KAMADA, LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

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Auditor's Report to Shareholders of KAMADA, LTD.

We have audited the enclosed consolidated balance sheets for Kamada, Ltd. . (hereinafter: "the Company") as of December 31, 2009 and 2008, the consolidated statements on comprehensive profit, changes in assets, and cash flow statements for each year ending on December 31 2009, 2008 and 2007. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express our opinion of these financial statements based on our audit.

Our audit was conducted in accordance with accepted auditing practices, including those standards which have been set forth in the CPA Regulations (Methods of Operation for CPAs), 5733-1973. According to these regulations, we are required to plan and perform the audit so as to achieve a reasonable measure of confidence that the financial statements do not contain significantly misleading information. An audit includes a random examination of evidence supported by the amounts and disclosures contained in the financial statements. The audit also includes an examination of the accounting principles used and significant estimates made by the Company's board and management, as well as an evaluation of the general integrity of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the aforementioned financial statements properly reflect, in all material respects, the Company's financial status and that of its consolidated company as of December 31, 2009 and 2008 and the results of their activities, changes in their assets and their cash flow for each of the years ending on December 2009, 2008 and 2007, in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010..

Kost Forer Gabbay & Kasierer **Tel Aviv**
Certified Public Accountants **March 25, 2010**

Consolidated Balance sheet

	Notes	As of December 31 2009	2008
		NIS 000's	
Current Assets			
Cash and cash equivalents	3	115,082	50,229
Short-term investments	4	1,999	–
Customers	5	15,196	12,967
Receivables & debit balances	6	5,462	3,165
Inventory	7	30,815	30,640
		168,554	97,001
Non-current Assets			
Restricted cash		750	–
Long-term inventory		–	895
Deferred and other expenses	8	1,188	2,132
Advance expenses for operational lease		4,672	4,374
Fixed assets	9	62,760	54,092
Intangible assets	10	386	650
		69,756	62,143
		238,310	**159,144**
Current Liabilities			
Credit from banking corporations and others	11	330	5,496
Liabilities to suppliers and service providers	12	22,698	18,679
Payables & credit balances	13	9,651	10,173
Liability for work on establishment contract		476	–
Liability pursuant to R&D grants	15	1,105	200
		34,260	34,548
Non-current Liabilities			
Loans from banking corporations and others	14	68	71,389
Option warrants	14B	2,844	1,330
Convertible bonds	14C	79,137	–
Liability for employee benefits	17	1,460	1,274
Liability pursuant to R&D grants	15	1,708	2,491
Deferred income		4,233	–
Other non-current liabilities	14A	390	277
		89,840	76,761
Equity	20		
Share equity		26,712	15,706
Premiums on shares		317,681	215,282
Option warrants		20,036	1,612
Receipts pursuant to convertible options		14,066	–
Loss balance		(271,129)	(187,664)
Other equity funds		6,844	2,899
		114,210	47,835
		238,310	**159,144**

The explanatory notes attached constitute an integral part of the consolidated financial statement

March 25, 2010			
Date financial statement approved	Leon Recanati, Director	David Tzur, Director and CEO	Eyal Liebowitz, CFO

Consolidated comprehensive profit statement

	Notes	2009	2008	2007
		For the year ending on December 31		
		In NIS 000's (except for loss per share data)		
Income from sales	23A	54,737	57,562	51,811
Income from establishment contracts		2,006	–	–
Comprehensive income		56,743	57,562	51,811
Cost of sales		58,344	57,313	39,624
Cost of implementing establishment contracts		1,608	–	–
Total cost of sales and services	23B	59,952	57,313	39,624
Other operating expenses	23C	7,528	–	15,935
		67,480	57,313	55,559
Net profit (loss)		(10,737)	249	(3,748)
R&D expenses, net	23D	33,689	46,815	44,317
Sales and marketing expenses	23E	2,767	2,390	2,253
Administrative and general expenses	23F	14,832	15,543	12,590
Operating loss		(62,025)	(64,499)	62,908)
Financing income	23G	1,038	25,920	1,607
Financing expenses	23G	22,478	8,532	26,980
Loss		(83,465)	(47,111)	(88,281)
Total comprehensive loss		(83,465)	(47,111)	(88,281)
Loss per share to company shareholders (in NIS)	24			
Basic loss per share		(4.14)	(3.57)	(8.32)
Diluted loss per share		(4.14)	(3.57)	(8.32)

The explanatory notes attached constitute an integral part of the consolidated financial statement

Consolidated statement on changes in equity

	Share equity	Premium on shares	Option warrants	Receipts from convertible options	Loss balance	Other equity funds	Total
	In NIS thousands						
Balance as of January 1, 2007	10,844	97,096	2,289	–	(52,272)	1,080	59,037
Total comprehensive loss	–	–	–	–	(88,281)	–	(88,281)
Exercising option warrants for shares, net	2,070	71,098	(44)	–	–	(246)	72,878
Cost of share-based payments	–	–	–	–	–	928	928
Balance as of December 31, 2007	12,914	168,194	2,245	–	(140,553)	1,762	44,562
Total comprehensive loss	–	–	–	–	(47,111)	–	(47,111)
Exercising option warrants for shares, net	2,375	36,228	(1,748)	–	–	(132)	36,723
Cost of share-based payment	–	–	–	–	–	1,165	1,165
Issue of shares and warrant options	417	10,860	1,115	–	–	–	12,392
Equity fund from transaction with controlling interest	–	–	–	–	–	104	104
Balance as of December 31, 2008	15,706	215,282	1,612	–	(187,664)	2,899	47,835
Total comprehensive loss	–	–	–	–	(83,465)	–	(83,465)
Exercising option warrants for shares, net	775	15,670	(98)	–	–	(2,737)	13,610
Cost of share-based payment	–	–	–	–	–	6,444	6,444
Receipts for convertible options upon the issue of convertible bonds (less issue expenses)	–	–	–	14,066	–	–	14,066
Issue of shares and option warrants (less issue expenses)	8,481	57,850	15,087	–	–	–	81,418
Equity fund from transaction with controlling interest	–	–	–	–	–	238	238
Issue of rights	1,750	28,879	3,435	–	–	–	34,064
Balance as of December 31, 2009	26,712	317,681	20,036	14,066	(271,129)	6,844	114,210

The explanatory notes to the financial statements constitute an integral part thereof

Consolidated cash flow statement

	For the year ending on December 31		
	2009	2008	2007
	In NIS 000's		
Cash flow from current activity			
Loss	(83,465)	(47,111)	(88,281)
Adjustments needed to present cash flow from current activity:			
Adjustments to profit and loss lines:			
Depreciation and amortizations	9,375	8,891	8,201
Financing expenses (income), net	21,440	(17,388)	25,373
Cost of share-based payment	6,340	1,165	928
Loss (profit) from realization of fixed asset	(8)	19	(80)
Change in liability pursuant to employee benefits, net	186	56	152
	37,333	(7,257)	34,574
Changes in assets and liabilities lines:			
Decrease (increase) in customers	(2,097)	6,636	736
Decrease in receivables and debit balances	6,647	199	560
Decrease (increase) in inventory	720	(8,327)	4,435
Decrease (increase) in deferred expenses	(3,044)	8,789	127
Decrease in advance expenses for operating lease, net	56	90	61
Increase (decrease) in liabilities to suppliers and service providers	4,845	1,998	(767)
Increase (decrease) in payables and credit balances	4,323	2,426	1,208
	6,450	11,811	6,370
Cash paid and received during the year for:			
Interest paid	(9,910)	(5,971)	(2,132)
Interest received	448	410	1,003
Taxes paid	(452)	(16)	(14)
	(9,914)	(5,577)	(1,143)
Net cash used for current activity	(49,596)	(48,134)	(48,480)

The Explanatory notes to the financial statements constitute an integral part thereof.

Consolidated cash flow statement

	For the year ending on December 31		
	2009	2008	2007
	In NIS 000's		
Cash flow from investment activity			
Acquisition of negotiable securities	(1,999)	–	–
Acquisition of fixed assets	(19,966)	(13,976)	(29,369)
Investment grants received	748	700	1,546
Restricted cash	(750)	–	–
Acquisition of rights to property	(49)	–	(213)
Compensation from exercise (acquisition) of transactions in derivatives measured in fair value through profit or loss, net	–	(257)	221
Acquisition of intangible assets	–	(125)	(8)
Compensation from exercise of fixed assets	10	37	290
Net cash used for investment activity	(22,006)	(13,621)	(27,533)
Cash flow from financing activity			
Cost of raising a loan	–	–	(314)
Issue of share equity (after deducting issue expenses)	113,516	13,814	–
Exercise of option warrants	8,609	35,525	41,117
Receipt of loans and other long-term liabilities less raising costs	–	69,668	4,240
Issue of convertible bonds (after deducting issue expenses)	93,069	–	–
Compensation from exercise of transactions in derivatives measured in fair value through profit or loss, net	–	83	–
Repayment of loans and other long-term liabilities	(72,695)	(11,386)	(2,728)
Short-term credit from banking corporations and others, net	(5,034)	(12,335)	13,750
Rate differentials pursuant to balances in cash and cash equivalent	(1,010)	1,448	(1,088)
Increase (decrease) in cash and cash equivalent	64,853	35,062	(19,948)
Balance of cash and cash equivalent at the beginning of the year	50,229	15,167	36,203
Balance of cash and cash equivalent at the end of the year	115,082	50,229	15,167
Substantial activity not conducted in cash			
Acquisition of fixed assets and intangible assets with credit	2,431	4,375	3,823
Waiver of wages and grant by a controlling interest	238	104	–
Investment grant received	–	–	730
Exercise of warrants presented as capital liability	5,001	1,198	32,007
Conversion of loan into share capital and option warrants	1,966	–	–
	9,636	5,677	36,560

The Explanatory notes to the financial statements constitute an integral part thereof

NOTE 1 – GENERAL

A. Description of the company

Kamada, Ltd. (hereinafter, "the Company") engages in the biopharmaceutical sphere in developing, manufacturing and marketing prescription drugs defined as "critical use" drugs, that is, drugs aimed for use under emergency conditions in emergency rooms, operating rooms, trauma situations and for other life-saving uses in which the drug is given as a chronic treatment.
The Company's activities are divided into two principal spheres:

- The industrial sphere, in which the Company develops, manufactures and markets critical use drugs, most of which are made from plasma or its products.
- The distribution sphere, in which the Company distributes drugs for critical uses, most of which are made from plasma or its products that are manufactured by other companies.

B. The Company's losses for 2009, which include net research and development costs of NIS 33,689,000, came to a total of NIS 83,465,000, and it had a negative cash flow from current activity for 2009 in the sum of NIS 49,596,000. The Company's ability to continue with all of the activities it has planned depends on acquiring financing for its activities through income from sales and raising funding from outside sources.
During 2009 the Company raised a total sum of about NIS 223 million gross in equity and debts, or which around NIS 83 million came from a private allocation of shares and option warrants; about NIS 35 million from issuing rights to shareholders; some NIS 96 million by issuing convertible bonds (see Note 20I-L); and roughly NIS 9 million in exchange for exercising options. Concomitantly the Company redeemed a debit balance of approximately NIS 72 million. The Company's cash balance as of December 31, 2009 is about NIS 115 million.

It is the opinion of the Company's management that the Company has the financial resources needed for its activities.

C. In December 2009 the Company established a wholly-owned subsidiary company, Kamada, Inc.

D. Definitions

In these financial statements:

Consolidated company:	A company of which the Company has control (as defined in IAS 27) and whose statements are consolidated with the Company's statements. Kamada Assets 2001 Ltd. (hereinafter, "Kamada Assets") – is a company with a controlling interest of 74% (see also Note 2C below).
Controlling interest:	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.
Affiliated parties:	As defined in IAS 24.

NOTE 2 – GENERAL ACCOUNTING PRINCIPLES

A. Basis for presenting the financial statements

The Company's financial statements are prepared on a cost basis, except for liabilities pursuant to share-based payments and certain financial instruments which are measured by their fair value.

The Company has chosen to present the comprehensive profit statement according to a method that characterizes its activity.

Format for preparing the financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"). These standards include:

1. International Financial Reporting Standards (IFRS)
2. International Accounting Standards (IAS)
3. Clarifications made by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Furthermore, the financial statements are prepared in accordance with the Securities Regulations (Annual Financial Statements) 5770-2010.

Consistent accounting policy and initial use of IFRS standards

The accounting policy employed in the financial statements was applied consistently for all of the periods presented.

Changes in the accounting policy in light of the application of new standards

IFRS 8 – Operating segments

IFRS 8 discusses the means for presenting operating segments and replaces IAS 14. According to the standard, the Company has adopted the "management approach" when reporting on the financial performance of its operating segments. The segment information is the data the management uses internally in order to assess segment performance and for deciding how to allocate resources to the operating segments.

The Company has adopted the provisions of IFRS 8 as of January 1, 2009 while applying it retroactively to comparative figures. Application of the standard had no substantive impact on the presentation of the segment report.

IFRS 2 (Revised) – Share-based payment

According to the revised versions of IFRS 2, the definition of maturation conditions include only service conditions and performance conditions, and donation clearance which includes conditions that are not maturation conditions, whether by the Company or by the opposite party, will be handled by accelerating the maturation and not through forfeiture. Conditions that are not considered service or performance conditions will be considered as conditions that are not maturation conditions and therefore they must be taken into account when estimating the fair value of the instrument donated. The revision was applied as of January 1, 2009 while applying it retroactively to comparative

figures. The initial application of the standard has no substantive impact on the financial statements.

IFRS 7 – Financial Instruments: Disclosure

The amendment to IFRS 7 requires additional disclosures with regard to measuring fair value. According to the standard, additional disclosures are required, among others, as to the source of the data used to perform the measurement using three levels for rating fair value for each of the financial instruments measured in fair value. Additionally, the standard also requires presentation of an adjustment between the opening balance and the closing balance with regard to the third level of fair value (source of data that is not based on market information), and this is in addition to disclosures of significant transfers between rating levels of fair value.
The amendment was applicable as of the financial statements for the year beginning on January 1, 2009, and thereafter (without applying it to comparative figures).

IFRIC 18 – Transfer of Assets from Customers

IFRIC 18 (hereinafter, "the Clarification") provides guidelines o how to handle accounting for a company that receives fixed asset items or cash from its customers for the purpose of acquiring or constructing property or providing a service.

According to the Clarification, when a company receives a fixed asset as described above, the company must determine whether the item received meets the definition of a fixed asset, including control over it. In the event it does, it must be recognized in the financial statements based on fair value as an asset received through an exchange of assets or for a service of a commercial nature in accordance with IAS 18. Concomitant with recognizing the asset, the income from to the property or service that is to be provided is also recognized under the relevant conditions stated in IAS 18, including those that refer to assessing the existence of certain components that can be identified separately. Thus, in a contract for services, the income is recognized based on the period during which the service was carried out. The Clarification applies to transactions conducted as of July 1, 2009.

Early application of IFRS standards

The Group adopted the IAS 1 Standard early, as of these financial statements.

IAS 1 – Presentation of Financial Statements

The Amendment to IAS 1 discusses classification of liabilities as current or non-current with regard to convertible financial instruments. According to the standard, liability conditions that enable the other party to cause, at any time, the clearance of the entity's liability by issuing equity instruments have no impact, in and of themselves, on classifying the liability in the balance sheet as current or non-current. The Amendment has no impact on the Company's consolidated financial statements since the debt component (after current liabilities) is presented in the balance sheet as a non-current liability according to the clearance date based on the date of redemption in cash only.

B. Main estimates and assumptions in preparing the financial statement

Estimates and assumptions

When preparing the financial statements the Company's management is required to use estimates, assessments and assumptions that influence the application of the accounting policy on the reported sums with regard to assets, liabilities, income and expenses. The underlying estimates and assumptions are reviewed on a regular basis. The changes in the accounting estimates are credited in the period during which the estimate was changed.

Below are the main assumptions used in the financial statements concerning the uncertainty as of the data of the balance sheet, and the critical estimates that were calculated by the Group and for which a substantial change in the estimates and assumptions is liable to change the value of the assets and liabilities in the financial statements for the following year:

– *Legal suits*

  In assessing the changes of the legal suit brought against the Company, the Company relied on the professional opinion of its legal consultants. These assessments made by the legal consultants were based on the best of their professional judgment, taking into account the stage of the proceedings and the legal experience they have accumulated in various spheres. Since the outcomes of the suits will be decided by the courts, these outcomes are liable to be very different from the aforementioned assessments.

– *Benefits for pensions and other benefits at the end of the transaction*

  A liability pursuant to benefit programs, which was defined following the conclusion of the transaction, was determined using actuarial assessment techniques. Calculation of the liability involved defining assumptions, among other things, regarding capitalization rates, expected yield rates for the assets, wage increase rates and the rate of employee turnover. There is substantial uncertainty about these estimates because the programs are long-term. See Note 17 for additional information.

