BATM
Advanced Communications

Annual Report 2012

Welcome to

BATM Advanced Communications

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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.

For more information on BATM, please visit:

www.BATM.com

BATM Advanced Communications continues to lead the market in Metro Area Network Ethernet solutions.

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

Telecom Network Solutions

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

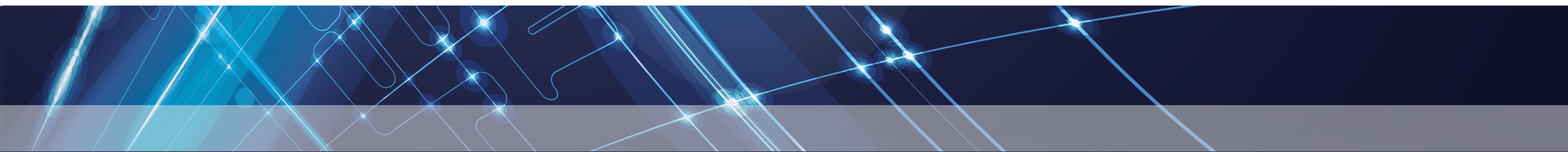
T-Metro 8000 series

Mobile / Web Solutions

Surveillance Solutions

IVD Systems & Automated
Clinical Diagnostic Analyzers

Professional Sterilizers and Medical Waste Solutions



Telecom Division & Medical Division

Financial Highlights

$107.8 million
2012 Revenue

$1.2 million
2012
Adjusted operating profit[1]

$ 46.2 million
2012 Cash and financial Assets

	2012	2011	%
Revenue	$107.8m	$110.8m	(2.7)%
Gross profit	$35.9m	$39.3m	(8.65)%
Adjusted operating profit[1]	$1.2m	$1.5m	
Other operating expenses	$3.6m	$3.5m	
Profit (loss) for the year	$0.2m	$(5.0)m	
Earnings (loss) per share	0.18¢	(0.92)¢	

Throughout this report:
1. Excluding other operating expenses (including mostly amortization of other intangible assets)

Peter Sheldon
Chairman

Peter Sheldon, OBE
Chairman

2012 has again been a year in which the progress that BATM has made has been against the backdrop of extremely difficult trading conditions and virtual market stagnation. It is a tribute to the efforts of our executives and staff and the strategy that we have adopted that we have been able to take further steps towards a return to profitability and growth.

The business and financial review that follows sets out the detail of our activities during the year. But for a very disappointing result from one of our telecom customers, NSN, we would have seen revenue growth in our telecom division and that is without the full benefit of the new contracts obtained during the year and the new products launched. These offer expectations of further recovery during the coming year.

Our medical division again showed good revenue growth and although not yet profitable as a whole our expectations for the coming year are of further progress.

Combined with the careful husbandry of our cash and near cash resources and continuing focus on cost control throughout our businesses I remain optimistic that we are in sight of significant further improvement.

Peter Sheldon
Chairman

30 April 2013

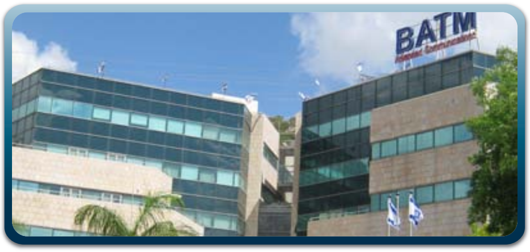
Business Review

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.

BATM offices:

Hod-Hasharon, Israel



Yokneam, Israel

Mansfield MA, USA

Financial Review

Revenues in 2012 decreased by $3.0m to $107.8m (2011: $110.8m). Telecom division revenues decreased by 8.9% to $58.7m (2011: $64.4m) whilst Medical division revenues increased by 6% to $49.1m (2011: $46.3m), with the latter being the result of organic growth.

The gross profit margin for the year was 33.3% (2011: 35.5%), which was 0.4% higher than the gross profit margin in the second half of 2011.

Sales and marketing expenses were $15.6m (2011: $15.8m), representing 14.5% of revenue, compared with 14.3% in 2011.

General and administrative expenses were $9.8m (2011: $9.9m), representing 9.1% of revenue, compared with 9.0% in 2011.

R&D investment in 2012 was $9.3m (2011: $12.1m). This decrease of $2.8m was primarily due to a $0.8m contribution from the Israeli Chief Scientist (no contribution in 2011) and the restructuring of the Telecom business at the beginning of 2012.

Net finance income was $1.5m (2011: $0.8m loss), comprising $0.4m of interest income as well as $1.4m of mostly forward contracts gains on converting Euro deposits to US dollars and loan restructuring, which were partially offset by $0.3m of finance costs.

Net profit after tax attributable to equity holders of the Group amounted to $0.7m (2011: loss of $3.7m), resulting in a basic earnings per share of 0.18¢ (2011: loss of 0.92¢).

The Group's financial position remains strong with effective liquidity of $46.2m, an increase of $3.9m compared with $42.3m as at 30 June 2012 and a decrease of $0.7m compared with $46.9m as at 31 December 2011. The increase in cash balances during the second half of 2012 is mainly due to a decrease in working capital ($1.9m), and the net profit accrued during this period. Period end cash is comprised as follows: cash and deposits up to three months duration of $42.7m, and short term cash deposits up to one year of $3.5m.

Intangible assets and Goodwill decreased to $22.8m (31 December 2011: $26.2m). The decrease is due to the amortization of intangible assets.

Property, plant and equipment including investment property has remained unchanged since the end of 2011.

Total inventories decreased from $24.3m at the end of 2011 to $19.5m at 31 December 2012. The majority of the decrease is the Legacy stock, which is now part of the discontinued operations.

Trade and other receivables increased to $29.4m from $27.5m at the end of 2011.

Trade and other payables decreased to $27.0m from $27.4m at the end of 2011.

Prior year comparatives have been re-presented to reflect the effect of discontinued operations on the Group's older time division multiplexing based products ("Legacy") business (please see note 15).

Telecom Division

Revenues grew sequentially from H1 2012 to H2 2012 by 9.2% (2011: decline of 8.4%). In 2012, there was an $8.3m decline in the revenue contribution from NSN compared with 2011. Overall revenues in the Telecom division were $5.7m (8.8%) lower than the same period last year at $58.7m (2011: $64.4m), due to the decline in the contribution from NSN, which was partially offset by a 4.9% growth in the IP business.

Telecom division operating profit, excluding amortization of intangible assets, for 2012 was $4.4m (2011: $4.9m). Gross profit margin improved from 42% in H2 2011 to 43% in both H1 and H2 of 2012.

In the fourth quarter, the Telecom division received its first orders and recorded revenues from two significant new products: the T-Metro 8000 and EdgeGenie, which were launched during the year. The T-Metro 8000 is a carrier cloud gateway aggregation platform and the EdgeGenie system offers a complete solution for planning, managing, monitoring and maintaining Ethernet services. This is in-line with the strategy of the Telecom division to offer a complete solution for Carrier Ethernet Access.

The increased focus on direct sales channels resulted in a number of new contracts being signed this year in the US, Latin America and Europe for the Group's Carrier Ethernet solution, including its MPLS offerings and EdgeGenie software. In addition, the Telecom division secured a new significant US-based client, which is one of the leaders in the Deep Packet Inspection field, for its ATCA blades.

The Telecom division also participated in a major bid in Israel for the construction of a nationwide fibre network where the Group will provide the Carrier Ethernet Access solutions to businesses. The Group expects to receive final confirmation in the first half of 2013.

As announced previously, in the first half of the year the Group established a new subsidiary, CELARE, focusing on networks security. This was in response to growing demand for products and services to protect networks against cyber-attacks. Following the award of a contract in this field in Israel, BATM has recently begun to deploy its unique solution. Based on early customer acceptance, the Group expects this area to grow significantly in the coming years.

During the first half of the year, the Group completed the restructuring of its Telecom division by separating the legacy Telecom business (the "Legacy business") that is expected to be sold during 2013.

