Annual Report
2013

Welcome to

BATM Advanced Communications

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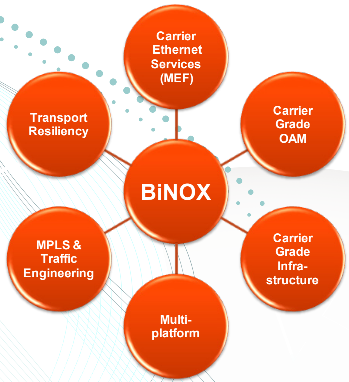
BATM has access to over 600 engineers and scientists through BATM's integrated research and development program between all its subsidiary companies.

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

For more information on BATM, please visit:

www.BATM.com



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

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

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

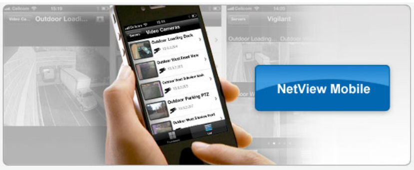
T-Metro 8000 series

Telecom Network Solutions
Cyber Security Solutions

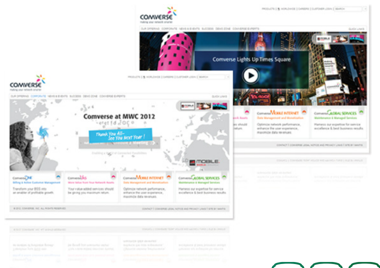
IVD Systems & Automated
Clinical Diagnostic Analyzers

Professional Sterilizers and Medical Waste Solutions

Mobile / Web Solutions



Surveillance Solutions



Telecom Division & Medical Division

Financial Highlights

2013 Revenue	2013 Adjusted operating profit[1]	2013 Cash and financial Assets
$114.2 million	$0.1 million	$40.8 million

	2013	2012	%
Revenue	$114.2m	$113.6m	0.53%
Gross profit	$39.6m	$39.0m	1.54%
Adjusted operating profit[1]	$0.1m	$2.5m	
Other operating expenses	$5.5m	$3.6m	
Operating loss	($5.4)m	($1.1)m	
Profit (loss) for the year	($5.4m)	$0.2m	
Earnings (loss) per share	(1.12)¢	0.18¢	

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

Peter Sheldon, OBE
Chairman

2013 was a year in which many of the changes we have been implementing in terms of management; business structure; operating efficiencies and margin improvement have increasingly become evident.

The continued improvements we have made in our business model and operations in 2013, resulted in a small adjusted operating profit yet failed to reach our expectations for the year. This disappointment however has not dimmed our confidence that BATM has a business model that is sound and will generate significantly better results for our shareholders as our various initiatives mature fully during 2014 and beyond.

A full and detailed analysis of our 2013 results is provided in our Directors' Report overleaf.

In 2013 our profitability suffered from a number of external factors beyond our control arising from the continuing international financial turmoil and not least, the impact of a strong Israeli currency, especially against the US dollar. We were also adversely affected by the continuing slow pace at which the various authorities are providing us with the regulatory approvals on which we rely to enter into new markets with products that are increasingly being recognised as market leaders.

BATM is a very different business than it was 5 years ago. We have developed two streams of business activity, with two market sectors – telecom and medical – into which we are selling very high quality technological products meeting the needs of the various international markets we serve. Both divisions offer significant growth potential with proven products that are increasingly enabling us to benefit from recurring revenues and consequently further margin improvement. It has been a hard road to travel on at a difficult time in world economic activity but the signs that we are seeing are positive and encouraging.

Our employees, at all levels, have made a considerable contribution to our progress often in difficult and challenging circumstances. I would like to thank them and all of my Board colleagues for their efforts, skill and professionalism which I am confident will be reflected in the level of growth and profitability that we will achieve in 2014 and beyond. The year has started well and I have every reason to expect that our shareholders will be gratified with our future results.

Peter Sheldon
Chairman

30 April 2014

Principal Activities and Review of the Business

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

Results

The results of the year are set out in the consolidated income statement. After providing $3.0 million amortization of intangible assets for the year and impairment of $2.5m intangible assets of Vigilant, we recorded a loss of $5.4million. This loss includes profit of $0.3 million from discontinued operation.

Market Review

BATM is operating in two divisions. The medical division which focuses on developing countries is enjoying the general growth in investment into developing health systems in these countries. The Telecom division on the other hand is mainly targeting Tier 1 telecom operators in developed markets. This group is experiencing a shift in the market to more cloud based solutions and software defined products. Our telecom group has shifted its product focus to address these trends.

BATM offices:

Hod-Hasharon, Israel

Mansfield MA, USA

Yokneam, Israel


Guidonia di Montecelio, Rome, Italy

Corporate Strategy and Business Model

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

BATM is growing its networking division to be an important provider of access solutions. In the medium term the division is focused on providing groundbreaking technologies in a cellular centric video rich world. This includes expanding the offering to a full access service oriented solution and technological breakthroughs in delivering large scale streams of secured video and data at speeds of 10, 40 Gbps and up.

The division is now working closely with customers to define needs in cloud based networks, Network Function Virtualization (NFV) and advanced access solutions. Some of these applications are reaching the markets and are in Proof of Concept with customers. The business model is mostly selling a solution that includes both hardware and software. The group is expanding its investment into more software based product which will result in higher software licensing revenues in the coming years.

The Medical division is focused on becoming a leading provider of diagnostic laboratory equipment as well as a distributor of leading brands of other diagnostic equipment suppliers to emerging countries. Those countries of which the most prominent for BATM are China, Russia, Mexico, Brazil and others, have huge potential for upward growth. The division is built on high reliability, fast and easy to operate equipment for small diagnostic laboratories with an emphasis on emerging markets.

In addition, the division launched an innovative product to treat medical waste in laboratories and hospitals with unique patented technology. This technology has been used and recommended by the WHO (World Health Organization). New and unique applications are being tested with this technology. Sales in 2014 from this technology are expected to reach a few million USD with a fast growing trend.

The Division's products are highly sophisticated, environmental friendly and very cost effective.

BATM Medical has partnerships with reagent manufacturers and academic institutions to develop an innovative, "one stop shop", flexible offering to its customers. The Medical Division has announced some unique product offerings during 2013 and expects to offer several more in 2014. The business model includes selling instruments as well as associated reagents and consumables. In addition, the distribution section of the medical group re-sells other manufacturers' instruments, reagents and other medical supplies.

Future Developments

Management intends to continue to invest significantly in R&D and sales and marketing activities in order to support the organic growth of the business. In addition, management intends to make niche acquisitions to strengthen the Company and its Subsidiaries ("the Group") position in the Telecom and Medical markets. The medical division's products are positioned to address the growing needs of developing markets. We usually compete with other mid size manufacturers as well as selling some units under OEM agreements with the leading vendors in our industry. The Telecom division is competing with other mid size vendors in addressing unique niche applications of tier 1 operators.

Key Performance Indicators

BATM Advanced Communication Ltd. ("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:

	2013	2012	Change %
Revenue	$114.2m	$113.6m	0.53
Gross profit margin	34.7%	34.3%	1.12
R&D spend, net	$11.8m	$10.0m	18.00
Cash and Financial Assets	$40.8m	$46.2m	-11.69
Earnings (loss) per share	(1.12)¢	0.18¢	-722.22

Risk Management and Internal Control

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

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

The Board of Directors has overall responsibility for ensuring that the Company maintains adequate systems of internal control. To this end, in accordance with the Israeli Companies Law, the Company has appointed and retains the services of an independent qualified internal auditor. Each year, the Audit Committee reviews with the internal auditor potential risks and proposed plan for their scope of work. The Audit Committee usually selects each year at least two areas of the Company's operations on which it requests the internal auditor to focus and prepare an internal audit report with recommendations. Following the completion of each report the internal auditor sends it to all the Directors and presents his findings to the Audit Committee. The Audit Committee then reports to the Board on any major findings and recommendations from the internal auditor for improving controls and corporate responsibility. Last year the Board determined that hiring the services of an in-house experienced internal auditor will give the Company's board and senior management more benefits and guidance than using an external internal auditing firm. Accordingly, the Board recommended that as of mid-2013 the external internal auditing firm be replaced by an independent qualified in-house internal auditor.

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

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

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

Principal Risks and Uncertainties

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. In addition, these sectors are highly regulated, with strict requirements as to ongoing compliance and quality control. A failure to comply with such requirements may lead to the Group suffering a loss of reputation, reduction in revenues or sanction by the appropriate regulatory authorities.

As the Group is involved in the development of new products and services, it is subject to the development risk inherent in such activity, including in particular the failure of products and services in development to proceed to completion and to the market. This includes the risk of failing key research and development hurdles such as clinical trials and regulatory authorisation.

The Group has made several acquisitions. Such growth in the Group carries increased demand for cash and resources in the Group's business, not all of which may be capable of being adequately serviced. Furthermore, certain acquisitions have not reached one hundred per cent ownership of the relevant target companies, in some cases due to local regulatory requirements as to share ownership and structuring. As a result, certain companies in the Group have non-controlling interests, typically held by the local management of the subsidiaries. Relationships with these non-controlling interests are frequently key to the continued success of the relevant business and projects. They carry certain risks, including those inherent in diversified control in a trading business, for example that key business decisions favoured by the Group may not proceed to implementation, and the consequences of a breakdown of the cooperation between the Group as the majority holder and the local partner as the minority.

Due to current global economic conditions, the Group's diversified business activities are aimed at emerging markets which have significant upward potential, yet at the same time are subject to greater risks than more developed markets, including economic, political, social, legal and legislative risks. The Group's business and consequently, its financial results and returns to investors, may be adversely affected by a decrease in demand in such emerging markets, which can typically be less easy to predict or manage than in more stable and developed economies. The political and socioeconomic stability of emerging markets is frequently lower than that seen in more established markets, and this carries the risk that the Group's business and consequently, its financial results and returns to investors may be adversely affected by negative changes in conditions for business and investment, which may occur more frequently or with more severity than in more developed markets.

Corporate, Social and Environmental Responsibilities

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

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

Whilst the Board considers that material risks arising from social, ethical, employment and environmental issues are limited, given the nature of the Company's business, policies have been adopted in key areas to ensure that such risks are limited. The Company's policy is to behave in an environmentally responsible manner consistent with local environmental regulations and standards. These include ensuring that any waste is dealt with in accordance with all local waste disposal regulations, improving recycling and upgrading the energy and lighting systems in the Company's facilities to more low energy equivalents. During 2012 the Board nominated Mrs. Elka Nir, one of the external Directors, to monitor environmental policies of the Company and its compliance with local environmental issues as well as quality and regulatory standards. Examples of policies and practices in these areas are given below.

