BATM
Advanced Communications

Annual Report 2009

Welcome to BATM

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

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

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$135.4million

2009 Revenues

$25.8million

2009 Adjusted EBITDA

$66.8million

2009 Liquid Assets

	2009	2008	%
Revenue	$135.4m	$134.5m	0.7%
Adjusted EBITDA[1]	$25.8m	$28.6m	-9.8%
Gross profit	$57.7m	$61.3m	-5.9%
Reported operating profit	$16.4m	$23.6m	-30.5%
Adjusted operating profit[1]	$23.0m	$26.2m	-12.2%
Net profit[2]	$20.5m	$24.2m	-15.3%
Earnings per share	5.11¢	6.19¢	-17.4%
Liquid investments	$66.8m	$57.3m	16.6%
Dividend per share	1.35p[3]	0.69p	95.6%

Notes to the Financial Highlights

Profit before tax is reconciled to adjusted profit before tax and adjusted EBITDA in the table below:

	2009 $ millions	2008 $ millions
Profit before tax	18.4	23.7
Amortisation of Intangibles	4.0	2.6
One of items	2.5	-
Adjusted profit before tax	24.9	26.3
Net finance income	(2.0)	(0.1)
Depreciation	2.9	2.4
Adjusted EBITDA	25.8	28.6

Throughout this report:

1. Before intangibles amortisation of $4.0 million (2008: $2.6 million) and one-off exceptional items of $2.5 million (2008: nil)
2. Attributable to owners of the company
3. Includes special payment of 0.55p per share

Chairman's Statement

Peter Sheldon, OBE
Chairman

Peter Sheldon
Chairman

I am pleased to report on a year that presented great opportunities along with equal challenge. BATM reported record revenues of $135 million and a net profit of $20.5 million. In spite of difficult market conditions that prevailed throughout the year the Company continued to invest in both R&D and complementary acquisitions whilst managing to increase its liquid resources.

In the Telecoms sector we have developed a number of new devices that have been unveiled during Q1 2010, a process that will continue through the course of this year. These include a complete suite of products to provide a full cellular backhaul solution including aggregation platform, cell site gateway, and multiple precision timing devices. The Telecoms market has been significantly transformed with the increased use of Ethernet services delivered to Smart Phones. The BATM solution provides service providers with the ability to upgrade their 2G networks to 4G networks, without the need to maintain separate network facilities to support legacy voice services.

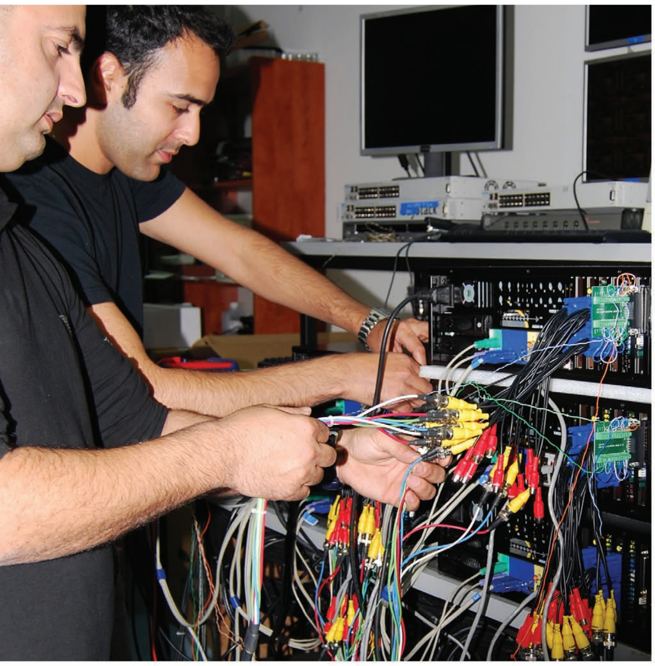
In addition we released a Temperature Hardened Demarcation Device that allows providers to deploy Ethernet in challenging conditions. BATM also plans to launch a full management solution towards the end of year. We believe that these products will allow the Company to take an increasing portion of the Ethernet market and will also be attractive to OEM partners.

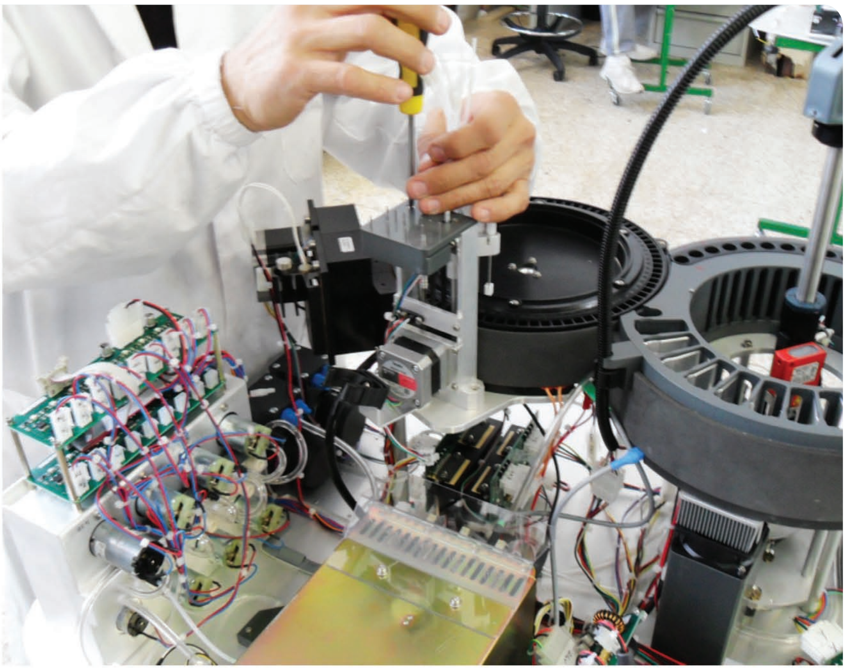
In the Medical sector we made two acquisitions at either end of 2009 involving two Clinical Chemistry companies. These acquisitions strengthen our Medical division that now has strong distribution and development arms. The Medical division develops and manufactures laboratory diagnostic equipment and sterilisation equipment, and specialises in niche equipment for small laboratories.

In the past year we have been able to make significant investment in each of our business segments, whilst maintaining a high level of liquidity which will allow us to continue to grow our business in the coming years.

Peter Sheldon
Chairman
30 April 2010


PacketStorm1800E



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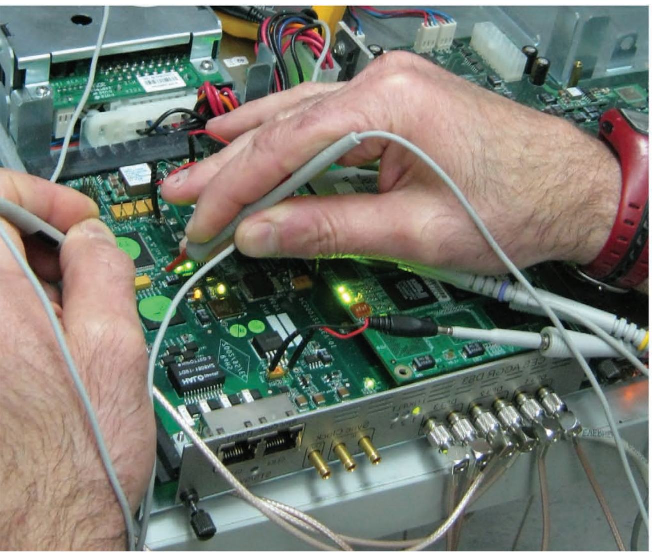
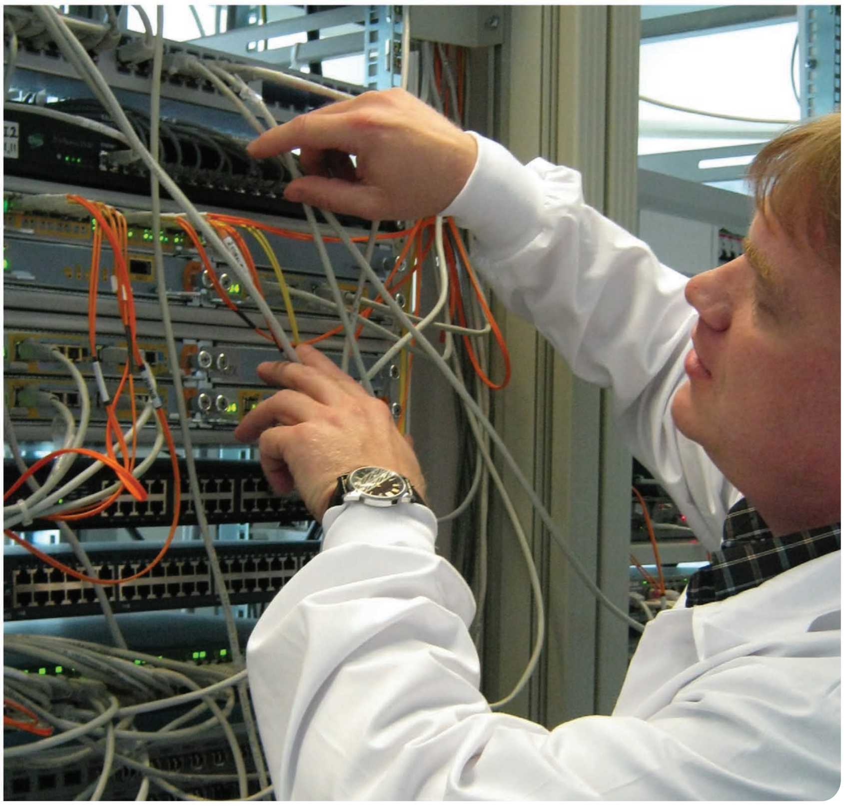
T-Marc 380





Directors' Report

Business Review

Record Revenues, Strong Cash Position

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, primarily laboratory diagnostics equipments. BATM has offices in North America, Israel, Europe and the Far East.

$135.4million

2009 Revenues

$66.8million

2009 Liquid Investments

Overview of 2009

2009 was a year which delivered record revenues despite challenging market conditions and saw the strengthening of BATM's business in every aspect. During 2009 BATM released market leading cellular backhauling technology, broadened its Medical division and focused on reducing its cost base and strengthening still further its cash flow. Our cash position has been improved with $66.8 million of liquid investments at the year end (2008: $57.3 million).

During the year the Company maintained its long held policy of working with minimum risk customers and short credit terms.

