BATM
Advanced Communications

ANNUAL REPORT 2008

CONTENTS

CHAIRMAN'S STATEMENT

I am delighted to report on a year which has delivered both record revenues and profits. BATM has succeeded in navigating difficult market conditions, continued to invest in R&D and strategic acquisitions, whilst delivering over $24 million in profits. Management has kept a tight control on management of capital, ending the year with $57 million of liquid investments.

On the basis of these excellent results, the Board is in a position to recommend the payment of a final dividend of 0.69 pence per share (2007: 0.50 pence (1¢), an increase of 38%).

FINANCIAL PERFORMANCE

Revenues grew 39% in 2008 and reached a Group all time high of $134.5 million (2007: $97.0 million). The increase in the Telecoms sector revenues, the Group's primary focus, is mostly due to stronger demand from major customers, as well as additional demand in new territories from new customers. In addition, our strategic expansion into the medical sector also significantly contributed to revenues (as detailed below), mainly concentrated in Europe.

The gross profit margin has decreased to 45.6% (2007: 46.9%) primarily due to a change in the sales mix. The Telecoms sector continued to provide strong returns, with a gross profit margin of 49%, a result of successfully implementing efficiency programs and the reduction of the impact of fixed costs, given increasing revenues.

Total sales and marketing expenses were $13.9 million (2007: $12.4 million), an increase of 13% on the previous year. Spending increased in this area to drive and support the growth of our business. As a percentage of revenue, sales and marketing expenses were 10% (2007: 13%). We have succeeded in reducing these costs by increasing revenues through indirect sales channels with existing customers which typically incur lower direct expense.

General and administrative expenses were $8.4 million (2007: $6.1 million) representing 6.2% of revenue, compared with 6.3% in 2007. This increase is primarily related to the new medical sector business. We plan to continue our integration efforts of these new businesses into our group structure in order to reduce this overhead.

Net R&D expense in 2008 was $12.8 million (2007: $9.3 million), an increase of 38%. Virtually all of the increase relates to the Telecoms sector, mainly work on integrating and stabilising new components into the new line of metro devices which the Company intends to introduce in 2009. The expense also includes November and December costs for Vigilant, a newly acquired surveillance company, in which R&D spend was directed at completing our advanced Video Management System, NetView Command, which was launched earlier this year. In addition R&D spending increased in certain regions as a result of the strength of local salaries against the dollar, and therefore the increased cost of salaries.

Operating profit was $23.9 million (2007: $16.6 million), an increase of $7.3 million or 44% as a result of increased revenues, good gross profit margins and careful control of operating expenses. The operating profit is after amortization of intangibles totalling $2.3 million (2007: $1.1 million), which has increased due to our acquisitions both in 2008 and 2007.

Net finance income was $145,000 (2007: $3.4 million). This figure is net of a one off write-down of $4 million on Nortel Networks Inc bonds held by the Group, and a further $0.4 million loss relating to a foreign currency hedge. The write down on the Nortel bond arose from Nortel requesting Chapter 11 creditor protection, and an impaired carrying value of only $1.4 million remains on the balance sheet. Against these losses $2.5 million of interest income was recorded. In addition $2.5 million of foreign exchange gains were recorded, resulting primarily from the strengthening of Dollar deposits against the Euro. During 2008, the Company became Euro dominant due to a significant increase in orders from European customers.

CHAIRMAN'S STATEMENT

Management believes that this new sales profile will continue in the future. The change in economic environment caused an accounting change of its functional currency from the Dollar to the Euro.

Net profit after tax attributable to equity holders of the parent amounted to $24.5 million (2007: $19.9 million), resulting in a basic profit per share of 6.19 cents (2007: 5.08 cents) - increases of 23% and 22%, respectively.

Our balance sheet remains strong with effective liquidity of $57.3 million (2007: $64.8 million). The reduction from last year reflects our investments in further product lines and vertical markets as described below. Year end cash is comprised as follows: cash and deposits of up to three months of $30.7 million; short-term investments of up to one year of $21.1 million; and long-term investments of $5.5 million. We continue to exercise careful stewardship over our financial resources during these uncertain economic times through a conservative investment strategy, maintaining most balances in secure bank deposits. Of the $26.6 million classified as investments, $10.1 million is held in cash deposits of over three months; $10.0 million is held in short term commercial papers that matured in January and February 2009; $1.0 million in structured products which matured in February 2009; $2.1 million in triple A bank notes falling due in 2010; and $3.4 million in long term bonds, including the remaining $1.4 million related to Nortel.

Intangible assets have increased to $15.4 million (2007: $6.7 million), and Goodwill has increased to $14.0 million (2007: $3.2 million). This is mainly as a result of the purchase of Vigilant, as well as other investments both in the Telecoms and the Medical sectors.

BATM MEDICAL

During the course of 2008, BATM made a number of strategic investments in medical devices and supporting distribution networks. In February 2009, BATM completed the acquisition of a clinical chemistry diagnostic company based in Italy to strengthen further this business line. In the first full year of operations, BATM Medical generated revenues of $18.4 million. These revenues are mainly concentrated in Eastern Europe. The Medical sector recorded a lower gross profit margin as an element of revenues in this business sector is from distribution which typically yields lower margins. BATM Medical recorded a small pre-tax profit during 2008. We believe we can significantly increase this performance in 2009-2010 after each of the companies have been integrated into the Group.

BATM Medical had total gross assets of $23.6 million as at 31 December 2008, including $6.3 million of inventory.

SALES AND MARKETING

We have continued to invest in marketing and sales during the year with good results, the most successful example of this being the medical devices and distribution segment in which we achieved revenues of $18.4 million in the full year. At the beginning of the year this segment had started with a relatively low level of sales, and has been grown by capitalizing on investment opportunities and finding the right strategic partners.

In addition we have continued to expand our sales channels, in particular growing existing OEM channels and expanding into new territories.

RESEARCH AND DEVELOPMENT AND NEW PRODUCTS

During 2008 we have continued to build on our core BINOS software platform to include speed enhancements and more features. We are also expanding resources on several core technologies to expand the carrier's ability to transform their transport networks to Ethernet. This includes focus on circuit emulation technology to allow TDM services over Ethernet and Ethernet services extended over PDH.

CHAIRMAN'S STATEMENT

In 2009 we envisage investment in features which will expand the range of our core Ethernet products into video services, which will allow a more complete and unique offering from our surveillance business.

INVESTMENTS

Investments have been made in three business segments in 2008. In our core Telecoms business we acquired the broadband multiplexer product line from Charles Industries at the beginning of the year. This acquisition has been fully integrated into our Ethernet offering

We have made several investments in the medical segment, both in companies owning the intellectual property of medical devices and supporting distribution networks (collectively "BATM Medical"). Our latest acquisition was completed early in February 2009, and adds clinical chemistry diagnostic equipment capabilities to the Group. We believe that we can achieve synergies between this business and our existing medical distribution network.

In November 2008 the acquisition of Vigilant Technology Ltd was completed. Vigilant is a developer and manufacturer of high-end surveillance and recording platforms. We have begun the process of integrating Vigilant into the BATM Group, and plan to increase sales channels in 2009.

DIVIDEND

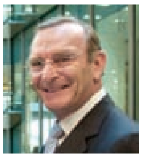
The Board is of the opinion that, in light of the Company's profitability, it should pursue a dividend policy of regular dividend increases, subject to performance. Accordingly, it has proposed, subject to shareholder consent, a final dividend for 2008 of 0.69 pence per share (2007: 0.50 pence (1 US¢)). In making this decision the Board has carefully considered the likely future capital requirements of the business and believes that the Company should have fully adequate cash resources to meet these requirements. The Board does not envisage recommending an interim dividend in the coming year.

If the payment of the final dividend is approved, it will be paid on 20 July 2009 to all eligible shareholders on the register as at 26 June 2009. The corresponding ex-dividend date will be 24 June 2009.

PROSPECTS

Despite the general weakness and challenges in global markets in 2009, the first two months of the year have started positively and we remain cautiously optimistic about our prospects for this year and beyond.