Employment Policies

BATM employs approximately 760 people and in order to continue to grow as a business, the Company needs to continue to recruit and retain only the best talent. Therefore it is the Company's policy to pursue practices that are sensitive to the needs of its people. The Company strives for equal opportunities for all of its employees, including disabled employees, and does not tolerate harassment of, or discrimination against, its staff. The Company's priorities are:

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

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

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

Employees with Disabilities

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

Environmental Policies and adherence to EU Environmental Directives

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

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

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

In addition the Company designs certain product lines that are designed to reduce energy consumption and waste production. During 2012 the Company launched a new product, in the medical division, to treat medical waste and convert it into normal waste. The successful launch of the product into dialysis centers, laboratory and hospitals and the relevant environmental certifications will position the company as a leader in this field.

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

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

Ethical Business Practices

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

Charitable Policies

BATM maintains a number of small charitable giving policies.

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

Community Involvement

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

Financial Review

Revenues in 2013 increased to $114.2m (2012: $113.6m). Telecom division revenues decreased by 5.4% to $60.6m (2012: $64.2m) whilst Medical division revenues increased by 8.2% to $53.1m (2012: $49.1m), with the latter being the result of organic growth.

The gross profit margin for the year was 34.7% (2012: 34.3%). The gross profit of the Telecom division remained unchanged at 44% whilst in the Medical division the gross profit increased from 21% to 24%.

Sales and marketing expenses were $16.7m (2012: $16.2m), representing 14.7% of revenue, compared with 14.2% in 2012. The majority of the increase was in the sterilization business of the Medical division.

General and administrative expenses were $10.9m (2012: $10.3m), representing 9.6% of revenue, compared with 9.1% in 2012. This increase of $0.6m is mostly from Anda, the telecom business that was categorized as part of the legacy business and has been retained within the Telecom division, as well as from the distribution business of the Medical division.

R&D investment in 2013 was $11.8m (2012: $10.0m). This increase of $1.8m is from Anda and Celare, the cyber business, in the Telecom division; the appreciation of the Israeli Shekel against the US dollar; and from the diagnostics operations.

Other operating expenses include amortization of intangible assets of $3.0m, a decrease compared with $3.5m in 2012, and separately a write-off of $2.5m intangible assets arising from the Group's acquisition of Vigilant. Vigilant remains trading and operational division of BATM. Vigilant losses have been recognised by the tax authorities as part of the BATM Entity.

Net finance expenses was $0.6m (2012: $1.5m income), comprising $0.4m of finance costs as well as losses of $0.5m on foreign exchange differences mostly related to appreciation of the Israeli shekel against the US dollar, which were partially offset by $0.3m of interest and other finance income.

Net loss after tax attributable to equity holders of the Group amounted to $4.5m (2012: profit of $0.7m), resulting in a basic loss per share of 1.12¢ (2012: earnings of 0.18¢).

The Group's balance sheet remains strong with Cash and Financial Assets of $40.8m, a decrease of $3.7m compared with $44.5m as at 30 June 2013 and a decrease of $5.4m compared with $46.2m as at 31 December 2012. The decrease in cash balances during the second half of 2013 is mainly due to the investment of $3.5m in the consortium established in July 2013 to build a nationwide fibre optic network in Israel.

Period end Cash and Financial Assets balances of $40.8m (2012: $46.2m) is comprised as follows: cash and deposits up to three months duration of $13.8m (2012: $42.7m), and short term cash deposits of up to one year of $27.0m (2012: $3.5m).

Intangible assets and Goodwill decreased to $18.2m (31 December 2012: $22.8m) after the amortization of $3.0m and impairment of intangible assets of $2.5m described above.

Investment in available for sale investments carried at fair value relates mostly to the investment of $3.5m in the fiber network referred to above and investment accounted for using the equity method of $0.6m relates to the expansion of the distribution business of the Medical division in Myanmar.

Property, plant and equipment including investment property have remained unchanged since the end of 2012.

Total inventories increased from $19.5m at the end of 2012 to $23.1m at 31 December 2013.

Trade and other receivables increased to $33.6m from $29.4m at the end of 2012. Trade and other payables increased to $29.8m from $27.0m at the end of 2012. The majority of the increase is the inventory, accounts receivables and payables of Anda which was part of the Legacy stock in 2012 and included in discontinued operations.

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

Business Review

In Q4 2013, the Group achieved sequential revenue growth over Q3 2013 of 10.6% to $30.1m. Revenues in the Medical division grew by 31.1% over Q3 2013, whilst revenues in the Telecom division were 5.2% lower in Q4 than in Q3 2013.

Revenues for full year 2013 were $114.2m, an increase of 0.5% over 2012 (2012: $113.6m). The Telecom division contributed 53% of total sales and the Medical division accounted for 47% of total 2013 sales. In addition, Group revenues grew by 1.1% sequentially in H2 2013 to $57.4m (H1 2013: $56.8m).

These results reflect the momentum and progress that the Group has achieved in the Medical division during 2013, especially in the second half of the year. They also validate the management's strategic decision to focus on Tier 1 operators and to appoint new leadership at the Telecom division.

Medical Division

	H1 2013	H2 2013	FY 2013	FY 2012
Revenues	$25.6m	$27.5m	$53.1m	$49.1m
Gross margin	23%	25%	24%	21%
Adjusted Operating loss	$1.4m	$0.9m	$2.3m	$3.2m

The distribution business contributed approximately 59% of Medical division revenues in 2013, with improved trading during the second half of the year. The credit issues with certain major customers, as announced in June 2013, were largely resolved. In addition, the business expanded its presence to Myanmar, which, post period-end, resulted in an initial contract win of approximately $2.5m, for both distribution and the provision of sterilization and diagnostics products, that the Group expects to deliver primarily in the first half of 2014. The Group also signed a contract of cooperation with Roche, one of the leading suppliers in this field, in Myanmar.

The sterilization business constituted 16.7% of the Medical division's revenues and, significantly, achieved operating profitability for the first time. The business continues to focus on the treatment of medical and biological waste, based on unique patented technology, and the expansion of its OEM relationships. During the fourth quarter, it achieved a significant milestone with the delivery of the first FDA-approved units to customers in the US. Overall, the number of medical waste units sold in 2013 increased by 70% over 2012. The Group intends to continue to expand the business' manufacturing capacity by moving into a significantly larger facility by the end of Q2 2014. Supported by a strong backlog in Q1 2014, the Group expects the sterilization business to maintain profitable growth.

The diagnostics business, which constituted 24.3% of Medical division revenues in 2013, achieved significant improvement in both revenues and reduced operating losses compared with 2012. The business maintained its strategy of increasing production of its own certified reagents and instruments, and progress was made in a number of key areas. The business secured an important OEM contract for its HIV kits, which commenced generating revenues in 2013. Several of its diagnostic kits received approval in a number of new geographical areas globally. In addition, revenues increased from the sale of its clinical chemistry instruments as a result of bundling, and selling together, instruments and reagents. At the end of the year, the business signed a new joint venture, replacing its previous partner, in China to improve performance in this region. This joint venture, with a local manufacturer and distributer in the Shanghai area, is expected to begin to generate revenue from the end of H1 2014.

Telecom Division

	H1 2013	H2 2013	FY 2013	FY 2012
Revenues	$30.9m	$29.7m	$60.6m	$64.2m
Gross margin	46%	42%	44%	44%
Adjusted Operating loss	$1.5m	$0.9m	$2.4m	$5.7m

The decline in revenues in the second half of the year was due to less-than-expected revenue from clients in the US and Latin America in the fourth quarter. The division, with much of its workforce in Israel, also suffered from a 7% appreciation of the Israeli shekel against the US dollar during 2013 compared with 2012.

As previously announced, in Q3 2013 the division introduced a new strategy to concentrate its efforts on Tier 1 and large customers in addition to supplying its existing customers. In order to implement this change, Ariel Efrati assumed the role of Managing Director of the Telecom division at the end of 2013. Mr. Efrati (aged 41), who previously managed one of the largest software divisions of Amdocs (NYSE: DOX), is expected to lead the transition to focus on SDN (Software Driven Networks), NFV (Network Functions Virtualization) and Tier 1 customers. The Group's T-Marc, T-Metro 8000 platforms and Edge Genie software provide solid foundations to launch its new offering into the SDN and NFV environment. In addition, the management believes that the adoption of new standards by telecom infrastructure operators offers a unique opportunity in this market from which it expects start to benefit during 2014.

The Group made an investment of $3.5m into the consortium for the construction of a new nationwide fiber optic infrastructure network in Israel. The major partners in the consortium are Cisco Systems and the Israel Electric Company. The rollout of the network, including the connection of the first clients, is expected to start at the end of the first half of 2014.

Current Trading and Prospects

The Group experienced a strong year-end, particularly in the Medical division. This trend has been sustained into 2014 and management expects it to continue throughout the year, with solid growth being achieved in the Medical division for 2014. The sterilization business has moved beyond the proof-of-concept stage and is experiencing growing sales and interest globally. Major global bodies such as the WHO (World Health Organisation) and blue-chip companies are registering the technology as their technology of choice. The Group is focused on building larger and upgraded facilities to increase manufacturing capacity to satisfy demand, which is expected to result in higher revenues in 2014 compared with 2013. The Group anticipates that the diagnostics business will deliver growth in 2014 as it enters into more OEM partnerships and penetrates new markets. In addition, it expects the business to achieve several new certifications of reagents in further regions, which will increase sales momentum. The distribution business is also expected to grow as an increasing number of customers recognise its value proposition. The Group anticipates that the business will establish more alliances, with some of the largest firms in the field, similar to the contract that it has signed in Myanmar. The Telecom division, which is undergoing a strategic shift, is receiving interest as well as initial sales from major industry players for its Software Driven Networking offering. The Group believes that this will continue to be the focus of the industry for the foreseeable future and it expects to benefit from this trend.

As a result, the Board is confident of delivering improved results in 2014 compared with 2013.

The Strategic Report, covering pages 2 to 12 of the Annual Report and Financial Statements 2013, has been approved by the Board of Directors.