BATM has used its strong cash position to acquire real estate at opportunistic prices in the U.S and Israel which will replace rented properties currently used by BATM in the course of 2010 and 2011. The Company also intends to utilise some of its accumulated cash at the year end to distribute a significantly increased final dividend.

Directors' Report

Financial Performance

Revenues grew modestly in 2009, despite difficult market conditions, to reach a new high of $135.4 million (2008: $134.5 million). There was a significant underlying change in sales mix with Telecom sales totalling $105.7m (2008: $116.1m) mainly as a result of lower revenues in a challenging US market, and Medical sales totalling $29.7m (2008: $18.4m).

The gross profit margin decreased to 42.6% (2008: 45.6%) primarily due to this change in the sales mix. In comparison to H2 2008 the gross profit margin has increased from 41.4% due to slight increases in profitability both in the Telecoms and Medical sectors. In the Telecoms sector this is primarily due to favourable Euro – US dollar exchange rates in the last part of 2009, whilst in the Medical sector this is primarily due to efficiency programs.

Total sales and marketing expenses were $13.6 million (2008: $13.9 million), a decrease of 2.2% on the previous year. We have succeeded in reducing these costs by increasing the proportion of revenues through indirect sales channels with existing customers, which typically incur lower direct expense, and optimisation programmes. As a percentage of revenue, sales and marketing expenses were 10.0% (2008: 10.0%).

General and administrative expenses were $9.4 million (2008: $8.4 million) representing 6.9% of revenue, compared with 6.2% in 2008. This increase is primarily related to the effects of full year operations for the new medical sector businesses. We continue our integration of these new businesses into our group structure in order to reduce this overhead.

R&D expenses in 2009 were $11.8 million (2008: $12.8 million), a decrease of 7.8%. The decrease is largely a result of the depreciation of the Israeli Shekel against the US dollar, but also reflects our increased R&D in new fields, offset by efficiency programmes in BATM's traditional R&D units.

Operating profit was $16.4 million (2008: $23.6 million) after amortization of intangible assets totalling $4.0 million (2008: $2.6 million), which has increased due to our acquisitions both in 2009 and 2008, and certain one-off exceptional items. Other operating expenses include a one-off write-down of the leases and leasehold improvements in two US properties of $1.2 million, following a strategic decision to relocate to a purchased property in Foxboro, and an impairment of $1.3 million of goodwill in relation to Vigilant. Adjusted operating profit, adding back these items, was $23.0 million (2008: $26.2 million).

Net finance income was $2.0 million (2008: $0.1 million). This figure primarily consists of $2.6 million of interest income, as well as $1.3 million of gains on forward contracts and debt forgiveness, which has been offset by $1.5 million of foreign exchange losses.

Net profit after tax attributable to owners of the company amounted to $20.5 million (2008: $24.2 million), resulting in a basic profit per share of 5.11¢ (2008: 6.19¢)

Our balance sheet remains strong with effective liquidity of $66.8 million (2008: $57.3 million). This is after a dividend payment of $4.6 million, and an investment of $13.6 million in fixed assets (see below).

Intangible assets have increased to $23.3 million (2008: $18.9 million), and Goodwill has increased to $11.3 million (2008: $9.4 million). These increases are primarily due to the purchase of ISE and other businesses, offset by amortisation of intangibles and an impairment of goodwill totalling $5.3 million.

Property, plant and equipment have increased by $11.8 million from 31 December 2008 to $21.9 million as at 31 December 2009. During the year BATM took advantage of low real estate prices to purchase two offices located in Foxboro, Massachusetts and Hod Hasharon, Israel. These investments cost a total of $9.7 million.

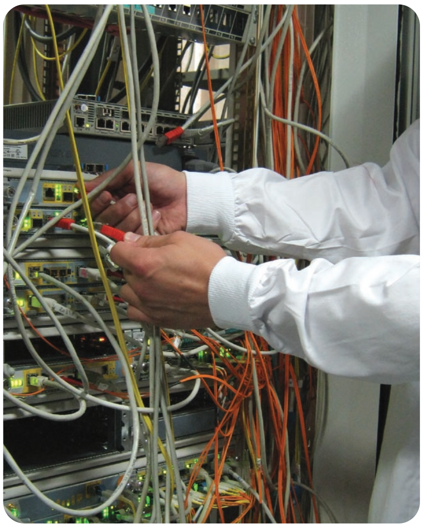
Total liabilities have increased by $14.7 million from 31 December 2008 to $46.3 million as at 31 December 2009. This increase is primarily due to $6.7 million of liabilities assumed on the acquisition of ISE, and $4.5 million mortgage drawn for the purchase of the building in Hod Hasharon, Israel.

Hod-Hasharon, Israel

Foxboro MA, USA

Directors' Report

Sales and Marketing



During 2009 we have focused on strengthening and expanding our indirect sales channels. We have succeeded in increasing these channels and believe that this will help us grow our revenues in 2010. In our direct sales channels, customer activity is very high, in particular in the US.

Research and Development and New Products

Over the past year we have developed a new generation of cellular back-haul Ethernet products. These switches contain cutting edge technology to facilitate linking cellular masts to provider networks, including extremely accurate time synchronisation. These products provide solutions to the new infrastructure required to support the ever increasing number of IP enabled smart phones.

In 2010 we have an aggressive development programme for increasing our network management platform to upgrade it into a very high end servicing platform. We believe that these platforms will become increasingly important in the future as the services supplied over service providers' networks grow and become increasingly sophisticated. Over the course of the year we will release a complete solution including a 40 Giga platform.

BATM Medical

During the course of 2009, BATM continued its strategic investments in the Medical sector. In December 2009, BATM purchased the intellectual property and certain assets of a clinical chemistry and immunology diagnostics company for approximately €2 million. The operations of the business were purchased from bankruptcy proceedings and are based mainly in Italy. We expect these assets to significantly strengthen the product range and know how in the Group's current operations in the clinical chemistry field.

Towards the end of 2009 the BATM Medical Group showcased two new innovative products, the Miura One, a niche clinical chemistry analyser for small laboratories, and the Integrated Shredder Steriliser ("ISS"). The ISS is a machine that dramatically reduces the environmental impact and cost associated with the disposal of medical waste. Orders have been received for both products and BATM is gearing up production in mid-2010.

During 2010 we expect to continue our cost reduction program in the Medical Division in order to increase the gross profit margin, realise synergies across the division and begin to see revenues from OEM agreements signed over the past year in this sector.

Directors' Report

Investments

During the first quarter of 2009 BATM strengthened its local presence in the Telecoms business in Israel by purchasing the trade and assets of a local company and integrating it into our existing local structure.

Our strategic investments during the year included the investment in the medical segment described above, as well as the acquisition of a controlling interest in ISE in February 2009 as previously reported.

Dividend

The Board is of the opinion that, in light of the Company's profitability, it is able to maintain its dividend distribution policy. Accordingly, it has proposed, subject to shareholder consent, a final dividend for 2009 of 1.35 pence per share (2008: 0.69p), which includes a special payment of 0.55 pence per share as a return to shareholders of the excess accumulated cash generated by the business. In making this decision the Board has carefully considered the likely future capital requirements of the business and believes that the Company should have fully adequate cash resources to meet these requirements. The Board does not envisage recommending an interim dividend in the coming year.

Prospects

Despite the continuing uncertainty in the global economy we remain cauntiously optimistic of the prospects for the Group. An Interim Management Statement for the first quarter of 2010 will be published on 11 May 2010.

Financial Statements

The directors present their report together with the audited financial statements for the year ended 31 December 2009.

Results and Dividends

The results of the year are set out in the consolidated income statement. After providing $4.0 million amortization of intangible assets for the year and one off costs of $2.5 million, we recorded a profit of $20.5 million attributable to owners of the company.

The Board announced its intention to recommend a final dividend of 1.35 pence per share for the year ended 31 December 2009 in its Preliminary Results announcement, which includes a special payment of 0.55 pence per share as a return to shareholders of the excess cash generated by the business.

The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 22 June 2010.

If the payment of the final dividend is approved, it will be paid on 26 July 2010 to all eligible shareholders on the register as at 02 July 2010. The corresponding ex-dividend date will be 30 June 2010.

Directors' Report

Directors

The following served as directors during the year.

Dr. Zvi Marom
Chief Executive Officer

Ofer Bar-Ner
Chief Financial Officer

Peter Sheldon OBE, JP, FCA, (68), 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 a director of the British Israel Chamber of Commerce and 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. Dan Kaznelson, M.D., D.M.D. (68), Senior non-executive director, is a Physician, a former Lecturer at The Tel-Aviv University, a Database Systems Analyst and Programmer, and a reserve Colonel in the Israel Defense Forces. He is presently completing his PhD degree in contemporary history at the Bar-Ilan University. He has held positions as Chairman and Director of a number of private and publicly quoted companies. He has been a member of the Board of BATM since 1996 and is at present Chairman of the Audit and Remuneration Committees.

Dr. Zvi Marom (55), 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 (45), 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.

Ariella Zochovitzky (53), CPA (Israel) MBA, non-executive director, is the general manager & owner of C.I.G Consultant Investments Group Ltd and Co-chairman of the Board of U. Dori Group Ltd a public company in Israel. She is currently a director in a number of public and private companies including, Pension Funds - New Makefet Generali Group, CITYCON OY, Acad Building and Investments Ltd , Acad Equipment and Properties (1979) Ltd, Rom Geves casing and covering (1997) Ltd and U. Dori construction Ltd. She has been a member of the Board of BATM since September 2004.

Koti Gavish (66), non-executive director, is the Chief Executive Officer of Eihut Capital Market Ltd. He is currently a director of eight public and private companies in Israel, including inter alia Bank Yahav for Public employees and Rotex. He has been a member of the Board of BATM since September 2004.

Corporate Governance

The company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied and the company's compliance with the 2006 FRC Combined Code for Corporate Governance (the "Code") appended to the Listing Rules of the UK Listing Authority.

Compliance with the 2006 FRC Combined Code

Throughout the year ended 31 December 2009, and through to the date of approval of the financial statements, the Board considers that the Company has complied with Section 1 of the Code. The Company has applied the Principles of Good Governance set out in Section 1 of the Code by complying with the Code of Best Practice as set forth below and in the Remuneration Report below. Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report.