C. Consolidated financial statements

The consolidated financial statements include the statements of a company in which the Company has a controlling interest (a subsidiary company). The control is reflected in that the Company has the ability, either directly or indirectly, to determine the financial and operating policies for the controlled company. Taken into consideration, in terms of control, the impact of the potential voting rights that may be exercised as of the balance sheet date. Consolidation of the financial statements was done as of the date control was obtained and until the date on which control was relinquished.

Balances and substantive mutual transactions and profits and losses stemming from transactions between companies of the Group were cancelled in their entirety in the consolidated financial statements.

The financial statements of the Company and the consolidated company are prepared for identical dates and periods. The accounting policy used for the

consolidated company's financial statements was applied uniformly and consistently with the policy used for the Company's financial statements.

D. Activity currency and foreign currency

1. Activity currency and presentation currency

The presentation currency for the financial statements is New Israeli Shekels (NIS).

The activity currency, which is the currency that best reflects the economic environment in which the Company's activities and transactions take place, is determined separately for each company in the Group and its fiscal status and the outcomes of its activities and measured on the basis of this currency. The Company's activity currency is New Israeli Shekels (NIS).

2. Transactions, assets and liabilities in foreign currency

Transactions stated in a foreign currency (that is, a currency that is different from the activity currency) are recorded when they are first recognized according to the exchange rate in effect at the time of the transaction. Following the first recognition, financial assets and liabilities stated in foreign currency are translated into the activity currency on every balance sheet date according to the exchange rate in effect on that date. Exchange rate differentials, except those that are capitalized into qualified assets or credited to equity in hedging transactions, are credited to the Profit and Loss Statement. Non-monetary assets and liabilities presented by cost are translated according to the exchange rate in effect on the transaction date. Non-monetary assets and liabilities stated in foreign presented and presented according to fair value are translated into the activity currency according to the exchange rate in effect as of the date on which the fair value was determined.

3. Linked monetary items

Monetary assets and liabilities that are linked, according to their terms, to changes in the Israeli Consumer Price Index Israel (hereinafter, "the CPI"), are adjusted according to the relevant CPI on every balance sheet date, in accordance with the terms of the agreement. Linkage differentials deriving from such adjustments are credited to the Profit and Loss Statement.

E. Cash equivalent

Cash equivalents are considered as highly liquid investments, which include short-term deposits with banking corporations that are not restricted by liens, whose original period does not exceed three months from the date of the investment or does exceed three months but can be withdrawn immediately without penalty, and constitute part of the Company's cash management.

F. Short-term deposits

Short-term deposits with banking corporations whose original period exceeds three months from the date of the investment. These deposits are presented in accordance with the terms of their deposit.

G. Provision for doubtful debts

Provision for doubtful debts is determined specifically pursuant to debts whose collection, in the opinion of the Company's management, is doubtful.

H. Inventory

Inventory is measured at its cost or net realization value, whichever is lower. The cost of the inventory includes expenses involved in acquiring the inventory and transporting to its place, and its present condition. Net realization value is the estimated price for its sale during a regular transaction less the estimated costs for completing the transaction and costs needed to carry out the sale.

The cost of inventory is determined as follows:

Raw materials	–	According to purchase price on a "first in – first out" basis.
Products in process	–	Based on average cost that includes materials, labor and other direct and indirect production expenses.
Finished products	–	Based on average cost that includes materials, labor and other direct and indirect production expenses.
Purchased goods and products	–	On a "first in – first out" basis.

The Company examines the status of its inventory and its age from one period to the next and makes provisions for slow-moving inventory accordingly.

During a particular period when the Company is not producing at its normal capacity, the cost of the inventory does not include additional fixed overhead costs beyond those required during a normal period. Costs, as state, that were not loaded were credited as an expense on the Profit and Loss Statement during the period in which they occurred. Additionally, the cost of inventory does not include unusual sums for the cost of material, labor and others that result from inefficiency.

I. Income receivable from work on establishment contracts

Income receivable from work carried out under an establishment contract are presented in the balance sheet as the accrued sum of the total costs that occurred plus the total profits that were recognized and accounts for work progress. Accounts for work progress are debts that were paid to customers pursuant to work that was carried out as of the balance sheet date, whether they have been received or not. In the event the amount is positive its is presented in the balance sheet as an asset for income receivable from work on establishment contracts; if the amount is negative, it is presented in the balance sheet as a liability pursuant to work on establishment contracts. The financial asset of income receivable from work on establishment contracts is handled, in terms of decreased value and depreciation, as described below with regard to decreased value of financial assets presented at reduced cost and depreciation of financial assets, respectively.

Project costs according to an establishment contract are recognized according to the cost that includes identifiable direct costs and indirect costs.

J. Financial instruments

Financial assets

Financial assets included in IAS 39 are recognized as of the date on which they are first recognized according to their fair value plus directly attributable transaction costs, except for investments presented at fair value with changes on the Profit and Loss Statement, for which the transaction costs are credited to the Profit and Loss Statement.

After initial recognition, the accounting handling of the financial assets is based on their classification into one of the following four groups:

- Financial assets measured at fair value through profit or loss;
- Investment held for redemption;
- Loans and debts;
- Financial assets available for sale.

Financial assets measured at fair value through profit or loss

The group of financial assets measured at fair value through profit or loss that include financial assets held for trading and financial assets aimed, after their initial recognition, to be presented at fair value with their changes and credited to the Profit and Loss Statement.

Financial assets classified as being held for trading, if purchased primarily for the purpose of sale or repurchase in the near future, constitute part of the portfolio of identified financial instruments that are managed together in order to achieve short-term profits, or are a derivative that is not aimed to serve as a defensive instrument. Profits or losses from investments held for trade are credited to the Profit and Loss Statement at the time they occur.

Fair value

The fair value of financial instruments traded in an active market is determined by the market prices on the date of the balance sheet. For financial instruments for which there is no active market, the fair value is determined using estimation methods. These methods include relying on transactions carried out recently under market conditions, reference to the current market value of another similar instrument, capitalization of cash flows or other estimation methods.

Financial liabilities

1. *Financial liabilities at reduced cost*

   Loans and credit initially recognized at their fair value less directly attributable transaction costs, if any (for example, the costs associated with raising the loan). Following initial recognition loans, including bonds, are present according to their terms by reduced cost using the effective interest method which also takes into account the directly attributable transaction costs. Short-term credit (such as credit to suppliers and other payables) is presented according to its terms, usually in nominal values. Profits and losses are recognized in the Profit and Loss Statement when the financial liabilities are subtracted and as a result of the systematic depreciation.

2. Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities that are held for trading and financial liabilities aimed, after their initial recognition, to be presented at fair value with their changes and credited to the Profit and Loss Statement.

Complex financial instruments

Convertible bonds that were issued in the activity currency of the issuing company (NIS) that are not linked and not stated in foreign currency, which include an equity component pursuant to the convertible options and a liability component which is split into an equity component and a liability component, and every component is presented separately less the transaction costs attributed to the different components. The said split is calculated by determining the liability component based on the fair value of a similar liability without convertible options. The value of the equity component is determined as the residual value and calculated as the difference between the total compensation received for the convertible bonds and the sum attributed to the liability component described above, and therefore presented in consecutive periods. Direct transaction costs are allocated between the equity component and the liability component on the basis of the ratio of the compensation allocation to the equity and liability components, as described above.

The liability component is handled after its initial recognition as abovementioned with regard to financial liabilities, and presented in the balance sheet as a non-current liability according to the clearance date based on the date of redemption in cash.

Issuing securities in a package

When issuing securities in a package, the compensation received (before issue expenses) is allocated to the components of the securities issued in the package according to the following allocation order: Fair value is determined first for the financial liabilities and complex financial instruments (such as convertible bonds) that are not presented at fair value each period but rather according to present value, where the compensation allocated for the equity instruments is determined as the residual value according to the difference between the comprehensive compensation and the relevant compensations allocated as stated above. Issue costs allocated to each component in accordance with the ration of the sums defined for each component as stated above, less the tax consequences, if any, regarding the equity instruments. Following the abovementioned allocation, each component is handled according to his contractual nature (financial liability or equity instrument).

Financial liabilities

A financial liability is subtracted when it is cleared, that is, when the liability is redeemed, canceled or expired. The financial liability is cleared when the debtor (the Group):

- Redeems the liability via payment in cash, other financial assets, goods or services; or,
- Is legally released from the liability.

When an existing financial liability is replaced with another liability towards the same lender under substantially different terms, or when a substantive change is

made in the existing terms of the liability, the replacement or the change is handled as a subtraction of the original liability and as recognition of a new liability. The difference between the balance in the financial statement for the two aforementioned liabilities is credited in the Profit and Loss Statement. If the replacement or the change is not substantial, that are treated as a change in the original terms of the liability no profit or loss is recognized from the replacement.

K. Leases

The tests for classifying a lease as financial or operational is based on the essence of the agreements and they are assessed at the time of the contract according to the following rules set forth in IAS 17:

The Group as lessee

1. *Financial lease*

   In a financial lease all of the risks and benefits associated with ownership of the leased property are actually transferred to the Group. The leased property is measured at the beginning of the lease period according to the fair value of the leased property or the present value of the minimal lease payments – whichever is lower. The liability pursuant to the least payments is present in present value, where the lease payments are allocated between financing expenses and redemption of the liability pursuant to the lease according to the effective interest method. See Note 9(3).

2. *Operational lease*

   Lease agreements in which all of the risks and benefits implied from owning the leased property are not actually transferred, are classified as an operational lease. Lease payments are recognized as an expense in the Profit and Loss Statement in a direct line on a regular basis over the lease period.

   The lease of land that is not part of a framework of real estate for investment and presented at fair value from the Israel Lands Administration is handled as an operational lease when the sum attributed to the land in a capitalized lease is presented in the balance sheet as an "advance expense pursuant to an operational lease" and is recognized as an expense in the Profit and Loss Statement using the direct line method over the lease period that includes an option of 49-82 years, on average.

L. Fixed assets

Fixed asset items are presented according to cost plus direct acquisition costs, less accrued depreciation and less investment grants received for them and are not included in the current maintenance expenses. The cost includes replacement parts and auxiliary equipment that can be used only in the context of machines and equipment.

The cost of assets that were established independently includes the cost of materials, direct employee wages and credit costs, and any other cost that can be directly attributed to bringing the asset to its location and to a condition that will enable it to be used in the manner intended by the Company's management.

Depreciation is calculated at equal yearly rates on the basis of the direct line method through the useful lifetime of the asset, as follows:

	%	Main %
Buildings (*)	4	4
Machines and equipment	15-20	15
Vehicles	15	15
Computers, furnishings and office equipment	6-33	33
Improvements to rented premises	Throughout the rental period	18

(*) Regarding the land component, see Section K(2) above.

Improvements to rented premises are deducted using the direct line method over the rental period (including the optional extension period held by the Company which it intends to implement) or according to the estimated lifetime of the improvement, whichever is shorter.

The useful lifetime, depreciation method and residual value of every asset is examined at least once a year and the changes are treated as a change in the accounting estimate on a "from now on" basis. Regarding examining reduced value of a fixed asset, see Section N below.

Depreciation of the assets is stopped at the time when the asset is classified as owned for sale or the time at which the asset is subtracted – whichever is earlier. An asset is subtracted from the financial statements at the time of its sale or when economic benefits are no longer expected from use of the asset. Profit or loss from the subtraction of an asset (calculated as the difference between the net compensation from the subtraction and the reduced cost in the financial statements) is included in the Profit and Loss Statement for the period in which the asset was subtracted.

M. <u>Intangible assets</u>

Intangible assets that are acquired separately are measured when there are initially recognized according to the cost plus direct acquisition costs. Intangible assets that are acquired as part of business transactions are include according to their fair value at the time of the acquisition. Following their initial recognition, intangible assets are presented according to their cost less accrued depreciation and less accrued losses from decreased value. Costs for intangible assets that were developed internally are credited to the Profit and Loss Statement at the time they occurred, except for capitalized development costs.

According to the management's opinion, intangible assets have a specific useful lifetime. The assets are subtracted over their useful lifetime on the direct line method and a reduction in their value is examined when there are signs indicating their value has decreased. The reduction period and reduction method for intangible assets with a specific useful lifetime are examined at least once a year. Changes in the useful lifetime or in the expected usage pattern of the economic benefits anticipated from the asset are handled as changes in the accounting estimates on a "from now on" basis. Results of the decrease for

intangible assets with a specific useful lifetime are credited to the Profit and Loss Statement.

The useful lifetime of the intangible assets is as follows:

	Years
Information systems	5

Research and Development Costs

Research costs are credited to the Profit and Loss Statement as they occur. An intangible asset that results from a development project or from recognized independent development, if it is possible to prove the technological feasibility of completing the intangible asset such that it will be available for use or sale; the Company's intention to complete the intangible asset and to use or sell it; the ability to use or sell the intangible asset; the manner in which the intangible asset produces future economic benefits; the existence of the necessary resources – technical, financial and others – that are available for completing the intangible asset and the ability to reliably measure the results therefrom during its development.

Software

The Groups assets include computer systems that are comprised of hardware and software. Software programs that constitute an integral part of hardware, which cannot operate without the software installed on it, are classified as fixed assets. In contrast with this, licenses for software programs that stand on their own and that add functionality to the hardware are classified as intangible assets.

N. Decreased value of non-financial assets

The Company assesses the need to examine decreased value of non-financial assets when there are signs as a result of certain events or changes in circumstances indicating that the balance in the financial statements is recoverable. In cases where the non-financial assets balance in the financial statements is greater than their recoverable sum, the assets are reduced to their recoverable sum. A recoverable sum is the higher between the fair value less sales costs, and the utilization value. When assessing the utilization value, expected cash flows are capitalized according to the pre-tax discount rate that reflects the specific risks for each asset. For an asset that does not generate independent cash flows, a recoverable sum is defined for the cash-bearing unit to which the asset belongs. Losses from a decrease in value are credited to the Profit and Loss Statement.

A loss from a decrease of an asset's value, except for reputation, is cancelled only when changes have taken place in the estimates used to define the recoverable sum of the asset from the last time the loss was recognized due to the decrease in value. Cancellation of a loss as described is limited to the lower between the amount by which the value of a previously recognized asset has decreased (less depreciation or discount) and the asset's recoverable sum. Regarding an asset presented by cost, the said loss is credited to the Profit and

Loss Statement. Regarding an asset that has been revaluated, the said cancellation is recognized as a different comprehensive profit (loss) and credited to the equity, except for cancellation of a loss that was previously credited as a profit or loss and which was also credited to the Profit and Loss Statement.

O. Grants for Research and Development

Grants pursuant to research and development (R&D) are recognized when there is a reasonable assurance that the grants will be received and the Company will comply with all of the relevant conditions. Government investment grants relating to assets such as fixed assets are presented as an offset against the assets for which the grants were received.

R&D grants received from the Bi-national Industrial Research and Development (BIRD) Foundation in support of R&D activities that include an undertaking to pay royalties to the Foundation on the basis of future sales derived from the development are recognized at the time they are received as a liability if economic benefits are expected as a result of research activity that will lead to sales that quality the Foundation for royalties. When royalty payments pursuant to the grant do not bear market interest, the liability is recognized according to its fair value by capitalization at market interest at the time the grant is received. The difference between the sum of the grant and the fair value of the liability is handled as a government grant, and therefore it is recognized as a reduction in R&D expenses. Sums paid as royalties are recognized as clearing the liability. When the aforementioned economic benefits are not expected, the grant receipts are recognized as a reduction in the relevant R&D expenses. In such cases the undertaking to pay the royalties is handled as a pending liability in accordance with IAS 37, until the date on which the liability is recognized when the abovementioned expectation materializes.

On each balance sheet date the Company examines whether there is a reasonable assurance that the liability that was recognized, in full or in part, was not cleared (since the Company will not be required to pay royalties) based on the best estimate of future sales; and if there is no such assurance, the appropriate liability is subtracted against the reduced R&D expenses. If the estimated future sales indicate that the said reasonable assurance does not exist, the appropriate liability reflecting the projected royalty payments is recognized, while at the same time the R&D expenses are also recognized.

P. Share-based payment transactions

Employees and other of the Company's service providers are entitled to benefits by way of a share-based payment in exchange for equity instruments.

Transactions that are cleared with equity instruments

The cost of transactions with employees that are cleared with equity instruments is measured according to the fair value of the equity instruments that were granted at the time they were granted. The fair value is determined using a standard pricing model (see additional details at Note 20). Regarding other service providers, the cost of the transactions is measured according to the fair value of the goods or the services received in exchange for the equity instruments given. In cases where it isn't possible to measure the fair value of

the goods or services received in exchange for the equity instruments, they are measured according to the fair value of the equity instruments granted.