CE 2.0 MEF CERTIFIED
CARRIER ETHERNET MEF Certified Compliant
CARRIER ETHERNET AWARDS EMEA 2011
advanced TCA summit 2011 BEST OF SHOW Software Product

Medical Division

In 2012, revenues in the Medical division were 6% higher than the prior year at $49.1m (2011: $46.3m), while operating margins remained at minus 7%. Operating loss in the Medical division narrowed to $3.2m in 2012 compared with an operating loss of $3.4m in 2011. The gross profit margin remained broadly flat at 21.4%. The Group expects gross profit margin to increase in 2013 together with the growth in revenues. Revenues in H2 2012 were lower than in H1 2012, which was primarily due to the distribution business and a drop in revenues in the sterilization business as one customer postponed its contract into 2013 (which is being delivered in Q1 2013).

The distribution segment contributed approximately 63% of Medical division revenues in 2012. During the year, the distribution business increased its footprint into Bulgaria following a contract to represent Abbott Laboratories, one of the top three vendors in this field in this territory.

The sterilization business constituted 16% of the Medical division's revenues. During the year, the Medical division received certification for the sale of the Integrated Sterilizer and Shredder ("ISS") in several countries including Russia. It experienced growing interest and orders for the medical waste solution from distributors of sterilizers in Russia, South America and the Middle East. The Group intends to continue to develop the waste solution as it has become the best selling product of the sterilization segment.

As reported earlier in the year, the Medical division made progress in its strategy to enter the US market by commencing the process of certifying one of its products in that territory through signing an OEM agreement with a leading sterilization manufacturer. The certification process is expected to conclude during the first half of 2013, and the Group will then start directly certifying additional products, including the ISS.

The Medical division also expanded its line of waste solutions with a smaller product that was introduced during the Medica show in November 2012. The Group has already received initial orders for this product, which it expects to increase when the product becomes available in the second half of 2013.

In the diagnostics segment, which constituted 21% of Medical division revenues, the focus remained on developing smaller, more mobile products for the developing countries such as Brazil, China, India, Russia and Mexico. These countries have smaller laboratories that are dispersed in different localities and hence require the solutions provided by the Group's diagnostics business. As reported previously, the diagnostics business received CE (European) certification for its Detect HIV 4th generation (AIDS 4th generation) and HCV (Hepatitis C) Screening Kits. These certifications are important milestones as the business continues to execute its strategy to develop and sell reagents for its testing instruments. Several new reagents were also submitted during the year for CE certification. As a result, the business is now closer to completing the first stage of its strategy to achieve certifications and registrations of available products in the Company's Adaltis portfolio. Significant progress was made with the Company's closed system, Eclectica, where BATM provides both the instrument and its related reagents. The Group shipped 95 units in 2012 compared with 22 units for the whole of 2011.

Registration of Shares in Tel-Aviv

Following our last update the Board authorized the company to move ahead and complete a dual listing of its shares on the Tel-Aviv Stock Exchange ("TASE"). The company's shares were approved for listing on the TASE in August 2012 and are being traded on the TASE since September 2012. The Board believes that this will improve the company's image and visibility in its home market and amongst Israeli institutional investors and will be for the benefit of the shareholders of the company.

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

The Telecom division is benefiting from some capital re-investment by utilities and telecoms providers in its target markets, and the diagnostics and sterilization segments of the Medical division are expected to continue to grow thereby reducing the division's dependency on the distribution business. As a result, the Board feels confident of delivering revenue growth in 2013 with profits expected to be significantly higher than in 2012.

Financial Statements

The directors present their report together with the audited financial statements for the year ended 31 December 2012.

Results and Dividends

The results of the year are set out in the consolidated income statement. After providing $3.5 million amortization of intangible assets for the year, we recorded a profit of $0.2 million. This profit includes $2 million from discontinued operation.

The Board is not proposing a dividend this year.

Directors

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

Dr. Zvi Marom
Chief Executive Officer

Ofer Bar-Ner
Chief Financial Officer

Peter Sheldon OBE, JP, FCA, 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 Chairman of Kardan NV, a company involved in infrastructure and real estate projects in emerging markets, which is listed on the Amsterdam and Tel-Aviv stock exchanges and is 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, 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, 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, non-executive Vice-Chairman, 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, 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 and founder and CEO of Zapex Research. Amos holds a BScEE from Tel Aviv University and joined the Board of BATM in June 2010.

Elka Nir, non-executive external director, she currently holds the position of director (and chairwoman) in several medical companies, two of which are publicly traded on the Tel-Aviv Stock Exchange and is also a venture partner in Giza Venture Capital (in the life sciences field) which manages 600 million USD in its funds. She has over twenty years' experience in leading dynamic cutting edge technology organizations and held senior managerial positions in leading global medical and healthcare corporations including Biosense Webster, Johnson & Johnson, GE Healthcare and Elscint. Mrs. Nir holds a BSc degree from the Technion Institute in Haifa in Computer Science (1986) and a diploma in Business Administration from the University of Haifa (1996) and joined the Board of BATM in June 2012.

Rules about appointment & replacement of directors; Amendment of Articles

Pursuant to the Company's articles of association and Israeli Companies Law, directors are elected at the Annual General Meeting by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors. Each director (except for the public external appointed directors) shall serve until the next Annual General Meeting following the Annual General Meeting at which such director was appointed, or his earlier removal. The holders of a majority of the voting power represented at a General Meeting and voting thereon shall be entitled to remove any director(s) from office, to elect directors in place of the directors so removed or to fill any vacancy, however created, in the Board of directors by way of ordinary resolution. 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 no more than two further terms of three years each. The appointment of the external directors must be approved by the shareholders in general meeting.

Apart from the authority of the General Meeting to remove a director from office, subject to giving such director a reasonable opportunity to present his position to the General Meeting, under the Company's articles, the office of a director shall be vacated ipso facto, upon his death, or if he be found to be of unsound mind, or becomes bankrupt or if he becomes prohibited by law from being a director in a public company, or if the director is a company upon its winding up.

Of the executive directors that will be proposed for re-election at the coming Annual General Meeting (the CEO, Zvi Marom and the CFO, Ofer Barner), Dr. Marom's employment contract remains in effect until 31 December 2013 and will then require renegotiation. The CFO's employment contract automatically renewed for an additional rolling two year period until 1 March 2015.

Under the Israeli Companies Law a company may amend its articles by a simple majority of the shareholders at a General Meeting. Any proposed amendments to the articles regarding modification of rights attached to shares of the Company and/or dividing the share capital into various classes of shares requires the approval of the holders of 75% of the issued shares in the company.

Under the Israeli Companies Law, the board of directors of a company has the authority to decide on an issue of new shares or securities of the company up to the amount of its registered share capital. In addition, Israeli law permits the company to carry out buy-back programs of its own shares under predetermined conditions, subject to the approval of the General Meeting of a special resolution. At the Company's annual general meeting of 2 July 2012 the General Meeting by a special resolution approved and authorized the Company to purchase its own shares up to a maximum of six million ordinary shares, such authorization being in effect until 30 June 2013. To date the Company has not implemented any buy-back of its shares.

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 non-executive Vice Chairman, 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. As a result of recent amendments in the Israeli Companies Law on corporate governance which came into effect during 2012, as well as comments received during 2012 from corporate governance consultants of UK institutional and pension investors, the company has implemented various improvements in its corporate governance policies, as described in more detail in this Report.

The main thrust of these changes are designed to:

(a) Guarantee full independence of the various committees of the Board of Directors, including the nomination, audit and remuneration committees;
(b) Improve transparency between the Board and senior management of the company;
(c) Improve the remuneration policy of the company by refining the parameters and determining pre-defined key performance indicators as a requisite for performance-linked remuneration to its senior executives; and
(d) Improve the company's environmental policy and responsibility.