In addition, as outlined below, the Company's responsibilities under Israeli company legislation is such that it is obliged to appoint two independent non-executive directors (defined as "external directors" within Israeli law), who must be appointed for a minimum of one three year term, and who cannot serve for more than two three year terms each. The current external directors are Ms Ariella Zochovitzky and Mr Koti Gavish. Both Ms Ariella Zochovitsky and Mr Koti Gavish will complete the second of their three year terms in 2010. Proposals will be made at the AGM for the appointment of new independent non-executive directors.

In these circumstances the Company believes that 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. Accordingly two of its Board members, Dr. Kaznelson and Peter Sheldon, have served for 12 and 10 years respectively. The Board of Directors has sought advice from its UK legal advisors, who were of the opinion that the above may continue to serve on the board as the Company continues to have two additional independent non-executive directors so that the appropriate checks and balances exist to ensure a high level of governance. Dr Kaznelson has announced his decision to step down immediately prior to the forthcoming Annual General Meeting and a suitable replacement will be proposed for approval at that meeting. The Chairman, Peter Sheldon has indicated that he intends to stand for re-appointment as Chairman for the last time at the 2010 AGM, to ensure a smooth succession of new non-executives to the Board.

The Board

In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance. Board and committee activities in 2009 were as follows:

	Meetings	Written Consent	Attendance
Board of Directors	7	2	Note 1
Audit Committee	4	2	Note 2
Remuneration Committee	1	-	
Nominations Committee	-	-	

(1) All directors attended 100% of the Board meetings. 3 of the Board meetings were conducted by teleconference.

(2) All Audit Committee members attended 100% of meetings other than Mr. Gavish who was absent from one meeting during 2009 for personal reasons.

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

Corporate Governance

The Board comprises six directors, four of whom are non-executive directors, under the chairmanship of Peter Sheldon. The Chief Executive is Dr. Zvi Marom. The senior non-executive director is Dr. Dan Kaznelson. 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 12. The interest of the directors in the Company and their share holdings are set out on page 24. 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. In Israel, due to the relatively low level of remuneration of independent directors prescribed by law, it was historically customary to offer such appointees share options and Ms. Zochovitsky, Mr. Gavish and Dr. Kaznelson have previously been granted options. It is not the Board's intention to offer further options to these individuals. The Chairman and the executive directors are totally satisfied that under the circumstances in which the options were granted, the independence of these directors has not in any way been compromised.

The induction of newly elected directors into office is the responsibility of the senior independent director (presently Dr. Dan Kaznelson). 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. No such induction activities took place during the year under review.

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

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

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

Relations with Shareholders

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

Committees

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

Audit Committee

The members of the audit committee are Dr. Kaznelson, Mr. Koti Gavish and Ms. Zochovitzky. Each of Dr. Kaznelson, Mr. Koti Gavish and Ms. Zochovitzky has significant financial expertise. The committee's terms of reference include, among other things, monitoring the scope and results of the external audit, the review of interim and annual results, the involvement of the external auditors in those processes, review of whistle blowing procedures, considering compliance with legal requirements, accounting standards and the Listing Rules of the Financial Services Authority, and advising the Board on the requirement to maintain an effective system

Corporate Governance

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. 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 attend all meetings in order to ensure that all the information required by the committee is available for it to operate effectively. The external auditor communicates with the members of the audit committee during the year, without Executive officers present.

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

Nominations Committee

The Board has a nominations committee which is chaired by Peter Sheldon. Zvi Marom is the other member 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 a further term of three years. The re-appointment of a director must be approved by the shareholders in general meeting.

No nominations of directors were made during the year under review although the members of the nominations committee met both independently and together with a number of potential appointees to the Board during the year and new appointments will be proposed at the AGM.

Remuneration Committee

The Board has a Remuneration Committee, which is chaired by Dr. Dan Kaznelson. The other members of the committee are Mr. Koti Gavish and Mis. Zochovitzky. 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 pages 21 - 24.

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

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

The global telecoms market is experiencing a significant amount of uncertainty as a result of the global financial crisis, and future sales have lower visibility.

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company that has been in place for 2009 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:

	2009	2008	Change %
Revenue	$135.4m	$134.5m	+ 0.7
Gross profit margin	42.6%	45.6%	- 3.0
R&D spend, net	$11.8m	$12.8m	- 7.8
Liquid balances	$66.8m	$57.3m	+ 16.6
Profit per share	5.11¢	6.19¢	- 17.4

Revenues have increased due to the continued expansion of our business.

The gross profit margin has decreased primarily due to a change in the sales mix, due to the expansion of the Medical Business.

Corporate Strategy

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

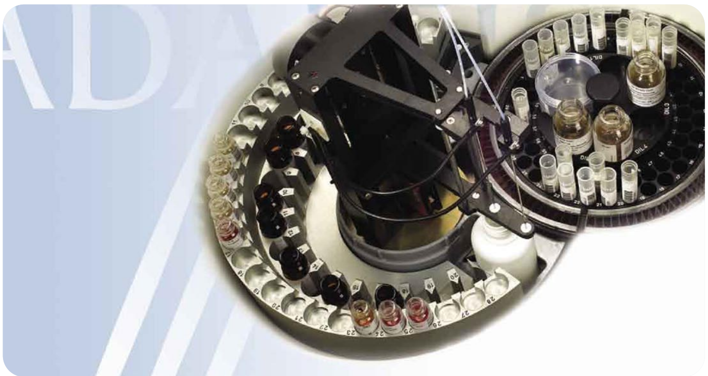
BATM is growing its telecoms division to be an important provider of access solutions. In the medium term the division is focused on providing groundbreaking technologies in a cellular centric video rich world. This includes expanding the offering to a full access service oriented solution and technological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

The division is now working closely with customers to define needs in LTE based applications, as well as applications for networks that are Smartphone rich. Some of these applications are envisaged to reach the markets by the beginning of 2011.

Corporate Governance

The Medical division is focused on becoming an important provider of diagnostic laboratory equipment. The division is built on high reliability, fast and easy to operate equipment for small diagnostic laboratories with an emphasis on emerging markets.

The division's products are highly sophisticated, environmentally 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 products offerings during early 2011.



Future Developments

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

Internal Control

The Board of directors has overall responsibility for ensuring that the Company maintains adequate systems of internal control. To this end, in accordance with Israeli Company Law, the Company has appointed and retains the services of an independent qualified internal auditor. During 2009 the internal auditor resigned and a replacement was appointed during early 2010. The internal auditor reports to the Audit Committee, and is responsible for ensuring that the Company is run according to good corporate practice.

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 regular basis to senior management against corresponding figures for previous periods. The central process for evaluating and managing non-financial risks is weekly 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 2009 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2009 no conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

Corporate Governance

Statement of Directors' Responsibilities

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Groups 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; and
- 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; and

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

Corporate, Social and Environmental Responsibilities

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

The Board is committed to monitoring the Company's corporate social responsibility policies in key areas. Management monitors the Company's day-to-day activities in order to assess risks in these areas and identify actions that may be taken to address those risks. At present, the Board does not consider it appropriate to link the management of these risks to remuneration incentives, given

Corporate Governance

the difficulties in measuring the changes to those risks objectively. Given the Company's relatively low social and environmental impact, the Company believes that there are few risks to its short and long term value proposition arising from these matters, although it considers the potential to deliver greater value by responding to these issues appropriately. The Board believes the Company has adequate information to assess these matters, and effective systems for managing any risks. The Company's website includes a section dedicated to corporate ethical, employment and environmental issues.

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

Employment Policies

BATM employs approximately 600 people and in order to continue to grow as a business, the Company needs to continue to recruit and retain only the best talent. Therefore it is the Company's policy to pursue practices that are sensitive to the needs of its people. The Company strives for equal opportunities for all of its employees, including disabled employees, and does not tolerate harassment of, or discrimination against, its staff. The Company's priorities are:

- Providing a safe workplace with equality of opportunity and diversity through our employment policies.
- Encouraging our people to reach their full potential through career development and promotion from within where possible.
- Communicating openly and transparently within the bounds of commercial confidentiality, whilst listening to our people and taking into account their feedback.
- Recognizing and rewarding our people for their contribution and encouraging share ownership at all levels. The Company respects the rule of law within all jurisdictions in which it operates and supports appropriate internationally accepted standards including those on human rights. The Company's equal opportunities policies prohibit discrimination on grounds such as race, gender, religion, sexual orientation or disability. This policy includes, where practicable, the continued employment of those who may become disabled during their employment. This policy includes, where practicable, the continued employment of those who may become disabled during their employment. The Company's policies strive to ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit, and continued development of the Company is made with the maximum involvement and input from employees practicable.

Employees with Disabilities

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

Environmental Policies

The Directors recognize the importance of the Group adhering to clear environmental objectives.

Its environmental policy is to:

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

Corporate Governance

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 in.

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

During the course of 2008 the Company became ISO 14000 certified.

Ethical Business Practices

BATM is a development and sales Company based in Israel with overseas sales 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 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.

Remuneration Committee and Remuneration Report

Introduction

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

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

Unaudited information

Remuneration Committee

The Company has a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the Combined Code. The committee consists of three out of the four non-executive directors and excludes the chairman as is required under Israeli Company Law. Throughout the year the Committee was chaired by Dr Dan Kaznelson and its other members during the year were Mrs. Ariella Zochovitzky and Mr. Koti Gavish.

None of the Committee members has any personal financial interests (other than as a shareholder), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

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

The Committee met once 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.
   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.

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.

Remuneration Committee and Remuneration Report

Remuneration policy

Executive remuneration packages are:

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

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

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

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

(a) basic salary;

(b) social benefits (including pension arrangements);

(c) annual bonus payments; and

(d) share option incentives;

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related.

Basic salary

An Executive Director's basic salary is normally reviewed annually, 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.

Annual bonus payments

The Directors believe that retaining a workforce which is motivated to achieve the Group's objectives is fundamental to its continued prosperity. Accordingly, Executive Directors are eligible to participate in a performance related annual bonus scheme. The maximum potential bonus for any individual, together with the associated performance measures and targets, is set by the Committee

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

- On Relevant Profit, up to a profit increase over the preceding year of up to 50%, 1.75% of Relevant Profit
- If profit increases by between 50% and 100% on the preceding year, 2.75% of Relevant Profit
- If profit increases by over 100% on the preceding year, 3.75% of Relevant Profit

Remuneration Committee and Remuneration Report

In accordance with his existing service contract which expires 11 March 2011. Mr. Bar-Ner is entitled to a bonus on Net Profit targets calculated as follows:

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

The present members of the Remuneration Committee are conscious of the need for bonus and share options incentives for the executive directors to be linked to performance targets and to be appropriately capped in accordance with best practice. The current members of the Committee will all be leaving the Board during the course of the current year. It is the intention of the Board that the new incoming Committee should be charged with bringing forward new proposals which meet current best practice and good governance to be included in the new contractual arrangements for the executive directors as their present contracts come up for renewal.