The cost of transactions cleared using equity instruments is recognized in the Profit and Loss Statement together with a concomitant increase in equity over the period during which the performance terms and/or service took place and when the relevant employees are entitled to payment (see below – Maturity Period). The accrued expense recognized for transactions cleared using equity instruments during each report period until the maturity date reflects the extent to which the maturity period has passed and the Group's best estimate regarding the number of equity instruments that will ultimately mature. The expense or income on the Profit and Loss Statement reflects the change in the accrued expense that was recognized until the end of the report period.

The expense for grants that do not ultimately mature is not recognized, except for grants whose maturity depends on market conditions and which are handled as grants that have matured regardless of whether market conditions exist, assuming that the other maturity conditions (service and/or performance) do exist.

When the Company makes changes in the conditions for a grant cleared with equity instruments, the additional expense beyond the original expense is recognized as it was calculated for each change that increases the comprehensive fair value of the payment granted or which benefits the employee / other service provider according to the fair value on the date of the change.

Cancellation of a grant cleared with an equity instrument is handled as if it had matured on the date of cancellation and the expenses that was not yet recognized for the grant is recognized immediately. Nonetheless, if the grant that was cancelled is replaced with a new grant and is designated as an alternative grant on the date it was given, the cancelled grant and the new grant shall both be handled as a change in the original grant as described in the previous section.

Q. Liabilities due to employee benefits

The Group has several types of benefits for their employees:

1. Benefits for short-term employees

   Benefits for employees working for short periods of time include wages, vacation days, sick leave, recreation pay and employee payments for National Insurance and are recognized as an expense with the service provider. The liability pursuant to a cash bonus or profit-sharing program is recognized when the Group has a legal or implied undertaking to pay the said amount for a service that was given by the employee in the past and for which the sum can be reliably estimated.

2. Benefits following termination of employment

   These programs are usually financed by deposits made to insurance companies and they are classified as specific deposit programs and specific benefit programs.

The Company has a specific benefit program pursuant to compensation payments in accordance with the Termination of Employment Compensation Law. According to the law employees are entitled to receive compensation upon their termination or retirement. The liability due to termination of employee-employer relations is present using an actuarial value method of the projected eligibility unit. The actuarial calculation takes into account future salary costs and the rate of employee departure, based on an assessment of the timing of the payment. The sums are presented on the basis of projected future cash flow capitalization, at the interest rate of government bonds whose redemption date is close to the liability period relating to the retirement compensation.

The Company deposits monies pursuant to its undertakings to pay compensation benefits to some of its employees on a regular basis in pension funds and with insurance companies (hereinafter, “the Program Assets”). The Program Assets are assets that are held by an employee benefits fund for the long term, or in qualifying insurance policies. The Program Assets are not available for use by the Company’s creditors, and they cannot be paid directly to the Company.

The liability for employee benefits presented in the balance sheet represents the present value of the benefits’ liability as defined less the fair value of the Program Assets, less the cost of past services and actuarial profits or losses that have not yet been recognized.

Actuarial profits or losses are recognized according to the “strip method.” The Group recognized only the net amount of the actuarial profits or losses that were deferred in previous periods, which exceeds 10% of the higher between:

- The present value of the undertaking pursuant to specific benefits to employees for the beginning of the period; or,
- The present value of the Programs Assets for the beginning of the period.

The sum recognized in the Profit and Loss Statement for the period is the said sum regarding each program separately divided by the average of the employees’ expected remaining years of employment.

R. Recognition of income

Income is recognized on the Profit and Loss Statement when it can be measured reliably, when it is expected that the economic benefits relating to the transaction will flow to the Company, and when the costs that exist or will exist pursuant to the transaction can be reliably measured. Income is measured according to the fair value of the compensation in the transaction less commercial discounts, quantity discounts and returns.

Income from sale transactions via credit that include a financing transaction are recognized at their present value, such that the difference between the fair value of the transaction had it been executed without credit and the stated sum of the payment is recognized in the Profit and Loss Statement as financing income using the effective interest method.

Below are the specific criteria regarding recognition of income for the following types of income:

Income from the sale of goods

Income from the sale of goods is recognized when all of the risks and significant yields derived from ownership of the goods have been transferred to the purchaser and the seller does not maintain ongoing administrative involvement. Generally speaking, the date of delivery is the date on which ownership is transferred.

Income from providing services

Income from the provision of services is recognized in accordance with the stage of transaction completion at the balance sheet date. According to this method, the income is recognized during the reporting periods in which the services were provided. In the event the contractual outcome cannot be reliably measured, the income is recognized up to the level of the recoverable expenses that have occurred.

Income from works under establishment contracts

The Group has works according to establishment contracts at a fixed price.

Income from works according to establishment contracts is recognized according to the rate of completion method, when all of the following conditions exist: The income is know or can reliably be estimated, collection of the income is expected, the costs involved in carrying out the work are known or can be reliably estimated, there is no substantial uncertainty regarding the Company's ability to complete the work and comply with the contractual terms with the customer, and the rate of completion can be reliably estimated. The rate of completion is determined on the basis of actual cost versus overall projected cost.

S. Cost of income and discounts from suppliers

The cost of sales includes expenses pursuant to loss, storage and transportation of inventory to its final sales point. Similarly, included in the cost of sales are losses due to a drop in inventory value, elimination of inventory and provisions for slow-moving inventory.

T. Financing income and expenses

Financing income includes interest income pursuant to sums that were invested, changes in the fair value of financial assets measured at fair value through profit or loss, and profits due to exchange rate differentials. Interest income is recognized upon its accrual, using the effective interest method.
Changes in the fair value of financial assets measured at fair value through profit or loss also include income from interest.

Financing expenses include interest expenses on loans received, changes due to the value of time regarding provisions, changes in the fair value of financial assets measured at fair value through profit or loss, and losses from declines in the value of financial assets.
Profits and losses from exchange rate differentials are reported in net values.

U. Operating segments

An operating segment is a component of the Group that complies with the following three conditions:

1. Engages in commercial activities from which it is likely to yield income and pursuant to which it is likely to incur expenses, including income and expenses relating to transactions between the Group's companies;
2. Its operating expenses are reviewed regularly by the Group's operational decision-maker in order to decide with regard to the resourced to be allocated to it and to evaluate its performance; and
3. Separate financial information about it is available.

V. Profit (loss) per share

The profit per share is calculated by dividing the net profit attributed to the Company's shareholders by the weighted number of ordinary shares that existed during the period. The basis profit per share includes only shares that actually existed during the period. Potential ordinary shares (convertible securities, such as convertible bonds, options warrants and employee options) are only included in the calculation of the diluted profit per share in the event their effect dilutes the profit per share by the fact that their conversion reduces the profit per share or increases the loss per share from continued activities. In addition, potential ordinary shares that were converted during the period are included in the diluted profit only up until the date of conversion, and from that date forward they are included in the basic profit per share.

W. Provisions

Provisions in accordance with IAS 37 are recognized when the group has a present undertaking (legal or implied) as a result of an event that took place in the past, it is expected that it will require the use of economic resources in order to clear the undertaking and it can be reliably estimated. In the event the influence is substantial, provisions are measured by capitalizing future expected cash flows, using the pre-tax interest rate that reflects market assessments regarding the time value of the money, and in certain cases, even the specific risks in connection with the liability.

X. Publicity expenses

Expenses for publicity activities, sales promotion and marketing, such as producing catalogues and publicity leaflets, are recognized as an expense at the time the Group has access to the publicity materials or when the service pursuant to these activities was given to the Group.

Y. Disclosure 0f new IFRS standards during the period before their application

IFRS 9 – Financial instruments

In November 2009 IFRS 9 – Financial Instruments was published, which is the first stage in the project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 focuses mainly on classifying and measuring financial assets and it applies to all financial assets that were covered by IAS 39.

The standard states that at the time that all financial assets are first recognized (including combined instruments in which the host contract is a financial asset)

they will be measured at fair value. In subsequent periods debt instruments at a discounted cost should be measured only if the following two cumulative conditions exist:

- The asset is owned as part of a business model whose goal is to hold the assets in order to support the contractual cash flows that derive therefrom;
- According to the contractual terms of the financial asset the Company is entitled, at certain times, to receive cash flows that constitute only principal payments and interest payments on the balance of the principal.

The following measurement of all the remaining debt instruments and other financial assets shall be according to fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value, and the differences will be credited to profit and loss or to other comprehensive profit (loss), according to the choice of accounting policy by each and every instrument. If these are equity instruments held for commercial purposes, it is necessary to measure them at fair value through profit or loss. The choice is final and cannot be changed. However, when a company changes its business model for managing its financial assets, it must reclassify all of the financial instruments that are influence by the change in the business model in order to reflect this change. Under other circumstances no reclassification of financial instruments is carried out.

The initial date for this standard is January 1, 2013. Early adoption is possible. The initial adoption should be carried out retroactively while re-presenting the comparative numbers subject to the leniencies noted in the standard.

The Company is examining the possible impact of the new standard but it cannot, at this point in time, estimate its effect – if any – on the financial statements.

<u>IAS 17 – Leases</u>

The amendment to IAS 17 (hereinafter, "the Amendment") deals with classifying leases of land and buildings. According to the Amendment, the specific provision regarding how to classify land leases was removed. As a result, there is no longer the requirement to classify a land lease as an operational lease any time the ownership is not expected to transfer to the lessee at the end of the lease period; rather, classification of the land lease must be examined according to the general instructions appearing in IAS 17 regarding classification as an operational or a financial lease, taking into consideration that the land, generally speaking, has an indefinite economic life.

The standard will be applied retroactively or on a "from now on" basis beginning with the financial statements for the periods beginning on January 1, 2010. Early application is possible. In order to apply the standard retroactively, when adopting the standard, you must reassess the land lease classification on the basis of the information that was available at the time of the lease contract and if there has been a change in the lease classification the provisions of IAS 17 must be applied retroactively from the date of the lease contract. However, in any case where an entity does not have the information needed to apply the standard retroactively, the standard may be applied on a "from now on" basis and in the future on the basis of the information that existed at the time the

standard was adopted and to recognize the asset and the liability, relating to the land lease that was reclassified as a financial lease, according to their fair value on that date. Any difference between the fair value of the asset and the fair value of the liability will be credited to the profit balance.

The Company is examining the possible impact of the new standard but it cannot, at this point in time, estimate its effect – if any – on the financial statements.

IFRIC 19 – Clearing financial liabilities through equity instruments

In November 2009 IFRIC 19 (hereinafter, "the Clarification") was published, which defines the accounting handling for transactions in which financial liabilities are cleared by issuing equity instruments. According to the Clarification, equity instruments that were issued in order to exchange a debt will be measured at fair value of the equity instrument issued, if this can be estimated reliably. If the fair value of the fair value of the equity instruments issued cannot be estimated reliably, the equity instruments should be measured according to the fair value of the financial liability that was cleared at the time it was cleared. The difference between the balance in the financial statements of the cleared financial liability and the fair value of the equity instruments issued are recognized as either profit or loss.

The Clarification should be applied for annual periods beginning on January 1, 2011 and thereafter. Early adoption is possible.

NOTE 3 – CASH AND CASH EQUIVALENT

	As of December 31	
	2009	**2008**
	NIS 000's	
Cash and deposits for immediate withdrawal	2,447	19,795
Short-term shekel investments	110,084	7,722
Short-term dollar deposits (1)	2,551	22,712
	115,082	50,229

Short-term deposits that are deposited with banking corporations for periods of between one day and one week, according to the Company's needs for unmortgaged cash. The deposits bear an interest stated according to the period (1%-1.21% per year).

NOTE 4: SHORT-TERM INVESTMENTS

	As of December 31	
	2009	2008
	NIS 000's	
Financial assets earmarked for fair value and changes are credited to the Profit and Loss Statement		
Government loans	1,999	–

NOTE 5: CUSTOMERS

	As of December 31	
	2009	2008
	NIS 000's	
Pending debts (1)	14,903	12,928
Checks for collection	658	418
	15,561	13,346
Less – provisions for doubtful debts	365	379
Customers, net	15,196	12,967
Including interested parties	–	228

Regarding terms for balances for customers – interested parties, see Note 26(A).

Customer debts do not bear interest. The range of credit days to customers is between 30-150 days.

Decreased value of customer debts is handled by recording a provision for doubtful debts.

Below are transactions for provisions for doubtful debts:

	Specific provision NIS 000's
Balance as of January 1, 2008	383
Rate differential	(4)
Balance as of December 31, 2008	379
Rate differential	(14)
Balance as of December 31, 2009	365

Below is an analysis of customer balances for which a drop in value was not recognized (provision for doubtful debts) according to the collection arrears period relative to the date of the balance sheet:

	Customers whose redemption date has not yet arrived (no arrears)	Customers whose redemption date and the number of days in arrears is:					
		Up to 30 days	30-60 days	60-90 days	90-120 days	More than 120 days	Total
	NIS Thousands						
December 31, 2009	14,083	294	34	75	-	52	14,538
December 31, 2008	11,875	432	229	1	-	12	12,549

NOTE 6: RECEIVABLES AND DEBIT BALANCES

	As of December 31	
	2009	2008
	NIS 000's	
Materials for clinical trials (1)	4,058	664
Institutions	1,050	1,146
Advance expenses	298	506
Income receivable	9	773
Others	47	76
	5,462	3,165

(1) In the Company's opinion the materials for clinical trials will be used during the period up until December 31, 2010.

NOTE 7: INVENTORY

	As of December 31	
	2009	2008
	NIS 000's	
Raw and auxiliary materials	5,478	4,107
Products in process	4,893	6,651
Finished products	16,526	17,643
Purchased products	3,918	2,239
	30,815	30,640

NOTE 8: DEFERRED AND OTHER EXPENSES

A. Materials earmarked for clinical trials in 2010 in the amount of NIS 1,118,000 were classified according to the Company's long term projection (in 2008 – NIS 1,979,000).

B. Long-term leasing deposits totaling NIS 71,000 (in 2008 – NIS 154,000).

NOTE 9: FIXED ASSETS

A. Composition of fixed assets and accrued depreciation by principal groups and transactions therein during the period are:

For 2009

	Buildings	Machines & equipment (1) (2) (4)	Vehicles (3)	Computers, office furniture & equipment	Improvement to rental property	Total
	NIS Thousands					
Cost						
Balance as of January 1, 2009	46,563	55,482	221	8,088	3,836	114,190
Increments during the year	11,150	5,757	107	742	19	17,775
Removals during the year	–	(91)	–	–	–	(91)
Balance as of December 31, 2009	57,713	61,148	328	8,830	3,855	131,874
Depreciation						
Balance as of January 1, 2009	12,149	39,349	74	5,525	3,001	60,098
Increments during the year	3,466	4,449	36	903	253	9,208
Removals during the year	–	(91)	–	–	–	(91)
Balance as of December 31, 2009	15,615	43,707	110	6,428	3,254	69,114
Depreciated balance as of December 31, 2009	42,098	17,441	218	2,402	601	62,760

For 2008

	Buildings	Machines & equipment (1) (2) (4)	Vehicles (3)	Computers, office furniture & equipment	Improvement to rental property	Total
	NIS Thousands					
Cost						
Balance as of January 1, 2008	38,747	50,115	284	7,371	3,833	100,350
Increments during the year	7,816	5,367	–	717	3	13,903
Removals during the year	–	–	(63)	–	–	(63)
Balance as of December 31, 2008	46,563	55,482	221	8,088	3,836	114,190
Depreciation						
Balance as of January 1, 2008	9,126	34,798	46	4,675	2,749	51,394
Increments during the year	3,023	4,551	35	850	252	8,711
Removals during the year	–	–	(7)	–	–	(7)
Balance as of December 31, 2008	12,149	39,349	74	5,525	3,001	60,098
Depreciated balance as of December 31, 2008	34,414	16,133	147	2,563	835	54,092

(1) After deducting the depreciated balance as of December 31, 2009 for investment grants in the amount of NIS 3,878,000.

(2) Including wages credited in 2009 and 2008 to the cost of facilities, machines and equipment in the amount of some NIS 847,000 and NIS 717,000, respectively.

(3) Includes vehicles that were acquired under financial lease conditions at an original cost of NIS 199,000.

(4) During 2009 the Company initiated a shut-down of the plant for a period of several weeks in order to upgrade it so as to meet the standardization and quality requirements for manufacturing its products. During the factory shut-down and due to upgrading the plant facilities the credited to the cost of the facilities, machines and equipment, wages in the sum of NIS 693,000. Furthermore, The Company included in its financial statements an expenditure of NIS 7,528,000 representing operating expenses incurred during the upgrade period and the testing period that followed, as part of other operating expenses.

