceeds from maturity of short-term marketable securities

Investment in long-term marketable securities

Proceeds from sales, calls and maturity of long-term marketable securities

Investment in long-term bank deposits

Proceeds from long-term bank deposits

Investment in companies

Net cash provided by investing activities from continuing operations

Net cash used by investing activities from discontinued operation

Net cash provided by investing activities

Cash flows from financing activities:

Repurchase of shares, net

Proceeds from exercise of stock options, net

Net cash used in financing activities from continuing operations

Net cash used in financing activities from discontinued operation

Decrease in cash and cash equivalents

Decrease (increase) in cash and cash equivalents of discontinued operations

Cash and cash equivalents at the beginning of period

Cash and cash equivalents at the end of period

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

Six months ended		Year ended
June 30,	June 30,	December 31,
2004	2003	2003
Unaudited		
\$ (29,416)	\$ (25,174)	\$ (46,046)
5,118	5,805	10,300
(24,298)	(19,369)	(35,746)
3,788	4,628	9,317
2,732	-	-
1,050	1,433	2,743
211	450	981
-	(108)	(140)
30	-	97
(226)	2,711	156
5,880	(3,421)	(4,477)
435	(1)	(285)
(240)	(286)	(366)
-	20	(98)
(10,638)	(13,943)	(27,818)
(5,650)	(6,253)	(9,311)
(16,288)	(20,196)	(37,129)
(3,181)	(2,015)	(3,430)
-	3	397
-	(3,442)	(4,120)
44,356	27,650	55,126
(43,790)	(31,718)	(59,473)
13,000	26,880	33,880
-	(580)	(571)
237	-	64
-	(21)	(21)
10,622	16,757	21,852
(471)	(47)	(120)
10,151	16,710	21,732
(3,537)	(2,793)	(2,793)
67	186	223
(3,470)	(2,607)	(2,570)
-	-	-
(3,470)	(2,607)	(2,570)
(9,607)	(6,093)	(17,967)
33	(241)	(69)
39,404	57,440	57,440
\$ 29,830	\$ 51,106	\$ 39,404

EMBLAZE LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL

Emblaze Ltd. (the "Company") and its subsidiaries provide solutions for rich-media delivery and associated services over wireless and broadband IP networks. The Company's products are marketed worldwide.

NOTE 2: INTERIM CONSOLIDATED FINANCIAL STATEMENTS INFORMATION

The financial statements include the unaudited consolidated balance sheets as of June 30, 2004 and the results of operations and cash flows for the six months ended June 30, 2004 and 2003 and the statements of changes in shareholders' equity for the six months ended June 30, 2004. This unaudited information has been prepared by the Company on the same basis as the audited consolidated financial statements for the year ended December 31, 2003, and, in management's opinion, reflects all adjustments necessary for a fair presentation of the financial information in accordance with generally accepted accounting principles in the United States, for the periods presented.

Certain amounts from prior year have been reclassified to conform to the current period's presentation. The reclassification had no effect on previously reported net loss, shareholder's equity or cash flows.

NOTE 3: INVENTORY PURCHASE COMMITMENT

As of June 30, 2004 total non-cancelable obligations to the contractor on account of inventory amounted approximately to \$8 million.