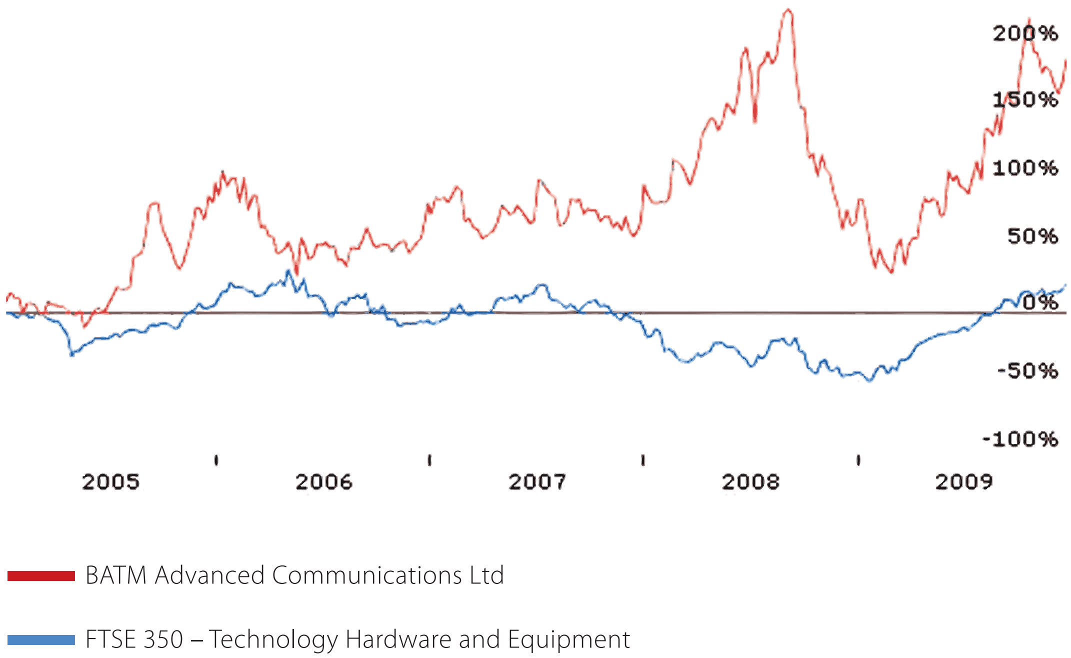
Share options

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 the year, no options were granted to any of the Directors. Directors have options under grants from previous year that vest over the course of three years.

Performance graph

This graph shows the Company's performance measured by share price, compared with the performance of the FTSE 350 – Technology Hardware and Equipment index, also measured by index price. The FTSE 350 – Technology Hardware and Equipment index has been chosen as the most suitable comparator as it is the general market index in which the Company appears.



Remuneration Committee and Remuneration Report

Audited information

The table of Directors' remuneration is out below and is consistent with note 35 to the financial statements.

Remuneration policy

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance bonus $000	2009 Total $000	2008 Total $000
Zvi Marom	242	22	10	412	686	781
Ofer Bar Ner	125	19	7	-	151	270
Peter Sheldon	38	-	-	-	38	53
Dan Kaznelson	22	-	-	-	22	15
Ariella Zochovitzky	35	-	-	-	35	35
Koti Gavish	35	-	-	-	35	35

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 2009 were as follows.

	2009 Ordinary shares	2008 Ordinary shares
Zvi Marom	91,219,500	90,750,900
Ofer Bar Ner	-	-
Peter Sheldon	250,000	450,000
Dan Kaznelson	82,300	112,300
Ariella Zochovitzky	-	-
Koti Gavish	111,370	-

Table C – Share Options

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

	As at 01 Jan 09	Granted	Exercised	Lapsed	As at 31 Dec 09	Exercise price	Expiry date
Ofer Bar Ner	330,000	-	-	-	330,000	0.279	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2012
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2013
Ofer Bar Ner	333,333	-	-	-	333,333	0.270	07/06/2012
Dan Kaznelson	400,000	-	200,000	-	200,000	0.315	31/12/2012
Ariella Zochovitzky	200,000	-	61,200	-	138,800	0.1621	31/12/2010
Koti Gavish	250,000	-	111,370	-	138,630	0.154	31/12/2010

Auditors' Report

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Deloitte.
Brightman Almagor Zohar

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

We have audited the accompanying consolidated statements of financial position of BATM Advanced Communications Ltd. ("the Company") as of 31 December 2009 and 2008 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2009 and 2008. These financial statements are the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 2% and 1% of total consolidated assets as of 31 December 2009 and 2008, respectively, and whose revenues included in consolidation constitute approximately 3% and 1% of total consolidated revenues for the years ended 31 December 2009 and 2008, respectively. The financial statements of those companies were audited by other auditors, whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the company and its subsidiaries as of 31 December 2009 and 2008, and the results of operations, changes in equity and the cash flows of the Group for the years ended 31 December 2009 and 2008 in accordance with International Financial Reporting Standards (IFRS).

Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Israel, 30 April 2010

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Consolidated Income Statements

	Note	Year ended 31 December	
		2009	2008
		US$ in thousands	
Revenues	4,5	135,395	134,462
Cost of revenues	6	77,671	73,157
Gross profit		57,724	61,305
Operating expenses			
Sales and marketing expenses		13,591	13,948
General and administrative expenses		9,407	8,376
Research and development expenses	6	11,763	12,829
Other operating expenses		6,529	2,597
Total operating expenses		41,290	37,750
Operating profit	6	16,434	23,555
Investment revenue	8	2,562	2,453
Gains (losses) on financial instruments	9	1,260	(4,340)
Foreign exchange differences		(1,452)	2,512
Finance costs	10	(356)	(480)
Profit before tax		18,448	23,700
Tax benefit	11	867	454
Profit for the year		**19,315**	**24,154**
Attributable to:			
Owners of the Company		**20,517**	**24,205**
Non-controlling interests		**(1,202)**	**(51)**
Income for the year		**19,315**	**24,154**
Earnings per share (in cents) basic	13	**5.11**	**6.19**
Earnings per share (in cents) diluted	13	**5.08**	**6.15**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2009	2008
	US$ in thousands	
Profit for the year	19,315	24,154
Exchange differences on translating foreign operations	2,669	(6,111)
Total Comprehensive Income of the year	**21,984**	**18,043**
Attributable to:		
Owners of the Company	22,562	18,220
Non-controlling interest	(578)	(177)
	21,984	**18,043**

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

Consolidated Statements Of Financial Position

	Note	Year ended 31 December	
		2009	2008
		US$ in thousands	
Non-current assets			
Goodwill	14	11,345	9,418
Other intangible assets	15	23,323	18,937
Property, plant and equipment	16	21,911	10,041
Held to maturity investments	18	4,347	5,468
Deferred tax assets	22	4,848	3,531
		65,774	47,395
Current assets			
Inventories	19	22,040	20,984
Investments	18,21	34,332	21,086
Trade and other receivables	20	31,171	29,192
Cash and cash equivalents	18	28,095	30,737
		115,638	101,999
Total assets		**181,412**	**149,394**
Current liabilities			
Short-term bank credit		6,139	3,632
Trade and other payables	23	21,624	20,505
Provisions	24	3,505	2,181
		31,268	26,318
Net current assets		84,370	75,681
Non-current liabilities			
Long-term liabilities	23	14,219	4,377
Retirement benefit obligation	34	**875**	**926**
		15,094	**5,303**
Total liabilities		**46,362**	**31,621**
Net assets		**135,050**	**117,773**
Equity			
Share capital	25	1,214	1,210
Share premium account	26	405,961	404,928
Foreign currency translation reserve and other reserves	27	(3,229)	(6,060)
Accumulated Deficit	28	(270,808)	(286,764)
Equity attributable to:			
Owners of the Company		133,138	113,314
Non-controlling interest		1,912	4,459
Total equity		**135,050**	**117,773**

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 2010.
They were signed on its behalf by:

Dr. Z. Marom

O. Bar-Ner

Consolidated Statements Of Change In Equity

	Share capital	Share Premium account	Translation reserve	Other reserves	Accumlated Deficit	Attributable to owners of the parent	Non-controlling interest	Total equity
				US $ in thousands				
Balance as at 1 January 2008	1,186	400,646	(29)	-	(307,033)	94,770	958	95,728
Exercise of share based options by employees	20	2,583	-	-	-	2,603	-	2,603
Recognition of share-based payments	-	791	-	-	-	791	-	791
Share-based purchase of Vigilant	4	908	-	-	-	912	-	912
Purchase of non- controlling interest	-	-	(46)	-	-	(46)	-	(46)
Non-controlling interest acquired	-	-	-	-	-	-	3,678	3,678
Dividend	-	-	-	-	(3,936)	(3,936)	-	(3,936)
Comprehensive income for the year	-	-	(5,985)	-	24,205	18,220	(177)	18,043
Balance as at 31 December 2008	1,210	404,928	(6,060)	-	(286,764)	113,314	4,459	117,773
Exercise of share based options by employees	4	374	-	-	-	378	-	378
Recognition of share-based payments	-	659	-	-	-	659	-	659
Purchase of non- controlling interest	-	-	-	-	-	-	(1,183)	(1,183)
Non-controlling interest acquired	-	-	-	786	-	786	(786)	-
Dividend	-	-	-	-	(4,561)	(4,561)	-	(4,561)
Comprehensive income for the year	-	-	2,045	-	20,517	22,562	(578)	21,984
Balance as at 31 December 2009	**1,214**	**405,961**	**(4,015)**	**786**	**(270,808)**	**133,138**	**1,912**	**135,050**

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

Consolidated Cash Flow Statements

	Note	Year ended 31 December 2009	2008
		US $ in thousands	
Net cash from operating activities	30	20,234	9,094
Investing activities			
Interest received		1,461	1,363
Proceeds on disposal of held to maturity investments		3,233	1,472
Proceeds on disposal of financial assets carried at fair value through profit and loss		18,433	13,608
Proceeds on disposal of deposits		30,453	17,908
Purchases of property, plant and equipment		(13,583)	(1,154)
Proceeds on disposal of property, plant and equipment		61	-
Purchases of intangible assets		(361)	-
Purchases of activity		(2,967)	-
Purchases of held to maturity investments		-	(1,050)
Purchases of financial assets carried at fair value through profit and loss		(15,450)	(21,574)
Purchases of deposits		(47,335)	(14,000)
Investment in a company		-	(280)
Acquisition of subsidiaries	29	132	(6,327)
Net cash used in investing activities		(25,923)	(10,034)
Financing activities			
Dividends paid to owners of the Company		(4,561)	(3,936)
Increase (decrease) in short-term bank credit		1,468	(1,549)
Bank loan received		3,000	-
Bank loan repayment		(59)	-
Proceeds on issue of shares		378	2,603
Net cash from (used in) financing activities		226	(2,882)
Decrease in cash and cash equivalents		(5,463)	(3,822)
Cash and cash equivalents at the beginning of the year		30,737	35,809
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,821	(1,250)
Cash and cash equivalents at the end of the year		**28,095**	**30,737**

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

Notes To The Consolidated 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 3737, Kfar Neter 40593, 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. The Group has recently entered 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 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.