B. With regard to mortgages, see Note 19.

NOTE 10: INTANGIBLE ASSETS, NET

Composition:

	For the year ending December 31		
	Knowledge	Computer software	Total
	NIS Thousands		
Cost			
Balance as of January 1, 2008	124	857	981
Additions – acquired separately	–	343	343
Balance as of December 31, 2008	124	1,200	1,324
Balance as of December 31, 2009	124	1,200	1,324
Accrued depreciation			
Balance as of January 1, 2008	124	370	494
Depreciation recognized during the year	–	180	180
Balance as of December 31, 2008	124	550	674
Depreciation recognized during the year		264	264
Balance as of December 31, 2009	124	814	938
Balance, net			
As of December 31, 2009	–	386	386
As of December 31, 2008	–	650	650

Depreciation costs

The costs relating to depreciation of other intangible assets are classified in the Profit Statement in the following manner:

	For the year ending December 31		
	Knowledge	Computer software	Total
	NIS Thousands		
Administrative and general expenses	264	180	182

NOTE 11: CREDIT FROM BANKING AND OTHER CORPORATIONS

	In foreign currency or linked to foreign currency	Non-linked	Total
	NIS Thousands		
December 31, 2009			
Short-term credit from banking corporations	–	14	14
Current maturities of long-term loans	130	186	316
	130	200	330
December 31, 2008			
Short-term credit from banking corporations	–	5,048	5,048
Current maturities of long-term loans	160	288	448
	160	5,336	5,496

NOTE 12: LIABILITIES TO SUPPLIERS AND SERVICE PROVIDERS

	As of December 31	
	2009	2008
	NIS 000's	
Pending debts in NIS	7,798	7,509
Pending debts in foreign currency	13,703	9,076
	21,501	16,585
Checks redeemable	1,197	2,094
	22,698	18,679

Debts to suppliers do not bear interest. Average number of days of credit to suppliers is 90 days.

NOTE 13: PAYABLES AND CREDIT BALANCES

	As of December 31	
	2009	2008
	NIS 000's	
Employees and others due to wages and ancillary expenses	7,894	7,478
Advances	–	1,692
Expenditures payable	1,573	894
Institutions	176	101
Others	8	8
	9,651	10,173

NOTE 14: NON-CURRENT LIABILITIES

A. Other non-current liabilities

The liability in the amount of NIS 390,000 is for project costs that will occur after exercising an option from the Israel Lands Administration to extend a lease period.

B. Options warrants

During 2009 and 2008 the Company allocated 531,495 non-negotiable options warrants that may be exercised for 531,495 ordinary chares at a nominal value of NIS 1 each (subject to adjustments), against exercise supplement of NIS 10.83 – 32.13. Of the aforementioned warrants, 265,604 may be exercised until January 34, 2013 and 265,891 of the warrants may be exercised until July 30, 2012.

During 2009, 239,044 options warrants were exercised for 239,044 ordinary shares with a nominal value of NIS 1 each, for a total price of NIS 2,603,000. There are 292,451 outstanding options warrants that are presented as part of the liabilities as of December 31, 2009 (see Note 20D).

C. Convertible bonds

On October 15, 2009 the Company published a shelf proposal report based on a shelf prospectus filed November 26, 2008 as amended on September 17, 2009, for bonds that are convertible into shares (series C) at a nominal value of NIS 100,000,000 and redeemable in three yearly payments beginning from December 1, 2013.

The bonds are not linked and bear a variable annual interest rate plus an annual margin at a rate of 6.1% above the yearly interest rate for "government bond 817" for the entire interest period. The bonds may be converted on any business day beginning from October 19, 2009, until November 15, 2015, for ordinary shares with a nominal value of NIS 1, registered, except for the period from November 16 – December 1 of each year from 2013 to 2014, such that during the period between October 19, 2009 and December 1, 2012 every NIS 33.75 nominal value of the bonds (series C) will be convertible into an ordinary share with a nominal value of NIS 1 each, and afterwards, from December 2, 2012

until November 15, 2015 every NIS 37.12 nominal value of the bonds (series C) will be convertible into an ordinary share with a nominal value of NIS 1 each

The remaining convertible bonds as of December 31, 2009 are presented less issue costs, some as part of the liabilities (see below – liability component) and some as part of the equity (convertible component), in the amounts of NIS 79,137,000 and NIS 14,066,000, respectively.
The remaining liability component is presented less a deduction of NIS 18,772,000 and less issue expenses in the amount of NIS 2,091,000, which are deducted using the effective interest method.

NOTE 15: LIABILITIES PURSUANT TO R&D GRANTS

Research and Development Grants (1)

	2009	2008
	NIS 000's	
Balance as of January 1	2,691	2,898
Royalties paid during the year	(115)	(69)
Amounts credited to the Profit and Loss Statement	237	(138)
Balance as of December 31	2,813	2,691
Presented in the Balance sheet as part of:		
Current liabilities	1,105	200
Non-current liabilities	1,708	2,491
	2,813	2,691

(1) See Note 18C

NOTE 16: FINANCIAL INSTRUMENTS

A. Classifying financial assets and financial liabilities

Below is the classification for financial assets and financial liabilities in the Balance sheet for groups of financial instruments in accordance with IAS 39:

	As of December 31	
	2009	2008
	NIS 000's	
Financial Assets		
Financial assets at fair value through profit or loss:		
Financial assets classified as held for trade	1,999	–
Financial Liabilities		
Financial assets at fair value through profit or loss:		
Option warrants	2,844	1,330
Financial liabilities measured at discounted cost:		
Convertible bonds	79,137	–

B. Financial risk factors

The Group's activities expose it to various financial risks, such as market risks (foreign currency risk, CPI risk, interest risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on activities to minimize the possible negative influences on the Group's financial performance. The Group uses derivative financial instruments to hedge its exposure to certain risks.

Risk management is carried out by the Company's CEO and its chief financial officer, in accordance with a policy approved by the board of directors. The board of directors provides the principles by which the overall risk is managed.

1. Market risks

(A) Foreign currency risk

The Company operates in an international environment and is exposed to currency exchange rate risk stemming from its exposure to different currencies, especially the US dollar. Exchange rate risk results from recognizing assets and liabilities that are stated in a foreign currency that is not the activity currency, such as: customers, suppliers and credit.

(B) Interest risk

Loans and convertible bonds that bear variable interest rates expose the Company to interest rate risk pursuant to its cash flow, while those bearing a fixed interest rate expose the Company to interest rate risk pursuant to fair value. The Company's interest rate risk stems primarily from convertible bonds and credit from banking

corporations. As of December 31, 2009 the Company has a total of NIS 79,137,000 in convertible bonds and a total of NIS 177,000,000 in loans from banking corporations with variable interest.

(C) Price risk

The Group has investments in short-term loans that are traded on the Tel Aviv Stock Exchange and are classified as financial assets measured at fair value through profit or loss, pursuant to which the Group is exposed to risk due to the volatility in share prices as determined on the basis of market prices through the stock exchange. The balance in the financial statements for all of these investments as of December 31, 2009 is NIS 1,999,000.

2. Credit risk

(A) The Company sells credit of 30 to 150 days to its customers. The Company regularly assesses the credit it gives to its customers while examining the conditions of the financial environment and accordingly asks for collateral to ensure these loans, such as letters of credit, advance payments, etc. The Company even insures its foreign sales through foreign trade risk insurance.

The Company keeps a constant eye on the customer debts, and the Financial Statements include provisions for doubtful debts that properly reflect, in the Company's opinion, the possible loss from debts whose collection is in doubt. During 2009 and 2008 the Company did not record any doubtful debts.

(B) The Company holds cash and cash equivalent, and other financial instruments in various banking corporations. According to the Company's policy assessments are performed on a regular basis regarding the relative credit strength of these different financial institutions.

As of December 31, 2009, the cash and cash equivalent came to the sum of NIS 115,082,000, of which NIS 112,635,000 were in the framework of short-term deposits. All of the deposits are held by Israel's top level financial corporations.

3. Liquidity risk

The Company maintains a sufficient level of cash and the availability of designated lines of credit in order to minimize the liquidity risk to which it is exposed. As of the date on which the Financial Statements were signed, the company as unused lines of bank credit in the amount of NIS 730,000.

The tables below present the redemption dates of the Group's financial liabilities in accordance with their contractual terms, in non-capitalized amounts:

As of December 31, 2009	Up to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 6 years	Total
	NIS Thousands					
Loans from banking corporations and others (including interest)	336	34	12	24	–	406
Liabilities to suppliers and service providers	22,698	–	–	–	–	22,698
Payables	1,836	–	–	–	–	1,836
Convertible bonds (including interest)	7,790	7,790	7,811	27,790	89,348	140,529
	32,660	7,824	7,823	27,814	89,348	165,640

As of December 31, 2009	Up to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 6 years	Total
	NIS Thousands					
Loans from banking corporations and others (including interest)	9,150	39,710	39,481	6,770	46	95,157
Liabilities to suppliers and service providers	18,679	–	–	–	–	18,679
Payables	2,295	–	–	–	–	2,295
	30,124	39,710	39,481	6,770	46	116,131

C. Fair value

The tables below outline the balance in the Financial Statements and the fair value of the financial instruments that are presented in the financial statements not according to their fair value:

	Balance		**Fair Value**	
	December 31		**December 31**	
	2009	**2008**	**2009**	**2008**
Financial liabilities				
Long-term loans with fixed interest rates (1)	–	76,040	–	73,954
Long-term loans with variable interest rates (2)	177	464	174	440
	177	76,504	174	74,394

(1) The fair value of a fixed-interest loan received is based on calculating the present value of the cash flows according to the interest rate received for a similar loan with similar characteristics.

(2) The fair value of a loan received with an interest of prime + 1.9% is based on calculating the present value of the cash flows according to the Company's capitalization rate.

The balance in the Financial Statements for cash and cash equivalent, customers, receivables and debit balances, credit from banking corporations and others, liabilities to suppliers and service providers, payables and credit balances, and convertible bonds match or are close to their fair value.

D. Classifying financial instruments by fair value rating

The financial instruments presented in the Balance sheet according to fair value are classified by groups with similar characteristics into fair value rankings as following, which are determined by the source of the date used to determine the fair value:

Level 1: Prices quoted (without adjustment) in an active market of identical assets and liability.

Level 2: Data that are not quoted prices that were included in Level 1, which can be observed directly or indirectly.

Level 3: Data not based on market information can be observed (assessment techniques that do not use observable market data).

Financial assets measured in fair value

	Level 1
	NIS 000's
December 31, 2009	
Financial assets at fair value through profit or loss:	
Negotiable securities	1,999

Financial liabilities measured in fair value

	Level 3
	NIS 000's
December 31, 2009	
Financial liabilities at fair value through profit or loss:	
Option warrants	2,844

In 2009 there were no transfers pursuant to measuring fair value of any financial instruments between Level 1 and Level 2 nor were there transfers into or out of Level 3 pursuant to measuring fair value of any financial instruments.

Transactions of financial liabilities classified at Level 3

	Option warrants NIS 000's
Balance as of January 1, 2009	1,330
Amount of profit (loss) recognized:	
Through profit and loss	6,515
Exercise	(5,001)
Balance as of December 31, 2009	2,844

	December 31	
	2009	2008
	NIS Thousands	
Sensitivity test to changes in the US dollar exchange rate		
Profit (loss) from the change:		
Increase in exchange rate by 5%	–	(3,478)
Decrease in exchange rate by 5%	–	3,478
Sensitivity test to changes in stock exchange rates of negotiable securities		
Profit (loss) from the change:		
Increase in stock exchange rate by 5%	(430)	(35)
Decrease in stock exchange rate by 5%	425	35

E. Sensitivity tests and main working assumptions

The changes selected in the relevant risk variables were determined according to the management's opinions regarding possible reasonable changes in these risk variables.

The Company performed sensitivity tests on the main market risk factors in their possession in order to influence the results of activities or the reported financial status. Sensitivity tests present the profit or loss for each financial instrument pursuant to the relevant risk factor selected for it as of the entire reporting period. Examination of risk factors was done on the basis of the substance of the exposure to the activity results or financial status for each risk factor in connection with the activity currency and on the assumption that the remaining variables are fixed.

The sensitivity tests for the option warrants were based on a network model combined with the Black and Scholes model, where the annual standard deviation for the yield of Company stock stood at a range of 61% with shekel interest of 3.77%.

A sensitivity test regarding changes in US dollar exchange rate was carried out for the Company's long-term loans in 2008.

F. Linkage conditions of financial liabilities by groups of financial instruments in accordance with IAS 39

	Non-linked	Total
	NIS Thousands	
December 31, 2009		
Financial liabilities measured at reduced cost	81,981	81,981

	In foreign currency or $-linked	Non-linked	Total
	NIS Thousands		
December 31, 2008			
Financial liabilities measured at reduced cost	76,040	464	76,504

Note 17: Assets and Liabilities due to Employee Benefits

Employee benefits include short-term benefits, benefits after termination of employment and other long-term benefits.

A. Benefits after termination of employment

Labor laws and the Termination Compensation Law in Israel require a company to pay compensation to an employee at the time of his termination or retirement, or to make ongoing deposits into a deposit program as defined under Section 14 of the Termination Compensation Law. The Company's liability pursuant to this is handled as a benefit following the end of employment. Calculating the Company's liability for employee benefits is done according to the valid employment contract and based on the employee's salary and the period of his employment, which create the right to receive compensation.

Employee benefits following the end of employment are funded, by and large, by deposits classified as a specific benefits program as outlined below.

B. Specific benefits programs

Compensation payments are handled by the Company as a specific benefit program according to which a liability pursuant to employee benefits is recognized and for which the Company deposits sums into appropriate insurance policies and pension funds.

1. Expenses credited to the Comprehensive Profit Statement

	For the year ending on December 31		
	2009	2008	2007
	NIS Thousands		
Cost of ongoing service	1,825	1,640	1,387
Interest expenses on liabilities for benefits	475	405	359
Projected yield on program assets	(387)	(345)	(329)
Cost of ongoing service for transfer of real yield compensation component to benefits component in managers' insurance prior to 2004	69	44	100
Actuarial profits recognized	(3)	–	–
Total expenses for employee benefits	1,979	1,744	1,518
Actual yield on program assets	1,082	(1)	185
Expenses were presented in the Profit and Loss Statement as follows:			
Cost of sales	1,278	825	998
Research and development expenses, net	356	273	310
Sales and marketing expenses	39	9	32
Administrative and general expenses	306	637	178
	1,979	1,744	1,518

2. Program assets (liabilities), net

	December 31	
	2009	2008
	NIS Thousands	
Liabilities for specific benefit program	(11,493)	(9,422)
Fair value of program assets	10,018	7,542
	(1,475)	(1,880)
Actuarial profits, net, that have not yet been recognized *)	15	606
Total liabilities, net	(1,460)	(1,274)

*) Accrued sums pursuant to the liability value and the value of rights to the program assets.

3. Changes in present value of the liabilities for specific benefit programs

	2009	2008
	NIS Thousands	
Balance as of January 1	9,422	7,604
Interest expenses	475	405
Cost of ongoing service	1,802	1,640
Benefits paid	(307)	(425)
Actuarial loss, net	101	198
Balance as of December 31	11,493	9,422

4. The program assets

A) The program assets

The program assets include assets held by suitable insurance policies, pension funds and managers' insurance plans.

B) Transactions in fair value of the program assets

	2009	2008
	NIS Thousands	
Balance as of January 1	7,542	6,386
Projected yield	387	345
Employer deposits into program	1,694	1,569
Benefits paid	(231)	(369)
Actuarial profit (loss), net	695	(345)
Cost of ongoing service for transfer of real yield compensation component to benefits component in managers' insurance prior to 2004	(69)	(44)
Balance as of December 31	10,018	7,542

5. Main assumptions for determining liability pursuant to specific benefits program

	2009	2008	2007
		%	
Rate of capitalization	5.69	5.27	5.85
Rate of projected yield on program assets	2.34 – 2.6	1.34 – 5.27	5.85
Rate of expected wage increase	4	4	4

NOTE 18 – CONTINGENT LIABILITIES AND BUSINESS AGREEMENTS

Contingent Liabilities

A. On May 21, 2002, a demand was referred to the Company, without indicating an amount, for payment of royalties in consideration of sales by a local Company.

   In light of the Company's compensation agreement with the manufacturer of the product carrying the royalty, the Company referred the demand for payment to the manufacturer. The manufacturer did not agree with the demand. From the time the demand was received, there has been no development in the matter. In the opinion of the Company, its exposure to the demand to pay royalties is not substantial; therefore it did not include a provision for it in its financial statements.

