Kamada Ltd.

Consolidated Financial Statements as of December 31, 2011

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Independent Auditors' Report to the Shareholders of Kamada Ltd.

On the Matter of the Inspection of Components of Internal Control over Financial Reporting

In Accordance with Section 9.b.(c) of the Securities Regulations

(Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Kamada Ltd. and its subsidiary (collectively, "the Company") as of December 31, 2011. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over the acquisition process-; (3) controls over the inventory process; (4) controls over the sales process (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2011.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 and our report dated February 28, 2012 expressed an unqualified opinion thereon.

Tel-Aviv,	Kost Forer Gabbay & Kasierer
February 28, 2012	Certified Public Accountants

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Independent Auditors' Report

To the Shareholders of Kamada Ltd.

We have audited the accompanying consolidated balance sheets of Kamada Ltd. ("the Company") as of December 31, 2011 and 2010 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009.These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2011 and 2010, and the results of their operations, changes in their equity and cash flows for each of the years ended December 31, 2011, 2010 and 2009, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2011, and our report dated February 28, 2012 expressed an unqualified opinion on the effective maintenance of those components.

Tel-Aviv,	Kost Forer Gabbay & Kasierer
February 28, 2012	Certified Public Accountants

Consolidated Balance Sheets

	Note	As of December 31, 2011	As of December 31, 2010
		Thousands of NIS	
Current Assets			
Cash and cash equivalents	3	93,135	91,251
Short-term investments	4	64,194	72,254
Trade receivables	5	27,246	45,524
Other accounts receivables	6	7,368	4,375
Receivables for construction contracts	7	-	2,440
Inventories	8	58,594	37,594
Restricted cash	19p	5,777	-
		256,314	253,438
Non-Current Assets			
Long-term inventories	8	2,120	-
Deferred and other expenses	9	82	1,146
Fixed assets	10	66,535	70,008
Intangible assets	11	171	126
		68,908	71,280
		325,222	324,718
Current Liabilities			
Credit from banks and others	12	47	65
Trade payables	13	47,865	42,407
Other accounts payables	14	11,892	10,981
Deferred income		27,677	13,941
Liabilities due to research and development grants	15	-	3,113
		87,481	70,507
Non-Current Liabilities			
Loans from banks and others		46	91
Warrants	15a	2,603	4,534
Convertible debentures	15b	85,664	82,078
Employee benefit liabilities, net	18	2,058	1,637
Deferred revenues	19k,o,p	61,070	71,896
		151,441	160,236
Shareholder's Equity	21		
Share capital		29,231	29,091
Additional paid in capital		360,432	353,973
Warrants		2,279	6,090
Proceeds from conversion option in convertible debtures		14,066	14,066
Other capital reserves		18,526	15,695
Accumulated deficit		(338,234)	(324,940)
		86,300	93,975
		325,222	324,718

The accompanying Notes are an integral part of the Consolidated Financial Statements.

February 28, 2012			
Financial Statements Approval Date	Ralf Hahn Chairman of the Board of Directors	David Tzur Director and CEO	Gil Efron CFO

Consolidated Statements of Comprehensive Income

	Note	For the Year Ended December 31, 2011	2010	2009
		Thousands of NIS (Except for Per-Share Loss Data)		
Revenues from the sale and issue of licenses	24a	211,604	122,665	54,737
Revenues from establishment contract		1,231	6,036	2,006
Total revenues		212,835	128,701	56,743
Cost of sales		151,885	102,297	58,340
Cost of establishment contract		1,119	4,861	1,608
Total cost of revenues	24b	153,004	107,158	59,948
Other operating expenses	24c	-	-	7,528
Total cost of revenues		153,004	107,158	67,476
Gross profit (loss)		59,831	21,543	(10,733)
Research and development expenses	24d	41,969	34,636	33,689
Selling and marketing expenses	24e	8,342	8,034	2,767
General and administrative expenses	24f	18,340	16,958	14,832
Operating loss		(8,820)	(38,085)	(62,021)
Finance income	24g	9,954	2,092	1,038
Finance expense	24g	14,428	17,841	22,478
Loss		(13,294)	(53,834)	(83,461)
Total comprehensive loss		(13,294)	(53,834)	(83,461)
Loss per share attributable to equity holders of the Company (in NIS):	25			
Basic loss per share		(0.48)	(2.02)	(4.14)
Diluted loss per share		(0.55)	(2.02)	(4.14)

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Share Capital	Additional paid in capital	Warrants	Receipts due to Conversion Option	Other Funds	Accumulated Deficit	Total Equity
	Thousands of NIS						
Balance as of January 1, 2009	15,706	215,282	1,612	-	2,899	(187,645)	47,854
Total comprehensive loss	-	-	-	-	-	(83,461)	(83,461)
Exercise of warrants into shares, net	775	15,670	(2,739)	-	(96)	-	13,610
Cost of share-based payment	-	-	-	-	6,444	-	6,444
Proceeds from conversion option upon issue of convertible debentures (net of issue expenses)	-	-	-	14,066	-	-	14,066
Issuance of shares and warrants (less issuing costs)	8,481	57,850	15,087	-	-	-	81,418
Capital reserve from transaction with controlling shareholder	-	-	-	-	238	-	238
Issuance of rights	1,750	28,879	3,435	-	-	-	34,064
Balance as of December 31, 2009	26,712	317,681	17,395	14,066	9,485	(271,106)	114,233
Total comprehensive loss	-	-	-	-	-	(53,834)	(53,834)
Exercise of warrants into shares	2,379	36,292	(11,305)	-	(205)	-	27,161
Cost of share-based payment	-	-	-	-	6,415	-	6,415
Balance as of December 31, 2010	29,091	353,973	6,090	14,066	15,695	(324,940)	93,975
Total comprehensive loss	-	-	-	-	-	(13,294)	(13,294)
Exercise of warrants into shares	140	3,026	(378)	-	(982)	-	1,806
Expiry of warrants		3,433	(3,433)				-
Cost of share-based payment	-	-	-	-	3,813	-	3,813
Balance as of December 31, 2011	29,231	360,432	2,279	14,066	18,526	(338,234)	86,300

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Cash Flows from Operating Activities			
Loss	(13,294)	(53,834)	(83,461)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	10,878	9,855	9,427
Finance expenses, net	4,474	15,749	21,440
Cost of share-based payment	3,795	6,303	6,340
Loss (gain) from sale of fixed assets	117	(23)	(8)
Change in employee benefit liabilities, net	421	177	186
	19,685	32,061	37,385
Changes in asset and liability items:			
Decrease (increase) in trade receivables	20,862	(30,544)	(2,097)
Decrease (increase) in other accounts receivables	(372)	(1,306)	1,647
Decrease (increase) in inventories and long-term inventories	(23,120)	(6,779)	720
Decrease (increase) in deferred expenses	690	141	(3,044)
Increase in trade payables	3,807	22,158	4,845
Increase (decrease) in other accounts payables	702	15,084	4,323
Increase in deferred revenues	2,910	67,663	-
Decrease in liabilities due to establishment contract work	-	(476)	-
	5,479	65,941	6,394
Cash paid and received during the year for:			
Interest paid	(9,105)	(7,540)	(9,910)
Interest received	1,120	1,562	448
Taxes paid	(306)	(470)	(452)
	(8,291)	(6,448)	(9,914)
Net cash provided by (used in) operating activities	3,579	37,720	(49,596)

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Cash Flows from Investing Activities			
Sale (Purchase) of marketable securities, net	8,438	(69,994)	(1,999)
Purchase of fixed assets	(7,091)	(13,609)	(20,015)
Receipt of investment grants	-	-	748
Restricted cash	(5,555)	750	(750)
Proceeds from sale of fixed assets	-	45	10
Net cash used in investing activities	(4,208)	(82,808)	(22,006)
Cash Flows from Financing Activities			
Issue of share capital (net of issue expenses)	-	-	113,516
Exercise of warrants	1,806	27,095	8,609
Issue of convertible debentures (net of issue expenses)	-	-	93,069
Repayment of loans and other long-term liabilities	(3,184)	(228)	(72,695)
Short-term credit from banks and others, net	(64)	(14)	(5,034)
Net cash provided by (used in) financing activities	(1,442)	26,853	137,465
Exchange differences on balances of cash and cash equivalent	3,955	(5,596)	(1,010)
Increase (decrease) in cash and cash equivalents	1,884	(23,831)	64,853
Cash and cash equivalents at the beginning of the year	91,251	115,082	50,229
Cash and cash equivalents at the end of the year	93,135	91,251	115,082
Significant non-cash transactions			
Purchase of fixed assets and intangible assets on credit	1,576	1,335	2,431
Waiver of salary and grant by controlling shareholder	-	-	238
Exercise of warrants presented as liability	-	67	5,001
Conversion of loan into share capital and warrants	-	-	1,966
	1,576	1,402	9,636

The accompanying Notes are an integral part of the Consolidated Financial Statements.

NOTE 1: - GENERAL

a. General description of the Company and its activity

Kamada Ltd. ("the Company") is a biopharmaceuticals company, that develops, produces and markets specialty pharmaceuticals for high value niche markets and orphan disease indications based on its proprietary platform technology and other life saving critical use medicines.

The Company's activity is divided into two main sectors of activity:

- The manufacture sector, in which the Company develops, manufactures and markets medicine which are produced from plasma or its derivative products.