We have made a number of acquisitions in both the surveillance and medical devices sectors, which we have integrated into our concept of managed systems and we believe that we will continue to strengthen through our core competencies and technology platforms as well as our diversified portfolio of quality product offerings and markets.



Peter Sheldon
Chairman
30 April 2009

DIRECTORS' REPORT

FINANCIAL STATEMENTS

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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 local and wide area networks, as well as the research and development, production and distribution of laboratory diagnostic equipment in the Medical sector. The Telecoms division has offices in North America, Israel, Europe and Signapore. The Medical division has several offices in Central and Eastern Europe, and Israel. The operations of the business are reviewed in full in the Chairman's Statement on pages 1-3.

RESULTS AND DIVIDENDS

The results of the year are set out in the consolidated income statement. After providing $2.3 million amortization of intangible assets for the year and a write down of $4 million of one of the Company's investments, we recorded a profit of $24,459 thousand.

The board of BATM Advanced Communications Limited ("BATM" or "the Company"), announced its intention to recommend a final dividend of 0.69 pence per share for the year ended 31 December 2008 in its Preliminary Results announcement.

The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 17 June 2009.

If the payment of the final dividend is approved, it will be paid on 20 July 2009 to all eligible shareholders on the register as at 26 June 2009. The corresponding ex-dividend date will be 24 June 2009.

DIRECTORS

The following served as directors during the year.

Peter Sheldon FCA, (67), non-executive Chairman, is a Chartered Accountant and International Business Consultant. He is a former finance director of Hambros Bank and has held positions as Chairman and Director of a number of UK publicly quoted and private companies. His quoted company appointments have included UDS Group; World of Leather; Stirling Group and Geo Interactive Media (now Emblaze). He is currently a director of the British Israel Chamber of Commerce and heavily involved in the charitable sector in a voluntary capacity. He has been a member of the Board of BATM since 1998 and became Chairman in October 1999.

Dr. Dan Kaznelson, M.D., D.M.D. (67), **Senior non-executive director,** is a Physician, a former Lecturer at The Tel-Aviv University, a Database Systems Analyst and Programmer, and a reserve Colonel in the Israel Defense Forces. He has held positions as Chairman and Director of a number of companies, including inter alia Perio Products Ltd., a subsidiary of Israel Chemicals. He has been a member of the Board of BATM since 1996 and is at present Chairman of the Audit and Remuneration Committees.

Dr. Zvi Marom (54), Chief Executive Officer, founded BATM in 1992. He holds degrees in Engineering and Medicine. Prior to establishing BATM, he was the head of the Electronic faculty of the Israeli Open University and senior consultant to several industrial and academic institutions. He graduated in excellence from the naval academy and served in combat command posts. He was awarded the Techmark "Technology Man of the Year" award from the London Stock Exchange in 2000. He is currently a director of Shore Capital, a UK company.

DIRECTORS' REPORT

DIRECTORS (CONT.)

Ofer Bar-Ner (44), Chief Financial Officer, joined BATM in 1999. From 1996 he was Chief Financial Officer of Silver Arrow LP, a subsidiary of Elbit Systems and EL-OP, and between 1989 and 1993 he was group manager in the finance Department of Elbit. He graduated in Industrial Engineering and Management from the Technion in Haifa and has an MBA and MA in accounting from Northeastern University in Boston, MA.

Ariella Zochovitzky (52), CPA, non-executive director, is the general manager & partner of C.I.G. Consultant Investments Group Ltd. She is Co Chairman of the Board of U. Dori Group Ltd and currently a director of a number of public companies, including New Makefet - Pension Funds Generali Group, Elco Holdings Ltd and Citycon OYJ . She has been a member of the Board of BATM since September 2004.

Koti Gavish (65), non-executive director, is the Chief Executive Officer of Eihut Capital Market Ltd. He is currently a director of eight public and private companies in Israel, including inter alia Bank Yahav for Public employees and Rotex. He has been a member of the Board of BATM since September 2004.

CORPORATE GOVERNANCE

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

COMPLIANCE WITH THE 2006 FRC COMBINED CODE

Throughout the year ended 31 December 2008, and through to the date of approval of the financial statements, the Board considers that the company has complied with Section 1 of the Code. The company has applied the Principles of Good Governance set out in Section 1 of the Code by complying with the Code of Best Practice as set forth below and in the Remuneration Report below. Further explanation of how the principles and supporting principles have been applied is set out below and in the directors' remuneration report.

In addition, as outlined below, the Company's responsibilities under Israeli company legislation is such that it is obliged to appoint two independent non-executive directors (defined as "external directors" within Israeli law) who cannot serve for more than two three year terms each. The current external Directors are Ms Ariella Zochovitzky and Mr Koti Gavish. In those circumstances it believes that it is essential to maintain a number of long serving directors who may serve for more than the ten year period recommended under the Code in order to provide continuous experience and knowledge. Accordingly two of its Board members, Dr. Kaznelson and Peter Sheldon, have served for 13 and 11 years respectively. The Board of Directors sought advice from its UK legal advisors, who were of the opinion that the above may continue to serve on the board as the Company continues to have two additional independent non-executive directors so that the appropriate checks and balances exist to ensure a high level of governance.

THE BOARD

In compliance with Israeli company legislation the Board meets at least four times a year in formal session. Prior to each meeting, the Board is furnished with information in a form and quality appropriate for it to discharge its duties concerning the state of the business and performance. Board and committee activities in 2008 were as follows:

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

(1) All directors attended 100% of meetings other than Mr. K. Gavish, O. Barner and Dr. D. Kaznelson, each of whom missed one meeting during 2008 for personal reasons.

(2) All committee members attended 100% of meetings other than A. Zochovitzky who was absent from one meeting during 2008 for personal reasons.

There is not a formal schedule of matters specifically reserved to the Board for decision, as set out in A.1.1 of the Code, however, provisions in the Israeli company legislation set out the responsibilities and duties of and areas of decision for the Board which includes approval of financial statements, dividends, Board appointments and removals, long term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements.

CORPORATE GOVERNANCE

The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the company's position, lies with the Board. These provisions have been fully complied with.

The Board comprises six directors, four of whom are non-executive directors, under the chairmanship of Peter Sheldon. The Chief Executive is Dr. Zvi Marom. The senior non-executive director is Dr. Dan Kaznelson. The Board's members have a wide breadth of experience in areas relating to the company's activities and the non-executive directors in particular bring additional expertise to matters affecting the company. All of the directors are of a high calibre and standing. The biographies of all the members of the Board are set out on pages 4 & 5. Dr. Zvi Marom, Dr. Dan Kaznelson and Peter Sheldon hold shares in the company and their share holdings are set out on page 16. All the non-executive directors are independent of management and not involved in any business or other relationship, which could materially interfere with the exercise of their independent judgment. In Israel, due the relatively low level of remuneration of independent directors it is customary to offer such appointees share options and Ms. Zochovitsky, Mr. Gavish and Dr. Kazelson have previously been granted options. It is not the Board's intention to offer further options to these individuals. The Chairman and the executive directors are totally satisfied that under the circumstances in which the options were granted, the independence of these directors has in any way been compromised.

The induction of newly elected directors into office is the responsibility of the senior independent director (presently Dr. Dan Kaznelson). The new directors receive a memorandum on the responsibilities and liabilities of directors as well as presentations of all activities of the company by senior members of management and a guided tour of the company's premises. No such induction activities took place during the year under review.

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

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

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

RELATIONS WITH SHAREHOLDERS

Communication with shareholders is given high priority. The half-yearly and annual results are intended to give a detailed review of the business and developments. A full Annual Report is sent to all shareholders. 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.

CORPORATE GOVERNANCE

COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

NOMINATIONS COMMITTEE

The Board has a nominations committee which is chaired by Peter Sheldon. Individuals nominated as directors are elected by the shareholders in general meeting. Executive and non-executive directors are elected by the shareholder's General Meeting for a term of one year. Non-executive public "external" directors, as defined by Israeli Company Law are appointed and elected for a mandatory term of three years, which is renewable for a further term of three years. The re-appointment of a director must be approved by the shareholders in general meeting. No nominations of directors were made during the year under review.