On behalf of the Board of Directors

Ofer Bar Ner
Director

30 April 2014

Corporate Governance

The Company is committed to high standards of corporate governance and the Board is accountable to the Company's shareholders for such governance. The Board reviews carefully all new regulations relating to the principles of good corporate governance and practice and endeavours to apply them where applicable. It also reviews carefully any comments received from independent reviewing agencies and shareholders and communicates with them directly. The Company believes that the combination of the experience of its Chairman, Peter Sheldon, in the UK markets and its senior non-executive Vice Chairman, Gideon Chitayat, in the Israeli market provides the Company with the relevant leadership to address its position as an Israeli company that is traded on the UK exchange. As a result of recent amendments in the Israeli Companies Law on corporate governance which came into effect during 2012, as well as comments received during 2012 from corporate governance consultants of UK institutional and pension investors, the Company has implemented various improvements in its corporate governance policies, as described in more detail in this Report. The main thrust of these changes are thrusts of these changes is designed to:

(a) Guarantee full independence of the various committees of the Board of Directors, including the nomination, audit and remuneration committees;

(b) Improve transparency between the Board and senior management of the Company;

(c) Improve the remuneration policy of the Company by refining the parameters and determining pre-defined key performance indicators as a requisite for performance-linked remuneration to its senior executives; and

(d) Improve the Company's environmental policy and responsibility.

This report outlines how the Company has applied the main principles set out in the UK Corporate Governance Code issued by the UK Financial Reporting Council in June 2010 and updated in September 2012 (the "Governance Code").

Directors

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

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

Dr. Zvi Marom
Chief Executive Officer

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

Ofer Bar-Ner
Chief Financial Officer

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

Dr. Gideon Chitayat, non-executive Vice-Chairman, is the Chairman and CEO of GMBS Ltd- Strategic Consulting Firm .He is Director in several Boards of Directors: Delta Galil Industries, Paz Oil Company and Milissron Shopping malls. Dr.Chitayat has served as a director for Teva Israel Pharmaceutical Industries , Bank Hapoalim, Israel Aircraft Industries He has provided consultancy services to the Board and Presidents of Companies Dr Chitayat is He holds a Ph.D. in Business & Applied Economics from the University of Pennsylvania and a Masters in Business & Applied Economics from the Hebrew University, Jerusalem and joined the Board of BATM in June 2010.

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

Gideon Barak, non-executive external Director, Mr. Barak has held senior executive positions in leading Israeli technology companies and has served as CEO, director and chairman of the Board in numerous technology companies since 1984. He has founded several companies which were later acquired by international leading corporations including Intel and Pixim/Sony. He currently holds the position of director and chairman of the Board in several telecom companies including Spikko Telecom Ltd. He has also served in the past as a venture partner in Benchmark Capital and Blue Run Venture Fund. Mr. Barak holds a BA degree in Economics and an MBA degree from Tel-Aviv University.

Rules about appointment & replacement of directors; Amendment of Articles

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

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

The two executive Directors, the CEO, Zvi Marom and the CFO, Ofer Barner will be proposed for re-election at the coming Annual General Meeting (AGM) The employment contracts of both will be brought for approval at the coming AGM.

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

Compliance with the Governance Code

Throughout the year ended 31 December 2013, and through to the date of approval of the financial statements, the Board considers that the Company has complied with the main principles of the Governance Code. The Company has applied the main Principles set out in the section with that heading by complying with the Governance Code as set forth below and in the Remuneration Report below. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report.

In addition, as outlined below, the Company's responsibilities under Israeli company legislation is such that it is obliged to appoint two independent non-executive directors (defined as "external directors" within Israeli law), who must be appointed for a minimum of one three year term, which may be extended by the Company for no more than two additional terms of three years each. With the exception of the "external" non-executive directors who serve for a period of three years in accordance with Israeli company law, all directors have to be re-elected by the shareholders at an AGM, if proposed for re-election.

The current two independent non-executive Directors defined as external directors within Israeli law are Mr. Gideon Barak and Mrs. Elka Nir. Mr. Barak was appointed in July 2013 (his position is due for re-election in July 2016) and Mrs. Nir was appointed for a term of three years in June 2012.

The Company believes that as a result of the Israeli corporate law that limits the term of the external directors, it is essential to maintain a number of long serving directors who may serve for more than the nine year period recommended under the Governance Code, in order to provide continuous experience and knowledge. As a result of the necessary changes in the chairmanship of the Board's committees in order to guarantee independence as well as the listing of the Company's shares on the TASE, the Company appointed the senior non-executive director, Dr. Gideon Chitayat, as Vice Chairman of the Board so that he can give of his vast experience with local industry and TASE listed companies to the other members of the Board and its committees.

The Board – leadership and effectiveness.

The Board which currently comprises two Executive and four non-executive Directors including the Chairman, is responsible collectively for the long term success of the Company. In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance. Board and committee activities in 2013 were as follows:

	Meetings	Written Consent	Attendance
Board of Directors	5	2	Note 1
Audit Committee	3	-	Note 2
Remuneration Committee	2	-	
Nominations Committee	1	-	

1) All Directors attended 100% of the Board meetings during 2013.

(2) All Audit Committee members attended 100% of meetings during 2013.

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

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

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

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

Under Israeli law it is not a mandatory requirement for a company to have a secretary, however since the listing of the Company's shares on the Tel-Aviv Stock Exchange, the Company as a dual listed company has formally appointed Mr. Arthur Moher, who is also one of the Company's legal advisers, as company secretary and all the Directors have access to Mr. Moher's services. Accordingly, the Company complies with section A.1.4 of the Governance Code.

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

Relations with Shareholders and Significant Shareholders

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

As of 31.12.2013, to the best of the Company's knowledge, the following persons or entities had a significant holding of BATM ordinary shares:

Dr. Zvi Marom, the Company's CEO and founder – 23.53%

Henderson Volantis Capital - 17.58%

Legal & General Investment Management – 16.44%

River & Mercantile Asset Management – 6.03%

Herald Investment Management – 4.51%

All of the above hold ordinary shares of the Company.

Committees

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

Audit Committee

Members: Dr. Chitayat, Mr. Barak and Mrs. Nir
Chairman: Gideon Barak

The members of the Audit Committee have significant financial expertise. The Committee's terms of reference include, among other things, monitoring the scope and results of the external audit, the review of interim and annual results, the involvement of the external auditors in those processes, review of whistle blowing procedures, considering compliance with legal requirements, accounting standards and the Listing Rules of the Financial Conduct Authority, and for advising the Board on the requirement to maintain an effective system of internal controls. The Committee also keeps under review the independence and objectivity of the group's external auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors.

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

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

The Audit Committee adheres to the functions and requirements prescribed to it by the Israeli Companies Law and Israeli Regulations. According to a recent amendment under the Israeli Companies Law, the Board of Directors appointed during 2013 Mr. Gideon Barak (an external director) as the Chairman of the Audit Committee as required by Israeli Law. The Chairman of the Audit Committee maintains close contact with the Company on a regular basis.

Remuneration Committee

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

The Company's Remuneration Committee is constituted in accordance with the recommendations of the Governance Code. The Committee consists of three out of the four non-executive Directors and excludes the chairman as is required under Israeli Company Law. Since January 2013 the Committee is chaired by Mrs. Elka Nir, one of the external Directors (as mandatory under the Israeli Companies Law) and its other members are Dr. Gideon Chitayat and Mr Gideon Barak, both of whom are non-executive independent Directors. None of the Committee members has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

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

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

The primary responsibilities of the Committee are to ensure:

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

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

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

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

Information of the Company's policy regarding the setting of Directors' remuneration together with details of the service contracts of the executive Directors and the remuneration of Directors is set out in the Remuneration Report on page 23 - 26. Although the current remuneration policy was not approved at the last Annual General Meeting, the Remuneration Committee is working diligently to refine its current remuneration policy after having reviewed the main comments received from institutional investors and their advising bodies so as to be in conformance with both Israeli corporate governance and the Governance Code. The remuneration policy is more fully explained below in the Remuneration Report and will be brought for approval again at the coming Annual General Meeting.

Nominations Committee

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

In compliance with recent amendments to Israeli law, the newly appointed chairman of the Nominations Committee is chaired by Dr. Gideon Chitayat thereby improving the independence of this Committee. Individuals nominated as Directors are elected by the shareholders in General Meeting. Executive and non-executive Directors are elected by the shareholder's General Meeting for a term of one year. Non-executive public "external" Directors, as defined by Israeli Company Law, are appointed and elected for a mandatory term of three years, which is renewable for no more than two further terms of three years each. The re-appointment of a director must be approved by the shareholders in general meeting.

One nomination of a Director was made during the year under review which was discussed and recommended by the Committee in the year. Notwithstanding this the members of the Nominations Committee met both independently and together with a number of potential appointees to the Board during 2012 to evaluate potential nominees.

Conflicts

Throughout 2013 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2013 no conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

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 recent amendments to the UK Companies Act 2006 in relation to the preparation and approval of directors' remuneration policies and reports for certain listed companies do not apply to BATM as it is not incorporated in England. The proposed policy and report referred to below are not intended to comply with the provisions of such laws, although the Board considers that the proposed remuneration policies would comply with the Governance Code. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which approval of the financial statements will be sought. 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 Directors of the Company, after it has been first approved by the Company's Remuneration Committee and Board of Directors.

The Reporting Regulations (Israeli Auditing Reporting Standards) also require the auditors to report to the Company's members in the financial statement within this report and to state whether in their opinion that part of the report has been properly prepared. The report is therefore divided into separate sections for audited and unaudited information.

Unaudited information – Remuneration Policy

Validity: This Remuneration Policy and Guidelines (hereinafter – "Remuneration Policy") will come into effect after its approval by the Shareholders' Meeting by a majority vote as prescribed in section 267A (b) of the Israeli Companies Law, 1999 (the "Law"). Under section 267A (c) of the Law, the Board of BATM may approve the Company's Remuneration Policy if the shareholders meeting fails to do so. The revised Remuneration Policy was discussed and approved by the Board of Directors of the Company on April 10, 2014 after having received the recommendations of the Remuneration Committee. Although, as referred to above, the recent amendments to the UK Companies Act regarding approval of the remuneration policy by the shareholders do not apply to BATM as it is not incorporated in England, the Company has chosen, for transparency purposes, to bring this to the shareholders meeting at the coming AGM for their approval.