Standards affecting measurement and recording

IFRS 3 (revised Jan. 2008) *Business Combinations*	IFRS 3 and IAS 27 (see below) were early adopted as at 01 January 2009. The standards prescribe a number of changes in regards to how business combinations, the acquisitions of non-controlling interest (previously minority interest) and the consolidation of subsidiaries are both accounted for and presented. The primary impact on the financial statements for 2009 was that the non-controlling interest's share in an equity deficit of a subsidiary was recorded as part of the non-controlling interest and not in the equity attributable to the shareholders of the Company.
Amendments to IAS 27 (Jan. 2008) *Consolidated and Separate Financial Statements*	IAS 27 and IFRS 3 (see above) must be adopted together. The effects of the early adoption are described above.

Standards affecting presentation and disclosure

IAS 1 (revised 2007) *Presentation of Financial Statements*	IAS 1(2007) has introduced a number of changes in the format and content of the financial statements. In addition, the revised Standard has required the presentation of a consolidated statement of comprehensive income.
IFRS 8 *Operating Segments*	IFRS 8 is a disclosure Standard that has not resulted in any changes to the amounts reported (see note 5)
Amendments to IFRS 7 *Financial Instruments: Disclosure*	IFRS 7 is a disclosure Standard that has not resulted in any changes to the amounts reported

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Amendments to IFRS 2	Vesting conditions and cancellations
IFRS 9	Financial Instruments
IFRIC 14	ISA 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IAS 24 (revised)	Related Party Disclosure
Amendments to IAS 32	Classification of Rights Issues
Improvements to IFRSs 2009	Improvements to IFRSs 2009

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 January 2010.

Notes To The Consolidated Financial Statements

Note 2 - Significant Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, liabilities for employee benefits and forgivable loans, and inventory. The principal accounting policies adopted are set out below. The going concern basis has been adopted in preparing the financial statements.

Basis of consolidation

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

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

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

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

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

Changes in the Group's 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 for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets 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 the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; 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.

Notes To The Consolidated Financial Statements

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 from consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit or loss and is not subsequently reversed.

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. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.
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.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered 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).

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Notes To The Consolidated Financial Statements

Long-Term contracts

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

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

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

Leasing

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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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.

During 2008, the Company became Euro dominant due to a significant increase in orders from European customers. Management believes that this new sales profile will continue in the future. The change in economic environment caused an accounting change of its functional currency from the Dollar to the Euro. As a result the functional currency of the Company differs from the presentation currency of the Group.

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (operations in foreign currencies) are translated at exchange rates prevailing on the balance sheet date. Income and expense

Notes To The Consolidated Financial Statements

items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation reserves are recognised as income or as expense in the period in which the operation is disposed.

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

Government grants

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

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

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

Operating profit

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

Retirement benefit costs

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

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

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

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

Taxation

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

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

Notes To The Consolidated Financial Statements

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

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Property, plant and equipment

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

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

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.
Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

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

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

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

Notes To The Consolidated Financial Statements

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes); and
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably; and
- the product from which the asset arises meets the Group's criteria for technical feasibility.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

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

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

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

Notes To The Consolidated Financial Statements

Inventories

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

Financial instruments

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

Trade 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.

Investments

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

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised. Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

All the Group investments are classified as held to maturity or FVTPL. The Group currently has no held for trading investments.

Notes To The Consolidated Financial Statements

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Equity instruments

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

Provisions

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

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

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

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. 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 shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes valuation model. 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.

Notes To The Consolidated Financial Statements

Note 3 - 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 2, 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 entity in the Group
- Judgments with respect the non-capitalization of development expenses

Key sources of estimation uncertainty

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

Impairment of Held to Maturity Assets

During 2008 an impairment of $ 4 million was recorded in respect to Nortel Networks Inc bonds. The impairment charge on the Nortel bond arose from Nortel requesting Chapter 11 creditor protection, and only an impaired carrying value of only $ 1.4 million remained on the balance sheet as at 31 December 2008. Impairment of the asset requires management to estimate future cash flows expected from this Held to Maturity asset. During 2009 these assets were sold for a total of $ 2.2 million.

Impairment of Intangible Assets

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $ 11.3 million. (2008: $ 9.4 million).

During 2009 an impairment of $ 1,293 thousand was recorded in respect to goodwill carried for the Surveillance CGU. For more details see note 14.

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.

Notes To The Consolidated Financial Statements

Note 4 - Revenues

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

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Sales of goods	124,557	124,724
Services	10,572	9,493
Property rental income	266	245
	135,395	134,462

Note 5 - Business and Geographical Segments

Business segments

For management purposes, the Group is organised into two major operating divisions – telecommunication 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 – 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.

Segment revenues and segment results

Year ended 31 December 2009

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	105,702	29,693	135,395
Segment results profit (loss)	19,368	(2,934)	16,434
Unallocated			2,014
Profit before tax			18,448
Taxation			867
Profit for the year			19,315

Notes To The Consolidated Financial Statements

Year ended 31 December 2008

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	116,053	18,409	134,462
Segment results profit (loss)	23,904	(349)	23,555
Unallocated			145
Profit before tax			23,700
Taxation			454
Profit for the year			24,154

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

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

Customer A: $ 46.2 million (2008: $ 47.4 million)

Segment assets, liabilities and other information

As at 31 December 2009

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Assets	144,553	36,859	181,412
Liabilities	33,527	12,835	46,362
Depreciation and amortizations	6,305	1,915	8,220
Additions to non-current assets	16,596	7,939	24,535

As at 31 December 2008

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Assets	124,728	24,666	149,394
Liabilities	25,928	5,693	31,621
Depreciation and amortizations	3,894	1,104	4,998
Additions to non-current assets	12,834	8,918	21,752

Notes To The Consolidated Financial Statements

Geographical segments

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

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

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
North America	37,671	47,702	33,795	32,152	3,576	2,518
Israel	63,127	69,500	112,964	97,079	13,154	14,297
Europe	34,597	17,260	34,653	20,163	7,805	4,937
Total	135,395	134,462	181,412	149,394	24,535	21,752

Note 6 - Profit for the year

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Net foreign exchange gains	(1,452)	(2,512)
Research and development costs	12,715	13,464
Government grants	(952)	(635)
Depreciation of property, plant and equipment	2,865	2,401
Amortisation of intangible assets included in operating expenses	4,062	2,597
Impairment of investments, net	1,293	-
Cost of inventories recognised as expense	68,779	65,935
Staff costs (see Note 7)	26,827	23,341
Auditors' remuneration for audit services (see below)	234	222

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2009 were $15,000 (2008: $41,000).

In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2009, were $72,000 and $26,000, respectively (2008: $39,000 and $43,000, respectively).

Notes To The Consolidated Financial Statements

Note 7 - Staff costs

The average monthly number of employees in 2009 (including executive directors) was 552 (2008: 390).

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	21,655	18,289
Social security costs	4,152	4,023
Other pension costs (see Note 34)	1,020	1,029
	26,827	**23,341**
Executive Directors' emoluments	**854**	**1,040**

Note 8 - Investment revenue

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Gain on sale of investment	719	-
Interest on bonds	391	567
Interest on bank deposits	1,132	1,479
Other	320	407
	2,562	**2,453**

Note 9 – Gains (losses) on financial instruments

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Impairment of bond of Nortel networks	-	(4,000)
Profit (loss) on forward contracts	901	(340)
Other gains	359	-
	1,260	**(4,340)**

During the 2008 an impairment of $ 4 million was recorded in respect to Nortel Networks Inc bonds. The impairment charge on the Nortel bond arose from Nortel requesting Chapter 11 creditor protection, and only an impaired carrying value of only $1.4 million remained on the balance sheet as at 31 December 2008. Impairment of the asset requires management to estimate future cash flows expected from this Held to Maturity asset, and discount them at the original discount rate associated with the note. During 2009 the Company sold this bond and recorded a profit of $0.7 million (see note 8).

Notes To The Consolidated Financial Statements

Note 10 - Finance costs

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Interest on loans	**356**	**480**

Note 11 - Tax expense (benefit)

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Current tax	**868**	**(569)**
Deferred tax (Note 22)	**(1,735)**	**115**
	(867)	**(454)**

Taxation under various laws:

Israel

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

The Company has applied to the tax authorities with a request to measure its results for tax purposes in US dollars, starting from 2007. During 2008 this request was cancelled and the Company continues to measure its results in Israeli currency for tax purposes.

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

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

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

Notes To The Consolidated Financial Statements

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 25 July 2005 an amendment to the Israeli tax law was approved by the Israeli Parliament which reduces the tax rates imposed on Israeli companies to 31% for 2006; this amendment states that the corporate tax rate will be further reduced in subsequent tax years as follows: in 2007 29%, in 2008 27%, in 2009 26% and thereafter 25%. On 23 July 2009 an amendment to the Israeli tax law was approved by the Israeli Parliament which reduces the tax rates imposed on Israeli companies of 26% for 2009 and 25% in 2010; this amendment states that the corporate tax rate will be further reduced in subsequent tax years in an incremental fashion such that in 2011 the rate will be 24%, which will reduce to 18% in 2016.

The Company has received final tax assessments for the years up to and including the 2003 tax year. The subsidiaries have not been assessed for tax since their incorporation.