- The distribution sector, in which the Company distributes medicine for critical uses, most of which are produced from plasma or its products, manufactured by other companies.

b. In December 2009, the Company established a fully-owned subsidiary – Kamada Inc.; this company is not active.

c. Definitions

In these Financial Statements –

The Company	-	Kamada Ltd.
The Group	-	The Company and its subsidiary.
Subsidiary	-	A company in which the Company has a controlling interest (as defined in IAS 27) and whose financial statements are consolidated with the Company's Financial Statements. Kamada Assets 2001 Ltd. ("Kamada Assets ") – a company in which the Company has a 74% stake (see also Note 2c below).
Interested party and controlling shareholder	-	As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Related parties	-	As defined in IAS 24 (Revised).
USD	-	U.S. dollar.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of financial statements

1. Measurement basis:

The Company's Financial Statements are prepared on a cost basis, except for the following:

Financial instruments at fair value through profit or loss;
Employee benefit assets and employee benefit liabilities;

The Company has elected to present profit or loss items using the function of expense method.

2. Basis of preparation of the financial statements:

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These standards comprise:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS).
3. Interpretations issued by the IFRIC and by the SIC.

Furthermore, the Financial Statements have been prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

3. Consistent accounting policies

The following accounting policies have been applied consistently in the financial statements for all periods presented.

4. Changes to accounting policies in view of new standards:

IAS 24 – Related party disclosures

The amendment to IAS 24 ("the Amendment") clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Amendment has been applied retrospectively from January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Company's financial statements.

IFRS 7 – Financial instruments: disclosure

The amendment to IFRS 7 ("the amendment ") clarifies the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures and the nature and extent of risks arising from financial instruments. The Amendment also reduces the disclosure requirements for collateral held by the Company and revises the

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

disclosure requirements for credit risk. The Amendment has been applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011.

The retrospective application of the Amendment did not have a material effect on the Company's financial statements.

IFRIC 19 – Extinguishing financial liabilities with equity instruments:

IFRIC 19 ("the Interpretation") prescribes the accounting treatment of transactions in which financial liabilities are settled by issuing equity instruments. According to the Interpretation, equity instruments issued as a replacement of a debt instrument are measured at fair value of the equity instruments issued if their fair value can be reliably measured. If the fair value of the equity instruments issued cannot be reliably measured, then the equity instruments are measured based on the fair value of the financial liability when extinguished. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognized in profit or loss. The Interpretation has been applied retrospectively from January 1, 2011.

The retrospective application of the Interpretation did not have a material effect on the Company's financial statements.

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

1. Judgments

In the process of applying the significant accounting policies, the Comapny has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

- Classification of leases

  In order to determine whether to classify a lease as a finance lease or an operating lease, the Company evaluates whether the lease transfers substantially all the risks and benefits incidental to ownership of the leased asset. In this respect, the Company evaluates such criteria as the existence of a "bargain" purchase option, the lease term in relation to the economic life of the asset and the present value of the minimum lease payments in relation to the fair value of the asset.

- Recognizing revenue on a gross or net basis

  In cases where the Company acts as agent or broker without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Company acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

2. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Legal claims

  In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel. These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and historical legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

- Pensions and other post-employment benefits

  The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 18.

- Determining the fair value of share-based payment transactions

  The fair value of share-based payment transactions is determined using an acceptable option pricing model.
  The assumptions used in the model can include the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

- Determining the fair value of non-marketable warrants presented as a financial liability

  The fair value of non-marketable warrants presented as a financial liability classified to Level 3 in the fair value disclosure hierarchy as per IFRS 7 is determined using assessment methods, through the use of an acceptable option pricing model.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The assumptions used in the model can include the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

c. Consolidated financial statements

Effective from January 1, 2010, the date of adoption of IFRS 3 (Revised) and IAS 27 (2008), the Comapny applies the accounting policy required by these Standards for business combinations and transactions with non-controlling interests.

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Company.

d. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

The presentation currency of the financial statements is the NIS.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Company entity, and is the currency used to measure its financial position and operating results. The functional currency of the Company is the NIS.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

3. Index-linked monetary items

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or recorded in equity in hedge transactions, are recognized in profit or loss.

As noted above, in all of the reported periods up to December 31, 2011, the NIS constituted the main economic environment in which the Company was active and therefore this currency constituted the Company’s functional currency. In the Company’s opinion, starting January 1, 2012, the dollar constitutes its functional currency, for the following reasons: most of the Company’s sales are in dollars and are expected to be in dollars from this point onward (see for instance the Baxter Agreement detailed in Note 19o). A significant portion of the Company's expenses from this point onward is expected to be in dollars, and in addition, the Company performs hedging transactions on a significant portion of its NIS expenses vs. the dollar. Furthermore, starting 2012 the Company's budget is in dollars and the currency in which receipts from operating activities are usually held is the dollar. In light of the above, starting January 1, 2012, a change will occur and the dollar will constitute its functional currency, with this change made on a prospective basis. Furthermore, starting from that date the Company will change the presentation currency of the Financial Statements to the dollar, with this change made retroactively. Translation differences created will be charged to capital reserve due to translation differences.

e. Cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Company's cash management.

f. Allowance for doubtful accounts

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible. As of December 31, 2011, the balance of doubtful debt was zero.

g. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Cost of inventories is determined as follows:

Raw materials	- At cost of purchase using the first-in, first-out method.
Products undergoing processing	- On the basis of average costs including materials, labor and other direct and indirect manufacturing costs.
Finished products	- On the basis of average costs including materials, labor and other direct and indirect manufacturing costs
Purchased products and goods	- On a “first in – first out” basis.

The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

If in a particular period production is not at normal capacity, the cost of inventories does not include additional fixed overheads in excess of those allocated based on normal capacity. Such unallocated overheads are recognized as an expense in profit or loss in the period in which they are incurred. Furthermore, cost of inventories does not include abnormal amounts of materials, labor or other costs resulting from inefficiency.

h. Receivables for establishment contracts

Income receivable from establishment contracts presented in the balance sheet at the aggregate amount of total costs incurred and total recognized profits less total recognized losses and progress billings. Progress billings are amounts billed for work performed up to the end of the reporting period, whether settled or not settled. If the amount is due from the customer, it is recorded in the balance sheet as an asset under receivables for establishment contracts. If the amount is due to the customer, it is recorded in the balance sheet as a liability for establishment contracts. The financial asset, receivables for establishment contracts, is reviewed for impairment and derecognition as discussed below regarding impairment of financial assets presented at amortized cost and the derecognition of financial assets, respectively.

Costs of projects based on establishment contracts are recognized at cost that includes identifiable direct costs and shared indirect costs.

i. The operating cycle

The Company's operating cycle is one year.

j. Financial instruments

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

a. Financial assets at fair value through profit or loss

The Company has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to earn short-term profits or if they are derivatives not designated as hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss when incurred.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

b. Loans and receivables

The Company has receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process. As for recognition of interest income, see section r.

2. Financial liabilities

a. Financial liabilities measured at amortized cost

Interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

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

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

3. Fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to market prices at the end of the reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

4. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

5. Compound financial instruments

Convertible debentures that are denominated in the issuing company's functional currency (NIS), which are not linked to an index or foreign currency and which contain both an equity component in respect of the conversion option and a liability component, are separated into the equity component (net of tax effect) and the liability component, and each component is presented separately less the respective transaction costs of each component. This separation is performed by first determining the carrying amount of the liability component based on the fair value of an equivalent non-convertible liability. The carrying amount of the equity component is the residual amount and is determined as the difference between the total proceeds received from the convertible debentures and the amount attributed to the liability component, as above, and, thus, presented in subsequent periods. Direct transaction costs are apportioned between the equity component (net of tax effect) and the liability component based on the allocation of proceeds to the equity and liability components, as above.

After initial recognition, the liability component is classified as described above in respect of financial liabilities at amortized cost and presented in the statement of financial position as either a current or non-current liability based on the repayment dates in cash, even if the terms of the instrument allow for the settlement of the liability at any time by issuing the Company's equity instruments.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

6. Issue of a unit of securities

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the components of the securities issued in the unit based on the following order: fair value is first determined for derivatives (such as warrants with an exercise price in a currency other than the Company's functional currency) and other financial instruments measured at fair value in each period; then fair value is determined for financial liabilities and compound instruments (such as convertible debentures) that are not measured at fair value in each period but rather at amortized cost. The proceeds allocated to equity instruments are the residual amount calculated as the difference between the total proceeds and the proceeds allocated as above. Issue costs are allocated to each component pro rata to the amounts determined for each component, net of any tax effect, in respect of equity instruments. After said allocation, each component is accounted for based on its classification (financial liability or equity instrument). The proceeds are allocated among financial instruments within the same category based on their relative fair values.

7. De-recognition of financial instruments

a. Financial assets

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b. Financial liabilities

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- Is legally released from the liability.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

k. Leases

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Company as lessee

1. Finance lease

Finance leases transfer to the Company substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method.

Future payments for the exercise of an option to extend the lease term with the Israel Lands Administration are not recognized as part of the asset and liability since they represent contingent rent derived from the fair value of the land on the date of future renewal of the lease agreement.

After initial recognition, the leased asset is accounted for according to the accounting policy applicable for this type of asset (see Section l. below).