This report outlines how the Company has applied the main principles set out in the UK Corporate Governance Code issued by the UK Financial Reporting Council in June 2010 (the – "Governance Code")

Compliance with the 2010 Governance Code

Throughout the year ended 31 December 2012, and through to the date of approval of the financial statements, the Board considers that the company has complied with the main principles of the Governance Code. The company has applied the main Principles set out in the section with that heading by complying with the Governance Code 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, which may be extended by the Company for no more than two additional terms of three years 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 current 2 independent non-executive directors defined as external directors within Israeli law are Mr. Amos Shani and Mrs. Elka Nir. Mr. Shani was appointed in July 2010 (his position is due for re-election in July 2013) and Mrs. Nir was appointed for a term of three years in June 2012.

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. As a result of the necessary changes in the chairmanship of the Board's committees in order to guarantee independence as well as the listing of the company's shares on the TASE, the company appointed the senior non-executive director, Dr. Gideon Chitayat, as Vice Chairman of the Board so that he can give of his vast experience with local industry and TASE listed companies to the other members of the Board and its committees.

The Board – leadership and effectiveness.

The Board which currently comprises two Executive and four Non-Executive Directors including the Chairman, is responsible collectively for the long term success of the Company. 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 2012 were as follows:

	Meetings	Written Consent	Attendance
Board of Directors	7	2	Note 1
Audit Committee	5	-	Note 2
Remuneration Committee	2	-	
Nominations Committee	1	-	

1) All directors attended 100% of the Board meetings, other than Dr. Gideon Chitayat who was absent from one meeting during 2012 for medical reasons.

(2) All Audit Committee members attended 100% of meetings during 2012.

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 and Vice Chairman 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 27. 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 Board is of the opinion that each of its members has the skills, knowledge, aptitude and experience to perform the functions required of a director of a listed company and that the Board comprised a good balance of Executive and Non-Executive Directors.

The induction of newly elected directors into office is the responsibility of the Vice Chairman (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 Consolidated statement of financial position. 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, however since the listing of the company's shares on the Tel-Aviv Stock Exchange, the company as a dual listed company has formally appointed Mr. Arthur Moher, who is also one of the company's legal advisers, as company secretary and all the directors have access to Mr. Moher's services. Accordingly, the Company complies with section A.1.4 of the Code.

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. The Company is committed to having a constructive engagement with its shareholders.

As of 31.12.2012, to the best of the Company's knowledge, the following persons or entities had a significant holding of BATM ordinary shares:

Dr. Zvi Marom, the Company's CEO and founder – 23.42%
Legal & General Investment Management – 14.14%
Henderson Global Investors – 11.64%
Henderson Volantis Capital - 11.06%
River & Mercantile Asset Management – 3.87%
Herald Investment Management – 3.69%

All of the above hold ordinary shares of the Company.

Committees

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

Audit Committee

Members: Dr. Chitayat, Mr. Shani and Mrs. Nir
Chairman: Amos Shani

The members of the audit committee have 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. According to a recent amendment under the Israeli Companies Law, the Board of Directors appointed during 2012 Mr. Amos Shani (an external director) as the Chairman of the Audit Committee as required by Israeli Law. The Chairman of the Audit Committee maintains close contact with the company on a regular basis.

Nominations Committee

Members: Dr. G. Chitayat, Elka Nir and Amos Shani.
Chairman: Dr. Gideon Chitayat.

In compliance with recent amendments to Israeli law, the newly appointed chairman of the nominations committee is chaired by Dr. Gideon Chitayat thereby improving the independence of this committee. 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 no more than two further terms of three years each. 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 2012 to evaluate potential nominees.

Directors' Remuneration

The Board has a remuneration committee, which is currently chaired by Mrs. Elka Nir, one of the external directors, as mandatory under the recent Amendment No. 20 of the Israeli Companies Law, thereby ensuring the full indepence of this committee. The other current members of the committee are Dr. Gideon Chitayat and Mr. Amos Shani, both of whom are non-executive independent directors. 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 24 - 27. Under the recent Israeli Amendment No. 20, the company has to bring to the shareholders' meeting its remuneration policy for approval by no later than September 2013. Although the current remuneration policy in place in the company which complies with the Code is very similar to the principles set forth in Amendment No. 20, the remuneration committee is working diligently with its consultants to refine its current remuneration policy so as to be in conformance with both Israeli corporate governance and the UK corporate governance code. The remuneration policy is more fully explained below in the Remuneration Report.

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 non-controlling interests, which are usually the local management of the subsidiaries. Relationships with these non-controlling interests are important and carry certain risks.

Due to current global economic conditions the Group's diversified business activities are aimed at emerging markets which have huge upward potential, yet at the same time carry certain risks, such as political, financial and regulatory.

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company that has been in place from 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:

	2012	2011	Change %
Revenue	$107.8m	$110.8m	-2.70
Gross profit margin	33.3%	35.5%	-6.19
R&D spend, net	$9.3m	$12.1m	-23.1
Cash and Financial Assets	$46.2m	$46.9m	-1.49
Profit (loss) per share	0.18¢	(0.92)¢	+119

Revenues have decreased due to the Telecom business.

The gross profit margin has decreased primarily due to the sale mix of the Telecom and Medical.

Corporate Strategy

BATM's 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 ground-breaking 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 cloud based networks. Some of these applications are envisaged to reach the markets during 2013 and beyond.

The Medical division is focused on becoming a leading provider of diagnostic laboratory equipment as well as a distributor of leading brands of other medical suppliers to emerging countries, where there is huge potential for upward growth. 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 product offerings during 2013 and beyond.

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 the Israeli Companies 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 to the board on any major findings and recommendations from the internal auditor for improving controls and corporate responsibility. The board has recently determined that hiring the services of an in-house experienced internal auditor will give the company's board and senior management more benefits and guidance than the current position. Accordingly, the board has recommended that as of mid-2013 the external internal auditing firm will be replaced by an independent qualified in-house internal auditor.

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 include:

- **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 monthly 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 2012 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2012 no conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

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 Reporting Standards (IFRS) prepared. 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.

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. The Company's policy is to behave in an environmentally responsible manner consistent with local environmental regulations and standards. These include ensuring that any waste is dealt with in accordance with all local waste disposal regulations, improving recycling and upgrading the energy and lighting systems in the company's facilities to more low energy equivalents. During 2012 the Board nominated Mrs. Elka Nir, one of the external directors to monitor environmental policies of the company and its compliance with local environmental issues as well as quality and regulatory standards. Examples of policies and practices in these areas are given below.

Employment Policies

BATM employs approximately 730 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 ensures that its suppliers undertake to comply with all international standards and laws relating to human rights and non-abuse of minors. 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.

All employees of the company are expected to behave ethically when working for the company and this is reflected in the rules and policies in effect in the company. The company has an ethics policy which has been communicated to all of its employees which incorporate specific anti-bribery and corruption policies and stress an ethical business standard for carrying on business dealings with its customers and suppliers.

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 and adherence to EU Environmental Directives

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 year 2008 onwards, all of its products are fully ROHS certified.

The company is ISO 14000 certified and the Group's facilities are also ISO 9001:2008 certified for their quality management systems and controls, thus ensuring that the company's telecom and medical products comply with relevant quality and safety standards.

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 financial statement within this report and to state whether in their opinion that part of the report has been properly prepared. The report is therefore divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

Members: Dr. Gideon Chitayat, Mr. Amos Shani and Elka Nir
Chairperson: Elka Nir

The Company's Remuneration Committee (the 'Committee') 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 January 2013 the Committee is chaired by Mrs. Elka Nir, one of the external directors (as mandatory under the Israeli Companies Law) and its other members are independent directors. None of the Committee members has any personal financial interests, 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 Telecom and Medical industries;

- designed to align the interests of Executives with shareholders;

- constructed with a substantial performance-related element set against appropriately demanding targets which are easily measured on an annual basis by the Committee.

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 fixed salary;

(b) social benefits (including pension arrangements) as is customary in the Israeli market;

(c) annual performance-linked bonus payments, and/or

(d) performance-linked 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, his/her qualifications and experience 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.

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, all as customary in the Israeli market for companies in the same industry, position and size of the Company.

Annual performance-linked 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 Remuneration Committee is currently refining the company's Remuneration Policy in light of the recent Amendment No. 20 to the Israeli Companies Law so as to define a number of different performance measures and targets (on a corporate level and division level, which are measured against both financial and non-financial Key Performance Indicators "KPI") which must be achieved in order to entitle the executive officer to receive an annual bonus payment. The board believes that this aligns correctly their targets with the interests of the company's shareholders.