B. In accordance with the Encouragement of Industrial Research and Development Law 5744-1984, the Company received grants from the State of Israel on behalf of research and development expenses for plans approved by the Industrial Research and Development Administration. Corresponding with the plans' approval documents, the Company is obliged to pay royalties to the State of Israel, calculated on the basis of proceeds of sales of products in whose development the State participated. In the year 2006, the Company completed its obligation to pay royalties on behalf of active projects. The maximum balance amount for royalties in consideration of non-active projects as of December 31, 2009 totals approximately NIS 2,642,000 ($700,000). In the Company's estimation, it will not be demanded to pay these amounts because no sales are expected on behalf of the projects. In April 2008, the Company submitted a request to close the files. As of December 31, 2009, the files were not yet closed.

C. In January 1998, the Company committed to pay royalties to the Bi-national Industrial Research and Development (BIRD) Foundation (hereinafter: "**The Foundation**"), calculated according to proceeds from sales of a number of Company products specified in the promissory letter, in exchange for a development grant it received in the amount of $523,000. In accordance with the conditions of participation, the Company will pay royalties to the Foundation at specific rates of the sale amount for the product in whose development the Foundation participates – up to 150% of the sum of grants received, according to bracket rates, over time periods determined in the agreement. Royalty payments will be linked to the dollar and the Consumer Price Index published in the U.S. The maximum balance of royalties the Company could be required to pay the Foundation in the future amounts to NIS 3,427,000 ($908,000) as of December 31, 2009. As of December 31, 2009, the Company paid royalties in the amount of $68,000. Subsequent to the balance sheet date, the Company paid royalties in the amount of $16,000 for the second half of 2009.

D. On January 17, 2005, the Company entered a business relationship with a supplier in order to purchase a computerization system. In order to finance the

purchase, the Company was extended credit by the supplier in the amount of $145,000 (approximately NIS 667,000), to be repaid over a period of three to five years at an annual rate of interest between 5.71% and 5.975%.

The balance of financing in the amount of $46,000 (approximately NIS 200,000) will be paid by the Company only when the Company achieves profitability as described in the agreement.

E. In September 2006, the Company signed an addendum to the agreement on behalf of capital-raising as of October 8, 2003. Within the framework of the addendum it was determined that the Company shall pay commission on capital-raising in exchange for raising capital from the investors group, as specified in the agreement.

The Company paid commissions totaling approximately NIS 109,000 in 2008; commissions on capital-raising were credited to a premium and presented as an offset to proceeds on the realization of options (see Note 20F). In 2009, no commissions were paid in connection with this agreement. In February 2010, the agreement was cancelled.

F. On June 27, 2006, the Company signed a tenancy agreement for a building extending to March 31, 2010 in exchange for payment of monthly rent in the amount of NIS 46,000, linked to the March 2000 consumer price index. The Company exercised its option to extend the rent for an additional two years, up to March 2012. Rent was adjusted to the July 2009 index and amounts to NIS 56,000, linked to the index for this date. Future rent and maintenance fees on behalf of the tenancy agreement as of December 2009, are as follows:

	Thousands of NIS
2010	828
2011	828
2012	207
	1,863

G. The Company is bound to operational rental agreements for the vehicles it utilizes. The agreements will expire between the years 2010 and 2012.

Future payments on behalf of existing rental agreements for vehicles as of December 31, 2009 are as follows:

	Thousands of NIS
2010	1,136
2011	694
2012	493
	2,323

H. In November 2006, an agreement was signed between the Company and a third party relating to cooperation in research and development. Within the framework of the agreement, the Company received a license to make use of a development of the third party. Additionally, it was decided that each side will equally bear specific costs connected with research and development up to the amount of $500,000; furthermore, the third party will supply the Company with instruments for performing clinical experiments at no charge. In the event the development is successful, the Company will pay the third party royalties at rates ranging between 3% and 8%. The Company's obligation for the aforesaid royalties will expire upon the expiration of the patents or 15 years from the date of the first commercial sale, the later of the two. Upon the expiry of the royalty period, the license will become non-exclusive and the Company will be entitled to utilize the rights granted it under the agreement with no payment of royalties or additional consideration. Furthermore, it was determined that the third party will pay the Company royalties at a rate of 3% of the third party's net annual sales, beyond a specific total – in accordance with a mechanism defined in the agreement, up to the expiration of the patent or 15 years from the date of the first sale, the later of the two.

In February 2008, the sides signed an addendum to the agreement by which the exclusive world license given the Company was expanded for two additional labels. Furthermore it was determined that sales on the additional labels would be added to sales of the first two labels covered in the original agreement – as the basis for calculating royalties the Company is obliged to pay and according to the model determined in the original agreement.

Additionally, the sides signed a commercialization and supply agreement assuring the regular, long-term supply of the instrument at the basis of the sides' cooperation, including spare parts.

From 2006 to 2008, the Company listed in its financial statements its full participation on behalf of the project in the amount of $500,000.

I. In August 2007, the Company entered a long-term agreement with a European Company for the purchase of raw material to serve in the development and production of a drug – in graded quantities and prices. In addition to the price

paid by the Company for raw material, the Company will pay an additional sum derived from Company sales in territories determined in the agreement, following the receipt of regulatory permits. The agreement states that the Company will first be supplied raw material at no charge for the purpose of research. As of December 31, 2009, the regulatory permits had not yet been received.

J. On December 27, 2007, the Company's Board of Directors approved (subject to approval by the assembly of shareholders) amending the existing employment agreement with the Company's CEO and applying it starting from October 1, 2007. According to the amended agreement, the Company CEO is entitled to a monthly salary of approximately NIS 85,000. The annual cost of the CEO's salary following the aforesaid amendment, plus social provisions and liabilities for the termination of employer-employee relations, totals approximately NIS 1,262,000 (not including bonuses). Moreover the Company recognized a one-time allocation on behalf of a vacation allocation due to the change of approximately NIS 158,000 in the first quarter of 2008 – see Note 26F. Additionally, it was decided to alter the conditions of bonuses the CEO is entitled to as follows:

1. In accordance with the employment agreement with the Company CEO, the Company is obliged to pay the CEO a bonus of 1% of total sales of specific products specified in the agreement by which eligibility lasts until December 31, 2007. In December 2007, the Company Board of Directors approved (subject to approval by the assembly of shareholders) extending the eligibility of the Company CEO for the bonus until April 30, 2010. Eligibility of the CEO for the aforesaid bonus shall not exceed $100,000 per year. On account of this liability, the Company recorded expenses in the amount of NIS 320,000 in 2009.

2. According to the employment agreement, the Company is obliged to pay the CEO a bonus of 2% of total monies (net) received on behalf of the public issue of stock. In December 2007, the Company Board of Directors approved, subject to approval by the assembly of shareholders, limiting the CEO's eligibility up to approximately $1,000,000 on behalf of each additional issue. Due to this liability, the Company recorded expenses in the amount of NIS 681,000 in 2009. See also section M below.

   On February 7, 2008, the above specified changes were approved by the assembly of shareholders.

   In January 2009, the management of the Company and its employees agreed to a reduction of salary at specific rates for a period of one year. As part of this move, the salary of the CEO was reduced by 20%.

K. On January 24, 2008, the Company signed a loan agreement with an American Company (hereinafter: **"The Financier")** on a total scale of 20 million dollars for funding its activity; the money was transferred to the Company in three installments during the year 2008. The loan carries an annual nominal interest rate of approximately 10.6%. On November 16, 2008, an amendment to the

agreement was signed by which the loan will be repaid in 26 equal payments starting from January 2010. Up until this date, the Company was obliged to monthly payments of interest only.

Additionally, the Company allotted to the Financier non-negotiable options realizable into 265,604 shares of its ordinary shares. All of the option warrants matured in 2008. The options may be realized through cash payment or by net realization up to January 24, 2013. The realization price of options, with the exception of options assigned by the Financier to a third party, is NIS 10.83. Up until the date of signing of the statements, 243,028 option warrants were converted into Company stock in exchange for NIS 2,646,000; out of these, 239,044 option warrants were converted up to December 31, 2009, in exchange for NIS 2,603,000.

On October 21, 2009, the Company exercised its right under the agreement and repaid the full balance of the loan in exchange for an early repayment fee. See below.

The Company's main liabilities under the agreement include: liens, limitations pertaining to investments, dividends, purchases of Company stock, assets, and the Company's merger as well as a commitment to meet at least 70% of its income forecast.

The Financier is given the option to participate in a future round of investment by the Company, up to an amount of $2.5 million but not exceeding 25% of the overall sum that is raised, under conditions identical to those of the investment round. The Financier exercised its right as follows:

On May 20, 2009, the Company entered an investment agreement with the Financier by which the Company allocated 178,727 shares of stock and 71,491 options convertible to 71,491 shares of stock in exchange for a shekel amount equivalent to $500,000 – based on the representative dollar rate on the date of the completion of the agreement. Payment of the proceeds was executed by offsetting a sum of $500,000 from the principal of the loan extended by the Financier to the Company totaling $20 million. The conditions of the agreement are identical to the conditions of the loan agreement of February 2009 (see section N below).

In accordance with stipulations of International Standard no. 32 – "Presentation" and Accounting Standard no. 39, "Financial instruments – recognition and measurement", the Company split the proceeds of the loan and option warrants and, accordingly, the loan was presented less accompanying costs of the transaction, value of the options, and legal expenses. These expenses were depreciated over the contractual life of the loan using the effective interest method. As of the repayment date of the loan, the entire balance of said expenses was depreciated to financing expenses in the profit and loss statement. The option warrants are presented at their fair value. The average effective interest incorporated in the entire transaction is 14.2%.

As mentioned, on October 21, 2009, the Company transferred to the Financier a sum of approximately $20 million for the overall repayment of the loan balance, accumulated interest and an early repayment fee. The repayment of the loan was executed via part of the proceeds from a bond issue (series C) of the Company according to a Shelf Offering report (see Note 20D). The Financier confirmed receipt of the above sum, and the liens imposed on assets of the Company and its subsidiaries for guaranteeing the loan were removed. Upon repayment of the loan, the loan agreement was terminated and the sides released from all liabilities contained in the agreement.

K. On March 4, 2008, the Company signed an investment agreement with a stakeholder under which the Company undertook to allot 416,920 shares of ordinary shares with a nominal value of NIS 1 each in exchange for a sum of approximately $4 million. It was determined that for a limited period and subject to exceptions specified in the agreement, the investor would be afforded a mechanism for retaining a specific value in the event of future capital-raising by the Company.

Additionally, the Company undertook to allot 166,768 non-negotiable option warrants realizable into 166,768 shares of ordinary shares with a nominal value of NIS 1 each. The options have attached to them a realization premium of NIS 43.85 and are valid for four years from the closing of the agreement, as determined by the sides. Half of the options are granted the possibility of net (cashless) realization.

The agreement was approved by the Company General Meeting on April 22, 2008.

On April 14, 2008, in accordance with the agreement, an additional investor who invested a sum of approximately $1 million out of the total proceeds of $4 million was attached; accordingly, he was allotted stocks and options proportional to his share (25%).

On April 29, 2008, the suspending conditions determined in the agreement were completed, a sum of approximately $4 million was transferred to the Company, and the aforesaid stocks and options were issued.

In accordance with International Standard no. 32 – "Financial Instruments: Presentation" and International Accounting Standard no. 39, "Financial Instruments: Recognition and Measurement" (hereinafter: "**The Regulations**"), and in light of rights for the net realization of half of the options, components of the issue package were recognized as follows: (1) the options given for net realization were recognized as a liability according to their fair value of NIS 1,422,000, as calculated by an external worth evaluator as of the investment date. The issuing expenses attributed to this component were recognized in the profit and loss statements. Later, the option warrants were reevaluated for each period and presented within the framework of liabilities according to their fair value. (2) The proceeds received, less the fair worth attributed to the owed options and less the balance of issuing expenses

totaling NIS 12,392,000, were allocated between the stock shares and the balance of options – based on proportional fair value and presented within the framework of capital. The value of the options is calculated according to a formula based on the dynamic options pricing model (Monte Carlo and Black-Scholes).

In February 2009, the sides entered into an amendment agreement subject to approval by the Company General Meeting and conditional to the Company raising—within four months from the agreement's signing—a cumulative sum of at least 3 million U.S. dollars from existing shareholders and from third parties. Within the framework of the amendment agreement: (1) the value retention mechanism was updated such that the investor agreed to forgo part of the adjustment mechanism defined in the original agreement between the sides; (2) the term for realizing the options was lengthened; (3) the realization price was reduced to NIS 11 per share. In specific instances specified in the agreement, the value retention mechanism remains as in the original agreement.

Furthermore, in light of the Company's entering the new investment agreement (see section N below), 912,535 shares of ordinary shares and 365,013 non-negotiable options were allotted to the interested party at no charge – following the amended value retention mechanism mentioned above. Half of the additional options which were allotted are given to net (cashless) realization. The options which were treated as a liability instrument, as mentioned, were reevaluated immediately before the update of conditions (in accordance with the original conditions) and immediately after that (according to the new conditions, including their changed quantity resulting from the allotment of additional options based on the amendment agreement). The change in their fair values was attributed to the profit and loss statement.

On March 31, 2009, approval was given by the General Meeting for the aforesaid amendment to the agreement.

L. On August 20, 2008, the Company's Inspection Committee and Board of Directors approved a one-time waiver by the Company CEO (who also serves as a director of the Company and is considered a controlling shareholder by virtue of a voting agreement) of one month's salary and one week of his annual vacation, whose overall value in terms of Company cost totals approximately NIS 104,000. The waiver was within the framework of an efficiency plan developed by the Company in association with its employees. In accordance with an accepted practice of the international standard, the Company included the aforesaid amount as part of its administrative and general expenses, which were correspondingly credited to a capital fund on behalf of a transaction with a controlling shareholder.

On November 26, 2009, the Company CEO (who also serves as a director of the Company and is considered a controlling shareholder by virtue of a voting agreement) announced his one-time waiver of 35% of the bonus stipulated in his employment agreement by which he is entitled to 2% of net monies received from the issue of capital stock to the public. In accordance with an

accepted practice of the international standard, the Company included a sum of approximately NIS 238,000 as part of its administrative and general expenses, which were correspondingly credited to a capital fund on behalf of a transaction with a controlling shareholder.

M. In February 2009, an investment agreement was signed between the Company, a shareholder, and an American Fund (hereinafter: **"The Investors"**) by which the Company issued 2,639,637 shares of ordinary shares and 1,055,854 non-negotiable option warrants in exchange for a sum of NIS 29 million. The shareholder is the controlling shareholder, thus approval by the General Meeting is required for the transaction.

As part of the investment agreement, there was an issue of an overall package of ordinary shares and non-negotiable options with a graded realization premium (predetermined). Furthermore, the investors were given, for a limited time and subject to specific conditions stipulated in the agreement, a value retention mechanism – this in the event the Company should embark on future capital-raising at a price lower than the minimum price stipulated in the agreement between the sides. The issued instruments (stocks and options) are capital instruments and the options with a predetermined graded realization premium are also capital instruments. Since additional capital-raising by the Company, possibly triggering the activation of the value retention mechanism, is under Company control, the instruments issued were classified as capital rather than financial liability.

Furthermore, within the framework of the agreement, the investors were given the right to participate in future capital-raising for a period of three years, on a scale of up to half the overall investment amount under the same conditions and the same price offered to other participants. Since a decision on future capital-raising is under Company control, this component, too, is included in capital.

In accordance with the above, the proceeds of approximately NIS 29 million, less issuing expenses, were allocated between the aforementioned components of the package based on relative fair value, and presented in full as part of capital.

On March 31, 2009, approval for the transaction was granted by the General Meeting.

N. In May 2009, the Company entered into investment agreements with institutional and private investors by which the Company issued 4,750,000 shares of ordinary shares and 1,899,999 non-negotiable option warrants in exchange for a sum of NIS 52,250,000. The conditions of the agreement are identical to the conditions of the renewed investment agreement of February 2009 (see section M above).

On April 26, 2009, the Company signed an agreement with a consultation and investment firm (hereinafter: **"The Investment Firm"**) by which the Company paid a commission on proceeds from a portion of investors it engaged via the investment firm, at specific rates determined in the agreement.

Additionally, the Company undertook to allot options to the investment firm based on a mechanism defined in the agreement. On September 29, 2009, the sides signed a document that regulates payment to the investment firm on behalf of investment agreements of May 2009 as well as the termination of the connection between the sides. Following the above agreements, the Company paid commission in the amount of NIS 1,427,000 and allotted the investment firm 25,946 non-negotiable options under conditions similar to options granted investors.

