Annual Report 2011

BATM

Advanced Communications

Welcome
to

BATM Advanced Communications

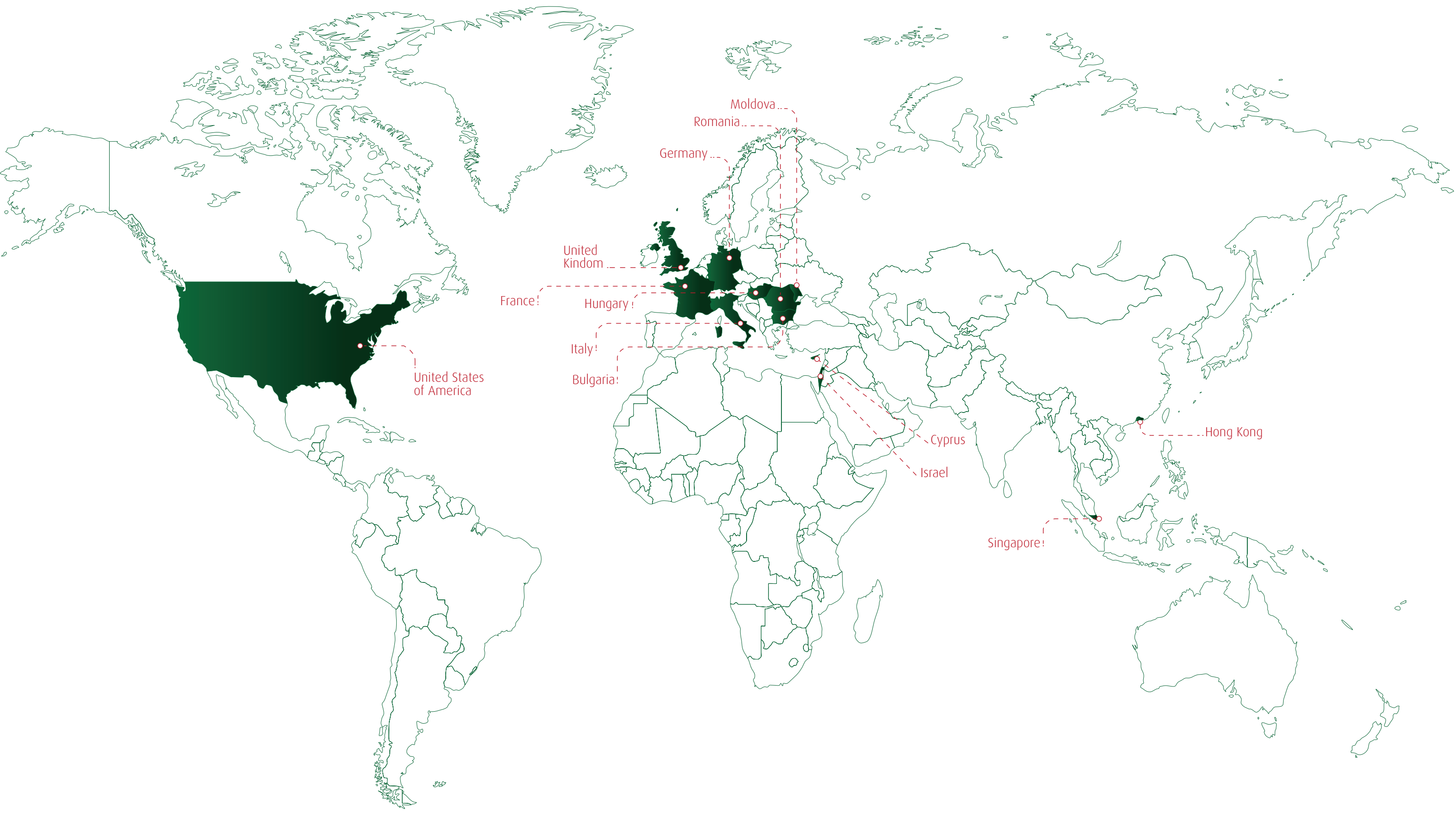
BATM Advanced Communications leads the market in Metro Area Network Ethernet Telecom solutions.

BATM Medical is a leader in providing niche, cost effective diagnostics and sterilization solutions to SME medical laboratories.

For more information on BATM, please visit:
www.BATM.com

BATM has access to over 600 engineers and scientists through BATM's integrated research and development program between all its subsidiary companies.

BATM has offices in North America, Israel, Europe and the Far East.



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Telecom Network Solutions

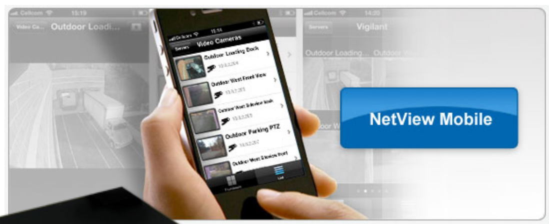
T-Metro 8000 series

T-Metro 7224
Cost effective MPLS Provider Edge (PE)

MOBILE

WEB

Surveillance Solutions



Mobile Netview

The NetStream 5001

The new 5201 platform

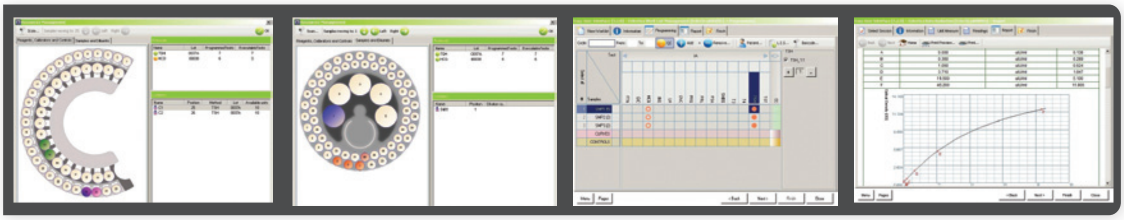
Telecom Division

IVD Systems & Automated
Clinical Diagnostic Analyzers

Plab Clia

PCHEM 3

Eclectica User Interface



Professional Sterilizers and Medical Waste Solutions

Compact medical hazardous waste solution, the Integrated Sterilizer & Shredder

ISS AC-575

Sting 11 B Bench-Top Steam Sterilizers
Azteca AC Series- Medium Steam Sterilizers

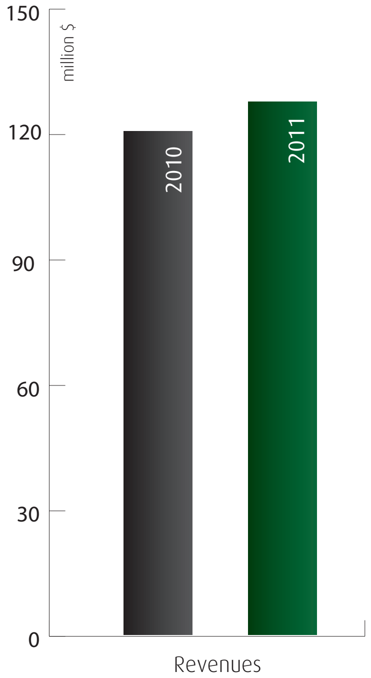
Medical Division

Financial Highlights

$127.6 million
2011 Revenue

$5.6 million
2011
Adjusted operating profit

$ 47 million
2011 Liquid Assets



	2011	2010	%
Revenue	$127.6m	$120.6m	5.8%
Gross profit	$43.4m	$42.7m	1.64%
Adjusted operating profit[1]	$5.6m	$5.6m	-
Other operating expenses	$6.72m	$4.52m	49%
Profit (loss) for the year[2]	$(5.0)m	$0.2m	-
Earnings (loss) per share	(0.92)¢	0.42¢	-

Throughout this report:
1. Excluding other operating expenses and stock write-down related to telecom legacy business of $2.2m in 2011
2. After write off of legacy business

Chairman's Statement

Peter Sheldon
Chairman

Peter Sheldon, OBE
Chairman

BATM has come through a difficult year given the adverse effects of both ongoing global economic turmoil and a rapidly changing competitive environment, with results that management had hoped to exceed but with positive signs that the strategy we have adopted remains the key to a return to growth and profitability. The board has conducted a thorough review of every segment of our business and stands firmly behind the continued development of our Telecom and Medical divisions.

Peter Sheldon
Chairman
30 April 2012

Directors' Report

Business Review

$127.6 million

2011 Revenue

$ 47 million

2011 Liquid Assets

Principal Activities and Review of the Business

BATM's main activities are the research and development, production and marketing of data and telecommunication products in the field of metropolitan area networks, as well as the research and development, production and distribution of medical products, including laboratory diagnostics equipment. BATM has offices in North America, Israel, Europe and the Far East.

Overview of 2011

Despite a weak trading environment in 2011 and adverse currency fluctuations the company encouraged to be able to report increases in both revenues and the gross profits of the business.

The Board has, following the review announced on 12 December 2011, decided to make structural changes to our Telecom division by curtailing certain legacy business lines. The positive results of this re-organisation are already being felt in 2012.

In addition we are introducing a number of new products and services both in the Telecom and Medical divisions that should provide positive ongoing growth prospects.

Hod-Hasharon, Israel

Yokneam, Israel

Mansfield MA, USA

BATM offices:

Financial Performance

Revenues for the year of 2011 increased by $7 million to $127.6 million (2010: $120.6 million). Telecom division revenues increased 2% to $81.3 million (2010: $79.9 million) and Medical division revenues increased 14% to $46.3 million (2010: $40.7 million). Revenues from the telecom legacy business were $16.9 million representing 21% of the total telecom revenues. As a result of the decision to curtail the legacy telecoms business the Company has taken one off charges to the income statement totalling $5.3 million being made up of a stock write down of $2.2 million reflected in cost of sales, severance payments of $0.1 million and a $3.0 million charge relating to amortisation of intangibles reflected within other operating expenses.

Overall gross profit margin for the year of 2011 was 34.0% (2010: 35.4%). The decrease was mostly due to a year end write off of $2.2 million inventory related to the telecom legacy business, which is being discontinued and excluding this one off charge margins increased by 1.7%. The gross profit margin of the Telecom division for the year 2011 was 41.2% (2010: 42.9%). The gross profit margin of the Medical division for the year of 2011 was 21.4% (2010: 20.6%). A gross profit margin of 22% in the Medical division in the second half of 2011 reflected a positive trend and compared with 21% in H1 2011.

Sales and marketing expenses were $16.3 million (2010: $15.3 million), an increase of 6.5% over the previous year. The increase is mostly due to an increase of $2 million in distribution and sales costs in the Medical division offset by a decrease of $1 million in the sales expenses in the Telecom division.

General and administrative expenses were $10.5 million (2010: $9.2 million) an increase of $1.3 million, mostly in the Telecom division. The erosion of the average rate of US dollar to the shekel plus costs associated with strengthening the top management of Telco Systems were the main contributors.

R&D investment in 2011 was $13.2 million (2010: $12.5 million). Actual R&D expenses in 2011 were lower than 2010 by $0.2 million, however, 2010 expenses were offset by $0.9 million participation from the Israeli Chief Scientist compared with nil in 2011. Medical division R&D expenses increased by $0.4 million mostly in the area of Diagnostic products.

Adjusted operating profit for the year was $5.6m (2010: $5.6m) (adjusted for the impact of one off stock depreciation linked to the curtailment of legacy telecoms activities). Operating profit for the year before other operating expenses was $3.4 million (2010: profit of $5.6 million). After other operating expenses of $6.7 million (2010: $4.5 million) including a $3.0 million charge to write off the remaining intangible assets associated with certain legacy products of the Telecom division, the net operating loss was $3.3 million (2010: profit $1.1 million).

Net finance expenses were $0.8 million (2010: expenses $0.1 million), comprised of $0.9 million of interest income, as well as $0.2 million of forward transaction gains, which offset $1.2 million of foreign exchange losses and $0.7 million of finance costs related mostly to bank loans. The finance costs include $0.3 million of interest on a mortgage of our subsidiary in Italy that is expected to be cancelled in 2012. As a result of our lower revenues in Euros, BATM has reverted back to the US dollar as its functional currency, representing the primary economic operating environment of the company.

The majority of Tax expenses of $0.9 million are $0.7 million tax on the dividend paid in 2011 of $5.1 million.

Net loss after tax attributable to equity holders of the parent amounted to $3.7 million (2010: profit $1.7 million), resulting in a basic loss per share of 0.92¢ (2010 earning: 0.42¢).