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').

During year 2012 no additional option grants were made to the company's CEO and CFO and under the current discussions of the remuneration committee towards determining and refining the company's remuneration policy, the company intends to define specific performance linked criteria that must be achieved as a condition to vesting of option grants, under a program that will ensure a long term vesting period so as to encourage top quality employees and "achievers" to remain with the company. Under the Company Scheme, the Board has the discretion to determine the amount of option grants to each individual employee and Executive and their vesting dates based on the achievement by the eligible grantees of predetermined performance criteria.

Audited information

The table of Directors' remuneration is out below and is set consistent with note 37 to the financial statements.

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance bonus $000	2012 Total $000	2011 Total $000
Zvi Marom	279	24	7	121	431	378
Ofer Bar Ner	187	24	8	-	219	202
Peter Sheldon	50	-	-	-	50	44
Gideon Chitayat	45	-	-	-	45	44
Amos Shani	20	-	-	-	20	20
Amiram Mel	8	-	-	-	8	30
Elka Nir	17	-	-	-	17	-

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 2012 and 2011 were as follows:

	2012 Ordinary shares	2011 Ordinary shares
Zvi Marom	93,494,500	93,494,500
Ofer Bar Ner	150,000	150,000
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Amos Shani	-	-
Elka Nir	-	-

Table C – Share Options

Options to subscribe for or acquire ordinary shares of the Company were held by the following Directors during the year. All of the share options granted to Ofer Bar Ner are lapsed.

	As at 01 Jan 12	Granted	Exercised	Lapsed	As at 31 Dec 12	Exercise price	Expiry date
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
Ofer Bar Ner	-	1,500,000	-	1,500,000	-	0.247	02/07/2014

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 installments. As of 31 December 2012 the loan balance is $50,000.

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. (hereafter- "the Company") as of December 31, 2012 and 2011 and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 4% of total consolidated assets as of December 31, 2012 and 2011, respectively, and whose revenues included in consolidation constitute approximately 5% and 6%, of total consolidated revenues for the years ended December 31, 2012 and 2011 , respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those 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) – 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statements presentation. We believed that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2012 and 2011, and their consolidated results of operations, changes in equity and cash flows for each of the two years in the period ended December 31, 2012 in conformity with International Financial Reporting Standards (IFRS).

Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

30 April 2013

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Consolidated Income Statements

	Note	Year ended 31 December	
		2012	2011(*)
		US$ in thousands	
Revenues	5,6	107,774	110,762
Cost of revenues	7	71,857	71,450
Gross profit		35,917	39,312
Operating expenses			
Sales and marketing expenses	8	15,620	15,825
General and administrative expenses	9	9,848	9,934
Research and development expenses	10	9,290	12,074
Other operating expenses	6A	3,603	3,524
Total operating expenses		38,361	41,357
Operating loss from continuing operation		(2,444)	(2,045)
Finance income	12	1,799	1,126
Finance expenses	13	(311)	(1,928)
Loss before tax		(956)	(2,847)
Income tax expenses	14	(895)	(885)
Loss for the year from continuing operations		**(1,851)**	**(3,732)**
Profit/(loss) for the year from discontinued operations	15	2,010	(1,235)
Profit (loss) for the year		**159**	**(4,967)**
Attributable to:			
Owners of the Company		**713**	**(3,720)**
Non-controlling interests		**(554)**	**(1,247)**
Profit (loss) for the year		**159**	**(4,967)**
Earnings/(loss) per share (in cents) basic and diluted	17		
From continuing and discontinued operations		**0.18**	**(0.92)**
From continuing operations		**(0.32)**	**(0.62)**
From discontinued operations		**0.50**	**(0.30)**

Consolidated Statements Of Comprehensive Income (loss)

	Year ended 31 December	
	2012	2011
	US$ in thousands	
Profit (loss) for the year	159	(4,967)
Exchange differences on translating foreign operations	(444)	(1,621)
Total Comprehensive loss for the Year	**(285)**	**(6,588)**
Attributable to:		
Owners of the Company	535	(6,287)
Non-controlling interests	(820)	(301)
	(285)	**(6,588)**

(*) Represented in accordance with IFRS 5, see note 15- Discontinued operations.
The accompanying notes are an integral part of these financial statements.

Consolidated Statements Of Financial Position

	Note	31 December	
		2012	2011
		US$ in thousands	
Current assets			
Cash and cash equivalents		42,686	23,012
Trade and other receivables	19	29,373	27,529
Financial assets	18	3,563	23,883
Inventories	20	19,509	24,297
		95,131	98,721
Non-current assets			
Property, plant and equipment	21	21,177	25,153
Investment property	22	3,830	-
Goodwill	23	11,494	11,616
Other intangible assets	24	11,324	14,539
Deferred tax assets	26	5,095	5,525
		52,920	56,833
Disposal group classified as held for sale	15	4,618	-
Total assets		**152,669**	**155,554**
Current liabilities			
Short-term bank credit		4,047	6,770
Trade and other payables	27	27,048	27,441
Provisions	28	2,590	2,507
		33,685	36,718
Non-current liabilities			
Long-term liabilities	27	5,326	6,019
Deferred tax liabilities	26	1,488	1,538
Retirement benefit obligation	36	956	1,001
		7,770	8,558
Liabilities directly associated with disposal group classified as held for sale	15	973	-
Total liabilities		**42,428**	**45,276**
Equity			
Share capital	29	1,215	1,215
Share premium account		407,140	406,892
Reserves		(13,995)	(13,073)
Accumulated Deficit		(285,375)	(286,088)
Equity attributable to:			
Owners of the Company		108,985	108,946
Non-controlling interests		1,256	1,332
Total equity		**110,241**	**110,278**
Total equity and liabilities		**152,669**	**155,554**

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 2013. 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 2011	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
Purchase of non- controlling interest	-	-	(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**
Exercise of share based options by employees	-	12	-	-	-	12	-	12
Recognition of share-based payments	-	236	-	-	-	236	-	236
Purchase of non- controlling interest	-	-	-	(744)	-	(744)	744	-
Comprehensive income for the year	-	-	(178)	-	713	535	(820)	(285)
Balance as at 31 December 2012	**1,215**	**407,140**	**(13,660)**	**(335)**	**(285,375)**	**108,985**	**1,256**	**110,241**

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

Consolidated Cash Flow Statements

	Note	Year ended 31 December	
		2012	2011
		US$ in thousands	
Net cash from operating activities	32	**3,206**	**3,138**
Investing activities			
Interest received		324	887
Proceeds on disposal of property, plant and equipment		134	134
Proceeds on disposal of financial assets carried at fair value through profit and loss		9,769	6,515
Proceeds on disposal of deposits		38,128	46,150
Purchases of property, plant and equipment		(1,375)	(1,672)
Purchases of financial assets carried at fair value through profit and loss		(6,775)	-
Purchases of deposits		(20,384)	(41,647)
Net Cash outflow on acquisition of business combinations	30	(605)	(3,418)
Net cash from investing activities		19,216	6,949
Financing activities			
Dividends paid to owners of the Company		-	(5,132)
Tax on dividend		-	(694)
Increase (decrease) in short-term bank credit		(179)	366
Bank loan repayment		(2,554)	(2,717)
Non-controlling interest acquired	31	-	(767)
Proceeds on issue of shares		12	62
Net cash used in financing activities		(2,721)	(8,882)
Increase in cash and cash equivalents		19,701	1,205
Cash and cash equivalents at the beginning of the year		23,012	22,087
Effects of exchange rate changes on the balance of cash held in foreign currencies		(27)	(280)
Cash and cash equivalents at the end of the year		**42,686**	**23,012**

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 POB 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 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:

IAS 1	Presentation of Items of Other Comprehensive Income[1]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]

Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11	Consolidated Financial Statements, Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance[2]
IAS 19 (as revised in 2011)	Employee Benefits[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. 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 items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2010) is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

The directors anticipate that the application of IFRS 9 in the future will not have material impact on amounts reported in respect of the Group's financial liabilities However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

New and revised Standards on consolidation, and disclosures

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).