CORPORATE GOVERNANCE

The Board has a Remuneration Committee, which is chaired by Dr. Dan Kaznelson. 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 14 - 17.

ACCOUNTABILITY AND AUDIT

Auditors

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

SIGNIFICANT RISKS

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 are thus uncertain with consequent risk to the amounts invested.

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

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

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

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company that has been in place for 2008 and up to the date of approval of the annual report and financial statements. Principal controls are managed by the executive directors and key employees, including regular review by management and the Board of the operations and the financial statements of the Company.

KEY PERFORMANCE INDICATORS

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

	2008	2007	Change %
Revenue	$134.5m	$96.9m	+ 39
Gross profit margin	45.6%	46.9%	- 3
R&D spend, net	$12.9m	$9.3m	+ 38
Liquid balances	$57.3m	$64.8m	- 12
Profit per share	6.19¢	5.08¢	+ 22

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

CORPORATE GOVERNANCE

KEY PERFORMANCE INDICATORS (CONT.)

The gross profit margin has decreased primarily due to a change in the sales mix, due to the expansion of the Medical Business. The gross profit margin in the Telecoms sector increased due to successful efficiencies programs and a reduction of the impact of fixed costs, given the increase in revenues.

FUTURE DEVELOPMENTS

Management believes that the Group is well positioned to leverage its strong balance sheet and cash flows to make acquisitions at attractive valuations and to capitalize on opportunities created by general market weakness. Any acquisitions will be made in the three primary markets in which the Group operates, namely Telecoms, Medical and Surveillance markets.

INTERNAL CONTROL

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

Risk management is currently reviewed on an ongoing basis by the Board as a whole. The key features of the financial controls of the company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures. The Board of the Company is furnished with detailed financial information on a monthly basis.

The main elements of internal control currently include:

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

- Information and Communication. The Company's operating procedures include a comprehensive system for reporting financial and non-financial information to the directors. Financial projections, including revenue and profit forecasts, are reported on a regular basis to senior management against corresponding figures for previous periods. The central process for evaluating and managing non-financial risks is 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.

CORPORATE GOVERNANCE

CONFLICTS

Throughout 2008 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively. During 2008 the Company acquired Vigilant Technologies, a company in which Mr. Bar-Ner had been a non-executive director. Mr. Bar-Ner resigned his position on the board of Vigilant Technology prior to the Board's decision regarding the acquisition. During 2008 no other conflicts arose which would require the board to exercise authority or discretion in relation to such conflicts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Directors are also required to:

• properly select and apply accounting policies;

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

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

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

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

We confirm to the best of our knowledge:

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

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

CORPORATE GOVERNANCE

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.

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

Employment Policies

BATM employs approximately 550 people and in order to continue to grow as a business, the Company needs to continue to recruit and retain only the best talent. Therefore it is the Company's policy to pursue practices that are sensitive to the needs of its people. The Company strives for equal opportunities for all of its employees, including disabled employees, and does not tolerate harassment of, or discrimination against, its staff. The Company's priorities are:

• Providing a safe workplace with equality of opportunity and diversity through our employment policies.

• Encouraging our people to reach their full potential through career development and promotion from within where possible.

• Communicating openly and transparently within the bounds of commercial confidentiality, whilst listening to our people and taking into account their feedback.

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

CORPORATE GOVERNANCE

Employees with Disabilities

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

Environmental Policies

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

Its environmental policy is to:

- Meet the statutory requirements placed on it;

- Adopt good environmental practice in respect of premises, product development and manufacturing, and consumption of resources;

- Aim to recycle as much of its waste products as it is economically practicable to do.

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

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

Ethical Business Practices

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

Charitable Policies

BATM maintains a number of charitable giving policies. Every year the Group makes donations to a variety of charitable organizations.

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

REMUNERATION REPORT

REMUNERATION COMMITTEE AND REMUNERATION REPORT

Remuneration policy is laid down by the board and monitored through the company's remuneration committee. The committee consists of three out of the four non-executive directors and excludes the chairman as is required under Israeli Company Law. As presently constituted, the committee consists of Dr. Dan Kaznelson, Mrs. Ariella Zochovitzky and Mr. Koti Gavish. Dr. Dan Kaznelson serves as chairman. The committee is responsible for recommendation to the board of remuneration strategy and policy of the company for determining the short and long-term pay structures for the executive directors. In principle this policy is to ensure that levels of pay are established which meet four criteria:

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

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

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

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

With the exception of the "public 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 AGM, if proposed for re-election.

In accordance with Israeli company law, the Board recommends and the general meeting of the Company is asked to approve, the remuneration of the executive and non-executive directors of the company, after it has been first approved by the company's Remuneration Committee. The remuneration of the executive and non-executive directors of the company for the year ended 31 December 2008 was as follows:

EXECUTIVE DIRECTORS IN 2008

Dr. Zvi Marom – CEO – is employed under a service contract from 1 July 2005, which is renewable annually. During 2007 his basic salary was increased to $240,000 and he receives social benefits as are normally granted by employers in Israel. An annual profit share bonus, based on the rate of increase in net profit of each year, is also payable. A bonus of $450,000 has been accrued in respect of this plan for 2008, of which $50,000 was paid during the course of 2008. A bonus of $853,000, which was accrued in respect of 2007 and approved at the 2008 AGM was paid in 2008.

Ofer Bar-Ner – CFO – is employed under a service contract from September 2002 The Remuneration Committee recommended a new contract for Mr. Bar-Ner details of which are set out in the Notice of 2008 Annual General Meeting, which the members approved at the AGM. During 2008 Mr. Bar-Ner earned a basic salary of $150,000 and usual social benefits. During 2008 a loan of $100,000 was extended to Mr. Bar-Ner, which will become non-refundable if he remains in service until 01 March 2011. In 2006, a loan of $50,000 was approved at the Company's AGM and the loan became a non-refundable bonus to Mr. Bar-Ner on 01 January 2008.

On 16 June 2008 the Board approved to grant Ofer Bar-Ner 750,000 options to purchase BATM shares at an exercise price equal to the market price of the BATM share on the date of approval by the Board less 10%. Such options may be exercised by Mr. Bar-Ner within a three year period commencing as of December 31, 2008 provided that Mr. Bar-Ner remains in his position as CFO with the company until December 31, 2008.

REMUNERATION REPORT

EXECUTIVE DIRECTORS IN 2008 (CONT.)

On 12 June 2007 the Board approved to grant Ofer Bar-Ner 330,000 options to purchase BATM shares at an exercise price equal to the market price of the BATM share on the date of approval by the Board less 10%. Such options may be exercised by Mr. Bar-Ner within a three year period commencing as of December 31, 2008 provided that Mr. Bar-Ner remains in his position as CFO with the company until December 31, 2008.

	2008 $'000s	2007 $'000s
	Salary and Benefits	Salary and Benefits
Dr. Zvi Marom	798	1,218
Ofer Bar-Ner	253	181

NON-EXECUTIVE DIRECTORS IN 2008

The non-executive directors are appointed at each AGM for a period of one year. The Chairman is remunerated at a fixed rate of GBP 25,000 per annum.

Dr. Dan Kaznelson is paid $9,000 per annum and $1,500 per meeting respectively. In addition, as disclosed and approved at the Company's 2007 AGM, Dr. Dan Kaznelson received a package of 600,000 share options divided into three annual lots of 200,000 share options. Each lot of share options vests on 31 December of each calendar year commencing as of 31 December 2007, provided that the grantee is an acting director in the company on the vesting date and the grantee may exercise the options at any time within 3 years from the vesting date. The exercise price is the market price on the Board approval date, 20 February 2007, less 10%.