Our balance sheet remains strong with effective liquidity of $46.9 million, reflecting a decrease of $7.8 million since the end of the first half of the year. The reduction in the cash balances is mainly a result of the dividend payment of $5.8 million and payments on our properties in Israel and in Italy of $2.0 million. These payments resulted in a reduction in both short term and long term debt of $0.5 million and $4.2 million respectively. Period end cash is comprised as follows: cash and deposits up to three months duration of $23.0 million; short term cash deposits up to one year of $23.9 million.

Intangible assets and Goodwill have decreased to $26.2 million (December 2010: $31.1 million). This decrease results from the amortization of intangible assets and the write off of intangible assets relating to certain legacy products in the Telecom division.

Property, plant and equipment at the end of 2011 remained substantially unchanged compared with the end of 2010.

Total inventories increased from $19.5 million at the end of 2010 and decreased from $26.3 million at the end of June 2011 to $24.3 million at the year-end 2011.The majority of the increase relates to the Telecoms division, where stocks have been increased to satisfy the growing demand for our new products. In addition, Medical division inventory has been increased to prepare for the launch of our new medical waste solution (ISS) in 2012.

Trade and other receivables at the end of 2011 decreased to $27.5 million from $30.9 million at the end of 2010. This decrease is largely due to decreased receivables in the Telecom division. Total liabilities decreased to $45.3 million at the end of 2011 from $49.9 million at the end of 2010. The majority of the decrease relates to the cash payments described above.

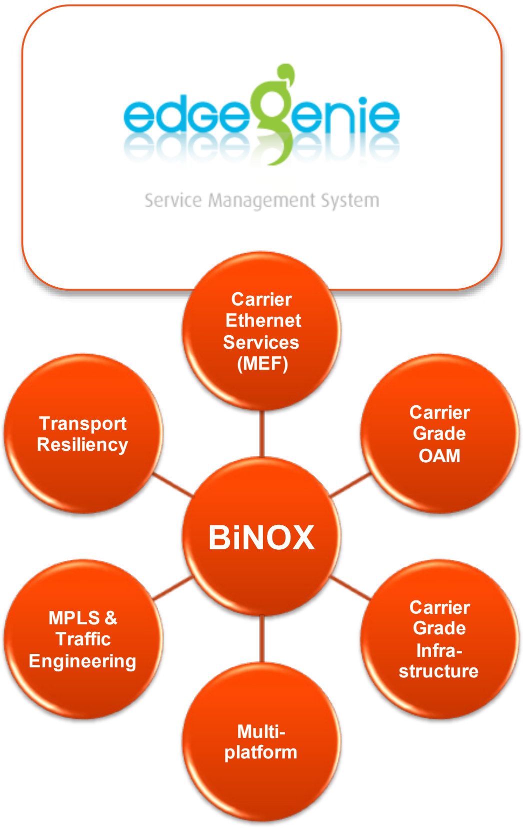
Telecom Division

As reported in December, trading in our legacy business in the US has been below our expectations. Following a detailed strategic review, we have decided to separate the legacy products group in the US from the Telecom division and exit this part of our business during 2012.

In April, we announced the acquisition of the major assets of ANDA Networks. Following the acquisition, we began serving ANDA's existing client base and have re-branded the former ANDA products as Telco Systems products. The existing customers' business will stay with the legacy business while the same products under Telco Systems brand will continue to be offered as part of our Carrier Ethernet solutions.

In May, we announced the appointment of Itzik Weinstein as CEO of Telco Systems. Prior to joining us, Itzik served as CEO of ECtel, a provider of revenue management solutions to the telecommunications industry and a NASDAQ traded company. He is responsible for driving the growth in our Carrier Ethernet offering and will be directing a higher focus on our direct business in Europe and the Far-east.

As reported in October and November, our Telecom division secured two important new OEM agreements; one with Motorola Mobility and one with the largest tier 1 telecom vendor. The agreement with Motorola will allow them to help cable operators leverage their HFC infrastructure to provide complete solutions for commercial services. We have already started generating business from this agreement and expect this to grow significantly during 2012. The agreement with the tier 1 telecom vendor is currently focused on the business demarcation product line and is expected to contribute revenues in 2012.



Medical Division

Our distribution business continues to grow and perform as expected. We are now looking to expand it further into Bulgaria with the help of one of our major diagnostic vendors. We expect this move to have a positive contribution beginning in the second half of 2012.

Our sterilization business managed to finish strongly in 2011. We expect this trend to continue into 2012. The sales of the Integrated Shredder Sterilizer (ISS) to treat medical waste exceeded our revenue expectations, which were reported in the interim results. We continue to expand our marketing efforts on the success of this new product. In addition, we have recently received certification to sell our sterilizers in the domestic market in Israel. We plan to take advantage of these early successes for increased revenue in 2012.

The diagnostics business continues to require the vast majority of our investment in the Medical division and continued to make significant losses. As reported, the process to complete testing, certification and manufacturing will continue at least until the end of 2012. In the meantime, we remain fully committed to make the necessary investment and are confident that during the course of 2012 we will start seeing the results of these investments. This business has considerable potential and we will continue to monitor its progress closely to ensure that the potential is maximised.

Analitical & MedicalL Solutions
for all Laboratories

Registration of Shares in Tel-Aviv

Following our last update we received approval to delay our listing on the Tel-Aviv Stock Exchange. The Board has now decided to move ahead and hope to have a dual listing before the end of the first-half of 2012. We believe that this move will improve both visibility of the company and opportunities which may benefit the Company and its shareholders.

Dividends

In light of the results for the year and the Israeli Companies Law that permits distribution of dividends only from net profits during the last 2 years, the Board is not proposing the payment of a dividend for the year. We remain confident that we will be able to return to our progressive dividend policy as the results of our trading strategy produce the anticipated results.

Current Trading and Prospects

Total revenues in the first quarter of 2012 (Q1) were $24.9 million, slightly ahead of our plan, and compared with $27.4 million on a like for like basis for the equivalent period in 2011, which excludes revenues from the discontinued legacy telecom business.

During the first quarter of the year the sales mix was 52% from the Telecoms division and 48% from the Medical division compared to 66% and 34% respectively in the first quarter of 2011. Gross margin was lower during the first quarter of 2012 than over the same period of 2011 as a result of a higher mix of Medical sales but nonetheless met the company's internal targets. Significant improvement in gross margin was achieved in the Medical division over the same period last year despite the fact that we are still in the early stages of production in our diagnostic division.

BATM has achieved its goals for the first quarter and significant progress has been made in the Medical Division.

Despite the challenging commercial macro environment we believe we are on track to achieve our strategic, operating and financial targets for the full year and remain cautiously optimistic regarding the outlook for both of our divisions in the medium term.

Financial Statements

The directors present their report together with the audited financial statements for the year ended 31 December 2011.

Results and Dividends

The results of the year are set out in the consolidated profit and loss account. After providing $6.7 million amortization of intangible assets for the year and one write off inventory of $2.2 million, we recorded a loss of $3.7 million attributable to owners of the company.

The Board is not proposing a dividend this year.

Directors

The following served as directors during the year and are currently serving:

Peter Sheldon OBE, JP, FCA, (70), non-executive Chairman, is a Chartered Accountant and International Business Consultant. He is a former finance director of Hambros Bank and has held positions as Chairman and Director of a number of UK publicly quoted and private companies. His quoted company appointments have included UDS Group; World of Leather; Stirling Group and Geo Interactive Media (now Emblaze). He is currently heavily involved in the charitable sector in a voluntary capacity. He has been a member of the Board of BATM since 1998 and became Chairman in October 1999. He was awarded an OBE in Her Majesty the Queen's 2010 New Year Honours.

Dr. Zvi Marom
Chief Executive Officer

Dr. Zvi Marom (57), Chief Executive Officer, founded BATM in 1992. He holds degrees in Engineering and Medicine. Prior to establishing BATM, he was the head of the Electronic faculty of the Israeli Open University and senior consultant to several industrial and academic institutions. He graduated in excellence from the naval academy and served in combat command posts. He was awarded the Techmark "Technology Man of the Year" award from the London Stock Exchange in 2000. He is currently a director of Shore Capital, a UK listed company.

Ofer Bar-Ner
Chief Financial Officer

Ofer Bar-Ner (47), Chief Financial Officer, joined BATM in 1999. From 1996 he was Chief Financial Officer of Silver Arrow LP, a subsidiary of Elbit Systems and EL-OP, and between 1989 and 1993 he was group manager in the finance department of Elbit. He graduated in Industrial Engineering and Management from the Technion in Haifa and has an MBA and MA in accounting from Northeastern University in Boston, MA.

Dr. Gideon Chitayat (73), non-executive director, is currently Chairman of Delta Galil Industries and Honigman. Dr. Chitayat has served as a director for Teva Pharmaceutical Industries and Bank Hapoalim among others. He has provided consultancy services to the Board and Vice-Presidents of Companies including Teva Pharmaceuticals Industries, Amdocs, Israel and Bank Mizrahi. He holds a Ph.D. in Business & Applied Economics from the University of Pennsylvania and a Masters in Business & Applied Economics from the Hebrew University, Jerusalem and joined the Board of BATM in June 2010.

Amos Shani (63), non-executive external director, is an entrepreneur with 30 years of experience in the Semiconductors sector, with an emphasis on Processors, Networking, Audio/Video compression, Wireless multimedia as well as Systems and Consumer Electronics sectors. He is a former Division Engineering Manager for Intel, Israel. Amos holds a BSEE from Tel Aviv University and joined the Board of BATM in June 2010.

Corporate Governance

The company is committed to high standards of corporate governance and the Board is accountable to the company's shareholders for such governance. The Board reviews carefully all new regulations relating to the principles of good corporate governance and practice and endeavours to apply them where applicable. It also reviews carefully any comments received from independent reviewing agencies and shareholders and communicates with them directly. The company believes that the combination of the experience of its Chairman, Peter Sheldon, in the UK markets and its senior independent Director, Gideon Chitayat, in the Israeli market provides the company with the relevant leadership to address its position as an Israeli company that is traded on the UK exchange.

This statement describes how the principles of corporate governance are applied and the company's compliance with the 2006 FRC Combined Code for Corporate Governance (the "Code") appended to the Listing Rules of the UK Listing Authority.

Compliance with the 2006 FRC Combined Code

Throughout the year ended 31 December 2011, and through to the date of approval of the financial statements, the Board considers that the company has complied with Section 1 of the Code. The company has applied the Principles of Good Governance set out in Section 1 of the Code by complying with the Code of Best Practice as set forth below and in the Remuneration Report below. Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report.

In addition, as outlined below, the Company's responsibilities under Israeli company legislation is such that it is obliged to appoint two independent non-executive directors (defined as "external directors" within Israeli law), who must be appointed for a minimum of one three year term, and who cannot serve for more than two three year terms each. With the exception of the "external" non-executive directors who serve for a period of three years in accordance with Israeli company law, all directors have to be re-elected by the shareholders at an AGM, if proposed for re-election.

The new independent non-executive directors defined as external directors was Mr. Amos Shani and Dr. Amiram Mel Mr. Shani was appointed in July 2010 and Dr. Mel in March 2011. On February 27, 2012, Dr Mel informed the Board that as a result of an appointment with a key customer of the Company, he no longer considered it appropriate to continue as a Director of the Company. Accordingly, he has resigned with effect from February 2012. The Board is currently seeking a replacement for this vacancy.

The Company believes that as a result of the Israeli corporate law that limits the term of the external directors, it is essential to maintain a number of long serving directors who may serve for more than the ten year period recommended under the Code, in order to provide continuous experience and knowledge. During the last two years the company retained two senior Executives from large US Corporations to serve on its board of Directors, Roger Lacey and Dr. Amiram Mel. However, as a result of the regulatory environment in the USA it became impossible for them to continue to serve on the company's board. Therefore, we believe that the leadership of our Chairman at this time and his experience in the UK regulatory environment is extremely valuable to the board.

The Board

In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance. Board and committee activities in 2011 were as follows:

	Meetings	Written Consent	Attendance
Board of Directors	5	-	Note 1
Audit Committee	5	-	Note 2
Remuneration Committee	2	-	
Nominations Committee	1	-	

Note 1) All directors attended 100% of the Board meetings, other than Amos Shani and Amiram Mel who were absent from one meeting during 2011 for personal reasons and Peter Sheldon who was absent from one meeting because of illness.