Using a formula based on the dynamic options pricing model (Monte Carlo simulation), and the Black-Scholes formula with a standard deviation of 57%–70%, calculated for the date of the granting of options and based on a share price of NIS 27 and non-risk interest of between 2.13% and 3.88%, the economic value of 25,946 options was valued at approximately NIS 432,000.

The commissions and value of options were recognized as issuing expenses and attributed as a reduction from the premium.

O. In March 2009, an agreement was signed with the Ministry of Health for the production of a snake venom antiserum. In the agreement it is stated that that Company is to develop a production process and erect an exclusive production facility. The project will be funded fully by the Ministry of Health. Additionally, following the erection of the facility, the Company will embark on current production.

As a suspending condition of the agreement, the Company must purchase, with funding from the Ministry of Health, required knowledge for producing the antiserum. The aforesaid knowledge will belong to the Ministry of Health.

For the initial stage, and in order for the Company to deploy for providing services, the Company will perform the following steps: plan the project, acquire know-how, plan an upgraded production process, plan and erect the production facility, purchase equipment, plus additional steps. Consideration for the performance of these steps amounts to NIS 19,654,000 out of which the Company was given advance payment of NIS 7.2 million up to December 2009. The advance is presented within the framework of payables to creditors, less sums that were classified as income and prepaid income, based on the project's progress.

In February 2010, an additional sum of approximately NIS 5,649,000 was transferred to the Company. The proceeds will be paid in five unequal payments, subject to the Company's progress in the project. The sides agreed that the equipment will be owned by the Company. Nevertheless, in the event of the termination of the agreement due to its breach by the Company, or if the agreement is not extended, or if the agreement expires, the Ministry will receive the equipment at no charge. Following the establishment of the production line and the completion of all the necessary preparations stipulated in the agreement, the Company will begin annual production for the Ministry of Health, in accordance with quantities determined in the agreement. In

exchange for the annual production, the Ministry of Health will pay the Company a sum of approximately NIS 3.5 million per year.

The agreement is valid for two years, starting January 1, 2009 through to December 31, 2010. At the end of the term, the agreement will be renewed automatically for up to ten additional terms lasting one year each—unless the Ministry of Health announces the termination of the agreement.

As of December 31, 2009, the Company recognized income from the project in the amount of NIS 2,006,000 (presented as 'income from erecting contracts') and prepaid income totaling NIS 4,233,000 and advance payment of approximately NIS 476,000.

On the date of the signing of the agreement, the Company placed at the disposal of the Ministry of Health an index-linked autonomous guarantee of NIS 750,000, valid until December 31, 2010. Prior to the final advance payment on behalf of the erecting stage, the Company will transfer a new guarantee of NIS 2,745,000 to replace the aforesaid guarantee. The new guarantee will be valid until June 30, 2011 and will be returned to the Company upon the supply date of the antiserum. The guarantee will be depreciated at the end of each quarter, based on the progress of the project. A total of NIS 1,350,000 of the new guarantee will be waived until the supply date of the antiserum. Furthermore, upon the first shipment of antiserum to the Ministry of Health, the Company will transfer a bank guarantee totaling NIS 120,000 and valid until February 28, 2021. Upon the transfer of this guarantee, the previous guarantee will be returned to the Company.

P. In January 2009, the Company received a statement of claim in which the Company, along with a contracting company and an insurance company, were named in a damage suit. The claim was for compensating bodily damage caused to the claimant as a result of a work accident that occurred while employed by the contracting company on the premises of the Company plant. The claim totaled NIS 119,000 plus general compensation including loss of earnings, which are yet to be determined. The insurer took responsibility for handling the claim. The Company has sufficient insurance coverage and its exposure is limited to a deductible charge of approximately NIS 2,000. In the estimation of management, no Company exposure is expected in connection with this claim. In light of management's estimation concerning the claim, no provision/allocation was included in the financial statements.

Q. In February 2009, the Company received notification from the European Patent Office patent concerning opposition by a European commercial company to a patent for a specific production process registered in the Company's name. In accordance with accepted procedure, the Company submitted its response to the arguments in August 2009. In the estimation of management, the Company expects no significant impact on its production and/or sales due to the opposition claim.

R. In August 2009, the Company entered into a distribution and services

agreement with an American firm (hereinafter: **"The Distributor"**) by which the distributor will act as the sole distributor of the AAT transfusion product in the U.S. Additionally, the distributor will supply the Company with services in the areas of sales promotion and marketing, management of customer agreements, information management, sales support, customer service, management of orders, and risk management. The term of the agreement is for five years starting from the date the distributor is first supplied the product—following approval by the American Food and Drug Administration (FDA) and in accordance with the submittal of a the registration file (BLA) for marketing the product in the U.S.

Within the framework of the agreement, the distributor committed to purchasing a minimum quantity of the product in exchange for an overall sum of approximately $15 million over a period of 18 months from receipt of FDA approval. The minimum quantities for the remainder of the term are in accordance with a formula defined in the agreement.

The distributor is entitled to terminate the agreement in the following cases:

a. FDA approval for marketing the product is not received by January 1, 2011.

b. Suspension or cancellation of FDA approval which cannot be renewed within 180 days.

c. At any time following the second year in the event the product is sold to less than a minimum quantity of patients, as specified in the agreement, or for any other reason, subject to payment of compensation to the Company as specified in the agreement.

S. In December 2009, the Company entered into an agreement with Magen David Adom in Israel (hereinafter: **"MDA"**) by which MDA will supply the Company with human plasma rich in rabies antibodies in order to produce a passive serum vaccination against rabies. According to the agreement, MDA is committed to supplying the Company with a minimum quantity of plasma which satisfies specifications and standards contained in the agreement, subject to a reasonable effort to recruit enough donors—during the first year and in each of the additional periods. The plasma will be produced from blood donations or the plasma of volunteer donors who have received active and preventive vaccinations against rabies. For this purpose, MDA and the Company agreed on the establishment of a joint team for preparing an information and advertising plan to encourage the recruitment of donors; the cost of the plan will be divided equally between the sides. Additionally, MDA will supply the Company with data and documentation concerning the plasma and the collection process and will supply whatever regulatory support is needed for the production and registration of the vaccination.

The Company is obliged by the agreement to market the vaccine produced from the plasma in Israel only; it will be authorized to market it overseas as well, on condition that requirements of the Ministry of Health are satisfied in full.

The agreement is for a period of one year and may be extended for additional periods of one year each. The agreement may be canceled by any one of the sides upon advance notice of 90 days; it may be canceled immediately by MDA in response to a demand from an competent authority.

T. Capitalized leasehold rights for land from the Israel Land Administration

Capitalized leasehold rights apply to land from the Israel Land Administration covering an area of approximately 16,047 sq. meters in Beit Kama upon which the group's buildings are located. The sum attributed to the capitalized rights is presented in the balance sheet as prepaid expenses on behalf of operational leasehold and is depreciated over the leasing period – see also Note 2K. In the matter of an option to extend the leasing period, see Note 14A.

In June 2009, the Company received a draft of an agreement with the Israel Lands Administration for combining the leasehold rights and extending the leasing period until 2058, including an extension option for 49 years. Additionally, the Company committed to pay the Administration a sum of approximately NIS 200,000 for combining the rights, out of which approximately NIS 50,000 was paid in 2009.

V. In October 2009, the Company associated with a firm specializing in the management of clinical experiments, the Contract Research Organization (hereinafter: **"CRO"**) for clinical experimentation (stage II/III) in Europe for the AAT inhalation drug for treating hereditary emphysema. The overall scale of payment to CRO could reach approximately $5 million, to be paid over the period of experimentation (which is expected to last more than two years) and based on its scale and rate of progress. Additionally, payments will be transferred via CRO to experimentation sites and various service suppliers connected with experimentation, according to payment terms to be determined in negotiations between CRO and those same sites and suppliers—to be approved in advance by the Company. Up to the publication date of the report, a total of approximately $859,000 was paid to CRO within the framework of the agreement.

NOTE 19 – LIENS AND GUARANTEES

As of December 31, 2009, the following liens and collateral were registered against Company assets:

A. Within the framework of grants received from the State of Israel based on the Encouragement of Capital Investment Law 5719-1959, the Company signed in 1991 a bond by which it mortgaged a current charge on all its fixed assets in favor of the State of Israel. For the above bond the Company undertook, among other things, not to sell or transfer by any means the mortgaged property or any part of it without advance and written agreement by the State.

B. In order to assure rental payments for an office building in Ness Ziona and within the framework of an agreement with the Ministry of Health and

obligations to the Ministry of Industry, Trade and Labor, the Company placed on December 31, 2009 bank guarantees in the total sum of approximately NIS 1,247,000.

NOTE 20 – CAPITAL

A. Composition:

	December 31, 2009		December 31, 2008	
	Registered	Issued and Paid-up	Registered	Issued and Paid-up
	Number of shares			
Ordinary shares, nominal value of NIS 1 each.	60,000,000	25,058,666	30,000,000	14,052,069

On October 8, 2009, the assembly of shareholders approved increasing the Company's registered capital to a total of 60,000,000 shares of ordinary shares with a nominal value of NIS 1 each.

B. Movement in share capital

Issued and paid-up capital:

	Number of shares	Nominal value in NIS
Balance as of January 1, 2008.	11,259,894	11,259,894
Realization of stock options	2,375,255	2,375,255
Issue of stocks	416,920	416,920
Balance as of December 31, 2008.	14,052,069	14,052,069
Realization of stock options	775,523	775,521
Issue of stocks	10,231,074	10,231,076
Balance as of December 31, 2009.	25,058,666	25,058,666

C. Accompanying rights of shares

Voting rights in the General Meeting, right to a dividend, rights under Company dissolution and the right to appoint Company directors.

D. Option Warrants and Convertible Bonds

As of December 31, 2009, the Company had 3,230,645 non-negotiable option warrants registered under its name, realizable to 3,230,645 shares of ordinary shares with a nominal value of NIS 1 each (subject to adjustments). The absolute majority of option warrants are realizable against a realization premium ranging between NIS 11 and NIS 15.4 (unlinked). These option

warrants are classified as capital. A total of 3,120,357 option warrants are realizable up to July 30, 2012, and 110,288 option warrants are realizable up to April 13, 2010.

As of December 31, 2009, the Company had issued 292,451 non-negotiable option warrants classified as liability (see Note 14B).

As of December 31, 2009, the Company had issued 1,750,175 negotiable option warrants (series 3) realizable into 1,750,175 shares of ordinary shares with a nominal value of NIS 1 each (subject to adjustments) against an unlinked realization premium of NIS 40. The option warrants are realizable until April 15, 2011.

In 2008 and 2009, a total of 775,523 and 2,375,255 option warrants were realized into 775,523 and 2,375,255 shares of ordinary shares with a nominal value of NIS 1 each in exchange for approximately NIS 8,605,000 and NIS 35,642,000 respectively.

As of December 31, 2009, the Company had issued 100,000,000 bonds (series C) with a nominal value of NIS 1, convertible to 2,963,314 shares of ordinary shares with a nominal value of NIS 1 each. See Note 14C.

Regarding options granted to employees, see Note 21 below.

E. Capital Fund on Behalf of a Transaction with a Controlling Shareholder

See Note 18M.

F. In 2007, approximately 2,027,000 negotiable option warrants (series 1) were converted to Company stock (of these, approximately 772,000 option warrants were converted by interested parties), as well as approximately 17,000 non-negotiable option warrants – in exchange for approximately NIS 41,095,000 (gross), before contractual fees (see Note 18E). Additionally, during the period, 26,000 option warrants granted to employees were realized in exchange for approximately NIS 307,000.

In addition, the Company paid capital-raising fees totaling approximately NIS 285,000, in accordance with agreements.

G. During the year 2008 and up to August 25, 2008, approximately 1,186,000 negotiable Series 1 option warrants were converted to Company stock in exchange for approximately NIS 29,204,000 (of which approximately NIS 7,876,000 was received from interested parties) and approximately 487 non-negotiable option warrants in exchange for approximately NIS 5,457,000 (of which approximately NIS 3,301,000 was received from interested parties). Additionally, during the period, 702,000 option warrants granted to employees were realized in exchange for approximately NIS 982,000 (of which 678,000 options were realized by the Company CEO).

H. In March 2008, the Company signed an investment agreement with an interested party by which the Company undertook to allot 416,920 shares of

ordinary shares with a nominal value of NIS 1 each in exchange for a sum of approximately $4 million. In February 2009, the Company associated with an interested party in an amendment to the agreement by which: In light of the Company's entering a new investment agreement completed on April 30, 2009 (see section J), the interested party was allotted (following activation of the amended value-retention mechanism) 912,535 shares of ordinary shares and 365,013 non-negotiable options at no charge (see Note 18L).

I. In February 2009, an investment agreement between the Company, shareholders, and an American fund was signed (see Note 18N) by which the Company issued 2,639,637 shares of ordinary shares and 1,055,854 non-negotiable option warrants in exchange for approximately NIS 29 million. The agreement was completed in April 2009.

J. In May 2009, the Company entered investment agreements with institutional and private investors by which the Company issued 4,750,000 shares of ordinary shares and 1,899,999 non-negotiable option warrants in exchange for approximately NIS 50 million (after deducting issuing expenses). The conditions of the agreement are identical to those of the renewed investment agreement from February 2009 (see section I above).

Additionally, the Company allotted a consultation and investment firm a total of 25,946 non-negotiable options with identical conditions to the options granted investors under the renewed agreement of April 2009 (see section H above and Note 18O).

K. On May 20, 2009, the Company entered an investment agreement with a financier by which the Company allotted the financier 178,727 shares of ordinary shares and 71,491 non-negotiable options convertible to stock in exchange for an overall Israeli shekel sum equivalent to $500,000 (NIS 1,966,000) – based on the representative dollar rate on the completion date of the agreement. This sum was offset from the balance of the loan (see Note 18K).

L. On October 15, 2009, the Company advertised a public Shelf Offering of up to 100,000,000 name-registered bonds (series C) with a nominal value of NIS 1 each in 100,000 units via a tender on the unit price. In the tender conducted on October 18, 2009, a unit price of NIS 956 was set and 100,000 units allocated in exchange for an overall sum of approximately NIS 95.6 million (before issuing expenses). See Note 14C.

Based on the same offering report, Company securities were offered to shareholders via the granting of rights such that shareholders, for every 13 shares held, were entitled to purchase for NIS 20 the right to one unit consisting of one share of ordinary shares and one option warrant (series 3). Up to the final date for exercising these rights, November 8, 2009, the Company received notification of the exercising of 1,750,175 rights to units.

In exchange for the rights exercised for units, a total of approximately NIS 35 million was received (before issuing expenses of approximately NIS 938,000), and the Company accordingly issued 1,750,175 shares of ordinary shares and 1,750,175 option warrants (series 3). A total of 3,386 rights to units expired without being utilized.

M. Company's Management of Capital

The goal of the Company in managing its capital is to preserve good capital ratios to assure stability and liquidity in supporting business activity and generating maximum value for shareholders.

N. Other Capital Funds

Composition – attributed to Company shareholders:

	Controlling shareholder	Capital fund from share-based payment transactions	Total
	Thousands of NIS		
Balance as of January 1, 2008:	-	1,762	1,762
	-		
Realization of option warrants	-	(132)	(132)
Cost of share-based payments	-	1,165	1,165
Waiver of salary and accompanying pay	104	-	104
Balance as of December 31, 2008:	104	2,795	2,899
Realization of option warrants	-	(2,737)	(2,737)
Waiver of bonus	238	-	238
Cost of share-based payments	-	6,444	6,444
Balance as of December 31, 2009:	342	6,502	6,844

NOTE 21 – SHARE-BASED PAYMENTS

A. Recognized Expense in the Financial Statements

The expense for services recognized in the financial statements are presented in the following table:

	For year ending December 31		
	2009	2008	2007
	Thousands of NIS		
Share-based payment plans paid off through capital instruments	6,340	1,165	928

Payment transactions based on stock granted by the Company to employees and a service provider are described below.

The plan granting options to employees was executed according to article 102 of the Income Tax Act

B. Allotment of Options to Company CEO

On May 17, 2006, the Company reported a private allotment to the Company CEO of 677,858 non-negotiable options realizable to 677,858 shares of ordinary shares with a nominal value of NIS 1 each – in respect to a Company liability from July 2005. The options carry a realization premium of NIS 1 each and may be realized in full. In April 2008, all of the options were converted to shares in exchange for approximately NIS 678,000.