Objects of the Remuneration Policy:

a) To design appropriate remuneration packages to attract, retain and motivate senior executives and managers (including the CEO, CFO, executive and non-executive Directors and others determined by the Board to fall within this category) of the quality required to run the Company successfully (without paying more than is necessary for this purpose) while considering and managing the business risks and linking such remuneration policy to the Company's long term strategy and performance and its sustainable financial health;

b) To create long term performance-linked remuneration that will incentivize the senior executives to achieve those performance criteria and profits for the Company;

c) To link rewards for senior executives of the Company to corporate and individual performance which will be measured by both quantitative and qualitative criteria, balancing reward in the short and long term and fixed and variable elements of reward packages;

d) To control and position compensation for executive Directors and senior executives in the Company in comparison with salaries and benefits of other employees in the Company, as well as senior executives in similar companies;

e) To align the interests of executive Directors and senior executives with the interests of shareholders; and

f) To design remuneration packages that are flexible enough to cope with the Company's changing needs as it grows and its strategy evolves.

Remuneration Principles

a) The remuneration of senior executives of the Company shall be comprised of:

(i) fixed remuneration (including pensions, social benefits and fringe benefits) that is commensurate with the individual executive's skills, experience, education, qualifications and responsibilities. Base salary, benefits and pension will be set at a broadly mid-market level (including with reference to the country in which an executive principally works), and reviewed annually taking account of individual responsibilities and performance;

(ii) variable remuneration, comprising:

(A) Annual Bonus.

The level of the bonus paid to any executive Director or senior executive, and its composition in cash and/or deferred payment (such as conditional share awards or options) will be established to link rewards with the Company's annual business targets, based on quantifiable measurements and targets set out at the start of the financial year by the Remuneration Committee. Up to half shall be based on the achievement of strategic or operational objectives and at least half of any annual bonus shall be referenced to financial performance or targets as will be determined by the Remuneration Committee and the Board of Directors. Between 10% to 20% will be based on non-financial key performance indicators based on the evaluation of the Company's CEO, or when appropriate, the Remuneration Committee. Annual bonuses may be withheld in whole or in part if the business has suffered an exceptional negative event, even if some specific targets have been met. The Remuneration Committee has overall discretion to ensure that a payment that is inappropriate in all the Company's circumstances is not made. The maximum aggregate bonus shall be 100% of base salary and may be delivered in cash or partly in cash and partly in share options under the BATM Share Option Scheme ("Scheme") (or through another long term incentive mechanism) subject to appropriate vesting conditions, as the Remuneration Committee may determine.

(B) Long Term Incentives.

The Company's long term incentive package for senior executives will be established to support the Company's strategy by incentivizing the delivery of growth, increase in profitability, superior shareholder returns and sustained financial performance. Long term incentives are currently intended to be satisfied by the issue of options under the Scheme, although other incentive mechanisms may be established following appropriate Board, Remuneration Committee and shareholder approvals.

a) Any award shall be subject to the attainment of the following threshold conditions:

- The Company must show a net profit over a three year period from the date this Remuneration Policy is approved;

- The Company must show an accumulative EBITDA of at least USD 10,000,000, excluding from M&A transactions and/or one-time financial transactions over the coming two year period from the date this Remuneration Policy is approved.

If the above threshold conditions are met, then the Board may grant options which shall be subject to:

- a minimum vesting period of three years from the date of the grant and options shall not be exercisable more than ten years after the date of the grant (or, in exceptional cases and at the discretion of the Remuneration Committee, two years); and

- The vesting shall be conditioned on attaining the performance targets based on the above demanding and quantifiable financial metrics over, subject to a three year performance period, intended to stimulate future growth, with vesting on a sliding scale so that outstanding performance is required for 100% vesting;

- The price ("exercise price") at which options may be granted shall not be under the average market price in the month preceding the date of the grant plus 5% above this market price.

The maximum annual long term incentive award (which would be subject to vesting and performance conditions as above) is 150% of base salary.

b) Variable remuneration will be subject to appropriate claw-back provisions in circumstances of misstatement or misconduct, or an error in the calculation of the Company's financial performance of any target or threshold as well as subject to appropriate provisions as to lapse on cessation of employment.

c) The Remuneration Committee shall have due regard to pay and conditions elsewhere within the BATM group and take them into account when determining executive remuneration.

d) The Company's long-term incentive schemes, as applicable to Directors and senior executives, should provide that commitments to issue BATM shares must not exceed (in aggregate across all schemes) 5% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10 year period.

e) Notice or contract periods for the executive directors of the Company and senior managers should be set at 12 months or less, save where necessary in the short term to recruit individuals of the appropriate caliber. Compensation commitments for loss of office or early termination of an executive Director or senior manager should not have the effect of rewarding poor performance and shall reflect the departing executive's obligations to mitigate loss.

During 2013 no additional option grants were made to the Company's CEO or CFO.

Audited information

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

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance bonus $000	2013 Total $000	2012 Total $000
Zvi Marom	285	24	7	-	316	431
Ofer Bar Ner	174	27	9	41	251	219
Peter Sheldon	58	-	-	-	58	50
Gideon Chitayat	51	-	-	-	51	45
Elka Nir	39	-	-	-	39	17
Amos Shani	12	-	-	-	12	20
Gideon Barak	11	-	-	-	11	-
Amiram Mel	-	-	-	-	-	8

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 2013 were as follows.

	2013 Ordinary shares	2012 Ordinary shares
Zvi Marom	93,894,500	93,494,500
Ofer Bar Ner	212,500	150,000
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Gideon Barak	-	-
Elka Nir	-	-

Table C – Share Options

No options were held by the Directors during the year
At the AGM held on 22 June 2010 the shareholders approved the granting of a loan to the CFO totalling $200,000, repayable without interest in four annual instalments. As of 31 December 2013 the loan balance is $0.

Statement of Directors' Responsibilities

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

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

Each of the Directors confirms to the best of his or her knowledge:

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

2. the strategic 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.

Financial Statements

The Directors present their report together with the audited financial statements for the year ended 31 December 2013.

Dividends

The Board is not proposing a dividend this year.

Corporate Governance Statement

The information that fulfils the requirement of the corporate governance statement in accordance with Rule 7.2 of the Financial Conduct Authority's Disclosure and Transparency Rules can be found in this Directors' Report and in the Corporate Governance information on pages 18-24 which is incorporated into the Directors' Report by reference.

Accountability and Audit

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

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. and its subsidiaries (hereafter- "the Company") as of December 31, 2013 and 2012 and the consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 4% of total consolidated assets as of December 31, 2013 and 2012, respectively, and whose revenues included in consolidation constitute approximately 6% and 5%, of total consolidated revenues for the years ended December 31, 2013 and 2012 , respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and their consolidated results of operations, changes in equity and cash flows for each of the two years in the period ended December 31, 2013 in conformity with International Financial Reporting Standards (IFRS).

Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel

30 April 2013

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Consolidated Income Statements

	Note	Year ended 31 December	
		2013	2012(*)
		US$ in thousands	
Revenues	5,6	114,155	113,640
Cost of revenues	7	74,564	74,639
Gross profit		39,591	39,001
Operating expenses			
Sales and marketing expenses	8	16,746	16,178
General and administrative expenses	9	10,919	10,301
Research and development expenses	10	11,830	10,045
Other operating expenses		5,534	3,603
Total operating expenses		45,029	40,127
Operating loss from continuing operation		(5,438)	(1,126)
Finance income	12	256	1,799
Finance expenses	13	(865)	(311)
Profit (Loss) before tax		(6,047)	362
Income tax benefits/(tax expenses)	14	314	(895)
Loss for the year from continuing operations		**(5,733)**	**(533)**
Profit for the year from discontinued operations	15	319	692
Profit (loss) for the year		**(5,414)**	**159**
Attributable to:			
Owners of the Company		**(4,513)**	**713**
Non-controlling interests		**(901)**	**(554)**
Profit (loss) for the year		**(5,414)**	**159**
Earnings/(loss) per share (in cents) basic and diluted	17		
From continuing and discontinued operations		**(1.12)**	**0.18**
From continuing operations		**(1.20)**	**0.01**
From discontinued operations		**0.08**	**0.17**

(*) Represented in accordance with IFRS 5, see note 15- Discontinued operations.

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

Consolidated Statements Of Comprehensive Income (Loss)

	Year ended 31 December	
	2013	2012
	US$ in thousands	
Profit (loss) for the year	(5,414)	159
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	1,717	(444)
Total Comprehensive loss for the Year	**(3,697)**	**(285)**
Attributable to:		
Owners of the Company	(2,331)	535
Non-controlling interests	(1,366)	(820)
	(3,697)	**(285)**

Consolidated Statements Of Financial Position

	Note	31 December	
		2013	2012
		US$ in thousands	
Current assets			
Cash and cash equivalents		13,812	42,686
Trade and other receivables	19	33,552	29,373
Financial assets	18	27,012	3,563
Inventories	20	23,118	19,509
		97,494	95,131
Non-current assets			
Property, plant and equipment	21	20,860	21,177
Investment property	22	3,802	3,830
Goodwill	23	12,096	11,494
Other intangible assets	24	6,089	11,324
Available for sale Investments carried at fair value	31	3,585	-
Investment accounted for using the equity method		598	-
Deferred tax assets	26	5,483	5,095
		52,513	52,920
Disposal group classified as held for sale	15	-	4,618
Total assets		**150,007**	**152,669**
Current liabilities			
Short-term bank credit		2,658	4,047
Trade and other payables	27	29,761	27,048
Provisions	28	2,826	2,590
		35,245	33,685
Non-current liabilities			
Long-term liabilities	27	5,690	5,326
Deferred tax liabilities	26	1,339	1,488
Retirement benefit obligation	36	1,028	956
		8,057	7,770
Liabilities directly associated with disposal group classified as held for sale	15	-	973
Total liabilities		**43,302**	**42,428**
Equity			
Share capital	29	1,216	1,215
Share premium account		407,300	407,140
Reserves		(11,813)	(13,995)
Accumulated Deficit		(289,888)	(285,375)
Equity attributable to:			
Owners of the Company		106,815	108,985
Non-controlling interests		(110)	1,256
Total equity		**106,705**	**110,241**
Total equity and liabilities		**150,007**	**152,669**

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 2014.
They were signed on its behalf by:

Dr. Z. Marom	O. Bar-Ner
CEO	CFO

Consolidated Statements Of Change In Equity

	Share capital	Share Premium account	Translation reserve	Other reserves	Accumulated Deficit	Attributable to owners of the parent	Non-controlling interest	Total equity
				US $ in thousands				
Balance as at 1 January 2012	1,215	406,892	(13,482)	409	(286,088)	108,946	1,332	110,278
Exercise of share based options by employees	-	12	-	-	-	12	-	12
Recognition of share-based payments	-	236	-	-	-	236	-	236
Purchase of non- controlling interest	-	-	-	(744)	-	(744)	744	-
Income for the year	-	-	-	-	713	713	(554)	159
Other comprehensive loss for the year	-	-	(178)	-	-	(178)	(266)	(444)
Total comprehensive loss for the year	**-**	**-**	**(178)**	**-**	**713**	**535**	**(820)**	**(285)**
Balance as at 31 December 2012	1,215	407,140	(13,660)	(335)	(285,375)	108,985	1,256	110,241
Exercise of share based options by employees	1	36	-	-	-	37	-	37
Recognition of share-based payments	-	124	-	-	-	124	-	124
Loss for the year	-	-	-	-	(4,513)	(4,513)	(901)	(5,414)
Other comprehensive loss for the year	-	-	2,182	-	-	(2,182)	(465)	1,717
Total comprehensive loss for the year	**-**	**-**	**2,182**	**-**	**(4,513)**	**(2,331)**	**(1,366)**	**(3,697)**
Balance as at 31 December 2013	**1,216**	**407,300**	**(11,478)**	**(335)**	**(289,888)**	**106,815**	**(110)**	**106,705**

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

	Note	Year ended 31 December	
		2013	2012
		US$ in thousands	
Net cash from operating activities	32	**634**	**3,206**
Investing activities			
Interest received		89	324
Proceeds on disposal of property, plant and equipment		111	134
Proceeds on disposal of financial assets carried at fair value through profit and loss		442	9,769
Proceeds on disposal of deposits		6,142	38,128
Purchases of property, plant and equipment		(1,680)	(1,375)
Purchases of financial assets carried at fair value through profit and loss		(6,341)	(6,775)
Purchases of deposits		(23,582)	(20,384)
Investment in available for sale investments carried at fair value		(3,548)	-
Investment accounted for using the equity method		(598)	-
Net Cash outflow on acquisition of business combinations		(38)	(605)
Net cash from (used in) investing activities		(29,003)	19,216
Financing activities			
Increase (decrease) in short-term bank credit		62	(179)
Bank loan repayment		(2,190)	(2,554)
Bank loan received		1,323	-
Proceeds on issue of shares		37	12
Net cash used in financing activities		(768)	(2,721)
Increase (decrease) in cash and cash equivalents		(29,137)	19,701
Cash and cash equivalents at the beginning of the year		42,686	23,012
Effects of exchange rate changes on the balance of cash held in foreign currencies		263	(27)
Cash and cash equivalents at the end of the year		**13,812**	**42,686**

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

Note 1 - General Information

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

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

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

2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.
The impact of the application of these standards is set out below.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries and unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 Employee Benefits (as revised in 2011)

In the current year, the Group has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. There is no material effect on the profit after income tax for the year ended 31 December 2013.

This effect reflects a number of adjustments, including their income tax effects: a) full recognition of actuarial gains through other comprehensive income and change in the net pension deficit; b) immediate recognition of past service costs in profit or loss and change in the net pension deficit and c) reversal of the difference between the gain arising from the expected rate of return on pension plan assets and the discount rate through other comprehensive income.

The impact of the application of the standards set out above has no material effect on the financial statements.

Standards, interpretations and amendments that have been published and are not yet mandatory effective, but have been early adopted by the Group, which have an effect on the financial statements.

- The amendment to IAS 36 " Impairment of Assets " (regarding disclosures of the recoverable amount)

The amendment clarifies the scope and extent of the disclosures required for the assets (including goodwill) or cash-generating units to which an impairment was recognized or cancelled, and states that the disclosures required for assets or cash-generating units that their recoverable amount has been determined on the basis of their fair value will be substantially

2.2 New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments3
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures2
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities1
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities1

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 (2010), Financial Instruments

IIFRS 9 (2010) replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with IFRS 9 (2010), there are two principal categories for measuring financial assets:

amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, IFRS 9 (2010) allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. IFRS 9 (2010) generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.

The mandatory effective date of IFRS 9 has been set for annual periods beginning on 1 January 2018. Early application is permitted subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the standard. IFRS 9 is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in IFRS 9.

The Group is examining the effects of IFRS 9 on the financial statements with no plans for early adoption.

IFRS 9 (2013), Financial Instruments, amendments to IFRS 9 (2010), IFRS 7 and IAS 39

IFRS 9 (2013) amends IFRS 9 (2010), IFRS 7 and IAS 39 on general hedge accounting. Under the standard additional hedging strategies that are used for risk management will qualify for hedge accounting (such as risk components of non-financial items or groups of items that constitute net positions). The standard replaces the present 80%-125% test for determining hedge effectiveness, with the requirement that there be an economic relationship between the hedged item and the hedging instrument, with no quantitative threshold. In addition, IFRS 9 (2013) introduces new models that are alternatives to hedge accounting as regards exposures and certain contracts outside the scope of the standard. The standard sets new principles for accounting for hedging instruments, for example allowing cash instruments to be hedging instruments in more cases and adding the possibility to defer or amortize the "cost of hedging" (such as the time value of purchased options). In addition, the standard provides new disclosure requirements.

The mandatory effective date of IFRS 9 has been set for annual periods beginning on 1 January 2018. Early application is permitted, subject to the conditions specified in the standard.

The Group has not yet commenced examining the effects of adopting the standard on the financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offsetting.

Note 3 - Significant Accounting Policies

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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 businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

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

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see note 3.16.2); and

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

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

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

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

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

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

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

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time 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 Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

- Servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and
- Revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.
- Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts (see below).

Dividend and interest income

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

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

Long-Term contracts

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

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

Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (operations in foreign currencies) are translated at exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). within the Group's translation reserve. Such translation reserves are reclassified from equity to profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Government grants

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

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

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

Retirement benefit costs and termination benefits

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Share-based payment arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 35.

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Investment Property

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

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

Property, plant and equipment

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

Properties in the course of construction for production, administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

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

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

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

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

Research and development expenditure

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 development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

Acquired intangible assets

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

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventory

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

Financial instruments

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

Trade and other receivables

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

Cash and cash equivalents

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

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), '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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and measured at fair value at the end of each reporting period. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

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

The Group holds no financial liabilities for trading.

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

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

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

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 38.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Bank borrowings

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

Trade and other payables

Trade and other payables and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

Provisions

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

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

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

Critical judgements in applying the Group's accounting policies

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

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

Key sources of estimation uncertainty

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

Impairment of Intangible Assets and goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets and goodwill at the consolidated statement of financial position date was $ 18.2 million (2012: $ 22.8 million), see note 23.

Judgments with respect to the calculation of tax provision

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

Judgments with respect to actuarial assumptions

The assessment of actuarial assets and liabilities requires management to exercise judgement with regards to a number of underlying assumptions including the rate of future pay rises, the rate of leavers and other actuarial assumptions in regards to mortality rates. See note 36.

Judgments with respect to a liability to the chief scientist

The assessment of the liabilities to the chief scientist requires management to exercise judgement in regards to future royalty-bearing revenues and a suitable discount rate in order to calculate fair value. The total liability at the year-end is $4.3 million.(2012: $4.6 million)

Judgments with respect to deferred tax assets

The company has in 2013 $4.3 million (2012: $4.3 million) deferred tax assets related to tax loss carry-forwards in the US, based on management assumptions on future profits.

Note 5 - Revenues

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

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Sales of goods (*)	98,335	98,335
Services (*)	15,820	15,305
	114,155	**113,640**

(*) For more details see note 6

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Note 6 - Business and Geographical Segments

Business segments

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

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

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

A. Segment revenues and segment results

Year ended 31 December 2013

	Telecommunications $'000s	BATM Medical $'000s	Unallocated $'000s	Total $'000s
Revenues	60,558	53,053	544	114,155
Adjusted Operating profit (loss)(*)	2,042	(2,253)	307	96
Reconciliation-Other operating expenses				(5,534)
Operating loss from continuing operation				(5,438)
Net Finance cost				(609)
Loss before tax from continuing operation				(6,047)
Taxation				314
Profit from discontinued operations				319

Year ended 31 December 2012

	Telecommunications $'000s	BATM Medical $'000s	Unallocated $'000s	Total $'000s
Revenues	64,214	49,069	357	113,640
Adjusted Operating profit (loss)(*)	5,478	(3,195)	194	2,477
Reconciliation-Other operating expenses				(3,603)
Operating loss from continuing operation				(1,126)
Net Finance Income				1,488
Profit before tax from continuing operation				362
Taxation				(895)
Profit from discontinued operations				692

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

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

B. Segment assets, liabilities and other information

As at 31 December 2013

	Telecommunications $'000s	BATM Medical $'000s	Unallocated $'000s	Total $'000s
Assets	97,414	48,791	3,802	150,007
Liabilities	25,648	17,654		43,302
Depreciation and amortization	2,948	2,015	108	5,071
Additions to non-current assets	589	1,269		1,858

In addition to the depreciation and amortisation reported above, impairment losses of $2.5 million (2012: nil) were recognised in respect of other intangible assets. These impairment losses were attributable to the Telecommunications segments.

As at 31 December 2012

	Telecommunications $'000s	BATM Medical $'000s	Unallocated $'000s	Total $'000s
Assets	104,952	43,887	3,830	152,669
Liabilities	26,993	15,435		42,428
Depreciation and amortization	3,192	2,122	108	5,422
Additions non-current assets	643	1,489		2,132

C. Revenue from major products and services

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

	Year ended 31 December	
	2013 $'000	2012 $'000
Telecommunication Products	49,997	54,683
Software services	11,054	9,884
Distribution of medical products	31,291	31,185
Clinical Chemistry diagnostic products	12,926	10,220
Sterilization products	8,887	7,668
	114,155	**113,640**

D. Geographical information

The Group operates in three principal geographical areas – United States of America (USA), 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	
	2013 $'000s	2012 $'000s	2013 $'000s	2012 $'000s	2013 $'000s	2012 $'000s
USA	32,396	31,510	28,587	28,968	10	30
Israel	29,903	33,698	76,044	82,406	623	705
Moldova	25,004	25,085	13,375	11,675	805	807
Italy	12,875	10,155	14,557	12,369	328	476
Rest of Europe (*)	13,977	13,126	17,272	17,083	92	114
China	-	66	172	168	-	-
Total	114,155	113,640	150,007	152,669	1,858	2,132

(*) Including the countries: Romania and other.