Of them, only two, IFRS 10 and IFRS 12 are expected to have appliance to the Group's consolidated financial statements.

Key requirements of these two Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

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.

In June 2012, the amendments to IFRS 10 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These two standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013The directors anticipate that the application of these two standards will not have a significant impact on amounts reported in the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

IAS 19 Employee Benefits

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. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 require retrospective application. Based on the directors' preliminary assessment, when the Group applies the amendments to IAS 19 for the first time for the year ending 31 December 2013, there is no material effect on the profit after income tax for the year ended 31 December 2012. This effect reflects a number of adjustments, including their income tax effects: a) full recognition of actuarial gains through other comprehensive income and change in the net pension deficit; b) immediate recognition of past service costs in profit or loss and change in the net pension deficit and c) reversal of the difference between the gain arising from the expected rate of return on pension plan assets and the discount rate through other comprehensive income.

Note 3 - Significant Accounting Policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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. The comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 recognised amounts 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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquire. 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 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 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

(communication products, medical products such as primarily laboratory diagnostics and sterilization products)

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

(software services such as Training, Technical support and maintenance related to the communication products, Mobile & Web Solutions, UI, UX Design, Branding, Graphical Design, Drivers & Embedded solutions)

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:

- 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 consolidated statements of financial position 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

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.

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 the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that 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.

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 at the end of each reporting period. 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 recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate) within the Group's translation reserve. Such translation reserves are reclassified from equity to profit or loss in the period in which the foreign 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. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

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 {Israeli Chief Scientist Officer (OCS)} 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 liabilities 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.

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 consolidated statement of financial position date. Actuarial gains and losses are recognised in the consolidated statement of profit or loss 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 Consolidated statements of financial position 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

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 35.

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 share premium reserve.

Taxation

The income 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 profit before tax 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 end of the reporting period.

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

Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost.

Allocation from owner-occupied property to investment property made when the company ends of owner-occupation.

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 Consolidated statements of financial position 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. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated. 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 over their estimated useful lives, using the straight-line method, on the following bases:

Land and Buildings	0 - 5%
Plant and equipment	10 - 33%
Motor Vehicles	15-20%
Furniture and fittings	6-15%
Leasehold Improvements	10%

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.

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.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 in income immediately.

Inventory

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 Consolidated statements of financial position 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.

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 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.

Apart from trades and other receivables and interest bearing deposits, the Company has financial assets which are held for trading. These financial assets are classified 'at fair value through profit or loss' (FVTPL),

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the finance expense and finance income.

Impairment of financial assets

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.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

The Group holds no financial liabilities for trading.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 38.

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 38.

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.

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.

Trade and other payables

Trade and other payables and 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 Consolidated statements of financial position 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.

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 Consolidated statements of financial position 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 consolidated statement of financial position date was $ 11.5 million. (2011: $ 11.6 million), see note 23.

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. See note 36.

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 and a suitable discount rate in order to calculate fair value. The total liability at the year-end is $4.6 million.(2011: $4.8 million)

Judgments with respect to deferred tax assets

The Company has in 2012 $4.3 million (2011: $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	
	2012 $'000s	2011 $'000s
Sales of goods (*)	93,405	97,201
Services (*)	14,369	13,561
	107,774	**110,762**

(*) For more details see note 6

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 equipment. Sales for this segment are primarily in Europe.

A. Segment revenues and segment results

Year ended 31 December 2012

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	58,701	49,073	107,774
Operating profit (loss)(*)	4,378	(3,219)	1,159
Reconciliation-Other operating expenses			(3,603)
Segment results loss from continuing operation			(2,444)
Reconciliations -Unallocated			1,488
Loss before tax from continuing operation			(956)
Taxation			(895)
Profit from discontinued operations			2,010
Profit for the year			159

Year ended 31 December 2011

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	64,448	46,314	110,762
Operating profit	4,901	(3,422)	1,479
Reconciliation-Other operating expenses			(3,524)
Segment results profit (loss) from continuing operation (*)			(2,045)
Reconciliations -Unallocated			(802)
Loss before tax from continuing operation			(2,847)
Taxation			(885)
Loss from discontinued operations			(1,235)
Loss for the year			(4,967)

(*) Excluding other operating expenses (mostly amortization of Intangible assets).

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 customer from the Telecom division: totalled $ 5.0 million (2011: $ 12.6 million)

B. Segment assets, liabilities and other information

As at 31 December 2012

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Assets	107,706	44,963	152,669
Liabilities	26,993	15,435	42,428
Depreciation and amortizations	3,264	2,158	5,422
Additions to non-current assets	643	1,489	2,132

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

C. 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	
	2012 $'000	2011 $'000
Telecommunication Products	48,817	53,553
Software services	9,884	10,895
Distribution of medical products	31,185	29,234
Clinical Chemistry diagnostic products	10,220	8,989
Sterilization products	7,668	8,091
	107,774	**110,762**

D. Geographical information

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	
	2012 $'000s	2011 $'000s	2012 $'000s	2011 $'000s	2012 $'000s	2011 $'000s
USA	25,644	21,692	28,968	28,018	30	1,546
Israel	33,698	41,002	82,406	84,702	705	1,616
Moldova	25,085	22,644	11,675	12,197	807	449
Rest of Europe (*)	23,281	25,424	29,452	30,637	590	359
China	66	-	168	-	-	-
Total	107,774	110,762	152,669	155,554	2,132	3,970

(*) Including the countries: Romania and Italy

Note 7 - Cost of revenues

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Direct costs- Components and subcontractors	55,141	57,993
Changes in Inventory	371	(4,243)
Salaries and related benefits	10,289	10,857
Overhead and depreciation	2,450	2,710
Other operating expenses	3,606	4,133
	71,857	**71,450**

Note 8 - Sales and marketing expenses

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Salaries and related benefits	7,213	9,052
Commissions	1,609	1,319
Outside services	1,537	814
Advertising and sales promotion	1,351	1,235
Overhead and depreciation	1,553	1,666
Travelling and other expenses	2,357	1,739
	15,620	**15,825**

Note 9 - General and administrative expenses

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Salaries and related benefits	5,408	5,807
Professional services(*)	1,206	1,078
Overhead and depreciation	1,095	1,108
Other expenses	2,139	1,941
	9,848	**9,934**
(*) Including		
Auditors' remuneration for audit services	236	230

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2012 were $21,000 (2011: $25,000).In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2012, were $55,000 and $11,000, respectively (2011: $184,000 and $35,000, respectively).

Note 10 – Research and development expenses

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Salaries and related benefits	5,468	6,706
Components and subcontractors	3,032	2,970
Overhead and depreciation	971	1,319
Other expenses	614	1,079
Government grants	(795)	-
	9,290	**12,074**

Note 11 - Staff costs

The average monthly number of employees in 2012 (including executive directors) was 735 (2011: 725).

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	22,869	25,983
Social security costs	4,157	4,800
Other pension costs (see Note 36)	1,352	1,639
	28,378	**32,422**
Include executive Directors' emoluments	**650**	**580**

Note 12 - Finance income

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Interest on bonds	100	129
Interest on bank deposits	276	628
Profit on derivative financial instruments	662	215
Capital gain on loan forgiveness (see note 27)	761	-
Other	-	154
	1,799	**1,126**

Note 13 – Finance expenses

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Foreign exchange differences	(10)	(1,134)
Interest on loans	(301)	(794)
	(311)	**(1,928)**

Note 14 - Income tax expense

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Current tax	(515)	(*)(1,653)
Deferred tax (Note 26)	(380)	768
	(895)	**(885)**

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

Taxation under various laws:

Israel

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. (see below information regarding amendments to the Israeli law).

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. (see below information regarding amendments to the Israeli law).

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.

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%). The Company is located in a Development area and is entitled to the reduced tax rates.This amendment takes effect from January 1, 2011. The Company chose to implement the amendment by notification to the Israeli Tax Authorities and reflect it in its financial statements.