Note 2) All Audit Committee members attended 100% of meetings other than Amos Shani and Amiram Mel who were absent from one meeting during 2011 for personal reasons.

There is not a formal schedule of matters specifically reserved to the Board for decision, as set out in A.1.1 of the Code, however, provisions in the Israeli company legislation set out the responsibilities and duties of and areas of decision for the Board which includes approval of financial statements, dividends, Board appointments and removals, long term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements. The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the company's position, lies with the Board. These provisions have been fully complied with.

The Board comprises six directors, four of whom are non-executive directors, under the chairmanship of Peter Sheldon. The Chief Executive is Dr. Zvi Marom. The senior non-executive director is Dr. Gideon Chitayat. The Board's members have a wide breadth of experience in areas relating to the company's activities and the non-executive directors in particular bring additional expertise to matters affecting the company. All of the directors are of a high calibre and standing. The biographies of all the members of the Board are set out on page 13. The interest of the Directors in the Company and their share holdings are set out on page 26. All the non-executive directors are independent of management and not involved in any business or other relationship, which could materially interfere with the exercise of their independent judgment.

The induction of newly elected directors into office is the responsibility of the senior independent director (presently Dr. Gideon Chitayat). The new directors receive a memorandum on the responsibilities and liabilities of directors as well as presentations of all activities of the company by senior members of management and a guided tour of the company's premises. All directors are invited to visit the company premises and its manufacturing facilities.

Each month every director receives a detailed operating report on the performance of the Company in the relevant period, including a Balance Sheet. A fuller report on the trading and quarterly results of the company is provided at every board meeting. Once per year a budget is discussed and approved by the Board for the following year. All directors are properly briefed on issues arising at Board meetings and any further information requested by a director is always made available.

Under Israeli law it is not a mandatory requirement for a company to have a secretary and the company does not therefore have a formally appointed secretary. However, Mr. Arthur Moher, who is also one of the company's legal advisers, provides the company with all the functions of company secretary and all the directors have access to Mr. Moher's services. The directors are therefore of the opinion that the spirit of A.1.4 of the Code has been complied with.

The directors may take independent professional advice at the Company's expense in furtherance of their duties. Independent outside counsel is present at every Board meeting and Board committee meetings.

Relations with Shareholders

Communication with shareholders is given high priority. The half-yearly and annual results are intended to give a detailed review of the business and developments. A full Annual Report is made available on the Company's website to all shareholders and printed copies made available on request. The Company's website (www.batm.com) contains up to date information on the company's activities and published financial results. The company solicits regular dialogue with institutional shareholders (other than during closed periods) to understand shareholders views. The Board also uses the Annual General Meeting to communicate with all shareholders and welcomes their participation. Directors are available to meet with shareholders at appropriate times.

Committees

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee to deal with specific aspects of the company's affairs.

Audit Committee

The members of the audit committee are Dr. Chitayat, Mr. Shani and until 27 February 2012, Dr. Mel, who retired recently. Each of them has significant financial expertise. The committee's terms of reference include, among other things, monitoring the scope and results of the external audit, the review of interim and annual results, the involvement of the external auditors in those processes, review of whistle blowing procedures, considering compliance with legal requirements, accounting standards and the Listing Rules of the Financial Services Authority, and for advising the Board on the requirement to maintain an effective system of internal controls. The committee also keeps under review the independence and objectivity of the group's external auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors.

The committee has discussed with the external auditors their independence, and has received and reviewed written disclosures from the external auditors regarding independence. During 2009 the external auditors replaced the partner in charge of the audit to comply with their internal independence regulations. Non-audit work is generally put out to tender. In cases which are significant, the company engages another independent firm of accountants to consulting work to avoid the possibility that the auditors' objectivity and independence could be compromised; work is only carried out by the auditors in cases where they are best suited to perform the work, for example, tax compliance. However, from time to time, the company will engage the auditors on matters relating to acquisition accounting and due diligence.

The committee meets at least twice a year, and always prior to the announcement of interim or annual results. The external auditors and Chief Financial Officer are invited to attend all meetings in order to ensure that all the information required by the committee is available for it to operate effectively. The external auditor communicates with the members of the audit committee during the year, without Executive officers present.

The Audit Committee adheres to the functions and requirements prescribed to it by the Israeli Companies Law and Israeli Regulations. The Chairman of the Audit Committee maintains close contact with the company on a regular basis.

Nominations Committee

The Board has a nominations committee which is chaired by Peter Sheldon. The other member of the committee are: Dr. Marom and Dr. Chitayat. Individuals nominated as directors are elected by the shareholders in general meeting. Executive and non-executive directors are elected by the shareholder's General Meeting for a term of one year. Non-executive public "external" directors, as defined by Israeli Company Law, are appointed and elected for a mandatory term of three years, which is renewable for a further term of three years. The re-appointment of a director must be approved by the shareholders in general meeting.

One nomination of a director was made during the year under review which was discussed and recommended by the committee in the year. Notwithstanding this the members of the nominations committee met both independently and together with a number of potential appointees to the Board during 2011 to evaluate potential nominees.

Directors' Remuneration

The Board has a Remuneration Committee, which is currently chaired by Dr. Gideon Chitayat. The other current member of the committee is Mr. Amos Shani. Information of the Company's policy regarding the setting of directors' remuneration together with details of the service contracts of the executive directors and the remuneration of directors is set out in the Remuneration Report on page 23 - 26.

Accountability and Audit

Auditors

Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu, has expressed its willingness to continue in office and a resolution to re-appoint the firm will be proposed at the annual general meeting.

Significant Risks and Uncertainty

The Group has recently entered the Medical and Surveillance sectors. These are new markets in which the Group has relatively little experience. The success of the Group's investments in these sectors is thus uncertain with consequent risk to the amounts invested.

The Group has made acquisitions which do not attain one hundred per cent ownership of the target Companies. As a result certain companies in the group have minority interests, which are usually the local management of the subsidiaries. Relationships with these minority interests are important and carry certain risks.

The Group has several significant indirect sales channels. The loss, or significant scale down, of any one or more of these channels would have a negative impact on the performance of the Group.

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company that has been in place for 2011 and up to the date of approval of the annual report and financial statements. Principal controls are managed by the executive directors and key employees, including regular review by management and the Board of the operations and the financial statements of the Company.

Key Performance Indicators

The company has several key performance measures used internally to monitor and challenge performance and to assist investment decisions. The most important performance indicators in the current and prior years are summarized as follows:

	2011	2010	Change %
Revenue	$127.6m	$120.6m	+ 5.8
Gross profit margin	34.0%	35.4%	- 3.95
R&D spend, net	$13.2m	$12.5m	+ 5.6
Liquid balances	$46.9m	$60.2m	- 22
Profit (loss) per share	(0.92)¢	0.42¢	- 319

Revenues have increased due to the expansion of the Medical business.

The gross profit margin has decreased primarily due to write off of $2.2 million inventory related to the telecom legacy business, which is being discontinued.

Corporate Strategy

BATM strategy is based on building two strong technology divisions - the Telecom division and the Medical division - into leading entities, supplying the highest quality and cost effective innovative products in their respective fields.

BATM is growing its networking division to be an important provider of access solutions. In the medium term the division is focused on providing groundbreaking technologies in a cellular centric video rich world. This includes expanding the offering to a full access service oriented solution and technological breakthroughs in delivering large scale streams of secured video and data at speeds of 10Gbps and up.

The division is now working closely with customers to define needs in LTE based applications, as well as applications for cloud based networks. Some of these applications are envisaged to reach the markets during 2012.

The Medical division is focused on becoming an important provider of diagnostics and stirilization laboratory equipment. The division is built on high reliability, fast and easy to operate equipment for small diagnostic laboratories with an emphasis on emerging markets. In addition, the division launched an innovative product to treat medical waste in laboratories and hospitals.

The division's products are highly sophisticated, environmental friendly and very cost effective. BATM Medical has partnerships with reagent manufacturers and academic institutions to guarantee an innovative, "one stop shop", flexible offering to its customers. The Medical division plans to announce some unique produce offerings during 2012.

Future Developments

Management intends to continue to invest significantly in R&D and sales and marketing activities in order to further the organic growth of the business. In addition, Management intends to make niche acquisitions to strengthen the Group's position in the Telecom and Medical markets.

Internal Control

The Board of directors has overall responsibility for ensuring that the Company maintains adequate systems of internal control. To this end, in accordance with Israeli Company Law, the company has appointed and retains the services of an independent qualified internal auditor. Each year, the audit committee reviews with the internal auditors potential risks and proposed plan for their scope of work. The audit committee usually selects at least two areas of focus for each year. Following a completion of the report they send it to all directors and present their findings to the audit committee The audit committee then reports back to the board on any major findings.

Risk management is currently reviewed on an ongoing basis by the Board as a whole.

The key features of the financial controls of the company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures. The Board of the Company is furnished with detailed financial information on a monthly basis.

The main elements of internal control currently includes:

- **Operating Controls:** The identification and mitigation of major business risks on a daily basis is the responsibility of the executive directors and senior management. Each business function within the Company maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the company's standards and guidelines. These include procedures and guidelines to identify, evaluate the likelihood of and mitigate all types of risks on an ongoing basis.

- **Information and Communication:** The Company's operating procedures include a comprehensive system for reporting financial and non-financial information to the directors. Financial projections, including revenue and profit forecasts, are reported on a regular basis to senior management against corresponding figures for previous periods. The central process for evaluating and managing non-financial risks is monthly meetings of business functions, each involving at least one director, together with periodic meetings of executive directors and senior management.

- **Finance Management:** The finance department operates within policies approved by the directors and the Chief Financial Officer. Expenditures are tightly controlled with stringent approvals required based on amount. Duties such as legal, finance, sales and operations are also strictly segregated to minimize risk.

- **Insurance:** Insurance cover is provided externally and depends on the scale of the risk in question and the availability of cover in the external market.

Conflicts

Throughout 2011 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2011 no conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable laws and regulations. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS). Company law requires the directors to prepare such financial statements.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the Listing Rules and the Disclosure and Transparency rules.

Legislation in Israel governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole;

2. the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Corporate, Social and Environmental Responsibilities

The Company endeavours to be honest and fair in its relationships with customers and suppliers, and to be a good corporate citizen respecting the laws of the countries in which it operates. The Company is accountable to its shareholders but also endeavours to consider the interests of all of its stakeholders, including its employees, customers and suppliers, as well as the local communities and environments in which the Company operates. In this context the company takes regular account of the significance of social, environmental and ethical matters to its operations as part of its regular risk assessment procedures, with such matters regularly considered by the executive directors.

The Board is committed to monitoring the Company's corporate social responsibility policies in key areas. Management monitors the Company's day-to-day activities in order to assess risks in these areas and identify actions that may be taken to address those risks. At present, the Board does not consider it appropriate to link the management of these risks to remuneration incentives, given the difficulties in measuring the changes to those risks objectively. Given the Company's relatively low social and environmental impact, the Company believes that there are few risks to its short and long term value proposition arising from these matters, although it considers the potential to deliver greater value by responding to these issues appropriately. The Board believes the Company has adequate information to assess these matters, and effective systems for managing any risks. The Company's website includes a section dedicated to corporate ethical, employment and environmental issues.

Whilst the Board considers that material risks arising from social, ethical, employment and environmental issues are limited, given the nature of the Company's business, policies have been adopted in key areas to ensure that such risks are limited. Examples of policies and practices in these areas are given below.

Employment Policies

BATM employs approximately 750 people and in order to continue to grow as a business, the Company needs to continue to recruit and retain only the best talent. Therefore it is the Company's policy to pursue practices that are sensitive to the needs of its people. The Company strives for equal opportunities for all of its employees, including disabled employees, and does not tolerate harassment of, or discrimination against, its staff. The Company's priorities are:

- Providing a safe workplace with equality of opportunity and diversity through our employment policies.
- Encouraging our people to reach their full potential through career development and promotion from within where possible.
- Communicating openly and transparently within the bounds of commercial confidentiality, whilst listening to our people and taking into account their feedback.
- Recognizing and rewarding our people for their contribution and encouraging share ownership at all levels.

The Company respects the rule of law within all jurisdictions in which it operates and supports appropriate internationally accepted standards including those on human rights. The Company's equal opportunities policies prohibit discrimination on grounds such as race, gender, religion, sexual orientation or disability. This policy includes, where practicable, the continued employment of those who may become disabled during their employment. The Company's policies strive to ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit, and continued development of the Company is made with the maximum involvement and input from employees practicable.