Mrs. Ariella Zochovitzky and **Mr. Koti Gavish**, the Public external Directors, were remunerated in accordance with Israeli Company Law provisions for such appointees. In addition,for the first three year term of their service they received a remuneration package of 200,000 share options each per annum, as approved by the Annual General Meeting at the time of their election as directors. They were reappointed in 2007 for a second period of 3 years with the renumeration in accordance with Israeli company law provisions.

The fees for **Mr. Sheldon** and **Dr.Kaznelson**, which are fixed by the Board of the company (the director concerned playing no part in the determination of the pay) are established by reference to fees paid by other companies of similar size and complexity and reflecting the amount of time that the non-executive directors are expected to devote to the company's activities during the year.

	2008 $'000s	2007 $'000s
	Fees	Fees
Peter Sheldon	53	47
Dr. Dan Kaznelson	15	15
Ariella Zochovitzky	35	20
Koti Gavish	35	20

REMUNERATION REPORT

DIRECTORS' INTEREST IN SHARES

The directors of the company are listed below together with their beneficial interests in the shares of the company at the beginning and end of the financial year.

	0.01 NIS Ordinary Shares fully paid	0.01 NIS Ordinary Shares fully paid
	2008	2007
Dr. Zvi Marom	90,750,900	92,750,900
Dr. Dan Kaznelson	112,300	146,300
Peter Sheldon	450,000	450,000
Ofer Bar-Ner	-	158,600

DIRECTORS' OPTIONS (ACCUMULATED)

	Number of options	Number of options
	2008	2007
Dr. Zvi Marom (1)	-	2,700,000
Ofer Bar-Ner (2)	1,413,333	1,663,333
Dr. Dan Kaznelson (3)	400,000	600,000
Ariella Zochovitzky (4)	200,000	300,000
Koti Gavish (5)	250,000	400,000

(1) The grant is of:

a: 400,000 options exercisable into 100,000 ordinary shares of the company per year commencing on July 1, 2000 and on July 1, of every subsequent year. Each option vests and is exercisable 24 months from the date of each grant, at a price equal to the then current market price less ten per cent.

b: 300,000 options granted at an exercise price of £0.20 per share these options will vest at a rate of 100,000 options annually on July 1st of each year commencing from July 1, 2004.

c: 2,000,000 options granted as follows: one million at an exercise price of £0.1625 per share these options will vest over 3 years commencing from December 31, 2005. The additional one million are performance linked incentive provided that the annual net profit of the company has increased by at least 15% as compared with the previous year and that the company has made a net profit in the relevant financial year, the exercise price is £0.1625 per share and will vest over 3 years commencing from December 31, 2005.

During the year the director exercised 2,166,667 options to shares and sold them at £0.57 per share, 533,333options were forfeited.

(2) The grant is of:

a: 333,333 options vested fully on January 1, 2004 at exercise price of £0.2648.

b: 1,000,000 options granted at an exercise price of £0.24 per share these options will vest over 3 years commencing from February 1, 2006, during the year the director exercise these options to shares and sold them at £0.57 per share

REMUNERATION REPORT

DIRECTORS' OPTIONS (ACCUMULATED) (CONT.)

c: 330,000 options granted at an exercise price of £0.279. As of December 31, 2008 these options are fully vested.

d: 750,000 options granted at an exercise price of £0.407 These options may be exercised within a three year period commencing from December 31, 2008.

(3) Exercise price of £0.315 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2007. During the year the director exercised 200,000 options to shares and sold them: 100,000 at £0.54 per share and 100,000 at £0.375 per share

(4) Exercise price of £0.1621 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2004. During the year the director exercised 100,000 options to shares and sold them at £0.535 per share

(5) Exercise price of £0.154 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2004. During the year the director exercised 150,000 options to shares and sold them at £0.42 per share.

AUDITORS' REPORT

Brightman Almagor Zohar

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

We have audited the accompanying consolidated balance sheets of BATM Advanced Communications Ltd. ("the Company") and its subsidiaries ("the Group") as at December 31, 2008 and 2007 and the related consolidated income statements, consolidated statements of changes in equity and consolidated cash flows statements of the Group for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position the Group as at December 31, 2008 and 2007, and the consolidated results of operations, changes in equity and the cash flows of the Group for the years ended December 31, 2008 and 2007 in accordance with International Financial Reporting Standards.

Brightman Almagor & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Israel, 30 April, 2009

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended 31 December	
		2008 **$'000s**	**2007** **$'000s**
Revenue	4	134,462	96,952
Cost of revenues		(73,157)	(51,456)
Gross profit		61,305	45,496
Sales and marketing expenses		13,948	12,353
General and administration expenses		8,376	6,119
Research and development expenses		12,829	9,275
Other expenses		2,292	1,146
Total operating expenses		37,445	28,893
Operating profit		23,860	16,603
Investment revenue	8	2,453	2,667
Gains (losses) on financial instruments	9	(4,340)	481
Foreign exchange differences		2,512	557
Finance costs	10	(480)	(286)
Other income (expenses)		-	(60)
Profit before tax		24,005	19,962
Tax benefit	11	454	135
Profit for the year	6	24,459	20,097
Attributable to Equity holders of the: Parent		24,510	19,874
Minority interests		(51)	223
		24,459	**20,097**
Earnings per share (in cents)			
Basic	13	**6.19**	**5.08**
Diluted	13	**6.15**	**5.02**

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

CONSOLIDATED BALANCE SHEETS

	Note	31 December	
		2008 $'000s	2007 $'000s
Non-current assets			
Goodwill	14	14,023	3,184
Other intangible assets	15	15,400	6,737
Property, plant and equipment	16	10,041	8,702
Held to maturity investments	3	5,468	10,501
Deferred tax assets	22	2,102	2,217
		47,034	31,341
Current assets			
Inventories	19	20,984	12,211
Investments	18, 21	21,086	18,462
Trade and other receivables	20	29,192	26,216
Cash and cash equivalents	18	30,737	35,809
		101,999	92,698
Total assets		**149,033**	**124,039**
Current liabilities			
Short-term bank credit		3,632	90
Trade and other payables	23	20,174	22,266
Current tax liabilities		109	280
Provisions	24	2,181	2,952
		26,096	25,588
Net current assets		**75,903**	**67,110**
Non-current liabilities			
Long-term payables	23	3,933	2,388
Retirement benefit obligation	34	926	335
		4,859	2,723
Total liabilities		**30,955**	**28,311**
Net assets		**118,078**	**95,728**
Equity			
Share capital	25	1,210	1,186
Share premium account	26	404,928	400,646
Revaluation reserve	27	-	-
Translation reserve		(6,060)	(29)
Accumulated Deficit	28	(286,459)	(307,033)
Equity attributable to equity holders of the:			
Parent		113,619	94,770
Minority interest		4,459	958
Total equity		**118,078**	**95,728**

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 2009.

They were signed on its behalf by:

Dr. Z. Marom **O. Bar-Ner**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share Premium account	Revaluation reserve	Translation reserve	Accumulated deficit	Parent	Minority Interest	Total
				$'000s				
Balance as at 1 January 2007	**1,180**	**399,068**	**118**	**-**	**(326,907)**	**73,459**	**-**	**73,459**
Exercise of stock based opt!ions by employees	6	662				668	-	668
Grant of stock based options to employees		916				916	-	916
Released on disposal of available for sale investments			(118)			(118)	-	(118)
Minority Interest arising on a business combination						-	735	735
Translation adjustment				(29)		(29)	-	(29)
Net income for the year					19,874	19,874	223	20,097
Balance as at 31 December 2007	1,186	400,646	-	(29)	(307,033)	94,770	958	95,728
Exercise of stock based options by employees	20	2,583				2,603	-	2,603
Grant of stock based options to employees		791				791	-	791
Share based purchase of Vigilant	4	908				912	-	912
Translation adjustment				(5,985)		(5,985)	(126)	(6,111)
Purchase of minority interest				(46)		(46)	-	(46)
Minority Interest arising on a business combination						-	3,678	3,678
Payment of dividend					(3,936)	(3,936)	-	(3,936)
Net income for the year					24,510	24,510	(51)	24,459
Balance as at 31 December 2008	**1,210**	**404,928**	**-**	**(6,060)**	**(286,459)**	**113,619**	**4,459**	**118,078**