Note 7 - Cost of revenues

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Direct costs- Components and subcontractors	61,280	57,575
Changes in Inventory	(3,609)	153
Salaries and related benefits	12,251	10,888
Overhead and depreciation	2,676	2,600
Other expenses	1,966	3,423
	74,564	**74,639**

Note 8 - Sales and marketing expenses

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Salaries and related benefits	7,094	7,551
Commissions	2,004	1,815
Outsourcing services	1,742	1,552
Advertising and sales promotion	1,052	1,351
Overhead and depreciation	1,905	1,662
Travelling and other expenses	2,949	2,247
	16,746	**16,178**

Note 9 - General and administrative expenses

	Year ended 31 December	
	2013 $'000s	2011 $'000s
Salaries and related benefits	5,951	5,826
Professional services(*)	1,033	1,208
Overhead and depreciation	1,621	1,127
Other expenses	2,314	2,140
	10,919	**10,301**
(*) Including		
Auditors' remuneration for audit services	245	236

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2013 were $22,000 (2012: $21,000).In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2013, were $53,000 and $10,000, respectively (2012: $55,000 and $11,000, respectively).

Note 10 – Research and development expenses

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Salaries and related benefits	7,413	6,148
Components and subcontractors	3,183	3,033
Overhead and depreciation	1,012	1,024
Other expenses	779	635
Government grants	(557)	(795)
	11,830	**10,045**

Note 11 - Staff costs

The average monthly number of employees in 2013 (including executive directors) was 772 (2012: 735).

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	26,982	23,643
Social security costs	4,668	4,500
Other pension costs	1,059	1,352
	32,709	**29,495**
Executive Directors' emoluments	**567**	**650**

Note 12 - Finance income

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Interest on bonds	21	100
Interest on bank deposits	103	276
Profit on derivative financial instruments	74	662
Capital gain on loan forgiveness	-	761
Other	58	-
	256	**1,799**

Note 13 – Finance expenses

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Foreign exchange differences	(494)	(10)
Interest on loans	(371)	(301)
	(865)	**(311)**

Note 14 - Income tax benefit (expense)

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Current tax	(289)	(515)
Deferred tax (Note 26)	603	(380)
	314	**(895)**

Taxation under various laws:

Israel

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

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

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

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

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.

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

The company decided to implement the new amendment since 2011.

In August 2013 "The Arrangements Law " (hereinafter - the "Law") was published , which legislated tax changes as follows:

1 . Raising the corporate tax rate from tax year 2014 to a rate of 26.5 % (up1.5%),

2. Fixing the Encouragement of Capital Investments, the tax rate applicable to the Company in Development Area A from January 1, 2014 is 9% (instead of 7 % and 6 % in 2014-2015 and thereafter, respectively). As a result, there was an increase in the deferred tax assets of the Company as of December 31, 2013 in the amount of $ 270 thousand credited against tax expenses.

The company has tax loss carry-forwards of $82.4 million in Israeli subsidiaries of which $77.1 million the company didn't create deferred tax assets in respect of such losses. According to the Israeli law there is no expiry date to use such losses.

On December 6, 2011, following the tax reform recommendations of the Trachtenberg Committee, the Knesset passed several changes to the Income Tax Ordinance regarding the reduction of tax burden (Legislative Amendments).

The Company has received final tax assessments for the years up to and including the 2006 tax year. The subsidiaries have not been assessed for tax since their incorporation.

On November 12, 2012, the Law for the Encouragement of Capital Investments (Amendment no. 69 and Temporary Order), 5773 – 2012, was promulgated ("the Amendment"). The Amendment prescribes a temporary order for a one-year period as of the promulgation date of the law, which allows for a reduced tax payment in respect of exempt income accumulated up until December 31, 2011 and not yet distributed as a dividend, which is defined as "trapped profits" (accumulated income).

Pursuant to the Amendment, the reduced corporate tax rate shall be determined according to that portion of the income that a company wishes to unfreeze, relative to the company's total exempt income (select accumulated income). To the extent that the Company shall wish to unfreeze a larger portion of its income, the tax benefit to which it shall be entitled shall increase. The minimum rate of the benefit to which the Company shall be entitled is 30% (so that the Company shall pay corporate tax at the rate of 70% of the corporate tax rate it would have been required to pay were it not for the temporary order), while the maximum rate shall be 60% (so that the Company shall pay corporate tax at the rate of 40% of the corporate tax rate it would have been required to pay were it not for the temporary order). However, in any event, the reduced tax rate shall not be less than 6%.

A company that opts to pay reduced corporate tax shall be obligated to invest in an industrial enterprise during a five-year period commencing as of the "elected" tax year, the volume of which is determined according to the formula prescribed in the Amendment (designated investment), in one or more of the following investment categories: manufacturing assets, research and development expenses in Israel or payment of wages to new employees hired at a plant.

Correct to the end of the reporting period, the Company opted to not unfreeze "trapped profits" as stated, and therefore, did not pay the tax as stated, under the understanding that these profits will not be distributed in the foreseeable future.

During 2013, the Company received a letter from the Israel Tax Authority regarding the performance of an audit of tax assessments of the years 2007 – 2011. On December 29, 2013, tax assessments in respect of the years 2007 – 2011 were received at the Company's offices, which were issued to the Company according to initial administrative discretion by the Israel Tax Authority (hereinafter: "the ITA"), totaling approximately NIS 60 million (including interest and linkage differentials).

The Company disagree with the ITA's demands, the Company is of the opinion that it has have good arguments against the ITA's demands as stated. Accordingly, the Company filed objections to these assessments for the years 2007 – 2011, which will be examined during the discussions with the ITA and at the times prescribed by law.

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before having been utilized. Accordingly the future use of these benefits is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. Deferred tax assets of $4.3 million have been recognised in respect of such losses. The total amount remaining to amortise for tax purposes is $30.8 Million and the amount of brought forward losses is $288.9 Million. According to US law, losses can be carried forward for 20 years. Accordingly, the first portion of the tax losses in the US subsidiary will expire in 2021.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The company has tax loss carry-forwards of $20.5 million in Europe subsidiaries for which the company didn't create deferred tax assets.

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

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Profit (loss) before tax:	**(6,047)**	**362**
Tax expense (income) at the Israeli corporation tax rate of 25% (2012: 25%)	(1,512)	91
Tax exempt income	261	(616)
Expenses with unrecognized deferred tax on income or losses	1,474	1,791
Utilization of tax loss carry forward	(1,056)	(1,146)
Different tax rates in foreign regimes and other differences	519	775
Tax expense (benefit) for the year	**(314)**	**895**

Note 15 - Discontinued operations

(a) Disposal of Legacy operations

During June 2012, the Group entered into an agreement to dispose of its time division multiplexing (TDM) based products ("Legacy") business (excluding one product line that was reintegrated into the Group's portfolio – and that was previously a part of the disposal group that was classified as held for sale), which formed part of the Group's Telecom business. This disposal, which was completed during the six month period ended 30 June 2013, is consistent with the Group's long-term policy to focus on growing the Carrier Ethernet portfolio.

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

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

Profit for the year from discontinued operations:

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Revenues	1,889	4,157
Expenses	1,570	3,465
Profit before tax	319	692
Tax expenses	-	-
Profit for the year	**319**	**692**

Cash flows from discontinued operations:

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Net cash inflows from operating activities	1,075	2,005
Net cash inflows from investing activities	-	-
Net cash outflows from financing activities	-	-
Net cash inflows	**1,075**	**2,005**

Earnings per share (In cents) from discontinued operations:

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Basic and Diluted	0.08	0.17

Note 16 - Dividends

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

Note 17 - Earnings (loss) per share

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

	Year ended 31 December	
	2013	2012
Earnings (loss) for the purposes of basic and diluted earnings per share ($'000s) attributable to Owners of the Company	(4,513)	713
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	403,039,724	402,920,465
Effect of dilutive potential ordinary shares:		
Share options	-	55,359
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**403,039,724**	**402,975,824**
Weighted average number of non-dilutive potential ordinary shares	**86,945**	**75,083**

Note 18 – Financial assets

	31 December	
	2013	2012
Interest-bearing deposits(*)	20,709	3,244
Held for trading bonds	6,303	319
	27,012	**3,563**

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

Note 19 - Trade and other receivables

	31 December	
	2013	2012
Trade receivable account	26,847	24,169
Participation in research and development: Government of Israel	763	287
VAT	283	317
Tax authorities	779	225
Prepaid expenses	2,981	2,802
Other debtors	1,899	1,573
	33,552	**29,373**

The average credit period taken on sales of goods is 55 days (2012: 54 days). No interest is charged on the receivables. An allowance has been made at 31 December 2013 for estimated irrecoverable amounts from the sale of goods of $1,927,000 (2012: $1,676,000). 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 Consolidated statements of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Note 20 - Inventories

	31 December	
	2013	2012
Raw materials	7,233	8,391
Work-in-progress	1,887	1,135
Finished goods	13,998	9,983
	23,118	**19,509**

During the financial year 2013, $ 306 thousand of Inventory was impaired due to slow moving inventory, and expensed to the Profit and Loss account (2012: $ 267 thousand).

Note 21 – Property, plant and equipment

	Land and buildings $'000s	Plant and equipment $'000s	Motor Vehicles $'000s	Furniture and fittings $'000s	Leasehold Improvements $'000s	Total $'000s
Cost						
At 01 January 2012	25,874	10,359	2,986	3,313	893	43,425
Additions	188	922	98	411	99	1,718
Disposals	-	(93)	(251)	(160)	(155)	(659)
Allocated to investment property (*)	(6,068)	-	-	-	-	(6,068)
Effect of translation adjustment	51	(6)	6	6	2	59
At 31 December 2012	20,045	11,182	2,839	3,570	839	38,475
Additions	496	666	172	308	24	1,666
Disposals	-	(83)	(526)	(31)	-	(640)
Effect of translation adjustment	91	51	13	16	4	175
At 31 December 2013	20,632	11,816	2,498	3,863	867	39,676
Accumulated depreciation						
At 01 January 2012	4,589	8,695	1,482	2,693	813	18,272
Depreciation expense	620	407	507	326	68	1,928
Disposals	-	(87)	(149)	(156)	(155)	(547)
Allocated to investment property (*)	(2,238)	-	-	-	-	(2,238)
Effect of translation adjustment	(27)	(63)	(8)	(15)	(4)	(117)
At 31 December 2012	2,944	8,952	1,832	2,848	722	17,298
Depreciation expense	671	573	436	277	74	2,031
Disposals	-	(47)	(410)	(2)	-	(459)
Effect of translation adjustment	(8)	(31)	(5)	(8)	(2)	(54)
At 31 December 2013	3,607	9,447	1,853	3,115	794	18,816
Carrying amount						
At 31 December 2013	**17,025**	**2,369**	**645**	**748**	**73**	**20,860**
At 31 December 2012	**17,101**	**2,230**	**1,007**	**722**	**117**	**21,177**

(*) Additional information
The company has been leasing the land on which the building in Yokneam has been built from the Israel Lands Authority under a capitalized lease for a period of 49 years ending on July 2044.