Employees with Disabilities

The Company's policy is to give full and fair consideration to suitable applications from people with disabilities for employment. If existing employees become disabled they will continue to be employed, wherever practicable, in the same job or, if this is not practicable, every effort will be made to find suitable alternative employment and to provide appropriate training.

Environmental Policies

The Directors recognize the importance of the Group adhering to clear environmental objectives.
Its environmental policy is to:

- Meet the statutory requirements placed on it;
- Adopt good environmental practice in respect of premises, product development and manufacturing, and consumption of resources;
- Aim to recycle as much of its waste products as it is economically practicable to do.

The Company has programs to reduce its electricity and fuel consumption.

In addition the Company designs certain product lines that are designed to reduce energy consumption and waste production. Recently the company launched a new product, in the medical division, to treat medical waste and convert it into normal waste. The successful launch of the product into dialysis centers, laboratory and hospitals and the relevant environmental certifications will position the company as a leader in this field.

The Company has implemented the recommendations of ROHS (The Restriction of Hazardous Substances) in Electrical and Electronic Equipment (ROHS) Directive (2002/95/EC), and as of the year 2008, all of its products are fully ROHS certified.

The company is ISO 14000 certified.

Ethical Business Practices

BATM is a development and sales company based in Israel with overseas sales, manufacture and development operations. All employees are expected to behave ethically when working for the Company and this is reflected in our policies which are disseminated to all of our employees.

Charitable Policies

BATM maintains a number of small charitable giving policies.

The Company actively encourages every employee to work to further charitable goals.

Community Involvement

BATM is involved with a number of community projects. These include involvement with local charitable organizations and hospitals that are designed to help bridge socio-economic divides and help the sick.

Introduction

This report sets out BATM Advanced Communication's Executive remuneration policy and details Directors' remuneration and benefits for the financial year under review. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved. In accordance with Israeli company law, the Board recommends and the general meeting of the Company is asked to approve, the remuneration of the executive and non-executive directors of the company, after it has been first approved by the company's Remuneration Committee.

The regulations also require the auditors to report to the Company's members on certain information within this report and to state whether in their opinion that part of the report has been properly prepared with IFRS. The report is therefore divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the Combined Code. The committee consists of three out of the four non-executive directors and excludes the chairman as is required under Israeli Company Law. Since June 2010 the Committee has been chaired by Dr. Gideon Chitayat and its other members were Mr. Amos Shani and since March 2011 Dr. Amiram Mel. None of the Committee members has any personal financial interests (other than as a shareholder), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

None of the Directors plays a part in any determination of his own remuneration.

The Committee met twice during the financial year. It has responsibility for making recommendations to the Board on the Company's policy on staff remuneration and for the determination, within agreed terms of reference, of specific remuneration packages for the Chairman of the Company and each of the Executive Directors (including pension rights and any compensation payments).

The primary responsibilities of the Committee are to ensure:

1. That individual pay levels for executive directors should generally be in line with levels of pay for executives in similar companies with similar performance achievement and responsibilities.

2. That share option and bonus schemes should be set at a level that provides sufficient incentive to the executive to produce results that will reflect and exceed the board's expectations.

3. That total pay and long term remuneration will be sufficient to retain executives who perform.

4. That aggregate pay for all executive directors is reasonable in light of the company's size and performance.

Remuneration policy

Executive remuneration packages are:

- designed to attract, motivate and retain Directors of the calibre needed to maintain the Company's position as a market leader within the Telecoms and Medical industry;
- designed to align the interests of Executives with shareholders;
- constructed with a substantial performance-related element set against appropriately demanding targets.

The performance measurement of the Executive Directors and the determination of their annual remuneration packages, are undertaken by the Committee.

The remuneration of the Non-Executive Directors is determined by the Board. In determining the Directors' remuneration for the year the Committee consulted the Executive Directors and other senior management, about its proposals.

There are currently four main elements of the remuneration package for Executive Directors:

(a) basic salary;

(b) social benefits (including pension arrangements);

(c) annual bonus payments and

(d) share options incentives.

The Company's policy is that an appropriate proportion of the potential remuneration of the Executive Directors should be performance related, whilst ensuring that basic pay and other benefits are sufficient to recognise the contribution of the director and his/her responsibilities.

Basic salary

An Executive Director's basic salary is normally reviewed at the end of the term of the Executive's service contract, and paid as a fixed cash sum monthly. In some cases, due to social cost implications, part of the basic salary is paid annually in the form of a seniority payment. The Committee, in determining salary adjustments, considers increased responsibilities such as the size of the Group, individual performance and contribution, and market pressures.

At the Extraordinary General Meeting ("EGM") held on March 9, 2011 the shareholders approved a new service contract and a salary increase of $20,000 per year for the Chief Executive Officer Dr. Zvi Marom.

Social benefits (including pension arrangements)

BATM rewards Executive Directors with social benefits that are common in the local employment environment, and can confer tax benefits. These can include Pension Contributions, Education Fund contributions and availability of a Company car.

Annual bonus payments

The Directors believe that retaining a workforce which is motivated to achieve the Group's objectives is fundamental to its continued prosperity. Accordingly, Executive Directors are eligible to participate in a performance related annual bonus scheme. The maximum potential bonus for any individual, together with the associated performance measures and targets, is set by the Committee. The bonus for the two executive directors is based on the company's profit only. The board believes that this target aligns correctly their targets with the interests of the company's shareholders.

In accordance with his service contract which expired at the end of 2010 Dr. Marom was entitled to a bonus based on a percentage of Net Profit before amortization and bonus ("Relevant Profit") on the following basis:

1. If profit increases by between 50% and 100% over the preceding year, 2.75% of Relevant Profit.
2. If profit increases by over 100% over the preceding year, 3.75% of Relevant Profit.
3. If nether paragraph 1 nor 2 apply, 1.75% of relevant profit.

At the Extraordinary General Meeting held on March 9, 2011 the shareholders approved a new service contract for Dr. Marom, which retains the same bonus arrangements as his previous contract but introduces a cap on the bonus of four times basic salary.

In accordance with his existing service contract which expires 11 March 2013. Mr. Bar-Ner is entitled to a bonus on Net Profit targets calculated as follows:

- If profit increased by up to 50% on the preceding year, one sixth of annual salary
- If profit increased by between 50% and 100% on the preceding year, 25% of annual salary
- If profit increased by over 100% on the preceding year, 50% of annual salary

Bonus Cap

The aggregate bonus of Dr. Zvi Marom shall in no event exceed four times his annual salary.

The aggregate bonus of Mr. Ofer Bar Ner shall in no event exceed 50% of his annual salary.

Share options incentives

The Group operates the BATM Share Option Scheme ('Company Scheme') which is constituted by rules, and includes a section which has been approved by the Israeli tax authorities ('Approved Scheme').

As a result of the board decision to grant options to the Chief Executive Officer only when the EBITDA margin is at least 12%, no options were granted to him during the year.

Directors have options under grants from previous years that vest over the course of three years.

Audited information

The table of Directors' remuneration is set out below and is consistent with note 36 to the financial statements.

Remuneration policy

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance bonus $000	2011 Total $000	2010 Total $000
Zvi Marom	300	24	7	47	378	340
Ofer Bar Ner	170	24	8	-	202	177
Peter Sheldon	44	-	-	-	44	43
Gideon Chitayat	44	-	-	-	44	22
Amos Shani	20	-	-	-	20	10
Amiram Mel	30	-	-	-	30	-
Dan Kaznelson	-	-	-	-	-	15
Ariella Zochovitzky	-	-	-	-	-	25
Koti Gavish	-	-	-	-	-	25

Table B – Interests of the Directors

The interests of the Directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2011 were as follows:

	2011 Ordinary shares	2010 Ordinary shares
Zvi Marom	93,494,500	92,044,500
Ofer Bar Ner	150,000	-
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Amos Shani	-	-

Table C – Share Options

Options to subscribe for or acquire ordinary shares of the Company were held by the following Directors during the year.

	As at 01 Jan 11	Granted	Exercised	Lapsed	As at 31 Dec 11	Exercise price	Expiry date
Ofer Bar Ner	330,000	-	-	330,000	-	0.279	31/12/2011
Ofer Bar Ner	250,000	-	-	250,000	-	0.407	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2012
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2013
Ofer Bar Ner	333,333	-	-	-	333,333	0.270	07/06/2012

At the AGM, held on 22 June 2010 the shareholders approved that a loan be granted to the CFO totalling $200,000, repayable without interest in four annual instalments. As of 31 December 2011 the loan balance is $100,000.

Deloitte.
Brightman Almagor Zohar

Independent Auditors' Report To the Shareholders of BATM Advanced Communications Ltd.

We have audited the accompanying consolidated statements of financial position of BATM Advanced Communications Ltd. ("the Company") as of December 31, 2011 and 2010 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 2% of total consolidated assets as of December 31, 2011 and 2010, respectively, and whose revenues included in consolidation constitute approximately 6% and 4% of total consolidated revenues for the years ended December 31, 2011 and 2010 respectively. The financial statements of those companies were audited by other auditors, whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the company and its subsidiaries as of December 31, 2011 and 2010, and the results of operations, changes in equity and the cash flows of the Company and its subsidiaries for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards (IFRS).

Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

30 April 2012

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Consolidated Income Statements

	Note	Year ended 31 December	
		2011	2010
		US$ in thousands	
Revenues	5,6	127,634	120,578
Cost of revenues	7b	84,226	77,905
Gross profit		43,408	42,673
Operating expenses			
Sales and marketing expenses		16,284	15,332
General and administrative expenses		10,495	9,241
Research and development expenses	7a	13,194	12,450
Other operating expenses		6,715	4,517
Total operating expenses		46,688	41,540
Operating profit (loss)		(3,280)	1,133
Finance income	9	1,126	1,549
Finance expenses	10	(1,928)	(1,652)
Profit (loss) before tax		(4,082)	1,030
Income tax expenses	11	(885)	(836)
Profit (loss) for the year		**(4,967)**	**194**
Attributable to:			
Owners of the Company		(3,720)	1,699
Non-controlling interests		(1,247)	(1,505)
Profit (loss) for the year		**(4,967)**	**194**
Earnings (loss) per share (in cents) basic and diluted	13	**(0.92)**	**0.42**

Consolidated Statements Of Comprehensive

	Year ended 31 December	
	2011	2010
	US$ in thousands	
Profit (loss) for the year	(4,967)	194
Exchange differences on translating foreign operations	(1,621)	(4,911)
Total Comprehensive of the year	**(6,588)**	**(4,717)**
Attributable to:		
Owners of the Company	(6,287)	(4,312)
Non-controlling interests	(301)	(405)
	(6,588)	**(4,717)**

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

Consolidated Statements Of Financial Position

	Note	31 December	
		2011	2010
		US$ in thousands	
Non-current assets			
Goodwill	14	11,616	11,300
Other intangible assets	15	14,539	19,798
Property, plant and equipment	16	25,153	25,943
Deferred tax assets	22	5,525	5,122
		56,833	62,163
Current assets			
Inventories	19	24,297	19,470
Financial assets	18,21	23,883	38,079
Trade and other receivables	20	27,529	30,900
Cash and cash equivalents	18	23,012	22,087
		98,721	110,536
Total assets		**155,554**	**172,699**
Current liabilities			
Short-term bank credit		6,770	6,135
Trade and other payables	23	27,441	27,900
Provisions	24	2,507	3,190
		36,718	37,225
Net current assets		62,003	73,311
Non-current liabilities			
Long-term liabilities	23	(*) 6,019	(*) 9,937
Deferred tax liabilities		(*) 1,538	(*) 1,903
Retirement benefit obligation	35	1,001	884
		8,558	12,724
Total liabilities		**45,276**	**49,949**
Net assets		**110,278**	**122,750**
Equity			
Share capital	25	1,215	1,215
Share premium account	26	406,892	406,504
Foreign currency translation reserve and other reserves	27	(13,073)	(8,798)
Accumulated Deficit	28	(286,088)	(277,236)
Equity attributable to:			
Owners of the Company		108,946	121,685
Non-controlling interests		1,332	1,065
Total equity		**110,278**	**122,750**

(*) Reclassified

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

The financial statements were approved by the board of directors and authorised for issue on 30 April 2012.
They were signed on its behalf by:

Dr. Z. Marom
CEO

O. Bar-Ner
CFO

Consolidated Statements Of Change In Equity

	Share capital	Share Premium account	Translation reserve	Other reserves	Accumulated Deficit	Attributable to owners of the parent	Non-controlling interest	Total equity
	US $ in thousands							
Balance as at 1 January 2010	1,214	405,961	(4,015)	786	(270,808)	133,138	1,912	135,050
Exercise of share based options by employees	1	117	-	-	-	118	-	118
Recognition of share-based payments	-	426	-	-	-	426	-	426
Non-controlling interest acquired	-	-	-	442	-	442	(442)	-
Dividend	-	-	-	-	(8,127)	(8,127)	-	(8,127)
Comprehensive loss for the year	-	-	(6,011)	-	1,699	(4,312)	(405)	(4,717)
Balance as at 31 December 2010	**1,215**	**406,504**	**(10,026)**	**1,228**	**(277,236)**	**121,685**	**1,065**	**122,750**
Exercise of share based options by employees	-	62	-	-	-	62	-	62
Recognition of share-based payments	-	326	-	-	-	326	-	326
Non-controlling interest acquired	-	-	(889)	(819)	-	(1,708)	568	(1,140)
Dividend	-	-	-	-	(5,132)	(5,132)	-	(5,132)
Comprehensive loss for the year	-	-	(2,567)	-	(3,720)	(6,287)	(301)	(6,588)
Balance as at 31 December 2011	**1,215**	**406,892**	**(13,482)**	**409**	**(286,088)**	**108,946**	**1,332**	**110,278**

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

Consolidated Cash Flow Statements

	Note	Year ended 31 December	
		2011	2010
		US$ in thousands	
Net cash from operating activities	31	**3,138**	**12,481**
Investing activities			
Interest received		887	612
Proceeds on forward transactions		-	1,154
Proceeds on disposal of held to maturity investments		-	4,316
Proceeds on disposal of financial assets carried at fair value through profit and loss		6,515	13,108
Proceeds on disposal of deposits		46,150	38,427
Purchases of property, plant and equipment		(1,672)	(6,392)
Proceeds on disposal of property, plant and equipment		134	-
Purchase of forward transaction		-	(1,099)
Purchases of financial assets carried at fair value through profit and loss		-	(20,221)
Purchases of deposits		(41,647)	(39,727)
Purchases of other business combinations	29	(3,418)	(171)
Net cash from (used in) investing activities		**6,949**	**(9,993)**
Financing activities			
Dividends paid to owners of the Company		(5,132)	(8,127)
Tax on dividend		(694)	(637)
Increase (decrease) in short-term bank credit		366	(1,761)
Bank loan received		-	1,500
Bank loan repayment		(2,717)	(1,032)
Non-controlling interest acquired	30	(767)	-
Proceeds on issue of shares		62	118
Net cash used in financing activities		**(8,882)**	**(9,939)**
Increase (decrease) in cash and cash equivalents		**1,205**	**(7,451)**
Cash and cash equivalents at the beginning of the year		**22,087**	**28,095**
Effects of exchange rate changes on the balance of cash held in foreign currencies		(280)	1,443
Cash and cash equivalents at the end of the year		**23,012**	**22,087**

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

Note 1 - General Information

BATM Advanced Communications Ltd. ("the Company") is a company incorporated in Israel under the Israeli Companies law. The address of the registered office is P.O.B. 7318, Nave Ne'eman Ind. Area 4, Ha'harash Street, 45240 Hod Hasharon, Israel. The Company and its subsidiaries ("the Group") are engaged mainly in the research and development, production and marketing of data communication products in the field of Metropolitan area networks. In addition the Group is operating in the medical diagnostics market. The medical diagnostics division of the Group ("BATM Medical") is engaged in the research and development, production, marketing and distribution of medical products, primarily laboratory diagnostics and sterilization equipment.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Note 2 - Application of new and revised International Financial Reporting Standards (IFRSs)

New and revised IFRSs applied with no material effect on the consolidated financial statements.

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IAS 24 Related Party Disclosures (as revised in 2009)	The IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. Specifically, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard whilst such entities were not treated as related parties of the Group under the previous Standard. The related party disclosures set out in note 36 to the consolidated financial statements have been changed to reflect the application of the revised Standard. Changes have been applied retrospectively.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

New and revised IFRSs in issue but not yet effective
The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

On 16 December 2011, the international accounting standards Board ("IASB" or the "Board") issued mandatory effective date of IFRS 9 and Transition Disclosures ("the amendments"), deferring the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 Financial Instruments to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after first January 2013. The amendments continue to permit early application.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of IFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in C Plus Limited that is currently classified as the Group's associate may become the Group's subsidiary based on the new definition of control and the related guidance in IFRS 10). In addition, the application of IFRS 11 may result in changes in the accounting of the Group's jointly controlled entity that is currently accounted for using proportionate consolidation. Under IFRS 11, a jointly controlled entity may be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 January 2012.

Note 3 - Significant Accounting Policies

Basis of accounting

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

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, liabilities for employee benefits and forgivable loans, and inventory. The principal accounting policies adopted are set out below.

The going concern basis has been adopted in preparing the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values which is calculated as the sum of the acquisition-date fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statements. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.
- revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts (see below).

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Long-Term contracts

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in the US dollar, which is the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (operations in foreign currencies) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation reserves are recognised as income or as expense in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Forgivable loans are loans which the lender undertakes to waive repayment under certain prescribed conditions. In a case where Government grants takes the form of a forgivable loan, a liability is recognized in regards to this loan at fair value, based on estimations of future cash flows arising from the relevant grant. It is the Group's policy to designate all such loans as financial instruments measured at fair value through profit and loss under IAS 39, as such all changes in the fair value of such a liability are recognized in the income statement.

Government grants towards research and development costs are netted against related expenses over the periods necessary to match them with the related costs.

Operating profit

Operating profit is stated before investment revenues, other gains, finance cost and impairment of financial instruments.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet on a historical cost basis, being the historical cost at the date of acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production, administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2-4%
Fixtures and equipment	10%
Motor Vehicles	15%
Computers and Manufacturing equipment	10-33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Judgement is needed to determine whether a property qualifies as investment property. An entity is required to develop criteria so that it can exercise that judgement consistently in accordance with the definition of investment property in IAS 40. Where such a classification is unclear, the Group gives primary weighting to the intention of management. Therefore if an asset is designated for future operational use it is not designated as investment property.

Intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Acquired intangible assets

Acquired intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on the "first-in–first-out" basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial assets

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments are classified as held-for-trading, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

All the Group investments are classified as FVTPL.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 21.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Note 4 - Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 3, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

- Judgments with respect to the classification of the functional currency of entities in the Group.
- Judgments with respect the non-capitalization of development expenses.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of Intangible Assets and goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $ 11.6 million. (2010: $ 11.3 million), see notes 14 and 15.

Judgments with respect to the calculation of tax provision

The Group operates a number of companies in varying tax jurisdictions. Each jurisdiction has its own tax regime, and the differences are often complex. In assessing the tax liability in each Company management are required to exercise judgement as to the liabilities that may arise in these differing regimes.

Judgments with respect to actuarial assumptions

The assessment of actuarial assets and liabilities requires management to exercise judgement in regards to a number of underlying assumptions including the rate of future pay rises, the rate of leavers and other actuarial assumptions in regards to mortality rates.

Judgments with respect to a liability to the chief scientist

The assessment of the liabilities to the chief scientist requires management to exercise judgement in regards to future royalty-bearing revenues, the total liability at the year-end is $4.8 million.(2010: $4.8 million)

Judgments with respect to deferred tax assets

The company has in 2011 $4.3 million (2010: $4.3 million) deferred tax assets related to tax loss carry-forwards in the US, based on management assumptions on future profits.

Note 5 - Revenues

An analysis of the Group's revenues is as follows:

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Sales of goods	112,650	106,652
Services	14,984	13,926
	127,634	**120,578**

Note 6 - Business and Geographical Segments

Business segments

For management purposes, the Group is organised into two major operating divisions – Telecommunications and BATM Medical. These divisions are the basis on which the Group reports its primary segment information. The principal products and services of each of these divisions are as follows:

Telecommunications – mostly includes the research and development, production and marketing of data communication products in the field of local and wide area networks and premises management systems. Sales for this segment are global.

BATM Medical – engaged in the research and development, production, marketing and distribution of medical products, primarily laboratory diagnostic and sterilization equipment. Sales for this segment are primarily in Europe.

Segment revenues and segment results

Year ended 31 December 2011

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	81,320	46,314	127,634
Operating profit (loss) (*)	6,857	(3,422)	3,435
Other operating expenses	(4,925)	(1,790)	(6,715)
Segment results profit (loss)	1,932	(5,212)	(3,280)
Unallocated			(802)
Loss before tax			(4,082)
Taxation			(885)
Loss for the year			**(4,967)**

Year ended 31 December 2010

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	79,877	40,701	120,578
Operating profit (loss) (*)	7,834	(2,184)	5,650
Other operating expenses	(3,063)	(1,454)	(4,517)
Segment results profit (loss)	4,771	(3,638)	1,133
Unallocated			(103)
Profit before tax			1,030
Taxation			(836)
Profit for the year			**194**

(*) Excluding other operating expenses.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year.

During the financial period sales to significant customers were as follows:

Customer A from the Telecom division:$ 12.6 million (2010: $ 19.4 million).

Segment assets, liabilities and other information

As at 31 December 2011

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Assets	109,188	46,366	155,554
Liabilities	26,764	18,512	45,276
Depreciation and amortizations	6,790	1,980	8,770
Additions to non-current assets	3,019	951	3,970

As at 31 December 2010

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Assets	128,804	43,895	172,699
Liabilities	34,448	15,501	49,949
Depreciation and amortizations	4,432	1,788	6,220
Additions to non-current assets	2,311	4,893	7,204

Revenue from major products and services

The following is an analysis of the Group's revenue from operations from its major products and services.

	Year ended 31 December	
	2011 $'000	2010 $'000
Telecommunication products	70,425	70,291
Software services	10,895	9,586
Distribution of medical products	29,234	23,383
Clinical Chemistry Diagnostic	8,989	10,735
Sterilization products	8,091	6,583
	127,634	**120,578**

Geographical segments

The Group operates in three principal geographical areas – North America, Israel and Europe.

The Group's revenue from external customers and information about its segment assets by geographical location are presented by the location of operations and are detailed below:

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2011 $'000s	2010 $'000s	2011 $'000s	2010 $'000s	2011 $'000s	2010 $'000s
North America	38,564	35,424	28,018	33,931	1,546	718
Israel	41,002	43,937	84,702	98,916	1,616	5,761
Europe	48,068	41,217	42,834	39,852	808	725
Total	**127,634**	**120,578**	**155,554**	**172,699**	**3,970**	**7,204**

Note 7 - Profit for the year

Profit for the year has been arrived at after charging (crediting):

		Year ended 31 December	
		2011 $'000s	2010 $'000s
Net foreign exchange gains (losses)		(1,134)	767
Research and development costs - Gross	(a)	13,194	13,398
Government grants		-	(948)
Depreciation of property, plant and equipment		2,055	2,482
Amortisation of intangible assets included in operating expenses		3,743	3,738
Impairment of intangible assets and goodwill		2,972	-
Cost of inventories recognised as expense (*)	(b)	77,515	70,399
Staff costs (see Note 8)		32,905	31,532
Auditors' remuneration for audit services (see below)		259	257

(*) Most of the cost of revenues comprised by cost of inventories.

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2011 were $25,000 (2010: $18,000).In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2011, were $184,000 and $35,000, respectively (2010: $88,000 and $26,000, respectively).

Note 8 - Staff costs

The average monthly number of employees in 2011 (including executive directors) was 744 (2010: 706).

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	27,270	25,234
Social security costs	4,196	4,949
Other pension costs (see Note 35)	1,439	1,349
	32,905	**31,532**
Executive Directors' emoluments	**580**	**517**

Note 9 - Finance income

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Gain on sale of investment	-	126
Interest on bonds	129	65
Interest on bank deposits	628	455
Foreign exchange differences	-	767
Profit on forward contracts	215	-
Other	154	136
	1,126	**1,549**

Note 10 – Finance expenses

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Loss on forward contracts	-	(784)
Foreign exchange differences	(1,134)	-
Loss on CALL options	-	(225)
Interest on loans	(794)	(643)
	(1,928)	**(1,652)**

Note 11 - Income tax expense

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Current tax	(*) (1,653)	(*) (1,191)
Deferred tax (Note 22)	768	355
	(885)	**(836)**

(*) Including corporate tax on Dividend in 2011 of $694 thousands (2010: $637 thousands) in respect of profits derived from approved enterprise.