2. Operating lease

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Pursuant to an amendment to IAS 17, the specific guidance for classification of land as an operating lease or a finance lease was removed. Consequently, there is no longer a requirement to classify a lease of land as an operating lease in all situations in which title does not pass at the end of the lease, but rather the classification of a lease of land should be evaluated by reference to the general guidance in IAS 17, which addresses the classification of a lease as finance or operating, as of the date the original agreement with the Israel Lands Administration ("the Administration") was signed taking into account that land normally has an indefinite economic life. Accordingly, a lease of land from the Administration should be evaluated by comparing the present value of the amount reported as prepaid operating lease expense and the fair value of the land and if said amount substantially reflects the fair value, the lease should be classified as a finance lease.

l. Property, plant and equipment

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the plant and equipment

The cost of self-constructed assets includes the cost of materials, direct labor and borrowing costs as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	**Mainly** %
Buildings *)	4	
Machinery and equipment	15-20	15
Vehicles	15	
Computers, office equipment and furniture	6-33	33
Leasehold improvements	Throughout the rental period	18

*) On the matter of the land component, see below.

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see Section n. below.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

m. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortization of intangible assets with finite useful lives is recognized in profit or loss.

The useful life span of the intangible assets is as follows:

	Years
IT systems	5

Research and development costs

Research expenditures are recognized in profit or loss when incurred.

An intangible asset arising from development or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Software

The Company's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

n. Impairment of non-financial assets

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

o. Research and development grants

Research and development grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government investment grants referring to assets such as fixed assets are presented as offset from the assets for which the grants were received.

Research and development grants received from the Israel-U.S. Binational Industrial Research and development ("BIRD") Foundation as support for a research and development project which grants include an obligation to pay to the BIRD royalties that are conditional on future sales arising from the project, are recognized upon receipt as a liability if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At the end of each reporting period, the Company evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties). If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as a reduction of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

Royalty payments are treated as a reduction of the liability. As of December 31, 2011 the Company has paid the BIRD Foundation all of its liabilities due to these grants.

p. Share-based payment transactions

The Company's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 22.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration of equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or income recognized in profit or loss represents the change between the cumulative expense recognized at the end of the reporting period and the cumulative expense recognized at the end of the previous reporting period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

q. Employee benefit liabilities

The Company has several employee benefit plans:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

1. Short-term employee benefits

   Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Company has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

   The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

   The Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to yields on Government bonds with a term that matches the estimated term of the benefit obligation.

   In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Company's own creditors and cannot be returned directly to the Company.

   The liability for employee benefits presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs and any unrecognized actuarial gains and losses.

   Actuarial gains and losses are recognized according to the "corridor" method. The Company only recognizes the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period that exceed 10% of the greater of:

   - the present value of the defined employee benefit obligation at the beginning of the period; or
   - the fair value of the plan assets at the beginning of the period.

   The amount recognized in profit or loss for the period is the above amount for each individual plan divided by the expected average remaining working lives of the employees.

r. Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

The specific criteria for revenue recognition for the following types of revenues are:

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Revenues from the sale of goods

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

Revenues from the rendering of services

Revenues from services provided are recognized according to the progress of the completion of the transaction on the balance sheet date. According to this method, revenues are recognized during the reporting period in which the services were provided. If the outcome of the contract may not be reliably measured, revenue is recognized up to the amount of recoverable expenses incurred.

Revenues from establishment contracts

The Company has entered into fixed price establishment contracts.

Revenues from establishment contracts are recognized by the percentage of completion method when all the following conditions are satisfied: the revenues are known or can be estimated reliably, collection is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the Company's (prime contractor's) ability to complete the contract and meet the contractual terms and the percentage of completion can be estimated reliably. The percentage of completion is determined based on the proportion of actual costs incurred to date to the estimated total costs.
An expected loss on a contract is recognized immediately in cost of sales irrespective of the stage of completion.

Interest income

Interest income on financial assets is recognized as it accrues using the effective interest method.

Milestone revenues

Milestone revenues are recognized when the Company meets the milestones and receives non-refundable remuneration for it.

Arrangements with multiple elements
Revenues from sale agreements that do not contain a general right of return and that are composed of multiple elements such as equipment, services and technical support are allocated to the various accounting units and recognized for each accounting unit separately. An element constitutes a separate accounting unit if and only if it has a separate value to the customer. Revenue from the various accounting units is recognized when the criteria for revenue recognition regarding the elements of that accounting unit have been met according to their type and only to the extent of the consideration that is not contingent upon completion or performance of the remaining elements in the contract.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Royalty revenues

Revenues from royalties are recognized as they accrue in accordance with the substance and terms of the relevant agreement.

Reporting revenues on gross or net basis

In cases where the Company acts as an agent or as a broker without being exposed to the risks and rewards associated with the transaction, its revenues are presented on a net basis. However, in cases where the Company operates as a principal supplier and is exposed to the risks and rewards associated with the transaction, its revenues are presented on a gross basis.

s. Cost of sales and supplier discounts

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes provisions for write-downs of inventories, inventory write offs and provisions for slow-moving inventories.

t. Financing revenues and expenses

Finance income comprises interest income on amounts invested (including available-for-sale financial assets), , gains from sale of financial assets classified as available-for-sale, changes in fair value of financial assets at fair value through profit or loss, exchange rate gains and gains on hedges recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the time value of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses of financial assets and losses on hedges recognized in profit or loss

Gains and losses on exchange rate differences are reported on a net basis.

u. Operating segments

An operating segment is a component of the Company that meets the following three criteria:

1. is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intercompany transactions;
2. whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
3. for which separate financial information is available

Regarding the Company’s operating segments, see Note 26.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

v. Earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

w. Provisions

A provision in accordance with IAS 37 is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

x. Advertising expenses

Expenditures incurred on advertising, marketing or promotional activities, such as production of catalogues and promotional pamphlets, are recognized as an expense when the Company has the right of access to the advertising goods or when the Company receives those services.

y. Presenting the statement of comprehensive income

The Company has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

z. Disclosure for new IFRS standards in the period prior to their application

IAS 1 – Presentation of financial statements

In June 2011, the IASB issued an amendment to IAS 1 ("the Amendment") which provides guidance for the presentation of other comprehensive income. According to the Amendment, items which may be carried to profit or loss at a later stage (such as upon derecognition or recovery) should be presented separately from items that can never be carried to profit or loss.

The Amendment is to be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2013, or thereafter. Earlier application is permitted.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The Company believes that the Amendment is not expected to have a material effect on the financial statements.

IAS 32 – Financial instruments: Presentation and IFRS 7 – Financial instruments: disclosure

In December 2011, the IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

Simultaneously in December 2011, the IASB issued amendments to IFRS 7 ("the amendments to IFRS 7") regarding the offsetting of financial assets and liabilities. According to the amendments to IFRS 7, the Company is required, among others, to provide disclosure of rights of set-off and related arrangements (such as collateral agreements), the composition of amounts that are set off, and amounts subject to enforceable master netting arrangements that do not meet the offsetting criteria of IAS 32.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2014, or thereafter. Earlier application is permitted, but disclosure of early adoption is required as well as the disclosures required by the amendments to IFRS 7 as described above. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2013, or thereafter.

The Company estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Company's financial statements.

IAS 19 (Revised) - Employee benefits

In June 2011, the IASB published IAS 19 (Revised) ("the Standard"). The main revisions included in the Standard are:

- Actuarial gains and losses will be recognized only in Other Comprehensive Income and will not be charged to profit or loss.
- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated
- The return on the plan assets is recognized in profit or loss based on the discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- Past service cost arising from changes in the plan will be recognized immediately.

The Standard is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of the Standard but is presently unable to assess the effects, if any, on its financial statements.

IFRS 9 – Financial instruments

1. In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("the Standard") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

   According to the Standard, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

   - the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

     Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

   Subsequent measurement of all other debt instruments and financial assets should be at fair value.

   Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income, in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently transferred to profit or loss). Nevertheless, if equity instruments are held for trading, they should be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

   The Standard is effective commencing from January 1, 2015. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the Standard.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

2. In October 2010, the IASB issued certain amendments to the Standard regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

   The changes arising from these amendments affect the measurement of a liability for which the fair value option has been chosen. Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

   Furthermore, according to the amendments, derivative liabilities in respect of certain unquoted equity instruments can no longer be measured at cost but rather only at fair value.

   The amendments are effective commencing from January 1, 2015. Earlier application is permitted provided that the Company also adopts the provisions of the Standard regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

   The Company is evaluating the possible impact of the Standard but is presently unable to assess its effect, if any, on the financial statements.

<u>IFRS 10, IFRS 11, IFRS 12, IFRS 13– Consolidated financial statements, Joint arrangements, Disclosure of interests in other Entities, Fair value measurement</u>

In May 2011, the IASB issued four new Standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities" ("the new Standards") and IFRS 13, "Fair Value Measurement", and amended two existing Standards, IAS 27R (Revised 2011), "Separate Financial Statements", and IAS 28R (Revised 2011), "Investments in Associates and Joint Ventures".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company believes that the adoption of IFRS 10 is not expected to have a material effect on the financial statements.

NOTE 2: - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

IAS 27R – Separate financial statements

IAS 27R supersedes IAS 27 and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in IAS 27R.

IFRS 13 – Fair value measurement

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1: Quoted process (adjustments) in an active market of identical assets and liabilities.
Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

As for the effect on the financial statements, the Company believes that IFRS 13 is not expected to have a material impact on its financial statements.

NOTE 3: - CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Cash and deposits for immediate withdrawal	19,028	9,557
Cash equivalents – short-term NIS deposits (1)	15,168	3,200
Cash equivalents – short-term USD deposits (1)	58,939	78,494
	93,135	91,251

(1) Short-term deposits deposited in banks for periods of between one week and 3 months, in accordance with the Company's needs for available cash. The deposits bear interest set by period (1.47-2.5% per year).