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before having been utilized. Accordingly the future use of these benefits is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. Deferred tax assets of $3.3 million have been recognised in respect of such losses. The total amount remaining to amortise for tax purposes is $118 Million and the amount of brought forward losses is $205 Million.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Profit before tax:	18,448	23,700
Tax at the Israeli corporation tax rate of 26% (2008: 27%)	4,796	6,399
Tax exempt income	(5,860)	(5,795)
Expenses with unrecognized deferred tax on income or losses	1,477	-
Utilization of tax loss carry forward	(138)	(222)
Initial recognition of a deferred tax asset	(1,300)	(1,600)
Different tax rates in foreign regimes and other differences	158	764
Tax benefit for the year	**(867)**	**(454)**

The effective tax rate for 2009 was -4.69% resulting mainly from the Company's benefits under the Approved Enterprise Program and from initial recognition of deferred tax assets.

Notes To The Consolidated Financial Statements

Note 12 - Dividends

The Board of the Company, announced its intention to recommend a dividend of 1.35 British pence per share for the year ended 31 December 2009 in the Preliminary Results announcement on 08 February 2010, totalling approximately $ 8 million. The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 22 June 2010. If the payment of the dividend is approved it will be paid on 26 July 2010 to all eligible shareholders on the register as at 2 July 2010 (the Record date). The corresponding ex-dividend date will be 30 June 2010

Note 13 - Earnings per share

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

	Year ended 31 December	
	2009	2008
Earnings for the purposes of basic and diluted earnings per share ($'000s)	20,517	24,205
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	401,579,099	396,222,088
Effect of dilutive potential ordinary shares:		
Share options	2,360,719	2,457,503
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**403,939,818**	**398,679,591**
Weighted average number of non-dilutive potential ordinary shares	**-**	**246,319**

Notes To The Consolidated Financial Statements

Note 14 - Goodwill

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. The Group has two reportable business segments and goodwill is associated with either the BATM Medical segment or CGUs within the Telecoms segment, as shown below.

BATM Medical: $4,929 thousands (2008: $ 4,101 thousands)

Surveillance: $0 (2008: $ 1,293 thousands)

Telco: $1,984 thousands (2008: $1,984 thousands)

Telecoms outsourcing: $4,117 thousands (2008: $1,610 thousands)

Telecoms Hardware: $315 thousands (2008: $430)

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Discount rates of between 15% - 20% have been used which is consistent with the rate used for determining the value of purchased intangibles. Changes in selling prices and direct costs are based on recent history and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates indefinite cash flows based on estimated growth rates. For the purposes of this calculation management have used a revenue growth rate of 0% for the first year, 9% for years 2-5, and then 0% thereafter, for the Telecoms Outsourcing CGU and 23%, 15%, 13% and 10% for years 2-5 respectively, and then have been assumed to remain constant thereafter for BATM Medical. Fixed expenses have been assumed to grow at 2% per year in the Telecoms Outsourcing CGU and 99% for year 1, and 3.5% for years 2-5, and then have been assumed to remain constant thereafter for BATM Medical. Variable expenses (directly linked to sales) have been assumed to decrease as a constant percentage of sales throughout the forecast period in the BATM Medical CGU decreasing by 8%, 0%, 4%, 3% and 3% in years 1-5 respectively and have assumed to remain constant thereafter, and to remain constant in the Telecoms Outsourcing CGU. The rates used above reflect historical rates achieved and expected levels for 2010 but then are prudently adjusted for subsequent years. Having performed impairment testing, it has been determined that an impairment of the goodwill in the Surveillance CGU is necessary as the future expected cashflows from the Surveillance CGU do not justify the carrying value of the goodwill, and therefore a charge of $ 1,293 thousand has been recognised in either year.

For details of the completion of PPAs see note 29.

	2009 $'000s	2008 $'000s
Balance at 01 January	9,418	3,184
Additions in the year	3,412	6,395
Impairment	(1,293)	-
Foreign Exchange difference	(192)	(161)
Balance at 31 December	**11,345**	**9,418**

Notes To The Consolidated Financial Statements

Note 15 - Other Intangible Assets

	Customer Relationships and Backlog	Technology	Other	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At 1 January 2008	6,754	1,469	574	8,797
Effect of translation adjustments	(1,101)	(49)	(31)	(1,181)
Acquired on acquisition of subsidiaries(*)	8,318	5,626	1,888	15,832
At 31 December 2008	13,971	7,046	2,431	23,448
Effect of translation adjustments	1,390	440	(687)	1,143
Additions	-	-	362	362
Acquired on acquisition of subsidiaries	3,911	3,266	-	7,177
At 31 December 2009	19,272	10,752	2,106	32,130
Accumulated amortization				
At 1 January 2008	1,582	304	174	2,060
Effect of translation adjustments	(97)	-	(49)	(146)
Charge for the year	1,725	413	459	2,597
At 31 December 2008	3,210	717	584	4,511
Effect of translation adjustments	882	44	(692)	234
Charge for the year	2,137	1,190	735	4,062
At 31 December 2009	6,229	1,951	627	8,807
Carrying amount				
At 31 December 2009	**13,043**	**8,801**	**1,479**	**23,323**
At 31 December 2008	**10,761**	**6,329**	**1,847**	**18,937**

(*) Reclassified – see note 29

Other intangible assets are amortised over their estimated useful lives, which range from 1 to 10 years.

Notes To The Consolidated Financial Statements

Note 16 – Property, plant and equipment

	Land and buildings $'000s	Plant and equipment $'000s	Motor Vehicles $'000s	Furniture and fittings $'000s	Leasehold Improvements $'000s	Total $'000s
Cost						
At 01 January 2008	8,687	6,155	30	1,153	472	16,497
Additions	-	1,044	3	79	28	1,154
Effect of translation adjustment	-	(276)	-	(18)	(3)	(297)
Acquisition of subsidiaries	-	3,350	823	918	560	5,651
At 31 December 2008	8,687	10,273	856	2,132	1,057	23,005
Additions	10,386	230	2,076	647	244	13,583
Disposals	(31)	-	-	-	-	(31)
Effect of translation adjustment	(44)	(53)	(4)	(11)	(5)	(117)
Acquisition of subsidiary	1,296	197	-	20	191	1,704
At 31 December 2009	**20,294**	**10,647**	**2,928**	**2,788**	**1,487**	**38,144**
Accumulated depreciation						
At 01 January 2008	2,848	4,113	10	647	177	7,795
Charge for the year	366	1,271	57	579	128	2,401
Effect of translation adjustment	-	(146)	-	(10)	-	(156)
Acquisition of subsidiaries	-	2,216	151	191	366	2,924
At 31 December 2008	3,214	7,454	218	1,407	671	12,964
Charge for the year	392	895	367	726	485	2,865
Disposals	(3)	-	-	-	-	(3)
Effect of translation adjustment	33	78	2	15	7	135
Acquisition of subsidiary	-	122	-	41	109	272
At 31 December 2009	**3,636**	**8,549**	**587**	**2,189**	**1,272**	**16,233**
Carrying amount						
At 31 December 2009	**16,658**	**2,098**	**2,341**	**599**	**215**	**21,911**
At 31 December 2008	**5,473**	**2,819**	**638**	**725**	**386**	**10,041**

Notes To The Consolidated Financial Statements

Note 17 - Subsidiaries

A list of the significant direct and indirect investments in subsidiaries, including the name, country of incorporation, and percent of ownership interest as at 31 December 2009 is presented below.

Name of subsidiary	Country of incorporation	Ownership interest +	Date of acquisition
Telco Systems Inc.	United States of America	100%	April 2000
Integral Access Inc.	United States of America	100%	July 2005
Critical Telecom Inc.	Canada	100%	September 2006
Metrobility Optical Systems Inc.	United States of America	100%	June 2006
A.M.S. 2000	Romania	75%	June 2007
NGSoft Ltd (formerly: NSIcom Ltd)	Israel	100%	October 2007
Sunstring (a)	Cyprus	75%	June 2007
Becor	Moldova	38.25%	July 2008
ISE (c)	Italy	42.0%	February 2009
Adaltis*	Italy	100%	November 2009
CAT Technologies (b)	Israel	75.0%	February 2008
Cellitron (b)	Hungary	100%	February 2008
Vigilant Technologies Ltd	Israel	100%	November 2008
Vigilant Technologies (UK) Ltd	United Kingdom	100%	November 2008
Vigilant Technologies Inc	United States of America	100%	November 2008
Telco Asia Pacific Limited*	Singapore	100%	March 2006
B.T.T.*	Israel	100%	March 1999
B.A.T.M. France*	France	100%	May 2000
B.A.T.M. land*	Israel	100%	December 1994
YAD	Cyprus	75%	June 2007
B.A.T.M. Eshbolot*	Israel	100%	November 2009

* Incorporated by the Company

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

(a) During October 2008, BATM increased its holding in Sunstring from 51% to 75%, in return for injecting all of the capital required to purchase Becor into Sunstring
(b) During July 2009 BATM increased its holding in CAT Technologies and its indirect holding in Celitron from 51% to 75%
(c) During September 2009 BATM increased its indirect holding in ISE from 38.25% to 42.0%

Notes To The Consolidated Financial Statements

Note 18 – Investments, cash and cash equivalents

Investments presented as current assets include interest-bearing deposits of $25.1 million at 31 December 2009 (2008: $10.0 million).

Non-current, held to maturity investments totalling $4.3 million as at 31 December 2009 consist of investment grade corporate bonds.

Cash and cash equivalents consist of cash deposits less than 3 months.

At 31 December 2009, a total of $ 3 million of cash deposits was designated $1.5 million as security for short term bank credit and $1.5 million as security for long term bank credit.

Note 19 - Inventories

	31 December	
	2009 $'000s	2008 $'000s
Raw materials	6,143	7,462
Work-in-progress	522	341
Finished goods	15,375	13,181
	22,040	**20,984**

During the financial year 2009, $ 651 thousand of Inventory was impaired, and expensed to the Profit and Loss account (2008: $ 1,153 thousand)

See note 6 for cost of inventories recognised as an expense during the year.

During December 2009 the Group purchased certain assets and intellectual property of a clinical chemistry and immunology company for $ 3 million. The majority of the purchase was for $ 2.4 million of inventory.

Notes To The Consolidated Financial Statements

Note 20 - Other financial assets

	31 December	
	2009 $'000s	2008 $'000s
Amount receivable for the sale of goods	25,067	25,777
Participation in research and development: Government of Israel	808	194
VAT	223	273
Tax authorities	284	609
Prepaid expenses and other debtors	4,789	2,339
	31,171	**29,192**

The average credit period taken on sales of goods is 40 days (2008: 45 days). No interest is charged on the receivables. An allowance has been made at 31 December 2009 for estimated irrecoverable amounts from the sale of goods of $1,402,000 (2008: $857,000). This allowance has been determined by reference to past default experience.