Taxation under various laws:

Israel

The Company and its Israeli subsidiaries are assessed under the provisions of the Income Tax Law (Inflationary Adjustments), 1985, pursuant to which the results for tax purposes are measured in Israeli currency in real terms in accordance with changes in the Israeli CPI. On February 26, 2008 the Israeli Parliament approved an act for the amendment of the Income Tax Ordinance (Adjustments Due to Inflation) – 1985, under which the law was terminated on December 31, 2007.

The Company and its subsidiaries are assessed for tax purposes on an unconsolidated basis.

The Company is an "industrial company" as defined in the Israeli Law for the Encouragement of Industry (Taxes) 1969, and, as such, is entitled to certain tax benefits, mainly increased depreciation rates, the right to claim public issuance expenses and the amortization of patents and other intangible property rights as a deduction for tax purposes.

The production facilities of the Company have been granted "approved enterprise" (see below) status for several separate programs under the Law for the Encouragement of Capital Investments, 1959, as amended. Under this law, income attributable to each of these programs (in a manner prescribed in such law and its regulations) is fully exempt from tax for eight to ten years.

Such period of benefits commences on the first year in which the enterprise generates taxable income (The expiry date of the period of benefits is limited to the earlier of twelve years from commencement of production or fourteen years from the date of the approval.) The period of benefits of the first program commenced in 1992 and ended in 2000. The period of benefits of the second program commenced in 1998 and ended in 2007.

One of the Israeli subsidiaries has also been granted an Approved Enterprise status for the construction of the Company's plant at Yokneam, on terms similar to the above mentioned. In addition another of the Israeli subsidiaries has also been granted an Approved Enterprise status with a shorter period of tax benefit. This subsidiary has not yet utilized this tax exemption.

In the event of a distribution of a cash dividend out of tax-exempt income, as mentioned above, the Company (or the subsidiary who has also been granted with an Approved Enterprise status) will be liable to corporate tax at a rate of 10%-25% (depending on the percentage of foreign shareholders in the Company's equity), in respect of the amount distributed. In 2010 the Company and the subsidiary distributed dividends from tax-exempt income.

The above tax benefits are conditioned upon fulfilment of the requirements stipulated by the aforementioned law and the regulations promulgated there under, as well as the criteria set forth in the certificates of approval. In the event of failure by the Company or the subsidiary to comply with these conditions, the tax benefits could be cancelled, in whole or in part, and the Company or the subsidiary would be required to refund the amount of the cancelled benefits, plus interest and certain inflation adjustments.

On 29 December 2010 an amendment to the Israeli Law for the Encouragement of Capital Investments, 1959 was approved by the Israeli Parliament which cancelled the previous tax calculation method and a fixed tax rate was determined on all the productive turnover of the company. The fixed tax rates are as follows:15% in 2011-2012 (Development area 10%), 12.5% in 2013-2014 (Development area 7%), 12% in 2015 and thereafter (Development area 6%). This amendment takes effect from January 1, 2011 and the company has the right to choose to implement the amendment or use the benefits of the previous ruling. The company decided to amend the new amendment.

The company has tax loss carry-forwards of $82.4 million in Israeli subsidiaries which the company didn't create deferred tax in respect of such losses. According to the Israeli law there is no expiry date to use such losses.

On July 25, 2009 an amendment to the Israeli tax law was approved by the Israeli Parliament which reduces the tax rates imposed on Israeli companies of 26% for 2009 and 25% in 2010; this amendment states that the corporate tax rate will be further reduced in subsequent tax years in an incremental fashion such that in 2011 the rate will be 24%, which will reduce to 18% in 2016.

On September 26, 2011 the Israeli social-economic reform committee headed by Professor Manuel Trachtenberg published its recommendations. On December 6, 2011, following the tax reform recommendations of the Trachtenberg Committee, the Knesset passed several changes to the Income Tax Ordinance regarding the reduction of tax burden (Legislative Amendments).

The main features of the new law regarding corporate income tax are as follows:

1. The planned gradual reduction of personal income tax rates and corporate income tax rates from 2012 is abolished.
2. The corporate income tax rate is increased to 25% in 2012.
3. The capital gains tax rates and betterment tax rate are increased to 25% in 2012.

The Company has received final tax assessments for the years up to and including the 2005 tax year. The subsidiaries have not been assessed for tax since their incorporation.

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before having been utilized. Accordingly the future use of these benefits is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. Deferred tax assets of $4.3 million have been recognised in respect of such losses. The total amount remaining to amortise for tax purposes is $75 Million and the amount of brought forward losses is $259.3 Million. According to US law, losses can be carried forward for 20 years. Accordingly, the first portion of the tax losses in the US subsidiary will expire in 2012.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The company has tax loss carry-forwards of $15.8 million in Europe subsidiaries which the company didn't create deferred tax in respect of such losses.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Profit (loss) before tax:	**(4,082)**	**1,030**
Tax expense (income) at the Israeli corporation tax rate of 24% (2010: 25%)	(980)	258
Tax exempt income	(390)	(1,947)
Expenses with unrecognized deferred tax on income or losses	1,678	1,660
Utilization of tax loss carry forward	-	(38)
Tax on dividend in respect of profits derived from approved enterprise	694	637
Different tax rates in foreign regimes and other differences	(117)	266
Tax expense for the year	**885**	**836**

Note 12 - Dividends

The Board of the Company does not recommend to pay a dividend this year in light of the results.

On 15 June 2011 a dividend of 0.80 British pence per share totalling $5.1 million was approved by shareholders at the Company's Annual General Meeting from the accumulated profit of the years 2009-2010, the dividend was paid on 18 July 2011.

On 22 June 2010 a dividend of 1.35 British pence per share totalling $8 million was approved by shareholders at the Company's Annual General Meeting from the profit of the year 2009, the dividend was paid on 26 July 2010.

Note 13 - Earnings (loss) per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December	
	2011	2010
Earnings(loss) for the purposes of basic and diluted earnings per share ($'000s)	(3,720)	1,699
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	402,872,861	402,494,652
Effect of dilutive potential ordinary shares:		
Share options	-	728,180
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**402,872,861**	**403,222,832**
Weighted average number of non-dilutive potential ordinary shares	**651,283**	**82,515**

Note 14 - Goodwill

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The Group has two reportable business segments and goodwill is associated with CGUs within the BATM Medical segment or CGUs within the Telecoms segment. The CGU of BATM Medical at the amount of $ 4,601 thousands (2010: $ 4,721 thousands) has been divided to 3 CGUs: Sterilization, Diagnostic and Distribution. The CGUs within the Telecoms segment remain unchanged.

Sterilization: $2,550 thousands (2010: $2,550 thousands)

Diagnostic: $1,235 thousands (2010: $1,276 thousands)

Distribution: $816 thousands (2010: $895 thousands)

Telco: $1,984 thousands (2010: $1,984 thousands)

Telecoms outsourcing: $4,923 thousands (2010: $4,383 thousands)

Telecoms Hardware: $108 thousands (2010: $212)

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Discount rates of between 10% - 18% have been used which is consistent with the rate used for determining the value of purchased intangibles. Changes in selling prices and direct costs are based on recent history and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates indefinite cash flows based on estimated growth rates. For the purposes of this calculation management have used a revenue growth rates of 3% for years 2-5 and then 0% thereafter, for the Telco CGU and 5%, 5%, 10% and 10% for years 2-5, and then 0% thereafter, for the Telecoms Outsourcing CGU and 10% for years 2-5 respectively, and then have been assumed to remain constant thereafter for the Sterilization and 9%, 10%, 25% and 30% for years 2-5 respectively, and then have been assumed to remain constant thereafter for the Diagnostic and 3%, 3%, 3% and 3% for years 2-5 respectively, and then have been assumed to remain constant thereafter for the Distribution.

Fixed expenses have been assumed to grow at 2% for years 2-5 in the Telecoms Outsourcing CGU and 3.5% for years 2-5, and then have been assumed to remain constant thereafter for BATM Medical. Variable expenses (directly linked to sales) have been assumed to decrease as a constant percentage of sales throughout the forecast period in the BATM Medical CGU's decreasing by 7%, 1%, 1%, 1% and 2% in years 1-5 respectively and have assumed to remain constant thereafter, and to remain constant in the Telecoms Outsourcing CGU. The rates used above reflect historical rates achieved and expected levels for 2011 but then are prudently adjusted for subsequent years.

For details of completion of PPA see note 29.

	2011 $'000s	2010 $'000s
Balance at 01 January	11,300	11,345
Additions in the year	(1) 2,298	-
Impairment	(2) (1,450)	-
Foreign Exchange difference	(532)	(45)
Balance at 31 December	**11,616**	**11,300**

(1) PPA with respect to the additions had not been completed.
(2) Related to the telecom legacy business.

Note 15 - Other intangible assets

	Customer Relationships and Backlog	Technology	Other (*)	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At 1 January 2010	19,272	10,752	2,106	32,130
Effect of translation adjustments	(381)	(266)	(246)	(893)
Acquired on acquisition of subsidiaries	311	-	501	812
At 31 December 2010	19,202	10,486	2,361	32,049
Effect of translation adjustments	(200)	(113)	34	(279)
At 31 December 2011	19,002	10,373	2,395	31,770
Accumulated amortization				
At 1 January 2010	6,229	1,951	627	8,807
Effect of translation adjustments	(158)	(15)	(121)	(294)
Amortization expense	1,908	1,216	614	3,738
At 31 December 2010	7,979	3,152	1,120	12,251
Effect of translation adjustments	(178)	(46)	(61)	(285)
Impairment	771	-	751	1,522
Amortization expense	2,100	1,226	417	3,743
At 31 December 2011	10,672	4,332	2,227	17,231
Carrying amount				
At 31 December 2011	**8,330**	**6,041**	**168**	**14,539**
At 31 December 2010	**11,223**	**7,334**	**1,241**	**19,798**

(*) include R&D in process, Brand name and Non-competition.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives , which range from 1 to 10 years.

Note 16 – Property, plant and equipment

	Land and buildings $'000s	Plant and equipment $'000s	Motor Vehicles $'000s	Furniture and fittings $'000s	Leasehold Improvements $'000s	Total $'000s
Cost						
At 01 January 2010	20,294	10,647	2,928	2,788	1,487	38,144
Additions	5,394	469	171	352	6	6,392
Disposals	-	(432)	(27)	(65)	(601)	(1,125)
Effect of translation adjustment	34	18	5	5	4	66
At 31 December 2010	25,722	10,702	3,077	3,080	896	43,477
Additions	456	716	187	294	19	1,672
Disposals	-	(988)	(258)	(41)	(16)	(1,303)
Effect of translation adjustment	(304)	(71)	(20)	(20)	(6)	(421)
At 31 December 2011	25,874	10,359	2,986	3,313	896	43,425
Accumulated depreciation						
At 01 January 2010	3,636	8,549	587	2,189	1,272	16,233
Depreciation expense	474	985	513	382	128	2,482
Disposals	-	(432)	(27)	(65)	(601)	(1,125)
Effect of translation adjustment	(12)	(29)	(2)	(7)	(6)	(56)
At 31 December 2010	4,098	9,073	1,071	2,499	793	17,534
Depreciation expense	519	671	572	252	41	2,055
Disposals	-	(988)	(154)	(41)	(16)	(1,199)
Effect of translation adjustment	(28)	(61)	(7)	(17)	(5)	(118)
At 31 December 2011	4,589	8,695	1,482	2,693	813	18,272
Carrying amount						
At 31 December 2011	**21,285**	**1,664**	**1,504**	**620**	**80**	**25,153**
At 31 December 2010	**21,624**	**1,629**	**2,006**	**581**	**103**	**25,943**

Note 17 - Subsidiaries

A list of the significant direct and indirect investments in subsidiaries, including the name, country of incorporation, and percent of ownership interest as at 31 December 2011 is presented below.