NOTE 4: - SHORT-TERM INVESTMENTS

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Financial assets at fair value through profit or loss		
Government bonds	-	17,393
Monetary funds	64,194	54,861
	64,194	72,254

NOTE 5: - TRADE RECEIVABLES

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Open accounts (1):		
In NIS	21,854	27,718
In USD	4,981	17,349
	26,835	45,067
Checks receivable	411	457
Trade receivables	27,246	45,524
(1) Including interested parties	-	*) -

*) Representing an amount lower than NIS 1,000.

Customer debts do not bear interest. Customer credit days range between 30-150 days.

Impaired debts are accounted for through recording an allowance for doubtful accounts.

NOTE 5: - TRADE RECEIVABLES (CONT.)

The change in the allowance for doubtful accounts is as follows:

	Specific Allowance
	Thousands of NIS
Balance at January 1, 2010	365
Recognition of bad debt	(345)
Exchange rate differences	(20)
Balance at December 31, 2010 and 2011	-

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Neither past due nor impaired	past due trade receivables with aging of					
		Up to 30 Days	30-60 Days	60-90 Days	90-120 Days	Over 120 days	Total
	Thousands of NIS						
December 31, 2011	7,817	17,756	80	654	487	41	26,835
December 31, 2010	39,195	5,535	241	-	18	78	45,067

NOTE 6: - OTHER ACCOUNTS RECEIVABLES

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Materials for clinical trials (1)	1,140	853
Government authorities	3,084	2,038
Prepaid expenses	3,068	776
Accrued income	9	469
Fair value of financial derivatives, net	-	193
Other receivables	67	46
	7,368	4,375

(1) The Company estimates that the materials for clinical trials will be used in the period up to December 31, 2012.

NOTE 7: - RECEIVABLES FOR ESTABLISHMENT CONTRACTS

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Costs incurred plus recognized profits	-	8,042
Less – progress billings	-	5,602
	-	2,440

NOTE 8: – INVENTORY

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Raw materials	12,903	9,902
Work in progress	7,147	8,309
Finished products (1)	26,324	14,759
Purchased products	12,220	4,624
	58,594	37,594

(1) The Company included finished products totaling approximately NIS 2,210 thousand within the framework of long-term inventory.

NOTE 9: - DEFERRED AND OTHER EXPENSES

a As of December 31, 2010, Materials intended for clinical trials in the amount of approximately NIS 977 thousand were classified as long-term according to the Company projection.

b. Long-term leasing deposits amounting to NIS 82 thousand (2010 – NIS 169 thousand).

NOTE 10: – FIXED ASSETS

a. Composition and movement:

2011

	Real Estate and Buildings	Machinery and Equipment (1) (2)	Vehicles (3)	Computers, Equipment and Office Furniture	Leasehold Improvements	Total
	Thousands of NIS					
Cost						
Balance at January 1, 2011	68,669	66,339	328	9,648	3,855	148,839
Additions during the year	2,228	3,295	-	1,870	-	7,393
Disposals during the year	-	(254)	-	-	-	(254)
Balance as of December 31, 2011	70,897	69,380	328	11,518	3,855	155,978
Accumulated Depreciation						
Balance as of January 1, 2011	19,433	48,432	159	7,299	3,508	78,831
Additions during the year	3,967	5,485	47	996	254	10,749
Disposals during the year	-	(137)	-	-	-	(137)
Balance as of December 31, 2011	23,400	53,780	206	8,295	3,762	89,443
Balance of depreciated cost as of December 31, 2011	47,497	15,600	122	3,223	93	66,535

2010

	Real Estate and Buildings	Machinery and Equipment (1) (2)	Vehicles (3)	Computers, Equipment and Office Furniture	Leasehold Improvements	Total
	Thousands of NIS					
Cost						
Balance as of January 1, 2010	62,211	61,148	328	8,830	3,855	136,372
Additions during the year	6,458	5,236	-	818	-	12,512
Disposals during the year	-	(45)	-	-	-	(45)
Balance as of December 31, 2010	68,669	66,339	328	9,648	3,855	148,839
Accumulated Depreciation						
Balance as of January 1, 2010	15,760	43,707	110	6,428	3,254	69,259
Additions during the year	3,673	4,748	49	871	254	9,595
Disposals during the year	-	(23)	-	-	-	(23)
Balance as of December 31, 2010	19,433	48,432	159	7,299	3,508	78,831
Balance of depreciated cost as of December 31, 2010	49,236	17,907	169	2,349	347	70,008

NOTE 10: – FIXED ASSETS (CONT.)

(1) After the deduction of the depreciated balance as of December 31, 2011 and 2010 of investment grants amounting to NIS 1,490 thousand and NIS 3,878 thousand, respectively.

(2) Including labor costs charged in 2011 and 2010 to the cost of facilities, machinery and equipment to the amount of NIS 1,115 thousand and NIS 932 thousand, respectively.

(3) Including vehicles purchased under finance lease conditions at an original cost of NIS 199 thousand.

b. As for liens, see Note 20.

c. Capitalized leasing rights of land from the Israel land administration.

	December 31,	
	2011	2010
	Thousands of NIS	
Under finance lease	4,255	4,299

The Group has capitalized leasing rights from the Israel Land Administration for an area of 16,880 m² in Beit Kama containing the Group's structures. The sum attributed to capitalized rights is presented as a fixed asset in the Financial Statements and is depreciated across the leasing period, which includes the option period; see also Note 2k.

During 2010, the Company signed an agreement with the Israel Land Administration to consolidate its leasing rights and extend the lease period to 2058, including an extension option of 49 years. As of December 31, 2011, the Company paid a total of NIS 200 thousand for the said rights consolidation.

NOTE 11: - INTANGIBLE ASSETS, NET

Composition:

	Knowhow	Computer Software	Total
	Thousands of NIS		
Cost			
Balance as of January 1 and December 31, 2010	124	1,200	1,324
Additions during the year	-	174	174
Balance as of December 31, 2011	124	1,374	1,498
Accumulated Amortization			
Balance as of January 1, 2010	124	814	938
Amortization recognized over the course of the year	-	260	260
Balance as of December 31, 2010	124	1,074	1,198
Amortization recognized over the course of the year	-	129	129
Balance as of December 31, 2011	124	1,203	1,327
Net Balance			
As of December 31, 2011	-	171	171
As of December 31, 2010	-	126	126

Amortization Expenses

Other intangible asset amortization expenses are classified as follows in the Statement of Comprehensive Income:

	For the Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Administrative and general expenses	129	260	264

NOTE 12: – CREDIT FROM BANKS AND OTHERS

	In or Linked to Foreign Currency	Unlinked	Total
	Thousands of NIS		
December 31, 2011			
Current maturities of long-term loans	47	-	47
December 31, 2010			
Current maturities of long-term loans	44	21	65

NOTE 13: - TRADE PAYABLES

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Open debts in NIS	9,308	8,356
Open debts in foreign currency (mainly USD)	37,431	33,507
	46,739	41,863
Notes payable	1,126	544
	47,865	42,407

Supplier debts do not bear interest. The average number of supplier credit days is 70 days.

NOTE 14: – OTHER ACCOUNTS PAYABLES

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Employees and payroll accruals	9,356	8,887
Accrued Expenses	2,359	1,921
Fair value of financial derivatives, net	151	-
Others	26	173
	11,892	10,981

NOTE 15: - NON-CURRENT LIABILITIES

a. Warrants

During 2009 and 2008, the Company granted 531,495 non-marketable option warrants, which can be exercised into 531,495 ordinary shares of NIS 1 par value each (subject to adjustments) in consideration for an exercise price of NIS 10.83-32.13. 265,891 warrants are exercisable by July 30, 2012 and 265,604 warrants are exercisable by January 24, 2013.

During 2010, 239,044 warrants were exercised into 239,044 ordinary shares of NIS 1 par value each for a total consideration of NIS 2,603 thousand. During 2010, 3,984 warrants were exercised into 3,984 ordinary shares of NIS 1 par value each for a total consideration of NIS 43 thousand. Warrants (see Notes 19h and 21d). As of December 31, 2011, 288,467 warrants are presented as liabilities.

b. Convertible debentures

On October 15, 2009, the Company published a shelf offering report on the basis of a shelf prospectus dated November 26, 2008, as revised on September 17, 2009, of debentures convertible to shares (Series C) with nominal value of NIS 100,000 thousand, redeemable in 3 yearly payments starting December 1, 2013.

The debentures are unlinked and bear variable yearly interest plus a yearly margin of 6.1% over the yearly interest rate borne by “Government Bonds 817” throughout the interest period. The debentures are convertible on each business day starting October 19, 2009 and ending November 15, 2015 into ordinary registered shares of NIS 1 par value, except for between November 16 and December 1 of each of the years 2013 to 2014, in such a manner that in the period starting October 19, 2009 and ending December 1, 2012, each NIS 33.75 par value of debentures (Series C) shall be convertible to an ordinary share of NIS 1 NV and subsequently, starting December 2, 2012 and ending November 15, 2015, each NIS 37.12 par value of debentures (Series C) shall be convertible to an ordinary share of NIS 1 par value.

The balance of debentures convertible as of December 31, 2011 is presented less issuing costs, partly under liabilities ("the Liability Component") and partly under equity ("the Conversion Component") at sums of NIS 85,664 thousand and NIS 14,066 thousand, respectively.