On May 27, 2009, the Company Board of Directors approved, subject to approval by the General Meeting, allotting the Company's CEO 100,000 options realizable to 100,000 shares with a nominal value of NIS 1 each. The options carry a realization premium of NIS 11 and will expire on July 5, 2015. A total of 50,000 options will mature for realization over 16 consecutive quarters in equal portions starting from the date of their allotment. A total of 30,000 options will mature for realization upon submittal of the registration file (BLA) for the AAT transfusion drug to the American Food and Drug Administration (FDA) or at the date of their allotment, the later of the two. A total of 20,000 additional options will mature for realization upon receipt of approval from the FDA for the marketing of the AAT transfusion drug in the U.S. within a determined time period.

In June 2009, the Company submitted the registration file (BLA) for the AAT transfusion drug to the American Food and Drug Administration. (FDA) and, accordingly, recognized share-based payment transactions totaling NIS 630,000 on behalf of the 30,000 options conditional upon this milestone.

In July 2009, approval by the General Meeting was given to grant the abovementioned options. Upon approval by the General Meeting, a date was

fixed for granting the options, and accordingly: (1) a bonus was set on behalf of the 30,000 options that were conditional upon submittal of the registration file (BLA), totaling, as mentioned, approximately NIS 613,000; (2) the Company fixed the expense amount on behalf of the balance of the 70,000 remaining options.

According to the calculation formula based on the binomial Cox, Ross and Rubinstein model, the economic value of the 100,000 options as of the date they were granted was evaluated as approximately NIS 2,049,000,000.

C. Options to Employees

1. On September 17, 2007 (the date of allotment) Company employees were allotted 51,600 non-negotiable options realizable into 51,600 shares with a nominal value of NIS 1 each. The options carry a realization premium of NIS 40.51 and will expire on July 5, 2015.

   Entitlement of the options will be realized in 13 portions and 25% of the options will be realizable starting 12 months after the allotment date. 6.25% of the options will be realizable at the end of each quarter and up to four years from the allotment date.

2. On September 5, 2007, the Company undertook to allot an office holder 15,000 non-negotiable options realizable into 15,000 shares of ordinary shares with a nominal value of NIS 1 each. The options carry a realization premium of NIS 40.99. Entitlement of the options will be realized in 13 portions and 25% of the options will be realizable starting 12 months after the allotment date. 6.25% of the options will be realizable at the end of each quarter and up to four years from the allotment date. On March 26, 2008 the Company Board of Directors approved the allotment and the realization premium was updated to NIS 30.41. The fair incremental value was calculated by an external evaluator and set at NIS 27,000. The options will expire on July 5, 2015. For the performance of re-pricing on behalf of this allotment, see section 4 below.

3. On March 26, 2008, the Board of Directors decided to allot Company employees 43,800 non-negotiable options realizable to 43,800 shares with a nominal value of NIS 1 each. The options carry a realization premium of NIS 30.41 and will expire on July 5, 2015. For the performance of re-pricing on behalf of this allotment, see section 4 below.

   Eligibility of the options will be realized in 13 portions, 25% of the options will be realizable starting at the end of 12 months from the allotment date. 6.25% of the options will be realizable at the end of each quarter and up to four years from the allotment date.

4. On May 27, 2009 the Company Board of Directors decided to allot Company employees, at no charge, up to 737,620 options realizable into 737,620 shares with a nominal value of NIS 1 each. The options carry a realization premium of NIS 11 and will expire on July 5, 2015. The options

were actually granted in July 2009, upon notification of employees.

The options will mature as follows: (1) Up to 690,182 options will mature in quarterly portions over a period of up to four years from the allotment date—applies to employees who were allotted options in the past. As for employees receiving a first allotment, the options will mature for realization in 13 portions with 25% of the options becoming realizable starting 12 months after the allotment date. 6.25% of the options will be realizable at the end of each quarter and up to four years from the allotment date. (2) Up to 47,438 options will mature in eight equal quarterly portions over a period of two years from the allotment date.

A total of 677,140 options were actually allotted by the Company Board of Directors.

According to the calculation formula based on the Cox-Ross-Rubinstein model, the economic value of the above 677,140 allotted options was evaluated at approximately NIS 11,753,000.

Additionally, the Company Board of Directors decided to decrease the realization price of non-negotiable option warrants allotted to Company employees in the past, whose current realization prices range between NIS 27.47 per share and NIS 40.51 per share as follows:

(1) Decrease in the realization price of 70,108 options not yet matured as of June 1, 2009 to NIS 11 per share. The options will mature in accordance with original maturity dates.

(2) Decrease in the realization price of 56,492 options that fully matured as of June 1, 2009 to NIS 22 per share.

According to the calculation formula based on the Cox-Ross-Rubinstein binomial model, the incremental value of the options whose conditions were updated was evaluated at approximately NIS 691,000.

D. <u>Options to Service Provider</u>

1. On May 27, 2009, the Company Board of Directors approved allotting a service provider of the Company 9,000 options realizable into 9,000 shares of stock with a nominal value of NIS 1 each, in accordance with an agreement signed with him in October 2008. The options carry a realization premium of NIS 11 and will mature in 16 equal quarterly potions over a period of four years, starting October 1, 2008. The options will mature on July 5, 2015.

   Based on the Cox-Ross-Rubinstein binomial model, the economic value of the options was evaluated at approximately NIS 156,000.

2. On April 26, 2009, the Company signed an agreement with a consultation and investment firm (see Note 18O) by which the Company allotted 25,946

non-negotiable options whose conditions were identical to options granted to investors within the framework of capital-raising in May 2009.

3. On May 22, 2008, the Company Board of Directors approved increasing the pool of options given for distribution to employees and service providers by 71,000 additional options.

4. On May 27, 2009, the Company Board of Directors decided to increase by 725,000 shares the pool of shares from registered capital not yet issued by the company—reserved for allotment in a compensation plan for employees and consultants in 2005. This would result in the overall quantity of shares reserved for allotment in the above plan standing at a total of 847,000 shares of ordinary shares.

Movement during the year

Presented below is a table that includes: quantity of stock options, weighted average of their realization price and changes made in the options plan for employees and service providers during the current year.

	2009		2008		2007	
	Qty of options	Weighted average of realization price In NIS	Qty of options	Weighted average of realization price In NIS	Qty of options	Weighted average of realization price In NIS
Stock options at beginning of year	447,347	18.15	1,139,240	8	1,137,308	5.96
Stock options granted during the year	812,086	11.06	58,800	30	66,600	40.51
Options realized during the year	(17,018)	21.21	(702,363)	12	(26,174)	11.73
Forfeiture of stock options during the year	(26,682)	11.93	(48,330)	1	(38,494)	12.57
Stock options at end of year	1,215,733	13.13	447,347	18.15	1,139,240	7.18
Realizable stock options at end of year	360,829	12.20	403,547	20.27	843,075	3.31
Weighted average of contractual life of options	1,215,733	5.52	447,347	6.52	1,139,240	7.52

The range of realization prices of stock options as of December 31, 2009 was NIS 11–22 (following re-pricing); in 2008 realization prices ranged between NIS 11.69–40.51.

Measuring the fair value of stock options paid off via capital instruments

The Company employs the binomial model for measuring fair value of stock options paid off in capital instruments. Measurement is performed on the day of the

granting of stock options to employees paid off as capital instruments.

In the case of options given to service providers, measurement is re-performed upon receipt of the service.

Presented below is a table presenting data used in measuring fair value on the dates upon which all stock options paid off in capital instruments were granted—according to the binomial model for pricing options related to the aforementioned plan:

	2009	2008
Dividend yield on shares (%)	-	-
Expected fluctuation in share prices (%)	57-69	44-64
Historical fluctuation in share prices (%)	57-88	41-51
Risk-free interest rate (%)	1.06-5.3	4.46-5.83
Contractual life of stock options (years)	3.75	5.9
Weighted average of share prices (NIS)	27.4	39.37
Expected dividends (NIS)	-	-
Expected forfeiture rate (%)	8	10

The contractual life of stock options is based on historical data related to the Company, which does not necessarily present the future realization pattern for stock options. Expected fluctuation of stock prices reflects the assumption that historical fluctuation of stock prices is a good indicator of the expected future trend.

NOTE 22 – TAXES ON INCOME

A. Tax laws applying to the Company

Income Tax Law (Adjustments on Account of Inflation), 5745-1985
According to this law, through the end of 2007 results were measured for tax purposes after adjustment for changes in the Consumer Price Index.
In February 2008, the Knesset adopted an amendment to the Income Tax Law (Adjustments on Account of Inflation), 5745-1985 restricting the applicability of the Adjustments Law from 2008 on. Beginning in 2008, results have been measured for tax purposes on the basis of nominal values, with the exception of certain adjustments on account of changes in the Consumer Price Index for the period ending December 31, 2007. Adjustments relating to capital profit, such as those on account of the realization of real estate (betterment) and securities, continue to apply through the date of realization. Among other provisions, the amendment to the law includes the nullification of adjustment of the increment and offsetting on account of inflation and the additional offsetting on account of depreciation from 2008 on.

The Capital Investments Encouragement Law, 5719-1959 (hereinafter – the Law)

According to the Law, the Company is eligible for certain tax benefits by virtue of the "approved enterprise" status granted to some of its factories, as this status is defined in this Law.

In May 2008, the Company submitted an advance application to receive beneficiary enterprise status in the alternative track and to determine 2009 as the selected year in accordance with Article 51D in Amendment No. 60 to the Law.

The principal benefits on account of this Law are:

Benefits and reduced tax rates

Grants track

The Company is eligible for investment grants provided in varying rates according to the development area in which the factory is situated: The grant rate in class "A" national priority areas is 24 percent, while the grant rate in class "B" national priority areas is 10 percent.

In addition to the grants as stated above, the Company is entitled for the duration of the benefits period to exemption from tax during the first two years of the benefits period, and to reduced tax at the rate of 25 percent during the remaining five years of the benefits period.

Commencement of the benefits period is determined starting from the year in which the approved enterprise first created liable income, provided that fewer than 14 years have passed since the granting of the approval and 12 years since the year in which the factory first became operational. Some of the factories of the companies in the Group have completed their benefit periods, while the periods for others will end between 2011 and 2017.

If a dividend is distributed on income eligible for tax exemption as stated above, the Company will be liable to tax in the rate that would have applied to its income from an approved enterprise in the year in which the income was produced, had this not fallen in the exemption period. The Company's policy is not to distribute dividends as stated.

If the program in the grants track was approved after April 1, 2005, the basic condition for receipt of the benefits in this track is that the factory contributes to the economic independence of the Israeli economy and is competitive for the gross domestic product (hereinafter – a Competitive Enterprise). The Law establishes various requirements regarding an industrial enterprise in order to meet this condition with regard to the establishment of an enterprise.

For the purpose of an industrial enterprise, it is required that one of the following shall apply for each tax year during the benefits period:

1. Its principal operations are in the field of biotechnology or nanotechnology, and confirmation thereof has been granted by the head of the Industrial Research and Development Authority prior to the approval of the program as stated.

2. Its income in the tax year from sales by the enterprise in any particular market does not exceed 75 percent of the enterprise's total income from sales in that tax year. A "market" is defined as a state or a separate tax territory.
3. Twenty-five percent or more of its total income in the tax year from sales by the enterprise are from sales in a particular market comprising at least 12 million residents.

Alternative track

In this track, the Company is eligible during the benefits period to tax exemption for a period varying from the first two to ten years (depending on the development area) of the benefits period, and to reduced tax at a rate of 25 percent for a period of eight years in the remainder of the benefits period.

If the program was approved after April 1, 2005, a further condition for the receipt of benefits in the alternative track is the execution of a minimum qualifying investment. This refers to investment in the acquisition of productive assets such as machines and equipment, to be made within three years. The minimum qualifying investment required for the establishment of an enterprise is NIS 300,000. Regarding the extension of an enterprise, it is determined that the required minimum qualifying investment is NIS 300,000 or a sum equal to a "qualifying proportion" of the value of the productive assets, whichever is the higher. Productive assets used by the enterprise but not owned thereby will also be considered productive assets.

The qualifying proportion of the value of productive assets is as follows:

The portion of the value of the productive assets prior to the expansion (NIS millions)	The required new investment rate on the value of the productive assets
Up to 140	12%
140-500	7%
500 +	5%

The qualifying income in tax benefits in the alternative track will be liable income of a company that has met certain conditions as established in the Law (hereinafter – a Beneficiary Company) secured from an industrial enterprise or a hotel. The Law details the types of incomes qualifying for tax benefits in the alternative track, both regarding an industrial enterprise and a hotel. The income from an industrial enterprise includes, among other components, income from the production and development of software products and income from industrial research and development for a foreign resident (for which approval has been granted by the head of the Industrial Research and Development Authority).

Commencement of the benefits period is determined starting from the year in which the beneficiary company first created liable income, provided that fewer than 14 years have passed since the granting of the approval and 12 years since the year in which the factory first became operational. On account of an

expansion in the framework of Amendment No. 60 to the Law, commencement of the benefits period is determined starting from the year of choice, or from the year in which the company first created liable income, whichever is the later, provided that fewer than 12 years have passed since the commencement of the year of choice, or – in the case of an establishment plan for companies in a class "A" development area – 14 years since the commencement of the year of choice.

If a dividend is distributed on income eligible for tax exemption as stated above, the Company will be liable to tax in the rate that would have applied to its income from a beneficiary company in the year in which the income was produced, had it not opted for the alternative track. The Company's policy is not to distribute dividends as stated.

If the program in the grants track was approved after April 1, 2005, the basic condition for receipt of the benefits in this track is that the factory contributes to the economic independence of the Israeli economy and is competitive for the gross domestic product (hereinafter – a Competitive Enterprise). The Law establishes various requirements regarding an industrial enterprise in order to meet this condition with regard to the establishment of an enterprise.

For the purpose of an industrial enterprise, it is required that one of the following shall apply for each tax year during the benefits period:

1. Its principal operations are in the field of biotechnology or nanotechnology, and confirmation thereof has been granted by the head of the Industrial Research and Development Foundation prior to the approval of the program as stated.
2. Its income in the tax year from sales by the enterprise in any particular market does not exceed 75 percent of the enterprise's total income from sales in that tax year. A "market" is defined as a state or a separate tax territory.
3. Twenty-five percent or more of its total income in the tax year from sales by the enterprise are from sales in a particular market comprising at least 12 million residents.

Conditions for the applicability of the benefits

The above benefits are conditioned on compliance with the conditions established in the Law, in the regulations enacted in accordance therewith, and in the letters of approval in accordance with which the investments were executed in the approved enterprises, as stated above. Failure to comply with the conditions may lead to the cancellation of some or all of the benefits and to repayment of the benefit amounts, with the addition of interest.

B. Tax rates applying to the Company

The rates of company tax in Israel are as follows: 2007 – 29 percent, 2008 – 27 percent, 2009 – 26 percent, 2010 – 25 percent. Tax at a reduced rate of 25 percent applies to capital profit created from January 1, 2003, in place of the regular tax rate. In July 2009, the Knesset adopted the Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009

and 2010), 5769-2009. Among other provisions, this law establishes a further gradual reduction of the rates of company tax and real capital profit tax in Israel from 2011 on, to the following rates: 2011 – 24 percent, 2012 – 23 percent, 2013 – 22 percent, 2014 – 21 percent, 2015 – 20 percent, 2016 and thereafter – 18 percent.
The said change does not have a substantive impact on the financial statements.

C. Tax appraisals

The Company's tax appraisals through 2003 are considered final.

D. Losses transferred for tax purposes and other temporary allocations

The company has losses and deductions for tax purposes transferred to the coming years in the sum of approximately NIS 175 million as of December 31, 2009.