Name of subsidiary	Country of incorporation	Ownership interest (b)	Date of acquisition
Telco Systems Inc.	United States of America	100%	April 2000
Integral Access Inc.	United States of America	100%	July 2005
Critical Telecom Inc.	Canada	100%	September 2006
Metrobility Optical Systems Inc.	United States of America	100%	June 2006
A.M.S. 2000 (d)	Romania	100%	June 2007
NGSoft Ltd (formerly: NSIcom Ltd)	Israel	100%	October 2007
Sunstring (d)	Cyprus	100%	June 2007
Becor (d)	Moldova	51%	July 2008
ISE (c) (d)	Italy	59.8%	February 2009
Adaltis (a)	Italy	100%	November 2009
Adaltis Global limited (a)	Hong Kong	50%	July 2011
CAT Technologies	Israel	75%	February 2008
Celitron	Hungary	75%	February 2008
Vigilant Technologies Ltd	Israel	100%	November 2008
Vigilant Technologies (UK) Ltd	United Kingdom	100%	November 2008
Vigilant Technologies Inc	United States of America	100%	November 2008
Telco Asia Pacific Limited (a)	Singapore	100%	March 2006
B.T.T. (a)	Israel	100%	March 1999
B.A.T.M. France (a)	France	100%	May 2000
B.A.T.M. land (a)	Israel	100%	December 1994
YAD (d)	Cyprus	100%	June 2007
B.A.T.M. Eshbolot (a)	Israel	100%	November 2009
Eshbolot KFT (a)	Hungary	100%	November 2010
Einaudi 7 (a)	Italy	100%	November 2010

(a) Incorporated by the Company

(b) This represents the indirect economic interest of BATM in the subsidiary. All subsidiaries are controlled by BATM.

(c) During September 2010, Sunstring increased its holding in ISE from 55.6% to 59.8%.

(d) During January 2011 BATM increased its holding in Sunstring from 75% to 100% see note 30.
(Sunstring hold in AMS and YAD-100%, in Becor- 51% and in ISE- 59.8%)

Note 18 – Financial assets, cash and cash equivalents

Financial assets totalling $23.9 million (2010: $38.1 million) presented as current assets include interest-bearing deposits of $20.6 million at 31 December 2011 (2010: $27.1million) and $3.3 million (2010: $11.0 million) include held for trading bonds, structure deposit and forward transactions.

At 31 December 2011, a total of $ 1.5 million of cash deposits was designated as security for short term bank credit and presented in financial assets.

Cash and cash equivalents totalling $23.0 million (2010: $22.1 million) consist of cash deposits less than 3 months.

Note 19 - Inventories

	31 December	
	2011 $'000s	2010 $'000s
Raw materials	7,395	5,752
Work-in-progress	1,479	791
Finished goods	15,423	12,927
	24,297	**19,470**

During the financial year 2011, $ 3,353 thousand of Inventory was impaired, and expensed to the Profit and Loss account (2010: $ 997 thousand). Inventory write down of 2011 including $2,150 thousands one off stock depreciation linked to the curtailment of legacy telecoms activities.

See note 7 for cost of inventories recognised as an expense during the year.

Note 20 - Other financial assets

Trade and other receivables

	31 December	
	2011 $'000s	2010 $'000s
Trade receivable for the sale of goods	22,729	25,434
Participation in research and development: Government of Israel	-	985
VAT	366	231
Tax authorities	320	286
Prepaid expenses and other debtors	4,114	3,964
	27,529	**30,900**

The average credit period taken on sales of goods is 45 days (2010: 43 days). No interest is charged on the receivables. An allowance has been made at 31 December 2011 for estimated irrecoverable amounts from the sale of goods of $1,838,000 (2010: $1,532,000). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value. There are no material receivables over their usual credit period.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Note 21 - Derivative financial instruments

As of 31 December 2011 no foreign exchange forward contracts is open, as of 31 December 2010 the company had foreign exchange forward contracts in the current liabilities totalling $730 thousands.

During February- May 2011 the company wrote six call options to sell total amount of 10 million Euro at exercise rate between 1.340 to 1.396. The expiry date was December 30, 2011. The rate on December 30 2011 was below the exercise rates of the options, therefore the options were not exercised.

During March 2011 the company wrote call option to sell 5 million Euro at exercise rate of 1.450. The expiry date was December 15, 2011. The rate on December 15, 2011 was below the exercise rate of the option, therefore the option was not exercised. The Company received for this option $140 thousands premium which was recorded as finance income.

During March 2011 the company bought call option of $6.5 million at exercise rate of 1.3. The expiry date was June 15, 2011. The rate on December 15, 2011 was above the exercise rate of the option, therefore the option was not exercised. The Company pay for this option $50 thousands premium which was recorded as finance expenses.

During May 2011 the Company invested in two structured instrument, total amount of 2,500 thousands Euro and 2,495 thousands Euro. The structured investments matured on 30 December 2011. Interest of 1.68% p.a. and 1.65% p.a. respectively was receivable on these products; where should the USD / EURO spot on 30 December 2011 have been below 1.3505 and 1.3595 respectively, the instruments would be redeemed in Euro at a conversion rate of 1.3505 and 1.3595 respectively. Should the USD / Euro spot of 30 December 2011 have been above 1.3505 and 1.3595 respectively, the instruments would be redeemed in USD.

As at 31 December 2010 $ 6.7 million was invested in a structured instrument. This balance is measured at fair value. The structured product matures on 30 June 2011. Interest of 1.15% p.a. was receivable on this product; where should the USD / EURO spot on 28 June 2011 have been below 1.335, the instrument would be redeemed in Euro at a conversion rate of 1.335. Should the USD / Euro spot of 28 June 2011 have been above 1.335 the instrument would be redeemed in USD.

Note 22 - Deferred tax assets

The following are the major deferred tax assets recognised by the Group and movements thereon during the current and prior reporting period (see also Note 11).

	Deferred development costs $'000s	Depreciation differences $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Other $'000s	Total $'000s
At 1 January 2010	66	136	179	4,467	-	4,848
Credit (charge) to income	164	(7)	51	(186)	252	274
At 31 December 2010	**230**	**129**	**230**	**4,281**	**252**	**5,122**
Credit (charge) to income	385	6	(25)	-	37	403
At 31 December 2011	**615**	**135**	**205**	**4,281**	**289**	**5,525**

Note 23 - Financial liabilities and other

Trade and other payables

	31 December	
	2011 $'000s	2010 $'000s
Trade creditors	13,414	12,626
Salary accruals	5,328	5,044
VAT and other tax	727	163
Other creditors and accruals	7,972	10,067
	27,441	**27,900**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2010: 41 days).The directors consider that the carrying amount of trade payables approximates to their fair value.

Long-term payables

	31 December	
	2011	2010
	$'000s	$'000s
Bank Loans (1)	2,650	5,424
Less- Current maturities	(1,200)	(1,154)
Forgivable debt to the office of the chief scientist (2)	3,772	4,167
Government institutions	655	1,278
Liability in regard to acquisitions (3)	119	-
Other long term Liability	23	222
	6,019	**9,937**

(1) In 2009 the company received $ 4.5 million loan drawn for the purchase of the building in Hod Hasharon, Israel, secured by a mortgage on the said asset. The loan is for 4 years and the repayment on a monthly basis, bears annual interest of libor + 1.5% with a maturity date of November 2013. The company has already returned $ 2.2 million for this loan during 2010 and 2011.

(2) In 2011 there was no participation of the chief scientist in R&D projects.

(3) The maturity date of the liability is in April 2013.

Note 24 - Provisions

	Warranty provision	Onerous Lease provision	Other provision	Total
	$'000s	$'000s	$'000s	$'000s
At 01 January 2011	954	220	2,016	3,190
Utilisation of provision	(212)	-	(121)	(333)
Payment during the year	-	(100)	(250)	(350)
At 31 December 2011	**742**	**120**	**1,645**	**2,507**
Included in current liabilities				2,507
Included in non-current liabilities				-
				2,507

The warranty provision represents management's best estimate of the Group's liability under warranties granted on the Group's products, based mainly on past experience.

The onerous lease provision represents the committed lease payments on rental properties that have been abandoned, and whose operations have been relocated to real estate purchased by the Group during 2009.

Note 25 - Share capital

Ordinary shares of NIS 0.01 each (number of shares)

	2 011	2 010
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**402,915,820**	**402,830,820**

The Company has one class of ordinary shares which carry no right to fixed income.

Note 26 - Share premium account

	Share premium $'000s
Balance at 1 January 2010	405,961
Premium arising on issue of equity shares	117
Stock options granted to employees	426
Balance at 31 December 2010	**406,504**
Premium arising on issue of equity shares	62
Stock options granted to employees	326
Balance at 31 December 2011	**406,892**

Note 27 - Translation reserve

	Translation reserve $'000s
Balance at 1 January 2010	(4,015)
Exchange differences arising on translating the foreign operations and presentation currency	(6,011)
Balance at 31 December 2010	**(10,026)**
Exchange differences arising on purchase of non-controlling interest	(889)
Exchange differences arising on translating the foreign operations	(2,567)
Balance at 31 December 2011	**(13,482)**

Note 28 - Accumulated deficit

	Accumulated deficit $'000s
Balance at 1 January 2010	(270,808)
Dividend	(8,127)
Net profit for the year	1,699
Balance at 31 December 2010	**(277,236)**
Dividend	(5,132)
Net loss for the year	(3,720)
Balance at 31 December 2011	**(286,088)**

Note 29 - Business Combinations

During April 2011 the Company acquired the major assets and intellectual property of ANDA Networks, Inc. ("Anda Networks" or "Anda") for a consideration of $2 million. ANDA is a leader in carrier-class access platforms for wireline networks and mobile data backhaul applications.

During April 2011 the Group acquired the trade and assets of an Israeli Telecoms software services provider called Mantis Ltd ("Mantis") for a consideration of $ 784 thousands Mantis is a leader in designing and developing interactive platforms and experiences for industry leading brands known and acknowledged world wide. As at 31 December 2011 the PPA with respect to the acquisition had not been completed and the transaction was accounted for on the basis of management's best estimates As at 31 December 2011, $306 thousands of the consideration had not yet been paid (non-cash transaction) This balance will be paid during 2012 and 2013 (see note 38).

During April 2010 the Group acquired the trade and assets of an Israeli Telecoms software services provider for a consideration of $ 784 thousands. Of this balance $ 357 has been classified as brand and $ 427 as customer relationships. This transaction has been accounted for by the purchase method of accounting. The balance of $502 thousands of the consideration As at 31 December 2010, was paid during 2011.

Note 30 - Non controlling interest acquired

On January 23, 2011 the Company signed an agreement with the minority shareholders in Sunstring to purchase their holding in Sunstring for a consideration as follow:

A: Within 30 days from the date of signing this agreement sum of $1,159 thousands

B: The company will pay on all proceeds which the BATM group will receive from any majority held companies held by BATM from the medical line of business which BATM has invested in up until the date of this agreement as well as future investments in the current medical line of business during a period of 10 years from the date of this agreement 10% of all proceeds up to a total of $1,591thousands and 3% on all proceeds in excess of $15,910 thousands up to a total of $4,341 thousands (which is $5.5m minus all payments above).

Note 31 - Note to the cash flow statements

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Operating profit (loss) from continuing operations	(3,280)	1,133
Adjustments for:		
Amortization of intangible assets	3,743	3,738
Impairment of intangible assets and goodwill	2,972	-
Depreciation of property, plant and equipment	2,055	2,482
Stock options granted to employees	326	426
Increase in retirement benefit obligation	117	41
Decrease in provisions	(312)	(898)
Operating cash flows before movements in working capital	5,621	6,922
Decrease (increase) in inventory	(4,337)	1,959
Decrease (increase) in receivables	3,720	(480)
Increase (decrease) in payables	(723)	4,466
Cash generated by operations	4,281	12,867
Income taxes paid	(626)	(338)
Income taxes received	-	378
Interest paid	(517)	(426)
Net cash from operating activities	**3,138**	**12,481**

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Note 32 - Contingent liabilities

There is a potential exposure totalling approximately $2,000,000, relating to stamp duties connected with some placements made by the Company in the past. According to the advice of the Company's legal advisors, and in contrast to the position of the Companies' Registrar, an obligation to pay stamp duties arises only when a stamped document exists, and since the placements were not accompanied by a stamped issuance report, such obligation does not exist. The Company has not provided for such an amount in its financial statements.

During December 2010 the Company received a letter from the Israeli Chief Scientist Officer regarding royalties' audit findings for the years 1999-2003 ("the audit"), without demanding specific payment amount. The Company's management estimates the maximum exposure of the audit in amount of $800 thousands. Based on the stage of the process between the parties and management's estimation of the audit outcome, the Company has not provided for such an amount in its financial statements.