The balance of the Liability Component is after the deduction of a discount to the amount of NIS 12,869 thousand and less issuing costs to the amount of NIS 1,467 thousand amortized using the effective interest method.

NOTE 16: - LIABILITIES DUE TO RESEARCH AND DEVELOPMENT GRANTS

Research and development grants

	2011	2010
	Thousands of NIS	
Balance as of January 1	3,113	2,813
Royalties paid, during the year	(3,184)	(160)
Amounts carried to profit or loss	71	460
Balance as of December 31,	-	3,113
Presented in the balance sheet under:		
Current liabilities	-	3,113

The Company has received research and development participation grants from the Israel-U.S. Binational Industrial Research and Development ("BIRD") Foundation in the amount of $ 523 thousand. In return for the grants, the Company has undertaken to pay royalties at a certain rates of future sales resulting from the research and development up to 150% of total grants received. During 2011, the Company paid the balance of the royalties in the amount of $ 893 thousand in two installments.

NOTE 17: - FINANCIAL INSTRUMENTS

a. Classification of financial assets and liabilities

The financial assets and financial liabilities in the balance sheet are classified by groups of financial instruments in pursuant to IAS 39:

	December 31,	
	2011	2010
	Thousands of NIS	
Financial assets		
Financial assets at fair value through profit or loss:		
Designated as such upon initial recognition	64,194	72,254
Financial derivatives classified as held for trading	3	336
Receivables	3,025	2,084
	67,222	74,674
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Financial derivatives classified as held for trading	153	143
Warrants	2,603	4,534
	2,756	4,677
Financial liabilities measured at amortized cost:		
Convertible debentures	85,664	82,078
Loans and credit from banking corporations	93	156
	85,757	82,234

b. Financial risk factors

The Company's activities expose it to various financial risks, such as market risk (foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Company's financial performance. The Company utilized derivatives to hedge certain exposures to risk.

Risk management is the responsibility of the Company CEO and CFO, in accordance with the policy approved by the Board of Directors. The Board of Directors provides principles for the overall risk management.

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

1. Market risks

a) Foreign exchange risk

The Company operates in an international environment and is exposed to foreign exchange risk resulting from the exposure to different currencies, mainly the USD. Foreign exchange risks arise from recognized assets and liabilities denominated in a foreign currency other than the functional currency, such as customers, suppliers and credit.

As of December 31, 2011, the Company has a position in derivatives intended to hedge decreases in the exchange rate of the USD vs. the NIS, over excess receipts in the USD expected for 2012 (see also f. below).

b) Interest rate risk

The Company is exposed to risks of changes in the market interest rates on loans and convertible debentures with floating interest rates. The Company's interest rate risk mainly derives from convertible debentures. As of December 31, 2011, the Company has convertible debentures amounting to NIS 85,664 thousand.

c) Price risk

As of December 31, 2011, the Company has monetary funds classified as financial assets measured at fair value through profit or loss, for which the Company is exposed to risk of fluctuations in the security price that is determined by reference to the quoted market price. As of December 31, 2011 and 2010, the carrying amount of these investments was NIS 64,194 thousand and NIS 72,254 thousand, respectively.

2. Credit risk

a) The Company extends a 30-150 days term to its customers. The Company regularly monitors the credit extended to its customers and their general financial condition, and, when necessary, require collateral as security for these debts such as letters of credit, down payments and so on. In addition, the Company partially insures its overseas sales with foreign trade risk insurance.

The Company keeps constant track of customer debt and the Financial Statements include an allowance for doubtful accounts that adequately reflects, in the Company's assessment, the loss embodied in the debts the collection of which is in doubt. As of December 31, 2011 and 2010, there is no balance of allowance for doubtful accounts.

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

b) The Company holds cash and cash equivalents and other financial instruments at various banking corporations. In accordance with Company policy, evaluations of the relative strength of credit of the various financial institutions are made on an ongoing basis.

As of December 31, 2011, cash and cash equivalents amounted to a total of NIS 93 million (December 31, 2010 - NIS 91 million), of which a total of NIS 74 million (December 31, 2010 – NIS 82 million) were within the framework of short-term deposits. All of the deposits are deposited in financial institutions of the highest rank in Israel.

As of December 31, 2011, short-term investments amounted to NIS 64,194 thousand (December 31, 2010 – NIS 72,254 thousand). The short-term investments are in solid instruments and include monetary funds.

3. Liquidity risk

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

December 31, 2011

	Less than	1 to 2	2 to 3	3 to 4	Total
	Thousands of NIS				
Loans from banks and others (including interest)	47	46	-	-	93
Trade payables	47,865	-	-	-	47,865
Other accounts payables	11,892	-	-	-	11,892
Convertible debentures (including interest)	8,823	28,823	47,058	43,529	128,233
	68,627	28,869	47,058	43,529	188,083

December 31, 2010

	Less than	1 to 2	2 to 3	3 to 4	4 to 5	Total
	Thousands of NIS					
Loans from banks and others (including interest)	68	47	47	-	-	162
Trade payables	42,407	-	-	-	-	42,407
Other accounts payables	10,981	-	-	-	-	10,981
Convertible debentures (including interest)	8,224	8,224	28,224	46,579	43,290	134,541
	61,680	8,271	28,271	46,579	43,290	188,091

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

c. Fair value

The following table demonstrates the carrying amount and fair value of the financial instruments presented in the Financial Statements not at fair value:

	Carrying Amount		Fair Value	
	December 31,		December 31,	
	2011	2010	2011	2010
	Thousands of NIS			
Financial liabilities				
Long-term loans with variable-interest loans	91	135	92	133

The fair value of a loan received bearing Prime + 1.9% interest is based on the computation of the present value of future cash flows discounted at an interest rate that reflects the relevant risk of the counter party taking into account uncertainty and expected timing of the cash flows.
The carrying amount of cash and cash equivalents, short-term investments, trade and other receivables, restricted cash, credit from banks and others, trade and other payables and convertible debentures matches or approximates their fair value.

d. Classification of financial instruments by fair value hierarchy

The financial instruments presented in on the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Financial assets measured at fair value

	Level 1
	Thousands of NIS
December 31, 2011	
Financial assets at fair value through profit or loss:	
Marketable securities	64,194
December 31, 2010	
Financial assets at fair value through profit or loss:	
Marketable securities	72,254
Derivative financial instruments, net	193
	72,447

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

Financial liabilities measured at fair value

	Level 1	Level 3
	Thousands of NIS	
December 31, 2011		
Financial liabilities at fair value through profit or loss:		
Warrants	-	2,603
Derivative financial instruments, net	151	-
	151	2,603
December 31, 2010		
Financial liabilities at fair value through profit or loss:		
Warrants	-	4,534

During 2011 and 2010 there were no transfers due to the fair value measurement of any financial instrument from Level 1 to Level 2, and furthermore, there were no transfers to or from Level 3 due to the fair value measurement of any financial instrument.

Changes in financial liabilities classified in level 1

	Warrants
	Thousands of NIS
Balance as of January 1, 2011	4,534
Total recognized gains in profit and loss	(1,931)
Balance as of December 31, 2011	2,603

	Option warrants
	Thousands of NIS
Balance as of January 1, 2010	2,844
Total recognized losses in profit and loss	1,757
Exercises	(67)
Balance as of December 31, 2010	4,534

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Sensitivity test to changes in stock price of marketable securities		
Gain (loss) from change:		
5% increase in stock price	(549)	(695)
5% decrease in stock price	549	695

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Sensitivity test to changes in interest rates		
Gain (loss) from change:		
1% interest rate increase	(1,434)	(2,661)
1% interest rate decrease	705	539

Sensitivity tests and principal work assumptions

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The sensitivity tests for the warrants were performed using a network model combines with the Black & Scholes Model, with the yearly standard deviation for the yield of the Company’s share within the 36%-37% range and the NIS interest in the 2.57%-2.66% range.

NOTE 17: - FINANCIAL INSTRUMENTS (CONT.)

e. Linkage terms of financial liabilities by groups of financial instruments pursuant to IAS 39

	Unlinked	Total
	Thousands of NIS	
December 31, 2011		
Financial liabilities measured at amortized cost	85,710	85,710

	Unlinked	Total
	Thousands of NIS	
December 31, 2010		
Financial liabilities measured at amortized cost	82,169	82,169

f. Derivatives

Derivatives not designated as hedging instruments

The Company has NIS/USD positions designed to manage some of its transaction exposure to fluctuations in exchange rates. These options are not designated as cash flows, fair value or net investment hedges. Such derivatives do not qualify for hedge accounting.

As of December 31, 2011, the Company's sold call options to a total sum of $ 1,000 thousand.

As of December 31, 2011, the Company's purchased put options to a total sum of $ 1,000 thousand.

The options are exercisable in March 2012.

NOTE 18: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans, as detailed below.

NOTE 18: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONT.)

b. Defined benefit plans:

The Company accounts for the payment of compensation, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

1. Expenses recognized in profit or loss:

	Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Current service cost	2,392	2,062	1,825
Interest cost on benefit obligation	655	585	475
Expected return on plan assets	(554)	(515)	(387)
Current service cost due to the transfer of real yield from the compensation component to the royalties component in executive insurance policies before 2004.	36	49	69
Net actuarial gains recognized in the year	(5)	(5)	(3)
Total employee benefit expenses	2,524	2,176	1,979
Actual return on plan assets	(431)	645	1,082

The expenses are presented in the Statement of Comprehensive Income as follows

	Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Cost of revenues	1,590	1,414	1,278
Research and development expenses	379	348	356
Selling and marketing expenses	151	174	39
Administrative and general expenses	404	240	306
	2,524	2,176	1,979

NOTE 18: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONT.)