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

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December	
		2008 $'000s	2007 $'000s
Net cash from operating activities	30	9,094	12,629
Investing activities			
Interest received		1,363	2,945
Dividends received from available for sale investments		-	15
Proceeds on disposal of held to maturity investments		1,472	1,904
Proceeds on disposal of available-for-sale investments		13,608	26,273
Proceeds on disposal of deposits		17,908	34,104
Proceeds on disposal of investment in companies		-	941
Purchases of property, plant and equipment		(1,154)	(1,012)
Purchases of held to maturity investments		(1,050)	(10,292)
Purchases of available for sale investments		(21,574)	(26,665)
Purchases of deposits		(14,000)	(18,387)
Investment in a company		(280)	-
Acquisition of subsidiaries	29	(6,327)	(2,440)
Net cash from (used in) investing activities		(10,034)	7,386
Financing activities			
Dividend payment		(3,936)	-
Repayments of borrowings		(1,549)	(237)
Proceeds on issue of shares		2,603	668
Net cash from (used in) financing activities		(2,882)	431
Decrease from foreign exchange fluctuations		(1,250)	-
Net increase (decrease) in cash and cash equivalents		(5,072)	20,446
Cash and cash equivalents at beginning of year		35,809	15,363
Cash and cash equivalents at end of year		**30,737**	**35,809**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

BATM Advanced Communications Ltd. ("the Company") is a company incorporated in Israel under the Israeli Companies law. The address of the registered office is POB 3737, Kfar Neter 40593, Israel. The Company and its subsidiaries ("the Group") are engaged mainly in the research and development, production and marketing of data communication products in the field of local and wide area networks and premises management systems. The Group has recently entered two additional markets, being the medical diagnostics and surveillance 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 equipment.

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

IFRS 1 (revised)	First Time Adoption of IFRS
Amendments to IFRS 2	Vesting conditions and cancellations
IFRS 3 (revised)	Business Combinations
IFRS 8	Operating segments
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IAS 1 (revised)	Presentation of Financial Instruments
IAS 23 (revised)	Borrowing Costs
Amendments to IAS 27	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

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

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

Basis of consolidation

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

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Purchase of minority interest

In the event of a purchase of a minority interest, the Group recognizes any difference between the consideration and the portion of the book value of assets newly acquired directly in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. 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.

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Goodwill arising from acquisitions before the date of transition to IFRS has been retained at the previous Israeli GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts (see below).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Long-Term contracts

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

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

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Foreign currencies (Cont.)

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Government grants

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

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

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

Operating profit

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

Retirement benefit costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Retirement benefit costs (Cont.)

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

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property, plant and equipment (Cont.)

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

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

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

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

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

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

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

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

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

Acquired intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

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

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Provisions

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

Share-based payments

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

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

NOTE 3 - CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

- Judgments with respect to the classification of the functional currency of entity in the Group
- Judgments with respect to actuarial assumptions
- Judgments with respect to the calculation of tax provision
- Judgments with respect the non-capitalization of development expenses
- Judgments with respect to impairment of held to maturity and intangible assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT.)

Key sources of estimation uncertainty

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

Impairment of Held to Maturity Assets

During the year an impairment of $ 4 million was recorded in respect to Nortel Networks Inc bonds. The impairment charge on the Nortel bond arose from Nortel requesting Chapter 11 creditor protection, and only an impaired carrying value of only $1.4 million remains on the balance sheet. Impairment of the asset requires management to estimate future cashflows expected from this Held to Maturity asset.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was $14.0 million. (2007: $3.2 million).

NOTE 4 - REVENUE

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

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Sales of goods	124,724	89,044
Services	9,493	7,687
Property rental income	245	221
	134,462	96,952

NOTE 5 - BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - BUSINESS AND GEOGRAPHICAL SEGMENTS (CONT.)

Segment revenues and segment results

	Telecommunications $'000s	BATM Medical $'000s	Total $'000s
Revenues	116,053	18,409	134,462
Segment results profit (loss)	24,209	(349)	23,860
Unallocated,			145
Profit before tax			24,005
Taxation			454
Profit for the year			**24,459**

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year. During 2007, the Group only reported on a Telecommunications sector segment.

Segment assets, liabilities and other information

	Telecommunications $'000s	BATM Medical $'000s	Unallocated $'000s	Total $'000s
Assets	68,121	23,621	57,291	149,033
Liabilities	25,262	5,693	-	30,955
Depreciation and amortizations	3,589	1,104	-	4,693
Additions to non-current assets	13,527	8,918	-	22,445

Geographical segments

The Group operates in three principal geographical areas – North America, Israel and Europe. The Group's revenue from external customers and information about its segment assets by geographical location are presented by the location of operations and are detailed below

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2008 $'000s	2007 $'000s	2008 $'000s	2007 $'000s	2008 $'000s	2007 $'000s
North America	47,702	44,547	26,128	24,192	2,518	303
Israel	69,500	45,939	46,700	26,993	14,990	2,736
Europe	17,260	6,466	18,914	8,082	4,937	2,500
Non-allocated	-	-	57,291	64,772	-	-
Total	**134,462**	**96,952**	**149,033**	**124,039**	**22,445**	**5,539**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - PROFIT FOR THE YEAR

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

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Net foreign exchange gains	(2,512)	(557)
Research and development costs	13,464	10,113
Government grants	(635)	(838)
Depreciation of property, plant and equipment	2,401	1,690
Amortisation of intangible assets included in operating expenses	2,292	1,146
Impairment of investments, net	-	60
Cost of inventories recognised as expense	65,935	46,148
Staff costs *(see Note 7)*	23,341	16,868
Auditors' remuneration for audit services *(see below)*	222	168

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2008 were $41,000 (2007: $20,000).

In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2008, were $39,000 and $43,000, respectively (2007: $11,000 and $10,000, respectively).

NOTE 7 - STAFF COSTS

The average monthly number of employees in 2008 (including executive directors) was 390 (2007:244).

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	18,289	13,312
Social security costs	4,023	3,043
Other pension costs (see Note 34)	1,029	513
	23,341	16,868
Executive Directors' emoluments	1,040	1,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - INVESTMENT REVENUE

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Profit on forward contracts	-	90
Interest on bonds	567	216
Interest on bank deposits	1,479	2,361
Other	407	-
	2,453	2,667

NOTE 9 – GAINS (LOSSES) ON FINANCIAL INSTRUMENTS

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Impermanent of bond of Nortel networks	(4,000)	-
Loss on forward contracts	(340)	-
Profit on disposal of available-for-sale investments	-	378
Other gains (losses)	-	103
	(4,340)	481

During the year an impairment of $ 4 million was recorded in respect to Nortel Networks Inc bonds. The impairment charge on the Nortel bond arose from Nortel requesting Chapter 11 creditor protection, and only an impaired carrying value of only $1.4 million remains on the balance sheet. Impairment of the asset requires management to estimate future cashflows expected from this Held to Maturity asset, and discount them at the original discount rate associated with the note.

NOTE 10 - FINANCE COSTS

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Interest on loans	480	286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TAX EXPENSE (BENEFIT)

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Current tax	(569)	1,347
Deffered tax *(Note 22)*	115	(1,482)
	(454)	(135)

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 Parlament approved an act for the amendment of the Income Tax Ordinance (Adjustments Due to Inflation) – 1985, under which the law will be terminated on December 31, 2007.

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

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

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

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

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

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

In the event of a distribution of a cash dividend out of tax-exempt income, as mentioned above, the Company (or the subsidiary who has also been granted with an Approved Enterprise status) will be liable to corporate tax at a rate of 10%-25% (depending on the percentage of foreign shareholders in the Company's equity), in respect of the amount distributed. The Company and the subsidiary currently have no plans to distribute dividends from tax-exempt income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - TAX EXPENSE (BENEFIT) (CONT.)