Note 33 - Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2011 $'000s	2010 $'000s
Minimum lease payments under operating leases		
Recognised in income for the year	**1,452**	**1,769**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December	
	2011 $'000s	2010 $'000s
Within one year	479	563
In the second to fifth years inclusive	589	391
	1,068	**954**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are fixed for an average of 3 years.

The Group as lessor

Property rental income earned during 2011 was $151,000 (2010: $197,000). The properties under lease agreements to third parties by the Group have committed tenants for most of the property for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	31 December	
	2011 $'000s	2010 $'000s
Within one year	85	96
In the second to fifth years inclusive	246	67
	331	**163**

Note 34 - Share-based payments

Equity-settled share option scheme

The Company has a share option scheme for all employees of the Group. Options are usually exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is between three to five years. Unexercised options expire ten years from the date of grant. Options are forfeited when the employee leaves the Group.

Options to certain management employees are exercisable at a price equal to the average quoted market price of the Company's shares less 10% on the date of grant.

Details of the share options outstanding during the year are as follows:

	2011		2010	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		(in GBP)		(in GBP)
Outstanding at beginning of year	7,612,291	0.3454	8,315,867	0.9143
Granted during the year	2,937,815	0.2330	1,391,219	0.2483
Forfeited during the year	(1,491,561)	0.4222	(1,553,365)	3.2957
Exercise during the year	(85,000)	0.2159	(541,430)	0.1850
Outstanding at the end of the year	**8,973,545**	**0.2971**	**7,612,291**	**0.3454**
Exercisable at the end of the year	**4,645,828**	**0.3431**	**4,369,419**	**0.3695**

The weighted average share price at the date of exercise for share options exercised during 2011 was 0.2317 Great British Pounds ("GBP"). The options outstanding at 31 December 2011 had a weighted average exercise price of 0.2971 GBP, and a weighted average remaining contractual life of 6.88 years. In 2011, options were granted on January 5, May 1 and August 11. The aggregate of the estimated fair values of the options granted on those dates is $1,102,000. In 2010, options were granted on May 5, August 3 and October 14. The aggregate of the estimated fair values of the options granted on those dates is $592,000.

The inputs into the Black-Scholes model are as follows:

	2011 $'000s	2010 $'000s
Weighted average share price (GPB)	0.23	0.30
Weighted average exercise price (GPB)	0.22	0.19
Expected volatility	36-61	36-61
Expected life	7	7
Risk-free rate	1.5%-3%	1.5%-4.5%
Expected dividends	2.5%	2.5%

The inputs into the Black-Scholes model for the options granted in 2011 are as follows:

	2011 $'000s
Weighted average share price	0.2339
Weighted average exercise price	0.2330
Expected volatility	40-61
Expected life	7
Risk-free rate	2% - 2.2%
Expected dividends	2.5%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of $326,000 and $426,000 related to equity-settled share-based payment transactions in 2011 and 2010, respectively.

Note 35 - Retirement benefit obligation

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Israel. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiaries in the United States are members of a state-managed retirement benefit scheme operated by the government of the Unites States. The subsidiary contributes a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of the Company and its subsidiaries in Israel and in Italy.

In Israel this scheme provides severance pay provision as required by Israeli law. Under the plans, the employees are entitled to post employment benefits equivalent to years of service multiplied by 8.33% of final salary on either attainment of a retirement age of 67 (men) and 64 (women) or redundancy. No other post-retirement benefits are provided to these employees.

In Italy each employee is entitled to have a severance payment as soon as he ends the employment under one of the conditions specified below as except those who decide to choose private insurance during the employment. Principal conditions to release the liability are: 1. Full retirement age 2. Accumulation of minimal working years 3. Termination of employment by the employer 4. Death of employee 5. occurance of employee's disability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 18 January 2012 by Elior Weissberg, FILAA on behalf of Elior Weissberg Ltd., a member of the Institute of Actuaries. The present value of the defined benefit, obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2011	2010
Discount rate(s)	4.6%, 6.7%	3.4%, 4.9%
Expected return on plan assets	4.7%	5.0%
Expected rates of salary increase	1-5%	1-5%
Expected inflation rate	2.5%	2.8%

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	2011 $'000s	2010 $'000s
Current service cost	630	617
Interest on obligation	256	240
Expected return on plan assets	(217)	(212)
Adjustments for restrictions on the defined benefit asset	62	56
Actuarial gains recognised in the year	(80)	(126)
Total	**651**	**575**

The amount included in the balance sheet arising from the entity's obligation in respect of its defined benefit plans is as follows:

	31 December	
	2011 $'000s	2010 $'000s
Present value of funded defined benefit obligation	5,618	5,646
Fair value of plan assets	(4,617)	(4,762)
Net liability	**1,001**	**884**

Movements in the present value of the defined benefit obligation in the current period were as follows:

	2011 $'000s	2010 $'000s
Opening defined benefit obligation	5,646	5,146
Current service cost	630	617
Interest cost	256	240
Actuarial gains	(28)	(100)
Benefits paid	(483)	(517)
Exchange rate differences	(403)	260
Closing defined benefit obligation	**5,618**	**5,646**

Movements in the present value of the plan assets in the current period were as follows:

	2011 $'000s	2010 $'000s
Opening fair value of plan assets	4,762	4,271
Expected return on plan assets	148	156
Actuarial gains	51	27
Contributions from the employer	438	524
Benefits paid	(440)	(498)
Exchange rate differences	(342)	282
Closing fair value of plan assets	**4,617**	**4,762**

The history of experience adjustments is as follows:

	2011 $000	2010 $000
Present value of defined benefit obligation	5,618	5,646
Fair value of plan assets	(4,617)	(4,762)
Deficit	**1,001**	**884**
Experience adjustments on plan liabilities	**(68)**	**(59)**
Experience adjustments on plan assets	**(54)**	**(35)**

The Liability recognised in the balance sheet at 31 December 2011 was $1,001,000 (2010: $884,000).

Note 36 - Related party transactions

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance Bonus $000	2011 Total $000	2010 Total $000
Zvi Marom	300	24	7	47	378	340
Ofer Bar Ner	170	24	8	-	202	177
Peter Sheldon	44	-	-	-	44	43
Gideon Chitayat	44	-	-	-	44	22
Amos Shani	20	-	-	-	20	10
Amiram Mel	30	-	-	-	30	-
Dan Kaznelson	-	-	-	-	-	15
Ariella Zochovitzky	-	-	-	-	-	25
Koti Gavish	-	-	-	-	-	25

The total liability for the Directors in the year-end 2011 was $72 thousand (2010: $372 thousands) related to December 2011 and 2010 wages paid in January 2012 and 2011 respectively and Bonus for 2011 not paid yet and bonus for 2010 paid in July 2011.

Table B – Interests of the Directors

The interests of the Directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2011 were as follows:

Ordinary shares	2011	2010
Zvi Marom	93,494,500	92,044,500
Ofer Bar Ner	150,000	-
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Amos Shani	-	-

Table C – Share Options

Options to subscribe for or acquire ordinary shares of the Company were held by the following Directors during the year.

	As at 01 Jan 2011	Granted	Exercised	Lapsed	As at 31 Dec 2011	Exercise price	Expiry date
Ofer Bar Ner	330,000	-	-	330,000	-	0.279	31/12/2011
Ofer Bar Ner	250,000	-	-	250,000	-	0.407	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2012
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2013
Ofer Bar Ner	333,333	-	-	-	333,333	0.270	07/06/2012

At the AGM, held on 22 June 2010 the shareholders approved that a loan be granted to the CFO totalling $200,000, repayable without interest in four annual instalments. As of 31 December 2011 the loan balance is $100,000.

Table D – remuneration of key management personelle

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2011 $'000s	2010 $'000s
Short-term employee benefits	516	462
Post-employment benefits	15	14
Other long-term benefits	16	14
Termination benefits	33	27
Share-based payment	-	108
	580	**625**

Table E – transactions with related parties

During the year the company had the following balances and transactions with Shore Capital, of which Dr. Zvi Marom is a Director.

Transactions during the year: $ Nil

Balance as at 31 December 2011: $ Nil

Note 37 – Financial Instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of profits.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 25 to 28 respectively.

The Group's management reviews the capital structure on a periodic basis. As a part of this review the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends. The Group's overall strategy remains unchanged from 2006.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

(c) Categories of financial instruments

	2011 $'000s	2010 $'000s
Financial assets		
Cash and cash equivalents	23,012	22,087
Fair value through profit or loss	3,338	11,022
Deposits and receivables	47,388	57,597
Financial liabilities		
At amortized cost	34,027	38,850
Fair value through profit or loss	4,821	5,122

All fair value through profit or loss assets measurements are level 1 fair value measurements, defined as those derived from quoted prices (unadjusted) in active markets for identical assets.

All fair value through profit or loss liabilities measurements are level 3 fair value measurements, derived from net present value of royalties liability based on estimated future revenues.

(d) Financial risk management objectives

The Group's Finance function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

(e) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer to section f) and interest rates (refer to section g). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including: Structure deposits, call options and forward foreign exchange contracts to hedge the exchange rate risk arising on the export of telecommunications equipment to the United States;

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(f) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2011 $'000s	2010 $'000s	2011 $'000s	2010 $'000s
New Israeli Shekel	8,478	8,311	7,440	11,419
Euro	13,856	11,961	33,323	37,818
Other	1,983	2,540	9,813	7,145

Foreign currency sensitivity

The Group is mainly exposed to Euro, NIS and GBP, in 2010 the Group was mainly exposed to US Dollar, NIS and GBP .

The following table details the Group's sensitivity to a 5 percent change in US$ against the respective foreign currencies. The 5 pecent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where US$ strengthens against the respective currency.

Profit or loss

	2011 $'000
NIS Impact	(152)
Euro Impact	1,361
GBP Impact	75

	2010 $'000
NIS Impact	94
US Dollar Impact	1,525
GBP Impact	59

Comprehensive

	2011 $'000
NIS Impact	316
Euro Impact	(172)
MDL Impact	321
Other currencies Impact	96

(g) Interest risk management

The company has non-material exposure to interest risk.

(h) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Finance liabilities

	Weighted average effective interest rate	0-3 months	3 months to 1 year	1-5 years	Total
	%	$'000s	$'000s	$'000s	$'000s
31 December 2011					
Non-interest bearing	-	25,478	1,393	6,503	33,374
Bank loans interest bearing	3.90	4,344	2,426	1,450	8,220
		29,822	**3,819**	**7,953**	**41,594**
31 December 2010					
Non-interest bearing	-	26,253	692	9,510	36,455
Bank loans interest bearing	3.90	3,631	2,504	4,270	10,405
		29,884	**3,196**	**13,780**	**46,860**

(i) Finance liabilities

Loans from banks are measured according to depreciated cost, the different between the fair value of the loans and their book value is not significant.

Note 38 - Non-cash transactions

During the current year, the Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

Investment of the Group in Mantis had not been paid in cash at the end of the reporting period. (See note 29).

Note 39 - Events after the reporting period

During March 2012, following discussion with one of the banks of our subsidiary-ISE in Italy we transferred 1 million Euro to the bank as a mortgage return and reduced the mortgage to 0.9 million Euro, we expect to record a financial gain of 0.5 million Euro from this transaction.

Directors and Advisors

Directors

P. Sheldon	Chairman, Non-executive
Dr. Z. Marom	CEO
O. Bar-Ner	CFO
G. Chitayat	Non-executive
A. Shani	Non-executive

Registered Office

P.O.B. 7318
Nave Ne'eman Ind. Area
4, Ha'harash Street,
45240 Hod Hasharon, Israel

Company Number

520042813 – Registered in Israel

Auditors

Brightman Almagor Zohar & Co.
a member firm of
Deloitte Touche Tohmatsu
1 Azriely Center,
Tel-Aviv 67021
Israel

Financial Advisors & Stock Brokers

finnCap Limited
60 New Broad st.
London EC2M 1JJ
UK

Shore Capital
Bond Street House
14, Clifford Street
London W1X 1RE
UK

Legal Counsel in Israel

Lipa Meir & Co.
4, Itamar Ben-Avi Street
Tel-Aviv 64736
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Legal Counsel in the UK

Fladgate Fielder
25 North Row
London W1R 1DJ
UK

Bankers

Bank Hapoalim
45 Hamelacha Street
Netanya Israel

Bank Leumi
25 Habarzel Street
Tel-Aviv
Israel

Registrars

Capita Registrars
The Registry
34 Beckenham Road
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