2. The plan assets (liabilities), net:

	December 31, 2011	December 31, 2010
	Thousands of NIS	
Defined benefit obligation	(15,685)	(13,789)
Fair value of plan assets	12,913	11,622
	(2,772)	(2,167)
Net unrecognized actuarial losses *)	714	530
Total liabilities, net	(2,058)	(1,637)

*) Accumulated sums due to the liability value and due to the value of the rights to the plan assets.

3. Changes in the present value of defined benefit obligation

	2011	2010
	Thousands of NIS	
Balance at January 1,	13,789	11,493
Interest costs	655	585
Current service cost	2,392	2,062
Benefits paid	(346)	(991)
Net actuarial loss (gain)	(805)	640
Balance at December 31,	15,685	13,789

4. Plan assets

a) Plan assets

Plan assets comprise assets held by a long-term employee benefit funds and qualifying insurance policies.

NOTE 18: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (CONT.)

b) Change in the fair value of plan assets

	2011	2010
	Thousands of NIS	
Balance at January 1,	11,622	10,018
Expected return	554	515
Contributions by employer	2,098	1,917
Benefits paid	(340)	(909)
Net actuarial gain (loss)	(985)	130
Current service cost due to the transfer of real yield from the compensation component to the royalties component in executive insurance policies before 2004.	(36)	(49)
Balance at December 31,	12,913	11,622

5. The principal assumptions underlying the defined benefit plan

	2011	2010	2009
		%	
Discount rate of the plan liability	4.99	5.5	5.69
Expected rate of return on plan assets	2.13-4.99	2.63-5.09	2.34-2.6
Future salary increases	4	4	4

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

a. In accordance with the Law for the Encouragement of Industrial Research and Development, 1984, the Company received grants from the State of Israel for its research and development expenses, carried out pursuant to plans approved by the Industrial Research and Development Administration. In accordance with the letters of approval in question, the Company has undertaken to pay royalties to the State of Israel, calculated on the basis of the proceeds from the sale of products the Company took part in developing. During 2006, the Company completed its obligation to pay royalties for active projects. The balance of the maximum sum of royalties for inactive projects, according to the Company's estimates, amounts to $ 500 thousand (approximately NIS 1.9 million) as of December 31, 2011. In April 2008, the Company filed a request to close inactive files, which was partially rejected by the Chief Scientist in September 2010, on grounds that the Company was making use of the knowhow accumulated in these files and it was required to pay royalties for certain products. As of the date of this report, the Company is negotiating with the Chief Scientist’s Office to resolve the request. Company management estimates that the Company will not be required to pay these sums and accordingly, no provision was included in the Financial Statements.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

b. On June 27, 2006, the Company signed an agreement to rent offices until March 31, 2010, in return for monthly rental fees of NIS 46 thousand linked to the CPI of March 2000. In accordance with the option granted to the Company, the rental agreement was extended by an additional two years until March 2012, with the rental fees adjusted to a total of NIS 56 thousand linked to the CPI of July 2009. The future rental and maintenance fees for the rental agreement, as of December 31, 2011, are as follows:

	Thousands of NIS
2012 (three months)	840

c. The Company has engaged in operating lease agreements for the vehicles in its possession. These agreements will expire between 2012 and 2014.

Minimum future lease fees for the existing vehicles as of December 31, 2011 are as follows:

	Thousands of NIS
2012	957
2013	480
2014	137
	1,574

d. In November 2006, an agreement was signed between the Company and a third party on the matter of research and development collaboration. As part of the agreement, the Company was licensed to use developments made by the third party. Furthermore, each party bore an equal share of certain costs related to the R&D, up to a total of $ 500 thousand, and the third party provides the Company with devices for carrying out the clinical trials, free of charge. In the event that the development is successful, the Company will pay the third party 4% to 8% royalties. This obligation on behalf of the Company to pay royalties shall expire either when the patents expire or 15 years from the first commercial sale, whichever comes last. On the date of the expiry of the royalty period, the license will become non-exclusive and the Company shall be entitled to use the rights granted to it pursuant to the agreement without paying royalties or any other compensation. In addition, it was decided that the third party would pay royalties to the amount of 3% of the total net sales exceeding a certain sum, according to a mechanism set in the agreement, until the patent expires or until 15 years pass from the first date of sale, whichever comes first.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

In February 2008, the parties signed an amendment to the agreement according to which the exclusive global license granted to the Company was expanded to two additional indications. It was also decided that sales to the additional indications would be added to the sales to the first two outlines covered by the original agreement, as the basis for the calculation of the royalties the Company has undertaken to pay according to the royalty model set in the original agreement.

In addition, the parties signed a commercialization and supply agreement guaranteeing a regular and long-term supply of the device at the basis of the collaboration and its spare parts.

During 2006-2008, the Company recorded its full participation for the project in its books to the amount of $ 500 thousand.

e. In August 2007, the Company entered into a long-term agreement with a multinational European company for the purchase of a raw material used for the development and manufacture of medicines at graded amounts and prices. In addition to the price paid by the Company for the raw material, the Company will pay the supplier an additional sum derived from the sale of the product manufactured from the raw material in the territories set in the agreement, after receiving regulatory approvals. As of December 31, 2011, the regulatory approvals have yet to be received.

f. In January 2009, the Company management and employees agreed on a salary reduction at specific rates for a period of one year. As part of this agreement, the salary of the CEO was reduced by 20% over the course of 2009.

On February 2, 2011, the Company's Board of Directors decided to grant a special bonus to the Company CEO for the Company's 2010 achievements, to the amount of NIS 720 thousand. This bonus comes in addition to the bonus for the sale of certain products to which the CEO is entitled in accordance with his employment agreement until April 30, 2010. Accordingly, the Company included a NIS 720 thousand provision in its 2010 Financial Statements.

In addition, a decision was made to modify the CEO's employment agreement. The revision states that the Company's Board of Directors would make a yearly recommendation on the sum of the grant for the past year and the Company will ask for the approval of its general meeting, in accordance with the law. This amendment will be in effect starting January 1, 2011.

The special bonus to the CEO and the revision of his employment terms, as noted above, were approved by the general meeting in March 2011.

On February 28, 2012, the Company's Board of Directors decided to grant a special bonus to the Company CEO for the Company's 2011 achievements, to the amount of NIS 400 thousand. Accordingly, the Company included a NIS 400 thousand provision in its 2011 Financial Statements.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

g. On January 24, 2008, the Company signed a loan agreement with an American company ("the Financing Company") totaling $ 20 million to finance its activity, which was transferred to the Company in three parts during 2008. The loan bore 10.6% nominal yearly interest. On November 16, 2008, a revision was signed to the agreement according to which the loan would be repaid in 26 equal payments starting January 2010. Until that date, the Company made monthly interest payments only.

In addition, the Company granted to the Financing Company non-marketable warrants exercisable into 265,604 ordinary shares. The warrants are exercisable by cash payments or by net exercise by January 24, 2013. The exercise price of the warrants, with the exception of the warrants assigned by the Financing Company to third parties, is NIS 10.83. During of 2009 and 2010, 243,028 warrants were exercised into the Company’s shares in consideration of NIS 2,646 thousand.

On October 21, 2009, the Company exercised its right in accordance with the agreement and repaid the balance of the loan in full in return for an early repayment commission. See below.

The Financing Company was given the option of taking part in a future Company investment round up to a sum of $ 2.5 million but no greater than 25% of the total sum raised, under terms identical to the terms of the investment round. The Financing Company exercised this right as described below:

On May 20, 2009, the Company entered into an investment agreement with the Financing Company according to which the Company issued 178,727 shares and 71,491 warrants convertible into 71,491 shares to the Financing Company, in return for a total sum in NIS equivalent to $ 500 thousand, according to the dollar’s representative rate of exchange on the date the agreement was completed. The payment of the total proceeds took place by offsetting a sum of $ 500 thousand from the sum of the loan principal provided by the Financing Company to the Company, at a total of $ 20 million. The terms of the agreement are identical to the terms of the investment dated February 2009 (see j. below). In February 2011, the 71,491 warrants were exercised into Company shares in return for NIS 983 thousand.

In accordance with IAS 32 – “Financial Instruments: Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”, the Company allocated the proceeds from the loan and the warrants and accordingly, the loan was presented less the associated transaction costs, the value of the warrants and legal expenses. These expenses were amortized over the loan’s contractual life span using the effective interest method. As of the date of repayment of the loan, the entire balance of the expenses in question was amortized to financing expenses in the Statement of Comprehensive Income. The warrants are presented at fair value as a liability. The average effective interest embodied in the transaction as a whole is 14.2%.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

On October 21, 2009, the Company provided the Financing Company a total of $ 20 million for the total repayment of the balance of the loan, accumulated interest and early repayment commission. The repayment of the loan in question was carried out using part of the proceeds from the issue of the debentures (Series C) by the Company according to the shelf prospectus report (see Note 21d).

h. On March 4, 2008, the Company signed an investment agreement with a controlling shareholder, according to which the Company undertook to issue 416,920 ordinary shares of NIS 1 par value each in consideration for a total of $ 4 million. It was decided that for a limited period and subject to the exceptions detailed in the agreement, the investor will be given a certain value preservation mechanism in the event that the Company raises additional capital in the future.