Note 22 – Investment Property

	31 December	
	2013 $'000s	2012 $'000s
At 1 January	3,830	-
Allocated from fixed assets- Gross	-	6,068
Allocated from fixed assets- Accumulated Depreciation	-	(2,238)
Depreciation expense	(108)	-
Exchange rate differences	80	-
At 31 December	**3,802**	**3,830**

The useful lives used; between 10-50 years.

Amounts recognized in the consolidated income statements

	31 December	
	2013 $'000s	2012 $'000s
Rental income from Investment property	544	357
Operating expenses related to Income from Investment property	(207)	(133)
Operating expenses related to Investment property which produced no income	(30)	(30)

Additional Information:

Fair value disclosures for investment properties measured using the cost model:

Details of the Group's land and buildings and information about the fair value hierarchy as at 31 December 2013 are as follows:

	31 December 2013	
	At Amortised Cost $'000s	Fair Value Level 3 $'000s
A Yokneam, Israel	1,742	2,626
B Kfar-Netter, Israel	940	1,131
C Rome, Italy	1,120	1,204

The fair value of completed investment property, is determined using a discounted cash flow (DCF).

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property.

The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property.

In the case of investment properties, periodic cash flow is typically estimated as gross income, nonrecoverable expenses, collection losses, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Note 23 - Goodwill

The Group tests annually goodwill for impairment, or more frequently if there are indications that goodwill might be impaired. The Group has two reportable business segments and goodwill is associated with CGUs within the BATM Medical segment or CGUs within the Telecoms segment. The CGU of BATM Medical at the amount of $ 5,167 thousands (2012: $ 4,959 thousands) has been divided to 3 CGUs: Sterilization, Diagnostic and Distribution. The CGUs within the Telecoms segment remain unchanged.

The Goodwill is allocated to the following CGUs:

Sterilization: $2,550 thousands (2012: $2,550 thousands)

Diagnostic: $1,427 thousands (2012: $1,260 thousands)

Distribution: $1,190 thousands (2012: $1,149 thousands)

Telecommunications: $1,984 thousands (2011: $1,990 thousands)

Software services: $4,945 thousands (2012: $4,546 thousands)

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Pre-tax discount rates of between 12% - 22% have been used which is consistent with the rate used for determining the value of purchased intangibles. Changes in selling prices and direct costs are based on recent history and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates indefinite cash flows based on estimated growth rates. For the purposes of this calculation management have used a revenue growth rates of 3% for years 2-5 and then 0% thereafter, for the Telco CGU and 9% for years 2-5, and then 0% thereafter, for the Telecommunication CGU and 10% for years 2-5 respectively, and then 1% thereafter for the Sterilization and 14%, 25%, 35% and 10% for years 2-5 respectively, and then 1% thereafter for the Diagnostic and 5%, 3%, 3% and 4% for years 2-5 respectively, and then 3% thereafter for the Distribution.

Fixed expenses have been assumed to grow at 2.5% for years 2-5 and then have been assumed to remain constant thereafter in the Telecoms CGU and 1%, 1%, 5% and 2% for years 2-5, and then have been assumed to remain constant thereafter for BATM Medical. Variable expenses (directly linked to sales) have been assumed to decrease as a constant percentage of sales throughout the forecast period in the BATM Medical CGU decreasing by 3%, 1%, 1%, 2% and 1% in years 1-5 respectively and have assumed to remain constant thereafter, and to decrease as a constant percentage of sales throughout the forecast period in the Telecoms Outsourcing CGU decreasing by 6%, 5%, 1%, 2% and 2% in years 1-5 respectively and have assumed to remain constant thereafter . The rates used above reflect historical rates achieved and expected levels for 2014 but then are prudently adjusted for subsequent years.

Sensitivity of the recoverable amount to changes in the key assumptions

The recoverable amount of the Telecom outsourcing activity is equal to the carrying amount. Reduction of 5% growth rate taken into account in calculating the value in use of the activity will result in a decrease of $2.3 million recoverable amount of the activity. Decrease in growth rate as stated will lead to changes in other assumptions taken for the calculation of value in use .Increase of 2% in pre-tax discount rate taken into account in calculating the value in use of the activity will result in a decrease of $1.2 million recoverable amount of the activity.

	2013 $'000s	2012 $'000s
Balance at 01 January	11,494	11,616
Additions in the year	(1)166	(1)377
Reclassification (allocated to other intangible)(2)	-	(469)
Foreign Exchange difference	436	(30)
Balance at 31 December	12,096	11,494

(1) PPA with respect to the additions had not been completed.

(2) Due to PPA completion allocated to other intangible assets.

Note 24 - Other Intangible Assets

	Customer Relationships and Backlog	Technology	Other (*)	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At 1 January 2012	19,002	10,373	2,395	31,770
Additions	89	-	417	506
Reclassified as held for sale	(2,541)	-	(1,029)	(3,570)
Effect of translation adjustments	(173)	220	63	110
At 31 December 2012	16,377	10,593	1,846	28,816
Additions	119	-	11	130
Effect of translation adjustments	139	288	84	511
At 31 December 2013	**16,635**	**10,881**	**1,941**	**29,457**
Accumulated amortization				
At 1 January 2012	10,672	4,332	2,227	17,231
Effect of translation adjustments	317	280	(260)	337
Reclassified as held for sale	(2,541)	-	(1,029)	(3,570)
Amortization expense	1,835	1,301	358	3,494
At 31 December 2012	10,283	5,913	1,296	17,492
Effect of translation adjustments	425	7	(90)	342
Impairment(**)	827	1,667	-	2,494
Amortization expense	1,761	1,098	181	3,040
At 31 December 2013	**13,296**	**8,685**	**1,387**	**23,368**
Carrying amount				
At 31 December 2013	**3,339**	**2,196**	**554**	**6,089**
At 31 December 2012	**6,094**	**4,680**	**550**	**11,324**

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

(**) Attributed to the Telecommunications.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives, which range from 1 to 11 years.

Amortization by categories;

Customer Relationships and Backlog: mainly 7 to 10 years.
Technology: mainly 10 to 11 years.
Other: 3 to 10 years.

Note 25 - Subsidiaries

A list of the significant direct and indirect investments in subsidiaries, including the name, country of incorporation, and percent of ownership interest as at 31 December 2013 is presented below.

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

(a) During January 2011 BATM increased its holding in AMS 2000 from 75% to 100%.

(b) During January 2011 BATM increased its holding in Becor from 38.2% to 51%.

(c) Incorporated by the Company.

(d) During March 2012 BATM increased its holding in ISE from 59.8% to 100% due to loan repaid by the Company.

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Note 26 - Deferred tax

Deferred tax assets

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

	Deferred development costs $'000s	Depreciation differences $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Other $'000s	Total $'000s
At 1 January 2012	615	135	205	4,281	289	5,525
Credit (charge) to income	(233)	(138)	(21)	-	(46)	(438)
Effect of translation adjustments	-	3	5	-	-	8
At 31 December 2012	382	-	189	4,281	243	5,095
Credit (charge) to income	(4)	-	7	353	19	375
Effect of translation adjustments	-	-	13	-	-	13
At 31 December 2013	**378**	**-**	**209**	**4,634**	**262**	**5,483**

Deferred tax liabilities

	Intangible Assets $'000s	Depreciation differences $'000s	Total $'000s
At 1 January 2012	1,538	-	1,538
Credit to income	(291)	233	(58)
Effect of translation adjustments	7	1	8
At 31 December 2012	1,254	234	1,488
Credit to income	(291)	63	(228)
Effect of translation adjustments	70	9	79
At 31 December 2013	**1,033**	**306**	**1.339**

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

Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognized are attributable to: 31 December 2013 $3,216 thousands (31 December 2012 $3,834 thousands).

Note 27 - Financial liabilities and other

Trade and other payables

	31 December	
	2013 $'000s	2012 $'000s
Trade creditors	14,521	13,253
Salary accruals	6,565	5,359
VAT and other tax	151	558
Liability to the office of the chief scientist	1,759	2,192
Other creditors and accruals	6,765	5,686
	29,761	**27,048**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 38 days (2012: 37 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

Long-term liabilities

	31 December	
	2013	2012
	$'000s	$'000s
Bank Loans (1) (2) (3)	1,858	1,216
Forgivable debt to the office of the chief scientist (4)	3,672	3,693
Government institutions	160	417
	5,690	**5,326**

(1) In 2009 the Company received $ 4.5 million loan drawn for the purchase of the building in Hod Hasharon, Israel, secured by a mortgage on the said asset. The loan is for 4 years and the repayment on a monthly basis, bears annual interest of libor + 1.5% with a maturity date of November 2013. The Company repaid the loan at the end of 2013.

(2) During March 2012, following discussion with one of the banks of our subsidiary-ISE in Italy the Company transferred 1 million Euro to the bank as a mortgage return and reduced the mortgage to 0.9 million Euro. The Company recorded in 2012 a financial gain of 0.6 million Euro from this transaction which resulted from the forgiveness by the Bank of interest and penalties that had accrued for this loan up to the date of repayment.

(3) During the year one of our subsidiary Becor received a credit limit from the Bank up to 1,350, thousands Euro. The company actually received during December 457 thousands Euro which will be repaid in 6 equal payments starting with January 2015.

(4) This liability (hybrid instrument containing embedded derivative) is designated at FVTPL according to relevant accounting policy. (see also note 38(k)).

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Note 28 - Provisions

	Warranty provision	Onerous Lease provision(1)	Tax and Other provision(2)	Total
	$'000s	$'000s	$'000s	$'000s
At 1 January 2013	243	50	2,297	2,590
ANDA	103	-	-	103
Additional provision	69	-	134	203
Utilisation of provision	(32)	-	-	(32)
Payment during the year	-	(38)	-	(38)
At 31 December 2013	383	12	2,431	2,826
Included in current liabilities				**2,826**
Included in non-current liabilities				**-**
				2,826

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

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

Note 29 - Share capital

Ordinary shares of NIS 0.01 each (number of shares)

	2013	2012
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**403,140,820**	**402,965,820**

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

During the year, 175,000 options of two employees were exercised into shares.