The above tax benefits are conditioned upon fulfillment 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 canceled, in whole or in part, and the Company or the subsidiary would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments.

On July 25, 2005 an amendment to the Israeli tax law was approved by the Israeli Parliament which reduces the tax rates imposed on Israeli companies; this amendment states that the corporate tax rate will be reduced as follows: in 2007 29%, in 2008 27%, in 2009 26% and thereafter 25%.

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

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before 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. No deferred tax asset has been recognised in respect of such losses. The total amount remaining to amortise for tax purposes is $141 Million and the amount of brought forward losses is $165 Million.

Other jurisdictions

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

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

	Year ended December 31,	
	2008 $'000s	2007 $'000s
Profit before tax:	24,005	19,962
Tax at the Israeli corporation tax rate of 27% (2007: 29%)	6,481	5,789
Tax exempt income	(5,795)	(4,388)
Utilization of tax loss carry forward	(222)	-
Initial recognition of a deferred tax asset	(1,600)	(1,700)
Different tax rates in foreign regimes and other differences	682	164
Tax expense (benefit) for the year	**(454)**	**(135)**

The effective tax rate for 2008 was -1.89% resulting mainly from the Company's benefits under the Approved Enterprise Program and from initial recognition of deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - DIVIDENDS

The Board of the Company, announced its intention to recommend a dividend of 0.69 British pence per share for the year ended 31 December 2008 in the Preliminary Results announcement on 17 March 2009, totaling approximately $4 million. The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 17 June 2009. If the payment of the dividend is approved it will be paid on 18 July 2009 to all eligible shareholders on the register as at 26 June 2009 (the Record date). The corresponding ex-dividend date will be 24 June 2009.

NOTE 13 - EARNINGS PER SHARE

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

	Year ended 31 December	
	2008	2007
Earnings for the purposes of basic and diluted earnings per share ($'000s)	24,510	19,874
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	396,222,088	391,530,389
Effect of dilutive potential ordinary shares:		
Share options	2,457,503	4,616,560
Weighted average number of ordinary shares for the purposes of diluted earnings per share	398,679,591	396,146,949
Weighted average number of non-dilutive potential ordinary shares	246,319	-

NOTE 14 - GOODWILL

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

BATM Medical: $4,101 thousands (2007: $ 1,200 thousands)

Surveillance: $5,898 thousands (2007 $ 0)

Telco: $1,984 million (2007: $1,984 thousands)

Telecoms outsourcing: $1,610 thousands (2007: $0)

Telecoms hardware: $430 thousands (2007 $0)

The recoverable amounts of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Discount rates of between 12.7% - 16.5% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - GOODWILL (CONT.)

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates cashflows for the coming ten years based on estimated growth rates. For the purposes of this calculation management have used a revenue growth rate of 9% for years 1-3, 13% for year 4, 18% for year 5 and then 1% thereafter, for the Telecoms Outsourcing CGU and 25% for year 1, 9% for years 2-4 and then 2% thereafter for the BATM Medical CGU. Fixed expenses have been assumed to grow at 1% per year in the Telecoms Outsourcing CGU and 52% for year 1, 10% for years 2-4 and then 1% thereafter for BATM Medical. Variable expenses (directly linked to sales) have been assumed to remain a constant percentage of sales throughout the forecast period in the BATM Medical CGU, and to decrease from by 1% per annum for years 1-5 in the Telecoms Outsourcing CGU. The rates used above reflect historical rates achieved and expected levels for 2009 but then are prudently adjusted for subsequent years. Having performed impairment testing, no impairment has been identified, and therefore no impairment loss has been recognised in either year.

NOTE 15 - OTHER INTANGIBLE ASSETS

	Customer Relationships and backlog	Technology	Other	Total
	$'000s	$'000s	$'000s	$'000s
Cost				
At 1 January 2007	3,985	1,420	65	5,470
Acquired on acquisition of a subsidiary	3,143	49	135	3,327
At 31 December 2007	7,128	1,469	200	8,797
Effect of translation adjustments	(234)	(49)	-	(283)
Acquired on acquisition of subsidiaries(*)	8,017	1,189	1,887	11,093
At 31 December 2008	14,911	2,609	2,087	19,607
Amortization				
At 1 January 2007	813	101	-	914
Charge for the year	943	203	-	1,146
At 31 December 2007	1,756	304	-	2,060
Effect of translation adjustments	(145)	-	-	(145)
Charge for the year	1,849	314	129	2,292
At 31 December 2008	3,460	618	129	4,207
Carrying amount				
At 31 December 2008	**11,451**	**1,991**	**1,958**	**15,400**
At 31 December 2007	**5,372**	**1,165**	**200**	**6,737**

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

(*) As of the authorisation of these financial statements, the Purchase Price Allocation of Vigilant Technology and other acquisitions, had not been completed. The allocation used for these financial statements represent managements best estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - PROPERTY, PLANT AND EQUIPMENT ($'000S)

	Land and buildings	Plant and equipment	Motor Vehicles	Furntiure and fittings	Leashold Improvements	Total
Cost						
At 1 January 2007	8,637	14,026	52	1,119	373	24,207
Additions	50	662	-	110	190	1,012
Acquisition of subsidiary	-	526	-	100	-	626
Disposals	-	(9,059)	(22)	(176)	(91)	(9,348)
At 31 December 2007	8,687	6,155	30	1,153	472	16,497
Additions	-	1,044	3	79	28	1,154
Effect of translation adjustment	-	(276)	-	(18)	(3)	(297)
Acquisition of subsidiary	-	3,350	823	918	560	5,651
At 31 December 2008	8,687	10,273	856	2,132	1,057	23,005
Accumulated depreciation						
At 1 January 2007	2,472	11,596	29	755	170	15,022
Charge for the year	376	1,165	3	48	98	1,690
Acquisition of subsidiary	-	411	-	20	-	431
Eliminated on disposals	-	(9,059)	(22)	(176)	(91)	(9,348)
At 31 December 2007	2,848	4,113	10	647	177	7,795
Charge for the year	366	1,271	57	579	128	2,401
Effect of translation adjustment	-	(146)	-	(10)	-	(156)
Acquisition of subsidiary	-	2,216	151	191	366	2,924
At 31 December 2008	3,214	7,454	218	1,407	671	12,964
Carrying amount						
At 31 December 2008	5,473	2,819	638	725	386	10,041
At 31 December 2007	5,839	2,042	20	506	295	8,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17- SUBSIDIARIES

A list of the direct and indirect investments in subsidiaries, including the name, country of incorporation, percent of ownership interest is presented below.

Name of subsidiary	Country of incorporation	Ownership interest **	Date of acquisition
Telco Systems Inc.	United States of America	100%	April 2000
Integral Access Inc.	United States of America	100%	July 2005
Critical Telecom Inc.	Canada	100%	September 2006
Metrobility Optical Systems Inc.	United States of America	100%	June 2006
A.M.S. 2000	Romania	75%	June 2007
YAD	Cypurs	75%	June 2007
NGSoft Ltd (formerly: NSIcom Ltd)	Israel	100%	October 2007
Sunstring [(a)]	Cyprus	75%	June 2007
Becor	Moldova	38.25%	July 2008
Adonis	Moldova	30.6%	October 2008
Elody	Moldova	38.25%	October 2008
ISE	Italy	45.9%	February 2009
CAT Technologies	Israel	43.4%	February 2008
Cellitron	Hungary	34.7%	February 2008
Vigilant Technologies Ltd	Israel	100%	November 2008
Vigilant Technologies Ltd	United Kingdom	100%	November 2008
Vigilant Technologies Inc	United States of America	100%	November 2008
Telco Asia Pacific Limited*	Singapore	100%	March 2006
Netwiz	Israel	100%	January 1999
B.T.T.*	Israel	100%	March 1999
B.A.T.M. land*	Israel	100%	December 1994
BAT-NET*	Israel	100%	January 1996
B.A.T.M. Germany*	Germany	100%	June 1998
B.A.T.M. England*	United Kingdom	100%	April 1994
B.A.T.M. France*	France	100%	May 2000
B.A.T.M. Iberia*	Iberia	100%	September 2003

* Incorporated by the Company

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

[(a)] During October 2008, BATM increased its holding in Sunstring from 51% to 75%, in return for injecting all of the capital required to purchase Becor into Sunstring.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - INVESTMENTS

Investments presented as current assets include interest-bearing deposits of $10,021,000 at 31 December 2008 (2007: $14,365,000).