In addition, the Company undertook to grant 166,768 non-marketable warrants exercisable into 166,768 shares of NIS 1 par value each. The warrants have an exercise price of NIS 43.85 and shall remain in effect for 4 years from the closing of the agreement as determined by the parties. Half of the warrants are given the warrants of net exercise (cashless).

The agreement was approved by the Company's general meeting on April 22 2008.

On April 14, 2008 and in accordance with the agreement, an additional investor was added, which invested a total of $ 1 million out of the total $ 4 million consideration, and was allocated shares and warrants according to its share (25%).

On April 29, 2008, the stipulations set in the agreement were completed, and the Company received a total of $ 4 million and the shares and warrants noted above were issued.

In accordance with IAS 32 – “Financial Instruments: Presentation” and IAS 39 - "Financial Instruments: Recognition and Measurement” ("the Standards"), and in light of the cashless exercise rights of half of the warrants, the components of the issue package were recognized as follows: (1) the warrants capable of being exercised on a cashless basis were recognized as a liability according to a fair value of NIS 1,422 thousand as calculated by an outside appraiser as of the date of the investment. Issuing costs attributed to this component were recognized in the Statements of Comprehensive Income. Subsequently, the warrants were revalued on a periodic basis and presented in the balance sheet under liabilities in accordance with their fair value; (2) the proceeds received less the fair value attributed to the liability warrants, and less the balance of the issuing expenses to the amount of NIS 12,392 thousand, was allocated between the shares and the balance of the warrants on the basis of the fair value ratios and was presented under equity. The value of the o warrants is calculated using a calculation formula based on a dynamic option pricing model (Monte Carlo and Black & Scholes).

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

In February 2009, the parties entered into a revision agreement subject to the approval of the Company's general meeting, which was conditioned on the Company raising, within 4 months of the agreement's signing date, an accumulated sum amounting to at least $ 3 million from existing shareholders and from third parties. Pursuant to the revision agreement in question:

(1) The value retention mechanism was updated in such a way that the investor agreed to waive part of the adjustment mechanism set pursuant to the original agreement between the parties; (2) the warrants' exercise period was extended; (3) the exercise price was reduced to NIS 11 per share. In certain cases detailed in the agreement, the value retention protection shall remain as per the original agreement. On March 31, 2009, the general meeting ratified the revision to the agreement.

In light of the Company's engagement in new investment agreements (see l. below), interested parties were allocated, as a result of the revised value retention mechanism described above, 912,535 ordinary shares and 365,013 non-marketable warrants for no return. Half of the additional warrants allocated can be exercised on a cashless basis. The warrants treated as a liability instrument as denoted above were revalued right before the terms were revised (in accordance with the original terms) and immediately afterwards (in accordance with the new terms, including the change in their number as a result of the allocation of the additional warrants in accordance with the revision agreement) and the change in their fair value was charged to the Statement of Comprehensive Income. As of December 31, 2011, the warrants have yet to be exercised. The warrants shall remain in effect until July 30, 2012.

i. On August 20, 2008, the Company's Audit Committee and Board of Directors approved a one-time waiver for the Company's CEO, who also serves as a Company director and is considered one of the Company's controlling shareholders by virtue of a voting agreement, on a single monthly salary and a yearly week of vacation, the total value of which in terms of cost to the Company is NIS 104 thousand. The waiver was made as part of a streamlining plan the Company put together along with its employees. In accordance with general practice in international standards, in 2009 the Company included the sum in question under administrative and general expenses, while at the same time it was charged to capital reserves due to a transaction with a controlling shareholder.

On November 26, 2009, the Company CEO, who also serves as a Company director and is considered one of the Company's controlling shareholders by virtue of a voting agreement, signed a one-time waiver on 35% of the sum of the bonus payable to him as per his employment contract according to which he is entitled to 2% of the net proceeds from the issue of share capital to the public. In accordance with general practice in international standards, the Company included a sum of NIS 238 thousand under administrative and general expenses, while at the same time it was charged to capital reserves due to a transaction with a controlling shareholder in 2009.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

j. In February 2009, an investment agreement was signed between the Company, a controlling shareholder therein and an American fund ("the Investors") according to which the Company issued 2,639,637 ordinary shares and 1,055,854 non-marketable warrants in return for a total of NIS 29 million. On March 31, 2009, the general meeting ratified the transaction in question.

As part of the investment agreement, a unit of securities was issued that includes ordinary shares and non-marketable warrants with a graded exercise price (pre-fixed). Furthermore, the Investors were granted, for a limited period of time and subject to certain conditions set in the agreement, a value retention mechanism, assuming the Company raises capital in the future at a price lower than a minimal price set in the agreement between the parties. The instruments issued (shares and warrants) are equity instruments, as warrants with a pre-fixed graded exercise price are equity warrants. As an additional attempt by the Company to raise money, which may trigger the activation of the value retention mechanism, will be under the Company’s control, the instruments issued were classified as equity and not as a financial liability.

In addition, pursuant to the agreement, the Investors were given the right to take part in additional capital raising rounds for a period of 3 years, to the amount of up to half the total sum invested, under the same terms and at the same price offered to the other participants. As the decision to raise capital is under the Company’s control, this component was also included under equity.

In accordance with the above, the proceeds to the amount of NIS 29 million, less issuing costs, were allocated between the package components in question, on the basis of fair value ratios, and were presented under equity.

k. In March 2009, an agreement was signed with the Ministry of Health to manufacture an anti-venom serum. The agreement stated that the Company would develop a production process and establish an exclusive manufacturing facility. The project will be financed in full by the Ministry of Health to the amount of NIS 19,654 thousand. After setting up the production line and completing all of the preparations required in accordance with the agreement, the Company will begin its yearly manufacturing for the Ministry of Health in accordance with the amounts set in the agreement. In return for the yearly manufacturing, the Ministry of Health will pay the Company a total sum of NIS 3.5 million per year. The agreement shall remain in effect until December 31, 2010. At the end of this period, the agreement will be renewed automatically for up to 10 additional periods of up to one year each, unless the Ministry of Health informs the Company that it was discontinuing the agreement.

As a condition for the agreement, the Company must purchase, with the Ministry of Health’s financing, the knowhow required to produce the serum. The knowhow in question shall belong to the Ministry of Health.

As of December 31, 2011, the project was completed and the Company was provided with the balance of the proceeds for the project.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

The parties agreed that the equipment will belong to the Company, but at the same time, in the event of the conclusion of the agreement as a result of its violation by the Company, or in the event that the agreement is not extended, or in the event that the agreement has expired, the Ministry of Health shall receive the equipment free of charge.

As of December 31, 2011, the Company has recognized income due to the project to the amount of NIS 9,273 thousand (presented under revenues from establishment contracts). The balance of the deferred revenue due to the project as of that date amounts to NIS 9,245 thousand.

Upon the supply of the first shipment of the serums to the Ministry of Health, the Company will provide bank guarantees to the amount of NIS 120 thousand, in effect until February 28, 2021.

l. In May 2009, the Company entered into investment agreements with institutional and private investors according to which the Company issued 4,750,000 ordinary shares and 1,899,999 non-marketable warrants in return for a total of NIS 52,250 thousand. The terms of the agreements are identical to the terms of the investment agreement dated February 2009 (see j. above).

On April 26, 2009, the Company signed an agreement with a consulting and investments company ("the Consulting Company"), according to which the Company paid a commission to the amount of NIS 1,427 thousand and allocated 25,946 non-marketable warrants to the Consulting Company under terms similar to those of the warrants granted to the Investors. These warrants were exercised to Company shares in return for NIS 285 thousand in February 2010.

According to a calculation formula based on a dynamic model for the pricing of warrants (the Monte Carlo Simulation) and the Black & Scholes formula with a standard deviation of 57%-70% calculated on the date the warrants were issued and based on a share price of NIS 27 and risk-free interest of between 2.13% and 3.88%, the economic value of 25,946 warrants was estimated at NIS 432 thousand.

The commissions and the option value were recognized as issuing expenses and were charged as a reduction from the premium.

m. In October 2009, the Company entered into an agreement with a company specializing in administering clinical trials, Contract Research Organization ("CRO"), which will serve as CRO for the clinical trial (Stage II/III) in Europe for the inhaled AAT drug used for the treatment of hereditary emphysema. The total scope of payments to the CRO may reach $ 7.5 million, payable over the trial period, which is expected to last over two years, and in accordance with its actual scope and progress rate. In addition, payments will be made through the CRO to the trial sites and to the various service providers regarding the trial at sums and payment conditions set following negotiations between the CRO and those sites and suppliers, and which will be approved in advance by the Company. As of December 31, 2011, the CRO was paid $ 6 million as part of the agreement. The debit balance as of December 31, 2011 is NIS 2,126 thousand.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

n. During 2009 and 2010, the Company received a statement of claim and a letter from an attorney on the matter of bodily harm as a result of work accidents involving a contract worker and a Company employee. Management estimates that no exposure is expected due to these motions, and accordingly, no provision was included in the Financial Statements.

o. On August 23, 2010, the Company entered into a collaboration agreement with the biopharmaceutical company Baxter Healthcare Corporation ("Baxter"), an international company traded on the New York Stock Exchange, and specializing, among other things, in the development, manufacture, marketing and sale of pharmaceutical products, consisting of three main agreements (1) the appointment of Baxter as the sole distributer of the Company's AAT IV drug ("Glassia ®") in the United States, Canada, Australia and New Zealand ("the Territory" and "the Distribution Agreement", respectively); (2) granting licenses to Baxter for the use of the Company's knowhow and patents for the production, continued development and sale of Glassia ® and other IV products by Baxter ("the License Agreement") in the Territory and (3) an agreement to provide raw materials, produced by Baxter, and used for the production of Glassia ® ("the Raw Materials Supply Agreement").