Note 30 - Business Combinations

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

During 2013 a subsidiary of the Company- N G Soft acquired the major assets and intellectual property of Weblogic, for a consideration of $155 thousands. Weblogic is engaged in the designing and development of WEB products.

Note 31 – Investments

Available for sale Investments carried at fair value

During the year the Company made an investment of $3.5m into the consortium for the construction of a new nationwide fiber optic infrastructure network in Israel (IBC). This represent 7.5% from IBC. The rollout of the network, including the connection of the first clients, is expected to start at the end of the second half of 2014.

Note 32 - Note to the cash flow statements

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Operating loss from continuing and discontinued operations	(5,119)	(434)
Adjustments for:		
Amortization of intangible assets	3,040	3,494
Impairment of intangible assets	2,494	-
Depreciation of property, plant and equipment	2,031	1,928
Stock options granted to employees	124	236
Increase (decrease) in retirement benefit obligation	72	(45)
Decrease in provisions	(75)	(392)
Increase in inventory	(2,341)	(32)
Increase in receivables	(844)	(1,475)
Increase in payables	2,920	291
Income taxes paid	(1,419)	(365)
Income taxes received	148	323
Interest paid	(397)	(323)
Net cash from operating activities	**634**	**3,206**

Note 33 - Contingent liabilities

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

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

Note 34 - Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Minimum lease payments under operating leases		
Recognised in income for the year	**1,378**	**1,472**

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

	31 December	
	2013 $'000s	2012 $'000s
Within one year	325	328
In the second to fifth years inclusive	387	507
	712	**835**

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

The Group as lessor

Property rental income earned during 2013 was $544,000 (2012: $357,000). The properties under lease agreements to third parties by the Group have committed tenants for most of the property for the next year.

At the Consolidated statements of financial position date, the Group had contracted with tenants for the following future minimum lease payments:

	31 December	
	2013 $'000s	2012 $'000s
Within one year	456	398
In the second to fifth years inclusive	331	292
	787	**690**

Note 35 - Share-based payments

Equity-settled share option scheme

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

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

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

	2013		2012	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		(in GBP)		(in GBP)
Outstanding at beginning of year	7,266,789	0.2940	8,973,545	0.2971
Granted during the year	300,000	0.1937	1,780,000	0.2359
Forfeited during the year	(3,450,500)	0.2892	(3,436,756)	0.2742
Exercise during the year	(175,000)	0.1296	(50,000)	0.145
Outstanding at the end of the year	**3,941,289**	**0.2978**	**7,266,789**	**0.2940**
Exercisable at the end of the year	**3,357,877**	**0.3108**	**4,412,555**	**0.3336**

The weighted average share price at the date of exercise for share options exercised during 2013 was 0.1296 Great British Pounds ("GBP"). The options outstanding at 31 December 2013 had a weighted average exercise price of 0.2978 GBP, and a weighted average remaining contractual life of 5.46 years. In 2013, options were granted on May 12 and December 26. The aggregate of the estimated fair values of the options granted on those dates is $94,000. In 2012, options were granted on February 14, July 2 and December 19. The aggregate of the estimated fair values of the options granted on those dates is $410,000.

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

	2013 $'000s	2012 $'000s
Weighted average share price (GBP)	0.18	0.17
Weighted average exercise price (GBP)	0.13	0.15
Expected volatility	34-61	36-61
Expected life	7	7
Risk-free rate	1.3%-2.2%	1.3%-2.2%
Expected dividends	2.5%	2.5%

The inputs into the Black-Scholes model for the options granted in 2013 are as follows:

	2013 $'000s
Weighted average share price (GBP)	0.20
Weighted average exercise price (GBP)	0.19
Expected volatility	34-44
Expected life	7
Risk-free rate	1.3%
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 $124,000 and $236,000 related to equity-settled share-based payment transactions in 2013 and 2012, respectively.

Note 36 - Retirement benefit obligation

Defined contribution plans

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 plans

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

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

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 28 January 2014 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:

	2013	2012
Discount rate(s)	4.2%	4.2%
Expected rate(s) of salary increase	1-4%	1-4%
Expected inflation rate	2.5%	2.6%

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

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Current service cost	406	365
Interest on obligation	213	230
Return on plan assets (excluding amounts included in net interest expense)	(196)	(197)
Adjustments for restrictions on the defined benefit asset	50	60
Remeasurement on the net defined benefit liability from changes in financial assumptions	(65)	(111)
Total	**408**	**347**

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

	31 December	
	2013 $'000s	2012 $'000s
Present value of funded defined benefit obligation	5,984	5,137
Fair value of plan assets	(4,956)	(4,181)
Net liability	**1,028**	**956**

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

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Opening defined benefit obligation	5,137	5,618
Current service cost	406	365
Interest cost	213	230
Remeasurement (gains)/losses arising from changes in financial assumptions	42	(30)
Benefits paid	(386)	(959)
Exchange rate differences	572	(87)
Closing defined benefit obligation	**5,984**	**5,137**

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

	Year ended 31 December	
	2013 $'000s	2012 $'000s
Opening fair value of plan assets	4,181	4,617
Interest income	175	136
Remeasurement gains return on plan assets (excluding amounts included in net interest expense)	105	81
Contributions from the employer	350	371
Benefits paid	(386)	(892)
Exchange rate differences	531	(132)
Closing fair value of plan assets	**4,956**	**4,181**

Note 37 - Related party transactions

Remuneration of key management personnel

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

Table A – Emoluments of the Directors with comparatives

	Basic Salary $000	Social benefits $000	Pension benefits $000	Performance Bonus $000	2012 Total $000	2011 Total $000
Zvi Marom	285	24	7	-	316	431
Ofer Bar Ner	174	27	9	41	251	219
Peter Sheldon	58	-	-	-	58	50
Gideon Chitayat	51	-	-	-	51	45
Elka Nir	39	-	-	-	39	17
Amos Shani	12	-	-	-	12	20
Gideon Barak	11	-	-	-	11	-
Amiram Mel	-	-	-	-	-	8

The total liability for the Directors in the year-end 2013 was $20 thousand (2012: $139 thousands) related to December 2013 and 2012 wages paid in January 2014 and 2013 respectively and Bonus for 2013 paid in January 2013 and Bonus for 2012 paid in June 2013.

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 2013 and 2012 were as follows:

Ordinary shares	2013	2012
Zvi Marom	93,894,500	93,494,500
Ofer Bar Ner	212,000	150,000
Peter Sheldon	750,000	750,000
Gideon Chitayat	-	-
Amos Shani	-	-
Elka Nir	-	-

Table C – Share Options

No options were held by the Directors during the year.

At the AGM, held on 22 June 2010 the shareholders approved that a loan be granted to the CFO totalling $200,000, repayable without interest in four annual instalments. As of 31 December 2013 the loan balance is $0.

Table D – Remuneration of key management personnel

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

	2013 $'000s	2012 $'000s
Short-term employee benefits	535	587
Post-employment benefits	16	15
Other long-term benefits	16	15
Termination benefits	35	33
Share-based payment	-	-
	602	**650**

Note 38 – Financial Instruments

(a) Capital risk management

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company such as credit providers and employees of the Company, and sustain future development of the business. Management of the Company monitors return on capital, defined as the total amount of equity attributable to the shareholders of the Company and also the amount of dividends distributed to the ordinary shareholders.

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 management's recommendations, the Group will balance its overall capital structure through the payment of dividends. The Group's overall strategy remains unchanged.

(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

	2013 $'000s	2012 $'000s
Financial assets		
Cash and cash equivalents	13,812	42,686
Fair value through profit or loss	6,302	319
Deposits and receivables	53,200	32,075
Available for sale Investments carried at fair value	3,585	-
Financial liabilities		
At amortized cost	33,528	30,820
Fair value through profit or loss	4,330	4,625

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

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

(d) Financial risk management objectives

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

The Group seeks to minimise the effects of these risks by using derivatives only for economic hedging and does not apply hedge accounting. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide - principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

(e) Market risk

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

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

(f) Foreign currency risk management

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

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

	Liabilities		Assets	
	2013 $'000s	2012 $'000s	2013 $'000s	2012 $'000s
New Israeli Shekel	8,159	8,792	8,474	8,564
Euro	11,269	9,827	9,135	10,508
Other	4,020	3,628	11,741	11,040

Foreign currency sensitivity

The Group is mainly exposed to Euro, NIS and GBP.

The following table details the Group's sensitivity to a 5 percent change in US$ against the respective foreign currencies. The 5 percent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where US$ strengthens against the respective currency. If US$ were to weaken by the same percentage against the respective currency there would be a similar but reverse impact on the profit or loss and equity as presented in the tables below.

Profit or loss

	2013 $'000	2012 $'000
NIS Impact	(109)	(85)
Euro Impact	83	260
GBP Impact	119	109

Equity

	2013 $'000	2012 $'000
NIS Impact	140	101
Euro Impact	(203)	(239)
MDL Impact	197	209
Other currencies Impact	70	53

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

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

During the year the Company engaged in one financial instrument which resulted in $74 thousands recorded as finance income. (2012: four financial instruments resulted in $662 thousands recorded as finance income).

(g) Interest rate risk management

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

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

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

(h) Liquidity risk management

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

Finance liabilities

	Weighted average effective interest rate	0-3 months	3 months to 1 year	1-5 years	Total
	%	$'000s	$'000s	$'000s	$'000s
31 December 2013					
Non-interest bearing	-	28,857	843	6,560	36,260
Bank loans interest bearing (*)	4.27	2,608	50	1,858	4,516
		31,465	**893**	**8,418**	**40,776**
31 December 2012					
Non-interest bearing	-	25,435	1,194	6,257	32,886
Bank loans interest bearing (*)	3.83	1,434	2,613	1,216	5,263
		26,869	**3,807**	**7,473**	**38,149**

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

(i) Finance liabilities

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

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

The fair value of the financial instruments of the Group carried at amortised cost is not considered to be materially different from the stated amortised cost.

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

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

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

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

Fair value through profit or loss	2013 $'000	2012 $'000
Opening balance	4,625	4,820
Losses/(Gains) in profit or loss	287	44
Received	115	680
Paid	(758)	(919)
Closing balance	**4,269**	**4,625**

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

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

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

Note 39 - Non-cash transactions

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

Investment of the Group in Weblogic, amount of $155 thousands had not been paid in cash at the end of the reporting period.

Directors

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

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