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

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except one significant customer which represent no more than 26% of the Group's trade receivable balance as at 31 December 2009. Aside from these significant customers, there is no significant concentration of credit risk.

Note 21 - Derivative financial instruments

At the balance sheet date, the Company has outstanding forward foreign exchange contracts. An amount of $ 901 thousands profit due to fair value adjustments has been transferred to the income statement in respect of contracts that matured on January 2010.

As at 31 December 2009 $ 7.2 million was invested in a structured instrument. This balance is measured at fair value. The structured product matured on 5 March 2010. Interest of 5.5 % p.a. was receivable on this product; where should the USD / EURO spot on 05 March 2010 have been below 1.45, the instrument would be redeemed in Euro at a conversion rate of 1.45. Should the USD / Euro spot of 05 March 2010 have been above 1.45 the instrument would be redeemed in USD. On 05 March 2010 the USD / EUR spot was below 1.45 and therefore the instrument was redeemed in Euros at a conversion rate of 1.45.

The Company also held in 2008 a structured product amounting to $ 1 million, which was its fair value as at 31 December 2008. This product matured during February 2009 at a value of $ 1 million.

Notes To The Consolidated Financial Statements

Note 22 - Deferred tax assets

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

	Deferred development costs $'000s	Depreciation differences $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Total $'000s
At 1 January 2008	124	310	83	1,700	2,217
On acquisition	-	-	64	1,429	1,493
Credit (charge) to income	(36)	(132)	89	(100)	(179)
At 31 December 2008	88	178	236	3,029	3,531
Credit (charge) to income	(22)	(42)	(57)	1,438	1,317
At 31 December 2009	**66**	**136**	**179**	**4,467**	**4,848**

Note 23 - Other financial liabilities

Trade and other payables

	31 December	
	2009 $'000s	2008 $'000s
Trade creditors	8,740	8,547
Salary accruals	4,059	3,428
Related parties	415	413
VAT and other tax	187	143
Other creditors and accruals	8,223	7,974
	21,624	**20,505**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 41 days (2008: 60 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

Notes To The Consolidated Financial Statements

Long-term payables

	31 December	
	2009	2008
	$'000s	$'000s
Bank Loans (1)	6,551	-
Less- Current maturities	(750)	-
Forgivable debt to the office of the chief scientist	4,052	2,699
Government institutions	1,372	-
Deferred tax	2,304	-
Liability in regard an acquisitions (2)	360	1,234
Other long term Liability	330	444
	14,219	**4,377**

(1) The company received $ 3,000,000 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 subsidiary ISE has a bank loan of $ 2,106,000 bearing annual interest of Euribor + 1% with a maturity date of July 2022. This loan is secured by a mortgage on the real estate owned by ISE.

A loan of $ 1,500,000 in Vigilant bears interest of 2.21% and has a maturity date of January 2011.

(2) The maturity date of the liability is on March 2011.

Notes To The Consolidated Financial Statements

Note 24 - Provisions

	Warranty provision	Onerous Lease provision	Other provision	Total
	$'000s	$'000s	$'000s	$'000s
At 01 January 2009	1,412	-	769	2,181
Additional provision in the year	98	1,010	797	1,905
Utilisation of provision	(448)	-	(85)	(533)
Payment during the year	-	-	(48)	(48)
At 31 December 2009	**1,062**	**1,010**	**1,433**	**3,505**
Included in current liabilities				3,505
Included in non-current liabilities				-
				3,505

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

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

Note 25 - Share capital

	2009	2008
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**402,289,390**	**401,078,684**

Note 26 - Share premium account

	Share premium $'000s
Balance at 1 January 2008	400,646
Premium arising on issue of equity shares	3,491
Stock options granted to employees	791
Balance at 31 December 2008	404,928
Premium arising on issue of equity shares	374
Stock options granted to employees	659
Balance at 31 December 2009	**405,961**

Notes To The Consolidated Financial Statements

Note 27 - Translation reserve

	Translation reserve $'000s
Balance at 1 January 2008	(29)
Purchase of non-controlling interest	(46)
Comprehensive income	(5,985)
Balance at 31 December 2008	(6,060)
Comprehensive income	2,045
Balance at 31 December 2009	**(4,015)**

Note 28 - Accumulated deficit

	Accumulated deficit $'000s
Balance at 1 January 2008	(307,033)
Dividend	(3,936)
Net profit for the year	24,205
Balance at 31 December 2008	(286,764)
Dividend	(4,561)
Net profit for the year	20,517
Balance at 31 December 2009	**(270,808)**

Notes To The Consolidated Financial Statements

Note 29 - Acquisition of subsidiaries

On 5 February 2009 the Group acquired an indirect interest of 38.25% and control of an Italian company that develops, manufactures and sells clinical diagnostic equipment ("ISE").

This transaction has been accounted for by the purchase method of accounting.

ISE	$'000s
Net assets acquired	
Property, plant and equipment	1,432
Inventory	205
Trade and other receivables	446
Cash	183
Bank Credit	(2,823)
Trade payables and other liabilities	(2,387)
Long term payables	(3,044)
Non controlling interest	1,183
	(4,805)
Intangible assets	3,625
Goodwill	1,231
Total consideration	**51**
Net cash outflow arising on acquisition	
Cash consideration	51
Cash and cash equivalents acquired	(183)
	(132)

ISE contributed $3,254,000 revenue and made a loss of $798,000 before tax for the period between the date of acquisition and 31 December 2009.
If the acquisition of ISE had been completed on the first day of the 2009 financial year, Group revenues for that year would have been $135,501,000 and Group profit would have been $19,292,000

During March 2009 the Group acquired the trade and assets of an Israeli Telecoms software services provider for a consideration of $ 4.4 million. Of this balance $ 2.2 million has been classified as Goodwill and $ 2 million as customer relationships. This transaction has been accounted for by the purchase method of accounting. As at 31 December 2009, $1.6 million of the consideration had not yet been paid (non-cash transaction). This balance will be paid during 2010.

Notes To The Consolidated Financial Statements

During February 2008 the Group acquired 100% of the issued share capital of Resolute Ltd ("Resolute") for a consideration of $ 3,087,000. Resolute is engaged in the development, manufacturing, sales and servicing of modules containing solutions for circuit emulation service (CES) and synchronization for Ethernet and IP based communications equipment, as well as the cable modems business niche.

This transaction has been accounted for by the purchase method of accounting.

Resolute	$'000s
Net assets acquired	
Property, plant and equipment	779
Inventory	656
Trade and other receivables	631
Cash	1,245
Trade payables	(722)
Retirement benefit obligation	(22)
	2,567
Goodwill	520
Total consideration	**3,087**
Net cash outflow arising on acquisition	
Cash consideration	3,087
Cash and cash equivalents acquired	(1,245)
	1,842

Resolute contributed $565,000 revenue and loss of $1,823,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2008.

If the acquisition of Resolute had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $134,624,000 and Group profit would have been $23,815,000

Notes To The Consolidated Financial Statements

During February 2008 the Group acquired 51% of the issued share capital of CAT Technologies Ltd and IC Port Ltd ("The companies") for a consideration of $ 3,977,000.

CAT develops and manufactures control systems for medical devices. IC Port is engaged in the manufacturing and marketing of the new generation autoclave sterilizer equipment.

This transaction has been accounted for by the purchase method of accounting.

CAT & IC Port	$'000s
Net assets acquired	
Property, plant and equipment	818
Inventory	1,109
Trade and other receivables	1,141
Cash	1,983
Bank Credit	(1,222)
Trade payables and other liabilities	(1,811)
Retirement benefit obligation	(300)
Translation adjustment	(66)
Minority Interest	(1,738)
	(86)
Intangible assets	1,894
Goodwill	2,169
Total consideration	**3,977**
Satisfied by:	
Cash	2,903
Consideration recorded as liability	1,074
	3,977
Net cash outflow arising on acquisition	
Cash consideration	2,903
Cash and cash equivalents acquired	(1,983)
	920

CAT & IC Port contributed $4,198,000 revenue and loss of $1,053,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2008.

If the acquisition of CAT & IC Port had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $135,350,000 and Group profit would have been $23,831,000

Notes To The Consolidated Financial Statements

During February 2008 the Group acquired a product line from Charles Industries Ltd ("Charles") for a consideration of $ 2,185,000. The broadband multiplexer product line provides a strategic complement to our EdgeLink product family.

This transaction has been accounted for by the purchase method of accounting.

Charles	$'000s
Net assets acquired	
Property, plant and equipment	144
Provision	(178)
	(34)
Intangible assets	2,219
Total consideration	**2,185**

Notes To The Consolidated Financial Statements

During June 2008 the Group acquired 51% of the issued share capital of I.M. Becor S.R.L. ("Becor") for a consideration of $ 2,733,000.

Becor is engaged in the marketing and distribution of medical products.

This transaction has been accounted for by the purchase method of accounting.

Becor	$'000s
Net assets acquired	
Property, plant and equipment	314
Inventory	2,050
Trade and other receivables	2,824
Cash	749
Loan from BATM	(4,020)
Trade payables and other liabilities	(1,913)
Minority Interest	(1,940)
	(1,936)
Intangible assets	3,956
Goodwill	713
Total Consideration	**2,733**
Satisfied by:	
Cash	1,395
Consideration recorded as liability	1,338
	2,733
Net cash outflow arising on acquisition	
Cash consideration	1,395
Cash and cash equivalents acquired	(749)
	646

Becor contributed $6,845,000 revenue and $525,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2008.

If the acquisition of Becor had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $140,991,000 and Group profit would have been $24,483,000.

Notes To The Consolidated Financial Statements

During October 2008 the Group acquired 100% of the issued share capital of Vigilant Technology L.t.d. ("Vigilant") for a consideration of $ 1,646,000.

Vigilant develops and manufactures high-end surveillance and recording platforms.

This transaction has been accounted for by the purchase method of accounting.

Vigilant	$'000s
Net assets acquired	
Property, plant and equipment	672
Inventory	621
Trade and other receivables	1,412
Cash	-
Bank Credit	(3,869)
Trade payables and other liabilities	(3,847)
Retirement benefit obligation	(115)
Loan from BATM	(3,784)
	(8,910)
Deferred tax assets	1,429
Intangible assets	7,834
Goodwill	1,293
Total consideration	**1,646**
Satisfied by:	
Cash	734
Share based payment	912
	1,646

Vigilant contributed $1,242,000 revenue and loss of $269,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2008.