The company decided to implement the new amendment from year 2011.

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 tax loss carry-forwards of $82.0 million in Israeli subsidiaries which the company didn't create deferred tax assets in respect of such losses. According to the Israeli law there is no expiry date to use such losses.

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 company is currently in the process of the tax assessments for the years 2006-2009 by the tax authorities.

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 $52.4 Million and the amount of brought forward losses is $274.6 Million. According to US law, losses can be carried forward for 20 years.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The company has tax loss carry-forwards of $18.0 million in Europe subsidiaries for which the company didn't create deferred tax assets.

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

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Loss before tax:	**(956)**	**(2,847)**
Tax income at the Israeli corporation tax rate of 25% (2011: 24%)	(239)	(683)
Tax exempt income	(616)	(390)
Expenses with unrecognized deferred tax on income or losses	1,791	1,381
Utilization of tax loss carry forward	(816)	-
Tax on dividend in respect of profits derived from approved enterprise	-	694
Different tax rates in foreign regimes and other differences	775	(117)
Tax expense for the year	**895**	**885**

Note 15 - Discontinued operations

(a) Disposal of Legacy operations

During June 2012, the Group entered into a MOU agreement to dispose of its older time division multiplexing (TDM) based products ("Legacy") business, which formed part of the Group's Telecom operations. This event, which will complete until 30 June 2013, is consistent with the Group's long-term policy to focus on growing the Carrier Ethernet portfolio.

(b) Analysis of profit for the year from discontinued operations

The results of the discontinued operations included in the profit for the year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

Profit (loss) for the year from discontinued operations:

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Revenues	10,022	16,872
Expenses	8,012	18,107
Profit (loss) before tax	2,010	(1,235)
Tax expenses	-	-
Profit (loss) for the year	**2,010**	**(1,235)**

Cash flows from discontinued operations:

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Net cash inflows from operating activities	1,692	2,000
Net cash inflows from investing activities	-	-
Net cash outflows from financing activities	-	-
Net cash inflows	**1,692**	**2,000**

Earnings (loss) per share (In cents) from discontinued operations:

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Basic and Diluted	0.50	(0.30)

Note 16 - 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.

Note 17 - Earnings (loss) per share

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

	Year ended 31 December	
	2012	2011
Earnings (loss) for the purposes of basic and diluted earnings per share ($'000s) attributable to Owners of the Company	713	(3,720)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	402,920,465	402,872,861
Effect of dilutive potential ordinary shares:		
Share options	55,359	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**402,975,824**	**402,872,861**
Weighted average number of non-dilutive potential ordinary shares	**19,724**	**651,283**

Note 18 – Financial assets

	31 December	
	2012	2011
Interest-bearing deposits(*)	3,244	20,545
Held for trading bonds	319	3,338
	3,563	**23,883**

(*) Includes a total of $1.5 million of cash deposits was designated as security for short term bank credit and presented in financial assets.

Note 19 - Trade and other receivables

	31 December	
	2012	2011
Trade receivable account	24,169	22,729
Participation in research and development: Government of Israel	287	-
VAT	317	366
Tax authorities	225	320
Prepaid expenses	2,802	1,389
Other debtors	1,573	2,725
	29,373	**27,529**

The average credit period taken on revenues is 54 days (2011: 45 days). No interest is charged on the receivables. An allowance has been made at 31 December 2012 for estimated irrecoverable amounts of $1,676,000 (2011: $1,838,000). This allowance has been determined by reference to past default experience.

During 2012 the company wrote off $79 thousands of bed debts.

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 Consolidated statements of financial position 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 20 - Inventories

	31 December	
	2012	2011
Raw materials	8,391	7,395
Work-in-progress	1,135	1,479
Finished goods	9,983	15,423
	19,509	**24,297**

During the financial year 2012, $ 267 thousand of Inventory was impaired due to slow moving inventory, and expensed to the Profit and Loss account (2011: $ 3,353 thousand). Inventory write down of 2011 including $2,150 thousands one off stock depreciation linked to the curtailment of legacy telecoms activities. (see note 15).

Note 21 – 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 2011	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	893	43,425
Additions	188	922	98	411	99	1,718
Disposals	-	(93)	(251)	(160)	(155)	(659)
Allocated to investment property (*)	(6,068)	-	-	-	-	(6,068)
Effect of translation adjustment	51	(6)	6	6	2	59
At 31 December 2012	20,045	11,182	2,839	3,570	839	38,475
Accumulated depreciation						
At 01 January 2011	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
Depreciation expense	620	407	507	326	68	1,928
Disposals	-	(87)	(149)	(156)	(155)	(547)
Allocated to investment property (*)	(2,238)	-	-	-	-	(2,238)
Effect of translation adjustment	(27)	(63)	(8)	(15)	(4)	(117)
At 31 December 2012	2,944	8,952	1,832	2,848	722	17,298
Carrying amount						
At 31 December 2012	**17,101**	**2,230**	**1,007**	**722**	**117**	**21,177**
At 31 December 2011	**21,285**	**1,664**	**1,504**	**620**	**80**	**25,153**

(*) Additional information

The Company has been leasing the land on which the building in Yokneam has been built from the Israel Lands Authrity under a capitalized lease for a period of 49 years ending on July 2044.

Note 22 – Investment Property

	31 December	
	2012 $'000s	2011 $'000s
At 1 January	-	-
Allocated from fixed assets- Gross	6,068	-
Allocated from fixed assets- Accumulated Depreciation	(2,238)	-
At 31 December	**3,830**	**-**

The useful lives used; between 10-50 years.

Amounts recognized in the consolidated income statements

	31 December	
	2012 $'000s	2011 $'000s
Rental income from Investment property	357	-
Operating expenses related to Income from Investment property	(133)	-
Operating expenses related to Investment property which produced no income	(30)	-

Fair value of the group's investment property

	31 December 2012	
	At Amortised Cost $'000s	Fair Value $'000s
A Yokneam, Israel	1,790	3,161
B Kfar-Netter, Israel	963	1,230
C Rome, Italy	1,077	1,100

A. The fair value of the Group's investment property at 31 December 2012 has been arrived at on the basis of a valuation carried out on the respective date by the market price of similar assets in the same area sold recently.

B. The valuation was arrived at by reference to proposal was given to the Company for the asset.

C. Discounted cash flow projections based on reliable estimates of future cash flows (representing monthly rental revenues) supported by the terms of existing lease contracts (if possible) and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Note 23 - Goodwill

The Group tests annually goodwill 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.

Sterilization: $2,550 thousands (2011: $2,550 thousands)
Diagnostic: $1,260 thousands (2011: $1,235 thousands)
Distribution: $1,149 thousands (2011: $816 thousands)
Telco: $1,984 thousands (2011: $1,984 thousands)
Telecoms outsourcing: $4,546 thousands (2011: $4,923 thousands)
Telecoms Hardware: $5 thousands (2011: $108)

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. Pre-tax discount rates of between 12% - 22% 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 board of directors and 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 9% for years 2-5, and then 0% thereafter, for the Telecoms Outsourcing CGU and 10% for years 2-5 respectively, and then 1% thereafter for the Sterilization and 14%, 25%, 35% and 10% for years 2-5 respectively, and then 1% thereafter for the Diagnostic and 5%, 3%, 3% and 4% for years 2-5 respectively, and then 3% thereafter for the Distribution.

Fixed expenses have been assumed to grow at 2.5% for years 2-5 and then have been assumed to remain constant thereafter in the Telecoms CGU and 1%, 1%, 5% and 2% 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 decreasing by 3%, 1%, 1%, 2% and 1% in years 1-5 respectively and have assumed to remain constant thereafter, and to decrease as a constant percentage of sales throughout the forecast period in the Telecoms Outsourcing CGU decreasing by 6%, 5%, 1%, 2% and 2% in years 1-5 respectively and have assumed to remain constant thereafter . The rates used above reflect historical rates achieved and expected levels for 2013 and approved by the board of directors and managment but then are prudently adjusted for subsequent years.

For details of completion of PPA see note 30.