Cash and cash equivalents consist of cash deposits less than 3 months. At 31 December 2008, a total of $ 3 million of cash was designated as security for short term bank credit of the same amount.

NOTE 19 - INVENTORIES

	December 31,	
	2008 $'000s	2007 $'000s
Raw materials	7,462	5,836
Work-in-progress	341	142
Finished goods	13,181	6,233
	20,984	12,211

NOTE 20 - OTHER FINANCIAL ASSETS

Trade and other receivables

	December 31,	
	2008 $'000s	2007 $'000s
Amount receivable for the sale of goods	25,777	23,626
Participation in research and development:		
Government of Israel	194	464
VAT	273	544
Tax authorities	609	32
Prepaid expenses and other debtors	2,339	1,550
	29,192	26,216

The average credit period taken on sales of goods is 45 days. No interest is charged on the receivables. An allowance has been made at 31 December 2008 for estimated irrecoverable amounts from the sale of goods of $857,000 (2007: $516,000). 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. Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - OTHER FINANCIAL ASSETS (CONT.)

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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, except two significant customers which represent no more than 40% of the Group's trade receivable balance as at 31 December 2008. Aside from these significant customers, there is no significant concentration of credit risk.

NOTE 21 - DERIVATIVE FINANCIAL INSTRUMENTS

At the balance sheet date, the Company did not have any outstanding forward foreign exchange contracts.

Amounts of $343 thousands (loss) have been transferred to the income statement in respect of contracts that matured during 2008.

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

NOTE 22 - DEFERRED TAX ASSETS

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

	Deferred development costs	Depreciation differences	Retirement benefit obligations	Losses carried forward	Total
			$'000s		
At 1 January 2007	103	323	309	-	735
Credit (charge) to income	21	(13)	(226)	1,700	1,482
At 31 December 2007	124	310	83	1,700	2,217
On acquisition	-	-	64	-	64
Credit (charge) to income	(36)	(132)	89	(100)	(179)
At 31 December 2008	**88**	**178**	**236**	**1,600**	**2,102**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - OTHER FINANCIAL LIABILITIES

Trade and other payables

	December 31,	
	2008 $'000s	2007 $'000s
Trade creditors	8,547	12,299
Salary accruals	3,428	2,924
Related parties	413	408
VAT	34	44
Other creditors and accruals	7,752	4,777
Liability in regard an acquisition of a subsidiary (Metrobility) (1)	-	1,814
	20,174	22,266

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

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

(1) The liability of $1,814,000, bears annual interest of 5%, maturity date June 2008.

Long-term payables

	December 31,	
	2007 $'000s	2006 $'000s
Forgivable debt to the office of the chief scientist	2,699	2,388
Liability in regard an acquisitions *	1,234	-
	3,933	2,388

* The maturity date of the liability is: $885,000 on March 2010 (of which $537,000 bears annual interest of 4% and linked to Israeli CPI) and $349,000 on March 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 - PROVISIONS

	Warranty provision	Other provision	Total
		$'000s	
At 31 December 2007	1,143	1,809	2,952
Additional provision in the year	107	312	419
Utilisation of provision	(28)	(533)	(561)
On Acquisition	190	-	190
Payment during the year	-	(819)	(819)
At 31 December 2008	1,412	769	2,181
Included in current liabilities			2,181
Included in non-current liabilities			-
			2,181

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.

NOTE 25 - SHARE CAPITAL

Ordinary shares of NIS 0.01 each (number of shares)		
	2008	2007
Authorised:	1,000,000,000	1,000,000,000
Issued and fully paid:	401,078,684	392,322,169

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

NOTE 26 - SHARE PREMIUM ACCOUNT

	Share premium $'000s
Balance at 1 January 2007	399,068
Premium arising on issue of equity shares	662
Stock options granted to employees	916
Balance at 31 December 2007	400,646
Premium arising on issue of equity shares	3,491
Stock options granted to employees	791
Balance at 31 December 2008	404,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - REVALUATION RESERVE

	Revaluation reserve $'000s
Balance at 1 January 2007	118
Released on disposal of available-for-sale investments	(118)
Balance at 31 December 2007	-
Released on disposal of available-for-sale investments	-
Balance at 31 December 2008	-

NOTE 28 - ACCUMULATED DEFICIT

	Accumulated deficit $'000s
Balance at 1 January 2007	(326,907)
Net profit for the year	19,874
Balance at 31 December 2007	(307,033)
Dividend	(3,936)
Net profit for the year	24,510
Balance at 31 December 2008	**(286,459)**

NOTE 29 - ACQUISITION OF SUBSIDIARIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - ACQUISITION OF SUBSIDIARIES (CONT.)

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

If the acquisition of Resolute had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $134,624,000 and Group profit would have been $24,120,000.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - ACQUISITION OF SUBSIDIARIES (CONT.)

If the acquisition of CAT & IC Port had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $135,350,000 and Group profit would have been $24,136,000

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - ACQUISITION OF SUBSIDIARIES (CONT.)

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

If the acquisition of Becor had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $140,991,000 and Group profit would have been $24,788,000.

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

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

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

Vigilant	$'000s
Net assets acquired	
Property, plant and equipment	672
Inventory	621
Trade and other receivables	1,412
Cash	-
Bank Credit	(3,869)
Trade payables and other liabilities	(3,111)
Retirement benefit obligation	(115)
Loan from BATM	(3,784)
	(8,174)
Intangible assets	3,922
Goodwill	5,898
Total consideration	**1,646**
Satisfied by:	
Cash	734
Share based payment	912
	1,646

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

If the acquisition of Vigialnt had been completed on the first day of the 2008 financial year, Group revenues for that year would have been $139,787,000 and Group profit would have been $18,675,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - ACQUISITION OF SUBSIDIARIES (CONT.)

On 1 June 2007, the Group acquired 51% of the issued share capital of A.M.S. 2000 Trading IMPEX S.R.L ("AMS") for a consideration of $3,002,000. AMS is engaged in the importation, marketing, sale and servicing of a wide variety of diagnostic kits and supplies and other medical equipment. This transaction has been accounted for by the purchase method of accounting.

AMS	Book value $'000s	Fair value adjustments $'000s	Fair value $'000s
Net assets acquired			
Property, plant and equipment	261	(68)	193
Inventories	1,188	(53)	1,135
Trade and other receivables	864	297	1,161
Cash and cash equivalents	64	-	64
Trade and other payables	(1,608)	449	(1,159)
Short-term Bank credit	(88)	-	(88)
Minority Interest	-	(735)	(735)
	681	**(110)**	571
Other Intangible Assets			1,231
Goodwill			1,200
Total consideration			**3,002**
Satisfied by:			
Cash			2,504
Consideration recorded as liability			498
			3,002
Net cash outflow arising on acquisition			
Cash consideration			2,504
Cash and cash equivalents acquired			(64)
			2,440

AMS contributed $3,623,000 revenue and $560,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2007.

If the acquisition of AMS had been completed on the first day of the 2007 financial year, Group revenues for that year would have been $98,584,000 and Group profit would have been $20,465,000.

On 1 October 2007, the Group acquired 100% of the issued share capital of NSIcom Ltd. ("NSI") for a consideration of NIS7,500,000 recorded as a loan.The company provides a wide range of advanced developing and testing services to telecom manufacturers, carriers and other enterprises. This transaction has been accounted for by the purchase method of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - ACQUISITION OF SUBSIDIARIES (CONT.)