If the acquisition of Vigilant had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $139,787,000 and Group profit would have been $18,370,000.

As at 31 December 2008, the PPA with respect to the acquisition of Vigilant on November 2008 had not been completed and the transaction was accounted for on the basis of management's best estimates. As a result of the completion of the PPA, $4,605 thousand has been reclassified from Goodwill to Other Intangible assets in the comparative figures as at 31 December 2008, and $1,429 thousand reclassified from other intangibles to deferred tax assets. In addition an additional $ 305 thousand was amortised in 2008 compared to the numbers published in the Financial Statements for the year ended 31 December 2008. Furthermore additional liabilities totalling $ 666 thousand were recognised which resulted in an increase in the other intangibles recognised at the date of the transaction by $ 666 thousand, of which $ 444 thousand was short term and $222 thousand was short term liabilities.

Notes To The Consolidated Financial Statements

Note 30 - Note to the cash flow statement

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Operating profit from continuing operations	16,434	23,555
Adjustments for:		
Amortization of intangible assets and goodwill	5,355	2,597
Depreciation of property, plant and equipment	2,865	2,401
Stock options granted to employees	659	791
Increase(decrease)in retirement benefit obligation	(65)	154
Increase (decrease) in provisions	575	(313)
Operating cash flows before movements in working capital	25,823	29,185
Increase in inventory	(310)	(4,080)
Decrease (increase) in receivables	(2,186)	3,965
Decrease in payables	(3,180)	(18,709)
Cash generated by operations	20,147	10,361
Income taxes paid	(173)	(844)
Income taxes received	557	-
Interest paid	(297)	(423)
Net cash from operating activities	**20,234**	**9,094**

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

Notes To The Consolidated Financial Statements

Note 31 - Contingent liabilities

Stamp duties

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.

Note 32 - Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2009 $'000s	2008 $'000s
Minimum lease payments under operating leases		
Recognised in income for the year	**2,166**	**1,559**

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

	31 December	
	2009 $'000s	2008 $'000s
Within one year	1,024	1,337
In the second to fifth years inclusive	649	1,529
	1,673	**2,866**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 6 years and rentals are fixed for an average of 6 years.

Notes To The Consolidated Financial Statements

The Group as lessor

Property rental income earned during 2009 was $266,000 (2008: $245,000). The properties under lease agreements to third parties by the Group have committed tenants for most of the property for the next two months.

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

	31 December	
	2009 $'000s	2008 $'000s
Within one year	91	193
In the second year	5	100
	96	**293**

Note 33 - 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:

	2009		2008	
	Number of share options	Weighted average exercise price (in GBP)	Number of share options	Weighted average exercise price (in GBP)
Outstanding at beginning of period	8,783,667	0.8744	14,442,582	0.6047
Granted during the period	1,157,500	0.2425	2,884,360	0.4492
Forfeited during the period	(414,594)	0.3012	(1,245,651)	0.7664
Exercise during the period	(1,210,706)	0.1925	(7,297,624)	0.1910
Outstanding at the end of the period	**8,315,867**	**0.9143**	**8,783,667**	**0.8744**
Exercisable at the end of the period	**5,257,294**	**1.2164**	**4,599,608**	**1.2850**

The weighted average share price at the date of exercise for share options exercised during 2009 was 0.3731 Great British Pounds ("GBP"). The options outstanding at 31 December 2009 had a weighted average exercise price of 0.9143 GBP, and a weighted average remaining contractual life of 6.14 years. In 2009, options were granted on February 23. The aggregate of the estimated fair values of the options granted on that date is $401,000. In 2008, options were granted on June 16, August 5 and December 31. The aggregate of the estimated fair values of the options granted on those dates is $2,160,000,

Notes To The Consolidated Financial Statements

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

	2009 $'000s	2008 $'000s
Weighted average share price	0.37	0.49
Weighted average exercise price	0.19	0.19
Expected volatility	36-69	38-53
Expected life	7	7
Risk-free rate	2%-4.5%	2%-4%
Expected dividends	2.5%	2.5%

The inputs into the Black-Scholes model for the options granted in 2009 are as follows:

	2009 $'000s
Weighted average share price	0.2425
Weighted average exercise price	0.2425
Expected volatility	56
Expected life	7
Risk-free rate	2.0%
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 $659,000 and $791,000 related to equity-settled share-based payment transactions in 2009 and 2008, respectively.

Notes To The Consolidated Financial Statements

Note 34 - 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. 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.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 20 January 2010 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:

	2009	2008
Discount rate(s)	4.7%	5%
Expected return on plan assets	4.8%	5%
Expected rate(s) of salary increase	1-5%	5-7%
Expected inflation rate	2.7%	1.6%

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

	2009 $'000s	2008 $'000s
Current service cost	520	491
Interest on obligation	215	208
Expected return on plan assets	(83)	(178)
Adjustments for restrictions on the defined benefit asset	(9)	81
Actuarial losses/(gains) recognised in the year	(255)	535
Total	388	1,137

Notes To The Consolidated Financial Statements

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

	31 December 2009 $'000s	31 December 2008 $'000s
Present value of funded defined benefit obligation	5,146	4,500
Fair value of plan assets	(4,271)	(3,574)
Net liability	875	926

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

	2009 $'000s	2008 $'000s
Opening defined benefit obligation	4,500	2,517
Current service cost	565	491
Interest cost	215	208
Actuarial losses	81	1,776
Acquired in business combination	0	437
Benefits paid	(284)	(749)
Exchange rate differences	69	(180)
Closing defined benefit obligation	5,146	4,500

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

	2009 $'000s	2008 $'000s
Opening fair value of plan assets	3,574	2,256
Expected return on plan assets	92	97
Actuarial gains	336	1,241
Contributions from the employer	486	499
Benefits paid	(270)	(468)
Exchange rate differences	53	(51)
Closing fair value of plan assets	4,271	3,574

The Liability recognised in the balance sheet at 31 December 2009 was $875,000 (2008: $926,000).

Notes To The Consolidated Financial Statements

Note 35 - 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	2009 Total $000	2008 Total $000
Zvi Marom	242	22	10	412	686	781
Ofer Bar Ner	125	19	7	-	151	270
Peter Sheldon	38	-	-	-	38	53
Dan Kaznelson	22	-	-	-	22	15
Ariella Zochovitzky	35	-	-	-	35	35
Koti Gavish	35	-	-	-	35	35

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 2009 were as follows.

	2009	2008
Ordinary shares		
Zvi Marom	91,219,500	90,750,900
Ofer Bar Ner	-	-
Peter Sheldon	250,000	450,000
Dan Kaznelson	82,300	112,300
Ariella Zochovitzky	-	-
Koti Gavish	111,370	-

Notes To The Consolidated Financial Statements

Table C – Share Options

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

	As at 01 Jan 09	Granted	Exercised	Lapsed	As at 31 Dec 09	Exercise price	Expiry date
Ofer Bar Ner	330,000	-	-	-	330,000	0.279	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2011
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2012
Ofer Bar Ner	250,000	-	-	-	250,000	0.407	31/12/2013
Ofer Bar Ner	333,333	-	-	-	333,333	0.270	07/06/2012
Dan Kaznelson	400,000	-	200,000	-	200,000	0.315	31/12/2012
Ariella Zochovitzky	200,000	-	61,200	-	138,800	0.1621	31/12/2010
Koti Gavish	250,000	-	111,370	-	138,630	0.154	31/12/2010

Table D – remuneration of key management personelle

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

	2009 $'000s	2008 $'000s
Short-term employee benefits	804	957
Post-employment benefits	17	21
Other long-term benefits	14	26
Termination benefits	27	32
Share-based payment	139	225
	1,001	**1,261**

Table E – transactions with related parties

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

Transactions during the year: $ 2 thousand

Balance as at 31 December 2009: $ Nil

Notes To The Consolidated Financial Statements

Note 36 – Financial Instruments

(a) Capital risk management

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

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

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

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(c) Categories of financial instruments

	2009 $'000s	2008 $'000s
Financial assets		
Cash and cash equivalents	28,095	30,737
Held for trading	-	10,015
Held-to-maturity investments	4,347	5,468
Deposits and receivables	65,503	40,263
Available-for-sale financial assets	-	-
Financial liabilities		
At amortized cost	35,626	25,815
Fair value through profit or loss	4,052	2,699

All fair value measurements are level 1 fair value measurements, defined as those derived from quoted prices (unadjusted) in active markets for identical assets except for the derivative assets detailed in note 21, that are level 2 fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Notes To The Consolidated Financial Statements

(d) Loans and receivables

	2009 $'000s	2008 $'000s
Carrying amount of deposits and receivables	66,710	41,120
Cumulative changes in fair value attributable to changes in credit risk	1,207	857
Changes in fair value attributable to changes in credit risk recognised during the period	350	341

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the company's and the Group's maximum exposure to credit risk for such loans and receivables

(e) Financial risk management objectives

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

The Group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written 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.

(f) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer to section g) and interest rates (refer to section h). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export oftelecommunications equipment to the United States;

At a Group level market risk exposures are measured using value-at-risk (VaR), supplemented by sensitivity analysis, and stress scenario analysis. At a company level market risks are managed through sensitivity analyses and stress scenario analysis.
There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Notes To The Consolidated Financial Statements

(g) 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	
	2009 $'000s	2008 $'000s	2009 $'000s	2008 $'000s
New Israeli Shekel	6,478	5,567	7,944	7,181
Euro	6,394	3,758	33,790	15,149
Other	2,191	2,642	8,906	7,029

Notes To The Consolidated Financial Statements

Foreign currency sensitivity

The Group is mainly exposed to US Dollar, NIS and GBP

The following table details the Group's sensitivity to a 5 per cent change in US$ against the respective foreign currencies. The 5 per cent 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

	2009 $'000	2008 $'000
NIS Impact	62	79
US Dollar Impact	1,368	574
GBP Impact	133	134

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

The following tables detail the fair value of financial assets and financial liabilities that are not carried at fair value in the financial statements:

	Carrying amount $'000	Fair value $'000
	2009	
Consolidated		
Financial assets:		
Held-to-maturity	**4,347**	**4,373**

	Carrying amount $'000	Fair value $'000
	2008	
Consolidated		
Financial assets:		
Held-to-maturity	**5,468**	**5,313**

Directors and Advisors

Directors

P. Sheldon	Chairman, Non-executive
Dr. Z. Marom	Chief executive
O. Bar-Ner	Finance director
K. Gavish	Non-executive
Dr. D. Kaznelson	Non-executive
A. Zochovitzky	Non-executive

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