	2012 $'000s	2011 $'000s
Balance at 01 January	11,616	11,300
Additions in the year	(1)377	2,298
Impairment	-	(2)(1,450)
Reclassification (moved to other intangible)(3)	(469)	-
Foreign Exchange difference	(30)	(532)
Balance at 31 December	11,494	11,616

(1) PPA with respect to the additions had not been completed
(2) Related to the telecom legacy business, which is being discontinued.
(3) Due to PPA completion allocated to other intangible assets

Note 24 - Other Intangible Assets

	Customer Relationships and Backlog	Technology	Other (*)	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At 1 January 2011	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
Additions	89	-	417	506
Reclassified as held for sale	(2,541)	-	(1,029)	(3,570)
Effect of translation adjustments	(173)	220	63	110
At 31 December 2012	**16,377**	**10,593**	**1,846**	**28,816**
Accumulated amortization				
At 1 January 2011	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
Effect of translation adjustments	317	280	(260)	337
Reclassified as held for sale	(2,541)	-	(1,029)	(3,570)
Amortization expense	1,835	1,301	358	3,494
At 31 December 2012	**10,283**	**5,913**	**1,296**	**17,492**
Carrying amount				
At 31 December 2012	**6,094**	**4,680**	**550**	**11,324**
At 31 December 2011	**8,330**	**6,041**	**168**	**14,539**

(*) 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.

Amortization by categories;

Customer Relationships and Backlog :1 to 10 years
Technology: 4 to 11 years
Other: 3 to 10 years

Note 25 - 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 2012 is presented below.

Name of subsidiary	Country of incorporation	Ownership interest	Date of acquisition
Telco Systems Inc.	United States of America	100%	April 2000
A.M.S. 2000 (a)	Romania	100%	June 2007
NGSoft Ltd	Israel	100%	October 2007
Becor(b)	Moldova	51%	July 2008
Adaltis(c)	Italy	100%	November 2009

(a) During January 2011 BATM increased its holding in AMS 2000 from 75% to 100%.
(b) During January 2011 BATM increased its holding in Becor from 38.2% to 51%.
(c) Incorporated by the Company.

Note 26 - Deferred tax

Defferred tax assets

The following are deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period (see also Note 14).

	Deferred development costs $'000s	Depreciation differences $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Other $'000s	Total $'000s
At 1 January 2011	230	129	230	4,281	252	5,122
Credit to income	385	15	(9)	-	37	428
Effect of translation adjustments	-	(9)	(16)	-	-	(25)
At 31 December 2011	615	135	205	4,281	289	5,525
Charge to income	(233)	(138)	(21)	-	(46)	(438)
Effect of translation adjustments	-	3	5	-	-	8
At 31 December 2012	**382**	**-**	**189**	**4,281**	**243**	**5,095**

Defferred tax liabilities

	Intangible Assets $'000s	Depreciation differences $'000s	Total $'000s
At 1 January 2011	1,903	-	1,903
Credit to income	(340)	-	(340)
Effect of translation adjustments	(25)	-	(25)
At 31 December 2011	1,538	-	1,538
Credit to income	(291)	233	(58)
Effect of translation adjustments	7	1	8
At 31 December 2012	**1,254**	**234**	**1.488**

The following are unrecognized taxable temporary differences associated with investments and interests:

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized are attributable to: 31 December 2012 $3,834 thousands (31 December 2011 $4,166 thousands).

Note 27 - Financial liabilities and other

Trade and other payables

	31 December	
	2012 $'000s	2011 $'000s
Trade creditors	13,253	13,414
Salary accruals	5,359	5,328
VAT and other tax liabilities	558	727
Other creditors and accruals	7,878	7,972
	27,048	**27,441**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 37 days (2011: 40 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

Long-term liabilities

	31 December	
	2012	2011
	$'000s	$'000s
Bank Loans (1) (2)	1,216	2,650
Less- Current maturities	-	(1,200)
Forgivable debt to the office of the chief scientist (3)	3,693	3,772
Government institutions	417	655
Liability in regard to acquisitions (4)	-	119
Other long term Liability	-	23
	5,326	**6,019**

(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 $ 3.4 million for this loan during 2010-2012.

(2) During March 2012, following discussion with one of the banks of the Company's subsidiary-ISE in Italy. The Company transferred 1 million Euro to the bank as a mortgage return and the bank reduced the mortgage to 0.9 million Euro, the Company recorded a financial gain of 0.6 million Euro from this transaction (see note 31).

(3) This liability (hybrid instrument containing embedded derivative) is designated at FVTPL according to relevant accounting policy. In 2011 there was no participation of the chief scientist in R&D projects.

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

Note 28 - Provisions

	Warranty provision	Onerous Lease provision[1]	Tax and Other provision[2]	Total
	$'000s	$'000s	$'000s	$'000s
At 1 January 2012	742	120	1,645	2,507
Additional of provision	-	-	652	652
Utilisation of provision	(86)	-	-	(86)
Reclassified as held for sale	(383)	-	-	(383)
Payment during the year	(30)	(70)	-	(100)
At 31 December 2012	243	50	2,297	2,590
Included in current liabilities				2,590
Included in non-current liabilities				-
				2,590

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.

(1) 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.

(2) The tax liability represent management best estimate of the group liabilities under tax laws.

Note 29 - Share capital

Ordinary shares of NIS 0.01 each (number of shares)

	2012	2011
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**402,965,820**	**402,915,820**

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

During the year, 50,000 of one employee options were exercised into shares.

Note 30 - Business Combinations

During May 2012 a subsidiary of the Company-Becor acquired the major assets and intellectual property of Fitosfera for a consideration of $377 thousands. Fitosfera is engaged in the marketing of medical products.

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. Part of this business relates to the legacy activity (see note 15).

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. During 2012 the PPA with respect to the acquisition had been completed. As at 31 December 2012, $122 thousands of the consideration had not yet been paid (non-cash transaction). This balance will be paid during 2013 (see note 39). With respect to this acquisition the Company paid in 2012 $190 thousands.

Note 31 - 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 $1,591 thousands 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) the fair value of the liability derived from the contingent consideration that has been calculated was $374 thousands.

During March 2012, Sunstring increased its holding in ISE from 59.8% to 100% due to loan repaid by the Company (see note 27(2)).

Note 32 - Note to the cash flow statements

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Operating loss from continuing and discontinued operations	(434)	(3,280)
Adjustments for:		
Amortization of intangible assets	3,494	3,743
Impairment of intangible assets and goodwill	-	2,972
Depreciation of property, plant and equipment	1,928	2,055
Expenses recognise in respect of equity settled share based payments	236	326
Increase (decrease) in retirement benefit obligation	(45)	117
Decrease in provisions	(392)	(312)
Increase in inventory	(32)	(4,337)
Decrease (increase) in trade and other receivables	(1,475)	3,720
Increase (decrease) in trade and other payables	291	(723)
Income taxes paid	(365)	(626)
Income taxes received	323	-
Interest paid	(323)	(517)
Net cash from operating activities	**3,206**	**3,138**

Note 33 - 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 34 - Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Minimum lease payments under operating leases		
Recognised in income for the year	**1,472**	**1,452**

At the Consolidated statements of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December	
	2012 $'000s	2011 $'000s
Within one year	328	479
In the second to fifth years inclusive	507	589
	835	**1,068**

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

The Group as lessor

Property rental income earned during 2012 was $357,000 (2011: $151,000). 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 Consolidated statements of financial position date, the Group had contracted with tenants for the following future minimum lease payments:

	31 December	
	2012 $'000s	2011 $'000s
Within one year	398	85
In the second to fifth years inclusive	292	246
	690	**331**

Note 35 - 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:

	2012		2011	
	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	8,973,545	0.2971	7,612,291	0.3454
Granted during the year	1,780,000	0.2359	2,937,815	0.2330
Forfeited during the year	(3,436,756)	0.2742	(1,491,561)	0.4222
Exercised during the year	(50,000)	0.145	(85,000)	0.2159
Outstanding at the end of the year	**7,266,789**	**0.2940**	**8,973,545**	**0.2971**
Exercisable at the end of the year	**4,412,555**	**0.3336**	**4,645,828**	**0.3431**

The weighted average share price at the date of exercise for share options exercised during 2012 was 0.145 Great British Pounds ("GBP"). The options outstanding at 31 December 2012 had a weighted average exercise price of 0.2940 GBP, and a weighted average remaining contractual life of 6.67 years. In 2012, options were granted on February 14, July 2 and December 19. The aggregate of the estimated fair values of the options granted on those dates is $410,000. 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.