NOTE 23: ADDITIONAL DETAILS FOR LINES ON THE COMPREHENSIVE PROFIT STATEMENTS

(A) Additional details on income

	For the year ending on December 31		
	2009	2008	2007
	NIS Thousands		
Income from principal customers, each one responsible for 10% or more of the total income reported in the Financial Statements:			
Customer A – industrial segment	10,926	10,729	5,626
Customer B – industrial & import segment	8,740	5,875	3,310
Customer C – industrial segment	7,505	5,397	4,678
Customer D – industrial & import segment	6,970	7,938	8,925
Customer E – industrial segment	2,266	7,934	8,280
Customer F – industrial & import segment	3,285	7,026	8,045
	39,692	44,899	38,864

Below are the incomes reported on the Financial Statements based on the location of the customer, as follows:

	For the year ending on December 31		
	2009	2008	2007
	NIS Thousands		
Israel	30,718	28,226	27,140
South America	11,839	21,187	14,654

Asia	8,707	6,917	4,784
Others	5,479	1,232	5,233
	56,743	57,562	51,811

	For the year ending on December 31		
	2009	2008	2007
	NIS Thousands		
(B) Cost of sales and services			
Cost of providing services	89	76	72
Use of materials	32,725	42,302	20,488
Wages and ancillary expenses	14,688	13,722	4,736
Depreciation and reductions	6,101	7,489	1,672
Other production costs	8,041	8,551	657
	61,644	72,140	27,625
Decrease (increase) in finished product inventory and products in production	(1,692)	(14,827)	11,999
	59,952	57,313	39,624
(C) Other operating expenses			
Wages and ancillary expenses	4,319	–	6,464
Depreciation and reductions	1,738	–	3,279
Use of materials	–	–	2,280
Other production costs	1,471	–	3,912
	7,528	–	15,935
(D) Research & development expenses, net			
Wages and ancillary expenses	15,266	15,858	10,991
Sub-contractors	10,260	18,641	16,701
Materials	5,478	10,433	10,583
Others	2,685	2,452	7,129
Less – grants and self-participation	–	569	1,087
	33,689	46,815	44,317

(E) Sales and marketing expenses

Commissions	227	276	86
Participation in marketing expenses	–	–	131
Wages and ancillary expenses	913	537	633
Packaging, transportation and delivery	390	501	401
Publicity and marketing	670	659	672
Others	567	417	330
	2,767	2,390	2,253

(F) Administrative and general expenses

Wages and ancillary expenses	6,459	6,206	4,614
Professional wages	2,790	3,222	2,545
Depreciation and reductions	1,111	1,071	965
Provision for doubtful debts	(11)	–	10
Other	4,491	5,025	4,536
Loss (profit) from realizing fixed assets	(8)	19	(80)
	14,832	15,543	12,590

(G) Financing income and expenses

Financing income

Net change in fair value of a liability due to R&D grants	428	144	431
Net change in fair value of option warrants	–	25,394	–
Interest income from bank deposits	441	322	836
Exchange rate differentials and derivatives	169	60	287
Others	–	–	53
	1,038	25,920	1,607

Financing expenses

Net change in fair value of option warrants	6,788	–	24,782
Interest pursuant to short-term loans	58	245	585
Interest on long-term loans and convertible bonds	15,243	6,712	1,122
Commissions to banking corporations	328	670	406
Exchange rate differentials	–	809	–
Others	61	96	85
	22,478	8,532	26,980

NOTE 24: LOSS PER SHARE

	For the year ending on December 31					
	2009		2008		2007	
	Weighted no. of shares	Relative loss to company shareholders	Weighted no. of shares	Relative loss to company shareholders	Weighted no. of shares	Relative loss to company shareholders
	Thousands	NIS 000's	Thousands	NIS 000's	Thousands	NIS 000's
For the purpose of calculating basic loss	21,176,072	83,465	13,196,359	47,111	10,610,697	88,281

B. When calculating the diluted loss per share convertible securities were not included (ordinary shares potentially diluting) and these are specified below, since including them reduces the basic loss per share from ongoing activity (a non-diluting influence):

3,230,645 non-negotiable options warrants;
1,750,175 negotiable options warrants;
1,216,357 options for employees in shared-based payment programs;
2,963,314 bonds that are convertible into shares.

NOTE 25: OPERATING SEGMENTS

A. General

Operating segments were determined based on information that was examined by the Chief Operational Decision-Maker (CODM) for the purpose of making decisions regarding resource allocation and performance assessment. Accordingly, for management purposes the Group is constructed according to operating segments, based on its unique business products and services that are divided into two operating segments as follows:

Industrial activities segment – Development, production and sale of drugs (mainly plasma-based products).

Distribution activities segment – Marketing of supplementary products (mainly plasma-based products).

Segment performance [segment profit (loss)] is evaluated on the basis of the profit (loss).

Segment outcomes reported to the CODM includes items attributed directly to the sector and items that can reasonably be attributed. Items that were not allocated, which mainly includes assets from the Group's main office, administrative and general expenses and financing (which entails financing costs and income including pursuant to fair value adjustment of financial instruments) are managed on a Group basis.

The segment's liabilities do not include loans and financial liabilities since these liabilities are managed on a Group basis.
Equity investments including purchases of fixed assets and intangible income.

B. Report on operating segments

	Industrial operating segment	Distribution operating segment	Other	Total
	NIS Thousands			
For the year ending Dec. 31, 2009				
Income from externals	38,206	18,308	229	56,743
Total income	38,206	18,308	229	56,743
Sector profit (loss)	(51,344)	4,920	137	(46,287)
Unallocated joint expenses				(15,738)
Financing expenses, net				(21,440)
Loss				(83,465)

	Industrial operating segment	Distribution operating segment	Other	Total
	NIS Thousands			
For the year ending Dec. 31, 2008				
Income from externals	38,333	18,391	338	57,562
Total income	38,333	18,391	338	57,562
Sector profit (loss)	(51,927)	3,319	187	(48,421)
Unallocated joint expenses				(16,079)
Financing expenses, net				17,389)
Loss				(47,111)

	Industrial operating segment	Distribution operating segment	Other	Total
	NIS Thousands			
For the year ending Dec. 31, 2007				
Income from externals	32,891	18,578	342	51,811
Total income	32,891	18,578	342	51,811
Sector profit (loss)	(52,013)	2,220	210	(49,583)
Unallocated joint expenses				(13,325)
Financing expenses, net				(25,373)
Loss				88,281

C. Additional information

	Industrial activity	Distribution activity segment	Other	Adjustments	Total
	NIS Thousands				
For the year ending Dec. 31, 2009					
Capital investments	16,603	–	196	–	16,799
Depreciation and reductions	7,774	12	–	1,589	9,375
For the year ending Dec. 31, 2008					
Capital investments	12,203	–	106	–	12,309
Depreciation and reductions	7,407	12	70	1,402	8,891
For the year ending Dec. 31, 2008					
Capital investments	16,582	–	401	–	16,983
Depreciation and reductions	6,008	10	–	2,183	8,201

	Industrial activity	Distribution activity segment	Other	Adjustments	Total
	NIS Thousands				
As of December 31, 2009					
Sector assets	95,258	8,534	486	–	104,278
Non-allocated assets	–	–	–	134,032	134,032
Sector liabilities	12,565	4,271	–	–	16,836
Non-allocated liabilities	–	–	–	107,264	107,264
As of December 31, 2008					
Sector assets	92,633	5,934	464	–	99,031
Non-allocated assets	–	–	–	60,113	60,113
Sector liabilities	17,709	2,576	–	–	20,285
Non-allocated liabilities	–	–	–	91,024	91,024

NOTE 26: BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND AFFILIATED PARTIES

A. Balances with interested parties and affiliated parties

1. Composition:

December 31, 2009	Regarding conditions see Note	Controlling party	Interested party (CEO)
		NIS Thousands	
Receivables and debit balances		–	11
Payables and credit balances		31	1,497
Liabilities for employee benefits, net		–	732
Highest balance of loans and current debts for the year		322	11

December 31, 2008	Regarding conditions see Note	Controlling party	Interested party (CEO)
		NIS Thousands	
Customers (1)		228	–
Receivables and debit balances		–	11
Payables and credit balances		33	1,142
Liabilities for employee benefits, net		–	721
Highest balance of loans and current debts for the year		228	11

(1) Current balance is not linked and does not bear interest.

B. Benefits to affiliated parties and interested parties

	For the year ending Dec. 31		
	2009	2008	2007
	NIS Thousands		
Wages and ancillary expenses for employees working in or for the company	2,804	2,393	2,139
Wages for directors who do not work in or for the company	453	410	195
Consulting fees for those not working in or for the company	–	49	196
Number of people to whom wages and benefits pertain			
Related parties and interested parties working in or for the company	2	2	2
Directors who are not employed by the company	6	6	6
	8	8	8

C. Benefits for key managers

	For the year ending Dec. 31		
	2009	2009	2009
	NIS Thousands		
Short-term benefits	3,742	3,976	4,407
Other long-term benefits	47	47	106
Share-based payment	887	252	153
	4,676	4,275	4,666

D. Transactions with interested parties and affiliated parties

For the year ending December 31, 2009

	Regarding conditions see Note	Controlling party	Interested party (CEO, directors and others)
		NIS Thousands	
Sales		913	–
Purchases		32	–
Sales and marketing expenses		–	172
Administrative and general expenses	18J	–	3,085
Financing expenses (estimated value of liability options for investors)		1,695	–
		1,985	2,666

For the year ending December 31, 2008	Regarding conditions see Note	Controlling party	Interested party (CEO, directors and others)
		NIS Thousands	
Sales		1,203	–
Purchases		14	–
Sales and marketing expenses		49	154
Administrative and general expenses	18J	–	2,648
Financing expenses (estimated value of liability options for investors)		–	435
		1,266	3,237

For the year ending December 31, 2007	Regarding conditions see Note	Controlling party	Interested party (CEO, directors and others)
		NIS Thousands	
Sales		380	–
Purchases		16	–
Sales and marketing expenses		196	–
Administrative and general expenses	18J	–	2,401
		592	2,401

E. Income and expenses from affiliated parties and interested parties

1. Terms of transactions with affiliated parties

   The sales to affiliated parties are carried out at market prices. Balances that have not yet been redeemed by the end of the year are not guaranteed, do not bear interest and they are settled in cash. No guarantees were received or given pursuant to amounts receivable or payable. For the years ending on December 31, 2008 and 2009 the Company did not record any provisions for doubtful debts due to amounts receivable from affiliated parties.

2. In April 2005, as part of an investment agreement with a shareholder, the Company signed a consulting agreement according to which the company will pay monthly consulting fees in the amount of $2,500 (about NIS 11,000) for a period of up to three years. In July 2006 the agreement was updated to the sum of $4,000 (around NIS 15,000). The change in the terms reflects a change in the scope of the transaction. In April 2008 the contract between the parties ended.

F. Proforma data

In the wake of an amendment to the employment agreement for the new CEO in February 2008 as described in Note 18J, below is the impact the data for the report years on the assumption that the changes in the terms were valid for all of the report periods:

	For the year ending December 31			
	2008		2007	
	Actual data	Proforma data	Actual data	Proforma data
	NIS thousands (except for loss per share data)			
Administrative & general expenses	15,543	15,417	12,590	12,757
Loss	(47,111)	(46,985)	(88,281)	(88,448)
Loss per share (in NIS)				
Basic loss	(3.57)	(3.55)	(8.32)	(8.32)
Diluted loss	(5.27)	(5.12)	(8.32)	(8.32)

NOTE 27: INVESTMENTS IN OWNED COMPANIES

Consolidated Companies

1. Additional information on consolidated companies held directly by the Company

	Country of consolidation	Company rights in equity and voting rights	Loans	Investment in subsidiary company
		%	NIS 000's	
2009				
Kamada Assets, Ltd.	Israel	74	–	5,399
Bio-Com, Ltd *)	Israel	100	–	–
Kamada, Inc.	Delaware, USA	100	–	–
2008				
Kamada Assets, Ltd.	Israel	74	–	5,400
Bio-Com *)	Israel	100	–	–

*) An inactive company

2. List of consolidated companies:

	December 31			
	2009		2008	
	Shares with voting rights	**Shares with rights to profits**	**Shares with voting rights**	**Shares with rights to profits**
	Percentage of holding			
Name of company				
Kamada Assets, Ltd.	74	100	74	100
Bio-Com, Ltd. *)	100	100	100	100
Kamada, Inc.	100	100	100	100

*) An inactive company

NOTE 28: SEPARATE FINANCIAL INFORMATION

The Company did not include in the Periodic Report for 2009 separate financial information in accordance with the provisions of Regulation 9C because the benefit to the investor following the inclusion of such information was negligible, for the following reasons:

A. The consolidated companies are fully controlled by the Company;

B. The scope of the assets, liabilities, and share in the comprehensive losses of the consolidated companies was trivial compared to the assets, liabilities and comprehensive loss of the Company itself;

C. More than 99% of the cash flows derive from the Company.

NOTE 29: EVENTS AFTER THE DATE OF THE BALANCE SHEET

A. Following the date of the balance sheet 1,698,913 options warrants were exercised for 1,698,913 ordinary shares with a nominal value of NIS 1 each, for a total of NIS 18,730,000 in compensation.

B. On March 3, 2010 the Company's board of directors and audit committee approved, based on a recommendation by the board's committee on matters of remuneration for employees and consultants, to allocate without payment 81,600 additional options from the outline options for 2009, which can be exercised for up to 81,600 shares of ordinary stock at an exercise price of NIS 11 per ordinary share. The said allocation was carried out on March 25, 2010 as a private offering and according to the outline, to the Company's employees including senior officers in the Company.

According to the calculation formula based on the binomial model of Cox, Ross & Rubinstein, the fair value of the options is estimated at NIS 1,480,000.

SUMMARY OF DATA FOR TAX PURPOSES

Below are the data for income tax purposes only.

The data were prepared in accordance with the Israeli standards (Israeli GAAP) and not according to IFRS standards, in nominal values, on the basis of the historic cost convention without taking into account changes in the general purchasing power of the Israeli currency. The data do not include the effects of applying Accounting Standard 22 Regarding Financial Instruments: Disclosure and Presentation.

Company balance sheets

	As of December 31	
	2009	**2008**
	NIS Thousands	
Current assets		
Cash and cash equivalents	115,081	50,140
Short-term investments	1,999	–
Customers	15,345	13,208
Receivables & debit balances	5,410	3,093
Inventory	30,815	30,640
	168,650	97,081
Investments, loans and long-term debit balances		
Restricted cash	750	–
Long-term inventory	–	895
Deferred and other expenses	1,188	2,132
Advance expenses for operational lease	5,399	5,400
Fixed assets	61,564	52,930
Intangible assets	386	650
	69,287	62,007
	237,937	159,088

SUMMARY OF DATA FOR TAX PURPOSES (CONT'D)

	As of December 31	
	2009	2008
	NIS Thousands	
Current liabilities		
Credit from banking corporations and others	330	5,496
Liabilities to suppliers and service providers	22,471	18,702
Payables & credit balances	10,750	10,223
Deferred income due to establishment contract	476	–
	34,027	34,421
Long-term liabilities		
Deferred and other expenses	68	71,389
Liability due to termination of employer-employee relations, net	3,658	3,902
Bonds convertible into shares	79,137	–
Deferred assets due to establishment contract	4,233	–
	87,096	75,291
Equity	116,814	49,376
	237,937	159,088

SUMMARY OF DATA FOR TAX PURPOSES (CONT'D)

Company Profit and Loss Statement

	As of December 31	
	2009	2008
	NIS Thousands	
Income from sales and establishment contracts	56,743	57,562
Cost of sales and cost of implementing establishment contracts	59,545	58,135
Other operating expenses	7,528	–
Gross loss	(10,330)	(573)
Research & development expenses, net	33,578	47,088
Sales and marketing expenses	2,755	2,399
Administrative and general expenses	14,731	16,357
Profit (loss) from regular activities	(61,394)	(66,417)
Financing income (expenses), net	(20,999)	27,456
Other expenses, net	(8)	(20)
Loss before Company's share in a subsidiary's loss	(82,401)	(38,981)
Company's share in a subsidiary's loss	(1)	(6)
Loss	(82,402)	(38,987)

SUMMARY OF DATA FOR TAX PURPOSES (CONT'D)

Statement on Changes in Equity

	Share equity	Premium on shares	Option warrants	Equity funds	Loss balance	Total
	NIS Thousands					
Balance as of January 1, 2008	11,260	135,619	3,728	1,702	(83,024)	69,285
Equity fund from transaction with interested party	–	–	–	104	–	104
Issue of shares (less issue expenses)	417	10,860	2,537	–	–	13,814
Issue of option warrants	–	–	2,914	–	–	2,914
Exercise of option warrants into shares	2,375	4,314	(3,728)	(1,881)	–	1,080
Cost of share-based payment	–	–	–	1,166	–	1,166
Loss					(38,987)	(38,987)
Balance as of December 31, 2008	14,052	150,793	5,451	1,091	(122,011)	49,376

SUMMARY OF DATA FOR TAX PURPOSES (CONT'D)

	Share equity	Premium on shares	Option warrants	Convertible bonds	Equity funds	Loss balance	Total
	NIS Thousands						
Balance as of January 1, 2009	14,052	150,793	5,451	–	1,091	(122,011)	49,376
Equity fund from transaction with controlling interest	–	–	–	–	238	–	238
Issue of rights (less issue expenses)	1,750	28,879	3,435	–	–	–	34,064
Receipts from convertible option upon issue of convertible bonds (less issue expenses)	–	–	–	14,066	–	–	14,066
Issue of shares and option warrants, net	8,481	57,850	15,087	–	–	–	81,418
Exercise of option warrants into shares, net	775	15,670	(2,835)	–	–	–	13,610
Cost of share-based payment	–	–	–	–	6,444	–	6,444
Loss	–	–	–	–	–	(82,402)	(82,402)
Balance as of December 31, 2009	25,058	253,192	21,138	14,066	7,773	(204,413)	116,814

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