NSI	$'000s
Net asset acquired	
Property, plant and equipment	2
Trade and other receivables	386
Trade and other payables	(2,245)
Bank loan	(239)
	(2,096)
Other Intangible Assets	2,096
Total consideration	-
Less- consideration recorded as liability	-
Total cash consideration	-

NSI contributed $948,000 revenue and $193,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2007.

If the acquisition of NSI had been completed on the first day of the 2007 financial year, Group revenues for that year would have been $98,104,000 and Group profit would have been $20,313,000.

NOTE 30- NOTE TO THE CASH FLOW STATEMENT

	Year ended December 31	
	2008 $'000s	2007 $'000s
Operating profit	23,860	16,603
Adjustments for:		
Depreciation of property, plant and equipment	2,401	1,690
Stock options granted to employees	791	916
Amortisation of intangible assets	2,292	1,146
Increase in retirement benefit obligation	154	25
Decrease in provisions	(313)	(269)
Operating cash flows before movements in working capital	29,185	20,111
Decrease (increase) in inventories	(4,080)	2,100
Decrease (increase) in receivables	3,965	(8,308)
Decrease in payables	(18,709)	(483)
Cash generated by operations	10,361	13,420
Income taxes paid	(844)	(505)
Interest paid	(423)	(286)
Net cash from operating activities	**9,094**	**12,629**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - NOTE TO THE CASH FLOW STATEMENT (CONT.)

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

NOTE 31 - CONTINGENT LIABILITIES

Stamp duties

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

The Company has not provided for such an amount in its financial statements.

NOTE 32 - OPERATING LEASE ARRANGEMENTS

The Group as lessee

	Year ended December 31	
	2008 $'000s	2007 $'000s
Minimum lease payments under operating leases recognised in income for the year	1,330	970

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

	December 31,	
	2008 $'000s	2007 $'000s
Within one year	1,337	976
In the second to fifth years inclusive	1,529	1,906
	2,866	2,882

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

The Group as lessor

Property rental income earned during 2008 was $245,000 (2007: $221,000). The property held have committed tenants for the next two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 32 - OPERATING LEASE ARRANGEMENTS (CONT.)

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

	December 31,	
	2008 $'000s	2007 $'000s
Within one year	193	72
In the second year	100	-
	293	72

NOTE 33 - SHARE-BASED PAYMENTS

Equity-settled share option scheme

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

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

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

	2008		2007	
	Number of share options	Weighted average exercise price (in GBP)	Number of share options	Weighted average exercise price (in GBP)
Outstanding at beginning of period	14,442,582	0.6047	15,786,920	0.5664
Granted during the period	2,884,360	0.4492	1,636,541	0.2904
Forfeited during the period	(1,245,651)	0.7664	(336,547)	1.0254
Exercise during the period	(7,297,624)	0.1910	(2,644,332)	0.1274
Outstanding at the end of the period	8,783,667	0.8744	14,442,582	0.6047
Exercisable at the end of the period	4,599,608	1.2850	8,737,204	0.8415

The weighted average share price at the date of exercise for share options exercised during 2008 was 0.4919 Great British Pounds ("GBP"). The options outstanding at 31 December 2008 had a weighted average exercise price of 0.8744 GBP, and a weighted average remaining contractual life of 6.32 years. In 2008, options were granted on June 16, August 5 and December 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33 - SHARE-BASED PAYMENTS) (CONT.)

The aggregate of the estimated fair values of the options granted on those dates is $2,160,000. In 2007, options were granted on February 20, May 24 and June 12. The aggregate of the estimated fair values of the options granted on those dates is $1,013,000,

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

	2008	2007
Weighted average share price	0.49	0.32
Weighted average exercise price	0.19	0.13
Expected volatility	38-53	35-99
Expected life	7	7
Risk-free rate	2%-4%	4.5%
Expected dividends	2.5%	-

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

The Group recognised total expenses of $791,000 and $916,000 related to equity-settled share-based payment transactions in 2008 and 2007, respectively.

NOTE 34 - RETIREMENT BENEFIT OBLIGATION

Defined contribution schemes

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

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

Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of the Company and its subsidiaries in Israel. This scheme provides severance pay provision as required by israeli law. Under the plans, the employees are entitled to post employment benefits equivilant to years of service multiplied by 8.33% of final salary on either attainment of a retirement age of 67 (men) and 64 (women) or redundancy. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 18 February 2009 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 34 - RETIREMENT BENEFIT OBLIGATION (CONT.)

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

Discount rate(s)	5%
Expected return on plan assets	5%
Expected rate(s) of salary increase	5-7%
Expected inflation rate	1.6%

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

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

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

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

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

	2008 $'000s
Opening defined benefit obligation	2,517
Current service cost	491
Interest cost	208
Actuarial losses	995
Acquired in business combination	875
Benefits paid	(504)
Exchange rate differences	(82)
Closing defined benefit obligation	**4,500**

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

	2008 $'000s
Opening fair value of plan assets	2,256
Expected return on plan assets	97
Actuarial gains/(losses)	803
Acquired in business combination	438
Contributions from the employer	499
Benefits paid	(468)
Exchange rate differences	(51)
Closing defined benefit obligation	**3,574**

The Liability recognised in the balance sheet at 31 December 2008 was $926,000 (2007: $335,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 35 - RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 14 to 17.

	2008 $'000s	2007 $'000s
Short-term employee benefits	957	1,305
Post-employment benefits	21	17
Other long-term benefits	26	25
Termination benefits	32	27
Share-based payment	225	262
	1,261	**1,636**

NOTE 36 – FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

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

(b) Significant accounting policies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – FINANCIAL INSTRUMENTS (CONT.)

(c) Categories of financial instruments

	2008 $'000s	2007 $'000s
Financial assets		
Cash and cash equivalents	30,737	35,809
Held for trading	10,015	2,587
Held-to-maturity investments	5,468	12,007
Deposits and receivables	40,263	40,585
Financial liabilities		
At amortised cost	25,149	22,636
Fair value through profit or loss	2,699	2,388

(d) Loans and receivables

	2008 $'000s	2007 $'000s
Carrying amount of deposits and receivables	41,120	41,101
Cumulative changes in fair value attributable to changes in credit risk	857	516
Changes in fair value attributable to changes in credit risk recognised during the period	341	127

(e) Financial risk management objectives

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – FINANCIAL INSTRUMENTS (CONT.)

(f) Market risk

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

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

At a Group level market risk exposures are measured using value-at-risk (VaR), supplemented by sensitivity analysis, and stress scenario analysis. At a company level market risks are managed through sensitivity analyses and stress scenario analysis.

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

(g) Foreign currency risk management

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

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

	Liabilities		Assets	
	2008 $'000s	2007 $'000s	2008 $'000s	2007 $'000s
New Israeli Shekel	5,567	4,329	7,181	3,515
Euro	3,758	486	15,149	12,228
Other	2,642	2,714	7,029	4,921

Foreign currency sensitivity

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 36 – FINANCIAL INSTRUMENTS (CONT.)

Profit or loss

	2008 $'000s	2007 $'000s
NIS Impact	79	(58)
US Dollar Impact	574	493
GBP Impact	134	154

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

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

	Carrying amount $'000s	Fair value $'000s
2008		
Consolidated		
Financial assets:		
Held-to-maturity	5,468	5,313
	Carrying amount $'000s	**Fair value $'000s**
2007		
Consolidated		
Financial assets:		
Held-to-maturity	12,007	11,626

NOTE 37 – EVENTS AFTER THE BALANCE SHEET DATE

On 5 February 2009 the Group acquired an indirect interest of 45.9% and control of an Italian company that develops, manufactures and sells clinical diagnostic equipment. The purchase of the equity interest in this company was for an immaterial amount. The Group also extended a € 3 million (approx $ 4 million) loan to the Italian Company. If the Italian Company meets certain performance targets over a 3 year period, then the loan will be converted to equity and will be deemed non-returnable.

DIRECTORS AND ADVISORS

DIRECTORS

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

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