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

	2012 $'000s	2011 $'000s
Weighted average share price (GBP)	0.17	0.23
Weighted average exercise price (GBP)	0.15	0.22
Expected volatility	36-61	36-61
Expected life	7	7
Risk-free rate	1.3%-2.2%	1.5%-3%
Expected dividends	2.5%	2.5%

The inputs into the Black-Scholes model for the options granted in 2012 are as follows:

	2012 $'000s
Weighted average share price (GBP)	0.14
Weighted average exercise price (GBP)	0.23
Expected volatility	36-58
Expected life	7
Risk-free rate	1.3%-1.5%
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 $236,000 and $326,000 related to equity-settled share-based payment transactions in 2012 and 2011, respectively.

Note 36 - 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 9 January 2013 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:

	2012	2011
Discount rate(s)	4.2%	4.6%,6.7%
Expected return on plan assets	4.4%	4.7%
Expected rate(s) of salary increase	1-4%	1-5%
Expected inflation rate	2.6%	2.5%

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

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Current service cost	365	630
Interest on obligation	230	256
Expected return on plan assets	(197)	(217)
Adjustments for restrictions on the defined benefit asset	60	62
Actuarial gains recognised in the year	(111)	(80)
Total	**347**	**651**

The amount included in the Consolidated statements of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	31 December	
	2012 $'000s	2011 $'000s
Present value of funded defined benefit obligation	5,137	5,618
Fair value of plan assets	(4,181)	(4,617)
Net liability	**956**	**1,001**

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

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Opening defined benefit obligation	5,618	5,646
Current service cost	365	630
Interest cost	230	256
Actuarial gains	(30)	(28)
Benefits paid	(959)	(483)
Exchange rate differences	(87)	(403)
Closing defined benefit obligation	**5,137**	**5,618**

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

	Year ended 31 December	
	2012 $'000s	2011 $'000s
Opening fair value of plan assets	4,617	4,762
Expected return on plan assets	136	148
Actuarial gains	81	51
Contributions from the employer	371	438
Benefits paid	(892)	(440)
Exchange rate differences	(132)	(342)
Closing fair value of plan assets	**4,181**	**4,617**

The history experience adjustments is as follow:

	2012 $000	2011 $000	2010 $000	2009 $000
Present value of defined benefit obligation	5,137	5,618	5,646	5,146
Fair value of plan assets	(4,181)	(4,617)	(4,762)	(4,271)
Deficit	**956**	**1,001**	**884**	**875**
Experience adjustments on plan liabilities	**(179)**	**(68)**	**(59)**	**490**
Experience adjustments on plan assets	**142**	**(54)**	**(35)**	**(390)**

Note 37 - 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	2012 Total $000	2011 Total $000
Zvi Marom	279	24	7	121	431	378
Ofer Bar Ner	187	24	8	-	219	202
Peter Sheldon	50	-	-	-	50	44
Gideon Chitayat	45	-	-	-	45	44
Amos Shani	20	-	-	-	20	20
Amiram Mel	8	-	-	-	8	30
Elka Nir	17	-	-	-	17	-

The total liability for the Directors in the year-end 2012 was $139 thousand (2011: $72 thousands) related to December 2012 and 2011 wages paid in January 2013 and 2012 respectively and Bonus for 2012 not paid yet and bonus for 2011 paid in June 2012.

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 2012 and 2011 were as follows:

Ordinary shares	2012	2011
Zvi Marom	93,494,500	93,494,500
Ofer Bar Ner	150,000	150,000
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Amos Shani	-	-
Elka Nir	-	-

Table C – Share Options

Options to subscribe for or acquire ordinary shares of the Company were held by the following Directors during the year. All of the share options granted to Ofer Bar Ner are lapsed.

	As at 01 Jan 12	Granted	Exercised	Lapsed	As at 31 Dec 12	Exercise price	Expiry date
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
Ofer Bar Ner	-	1,500,000	-	1,500,000	-	0.247	02/07/2014

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 installments. As of 31 December 2012 the loan balance is $50,000.

Table D – 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.

	2012 $'000s	2011 $'000s
Short-term employee benefits	587	516
Post-employment benefits	15	15
Other long-term benefits	15	16
Termination benefits	33	33
Share-based payment	-	-
	650	**580**

Note 38 – 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 maximisation of shareholders value.

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

	2012 $'000s	2011 $'000s
Financial assets		
Cash and cash equivalents	42,686	23,012
Fair value through profit or loss	319	3,338
Deposits and receivables	32,075	47,388
Financial liabilities		
At amortized cost	30,820	34,027
Fair value through profit or loss	4,625	4,821

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 derivatives only for economic hedging and does not apply hedge accounting. 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	
	2012 $'000s	2011 $'000s	2012 $'000s	2011 $'000s
New Israeli Shekel	8,792	8,478	8,564	7,440
Euro	9,827	13,856	10,508	33,323
Other	3,628	1,983	11,040	9,813

Foreign currency sensitivity

The Group is mainly exposed to Euro, 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 percent 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

	2012 $'000	2011 $'000
NIS Impact	(85)	(152)
US Dollar impact	-	-
Euro Impact	260	1,361
GBP Impact	109	75

Equity

	2012 $'000	2011 $'000
NIS Impact	101	316
Euro Impact	(239)	(172)
MDL Impact	209	321
Other currencies Impact	53	96

This is mainly attributable to the exposure outstanding USD receivables and payables at year end in the Group.

The Company engaged in financial instruments contract such as forward contracts, call and put options and structured instruments in order to manage foreign currencies exposure.

During the year the Company engaged in four financial instruments which resulted in $662 thousands recorded as finance income. (2011: four financial instruments resulted in $215 thousands recorded as finance income).

(g) Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group's exposure to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The exposure of the floating interest rate on the loans is not material.

(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 2012					
Non-interest bearing	-	25,435	1,194	6,257	32,886
Bank loans interest bearing (*)	3.83	1,434	2,613	1,216	5,263
		26,869	**3,807**	**7,473**	**38,149**
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**

(*) Part of the Bank loans are linked to a fix rate plus Libor or a fix rate plus Euribor.

(i) Finance liabilities

Loans from banks are measured at amortised cost using the effective interest method. The difference between the fair value of the loans and their book value is not significant.

(j) Fair value of financial instruments carried at amortized cost

All the financial instruments of the Group are approximate their fair value

(k) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 3 based on the degree to which their fair value is observable:

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the liabilities that are not based on observable market data (unobservable inputs).

Reconciliation of Level 3 fair value measurements of financial liabilities - Government grants

Fair value through profit or loss	2012 $'000	2011 $'000
Opening balance	4,820	4,828
Gains / (losses) in profit or loss	44	310
Received	680	471
Paid	(919)	(789)
Closing balance	**4,625**	**4,820**

The assumptions the Company take into consideration for the calculation of the fair value measurements of the Government grants liabilities based on two parameters:

1. Future forecast revenues for the next five years, for each year the forecast of the percentage of royalty-bearing revenues.

2. Capitalised interest based on economic parameters in the market such as WACC and CAPM.

Note 39 - 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, amount of $122 thousands had not been paid in cash at the end of the reporting period. (See note 30).

Directors and Advisors

Directors

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

Legal Counsel in Israel

Lipa Meir & Co.
Beit Amot Hashkaot
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Tel-Aviv 64239
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Legal Counsel in the UK

Fladgate Fielder
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UK

Bankers

Bank Hapoalim
45 Hamelacha Street
Netanya Israel

Bank Leumi
25 Habarzel Street
Tel-Aviv
Israel

Registrars

Capita Registrars
The Registry
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