Pursuant to the agreements , payments were set for the Company for meeting milestones at a total sum of $ 45 million, Glassia ® purchases at a minimum sum of $ 60 million over the first five years from the signing of the distribution agreement and royalties at a sum of no less than $ 6 million per year, starting from the beginning of the sale of Glassia ® produced by Baxter in accordance with the License Agreement. Net sums received in advance were recorded as deferred revenues and are recognized as income according to the actual rate of sales, according to the sales forecast, in the Distribution Agreement period, which is expected to end in late 2015, with the start of production by Baxter. Non-refundable revenues due to the achievement of milestones will be recognized upon receipt when reaching the milestone.

During 2010, the Company received a total of $ 27.5 million due to these agreements, of which $ 20 million (NIS 76 million) were presented as an advance payment and $ 7.5 million (NIS 27 million) were recognized as income. The advance payment was presented in the Financial Statements under deferred revenues, of which NIS 13 million was under short-term, and the balance of NIS 63 million under long-term.

In March 2011, the Company completed the second milestone in the License Agreement with Baxter. Accordingly, the Company received payment as detailed in the terms of the agreement, and recognized revenues from the issue of licenses.

The duration of the agreements is 30 years, subject to the possibility of their conclusion on an earlier date following events set therein.

NOTE 19: - CONTINGENT LIABILITIES AND COMMITMENTS (CONT.)

Alongside the Company's engagement in the Distribution Agreement, a distribution agreement with a previous distributor with which the Company had an agreement since August 24, 2009 was canceled. Pursuant to the cancellation , the previous distributor confirmed that it had no complaints against the Company due to the conclusion of the agreement between the parties.

In the event that clinical trials are required in the Territory in connection with Glassia ®, the cost of these trials will be borne by Baxter and the Company will participate in the cost to a limited degree that may reach, under certain circumstances, up to $ 10 million over a period of several years.

According to the Raw Material Supply Agreement, which replaces a previous agreement between the parties, Baxter undertook to provide the Company raw materials used for the manufacture of Glassia ® and additional Company products. Baxter will provide the Company, free of charge, with all of the raw materials the Company needs to manufacture the Glassia ® sold to Baxter for distribution by Baxter in accordance with the Distribution Agreement. In addition, Baxter will provide the Company with raw materials at amounts set in the agreement for developing, manufacturing, selling and distributing products by the Company.

p. In February 2011, the Company entered into an agreement with a customer to supply products. As part of the agreement, the customer undertook to purchase a certain amount of products over the course of 2011 in accordance with the prices set between the parties. In addition, the customer paid the Company the consideration to the amount of $ 2.6 million in February 2011. The Company provided the customer with bank guarantees in order to guarantee the products' supply to the amount of the consideration in question. As of December 31, 2011, the collateral amounts to a total of NIS 5.7 million.

q. On July 19, 2011, the Company signed a strategic collaboration agreement with an international pharmaceutical company in the area of clinical development, marketing and sales in the United States of a passive inoculation for the prevention of rabies in human beings, KamRAB, which was developed, manufactured and marketed by the Company. According to the agreement, the partner shall bear all of the costs required to carry out the third stage clinical trial. It was agreed that the costs involved in registering the drug at the U.S. Food and Drug Administration (FDA) will be divided equally between the parties.

NOTE 20: - LIENS AND GUARANTEES

The following liens and mortgages are listed on the Company's assets as of December 31, 2011:

a. Within the framework of the receipt of grants from the State of Israel according to the Law for the Encouragement of Capital Investments, 1959, in 1991, the Company signed a debenture pursuant to which the Company placed a current lien on all of its fixed assets in favor of the State of Israel. Within the framework of the debenture in question, the Company undertook, among other things, not to sell or transfer the pledged assets or any portion thereof in any way, without the advance written permission of the State.

NOTE 20: - LIENS AND GUARANTEES (CONT.)

b. In order to guarantee the rental payments for an office in Ness Ziona, a sales agreement with the Meuhedet Heath Fund and other obligations, on December 31, 2011, the Company provided bank guarantees totaling NIS 6,418 thousand.

NOTE 21: - EQUITY

a. Composition of share capital:

	December 31, 2011		December 31, 2010	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 1 par value each	60,000,000	27,577,113	60,000,000	27,437,406

On October 8, 2009, the general assembly of the Company's shareholders approved an increase in the Company's authorized capital to 60,000,000 ordinary shares of NIS 1 par value each.

b. Changes in share capital

Issued and paid-in capital:

	Number of Shares	NIS par value
Balance at January 1, 2010	25,058,666	25,058,666
Exercise of warrants in to shares	2,378,740	2,378,740
Balance at December 31, 2010	27,437,406	27,437,406
Exercise of warrants in to shares	139,707	139,707
Balance at December 31, 2011	27,577,113	27,577,113

c. Rights attached to Shares

Voting rights at the general assembly, right to dividend, rights up on liquidation of the Company and right to nominate the directors in the Company.

NOTE 21: - EQUITY (CONT.)

d. Convertible debentures and warrants

As of December 31, 2011, the Company has 565,402 non-marketable registered warrants exercisable into 565,402 ordinary shares of NIS 1 par value each (subject to adjustments). The vast majority of the warrants can be exercised in return for an exercise price of between NIS 11 and NIS 22, unlinked. These option warrants are classified as equity and exercisable by July 30, 2012.

As of December 31, 2011, the Company has 288,467 non-marketable warrants classified as a liability (see Note 15a).

During 2011 and 2010, 139,707 and 2,378,740 warrants were exercised into 139,707 and 2,378,740 ordinary shares of NIS 1 par value each in return for a total of NIS 1,806 thousand and NIS 27,095 thousand, respectively.

On April 15 2011, 1,748,834 marketable Company warrants (Series 3), issued as part of the issuance of rights to shareholders in November 2009, expired.

As of December 31, 2011, the Company has 100,000,000 debentures (Series C) of NIS 1 par value convertible to 2,963,314 ordinary shares of NIS 1 par value each. See Note 15b.

Regarding options granted to employees, see Note 22 below.

e. Capital reserve from transactions with controlling shareholder

See Note 19i.

f. In March 2008, the Company signed an investment agreement with an interested party, according to which the Company undertook to allocate 416,920 ordinary shares of NIS 1 par value each in return for a total of $ 4 million. In February 2009, the parties signed a revision to the agreement according to which, in light of the Company's entry into a new investment agreement completed on April 30, 2009, following the activation of the value retention mechanism, the interested party was allocated 912,535 ordinary shares and 365,013 non-marketable warrants, at no consideration (see Note 19h).

g. In February 2009, an investment agreement was signed between the Company, a controlling shareholder therein and an American fund (see Note 19j) according to which the Company issued 2,639,637 ordinary shares and 1,055,854 non-marketable warrants in return for a total of NIS 29 million. The agreement was completed in April 2009. As of December 31, 2011, there are 299,509 non-marketable option warrants exercisable into 299,509 ordinary Company shares of NIS 1 par value each until July 30, 2012.

h. In May 2009, the Company entered into investment agreements with institutional and private investors according to which the Company issued 4,750,000 ordinary shares and 1,899,999 non-marketable warrants in return for a total of NIS 50 million (after deducting issuing costs). The terms of the agreements are identical to the terms of the investment agreement dated February 2009 (see g. above).

NOTE 21: - EQUITY (CONT.)

In addition, the Company granted 25,946 non-marketable warrants with terms identical to those of the warrants granted to the Investors in accordance with the agreement dated April 2009 (see Note 19l), to a consulting and investment company.

i. On May 20, 2009, the Company entered into an investment agreement with a financing entity, according to which the Company issued to the financing entity 178,727 ordinary Company shares and 71,490 non-marketable warrants exercisable into shares, in return for a total sum in NIS equivalent to $ 500 thousand (NIS 1,966 thousand), according to the dollar's representative rate of exchange on the date the agreement was completed. This sum was offset from the balance of the loan (see Note 19g).

j. On October 15, 2009, the Company published a shelf offering report in which it offered the public up to 100,000,000 registered debentures (Series C), at a cost of NIS 1 par value each, in 100,000 units, by way of a tender on the price of the unit. In a tender held on October 18, 2009, the unit price was set at NIS 956 and 100,000 units were allocated in return for a total of NIS 95.6 million (before deducting the issuing costs). See Note 15b.

According to the same shelf offering report, the Company's shareholders were offered Company securities by way of rights in such a manner that for every 13 shares, a shareholder would be entitled to purchase in return for NIS 20 a single credit unit comprised of both a single ordinary share and a single warrant (Series 3).

In return for the credit units used, a sum of NIS 35 million was received (before issuing costs of NIS 938 thousand), and accordingly, the Company issued 1,750,175 ordinary shares and 1,750,175 warrants (Series 3). 3,386 credit units expired and were not used.

k. Capital management in the Company

The Company's goals in the management of its capital are to preserve capital ratios that will ensure stability and liquidity to support business activity and create maximum value for shareholders.

NOTE 21: - EQUITY (CONT.)

l. Other capital reserve

Composition:

	Warrants	Capital reserve from transaction with controlling Shareholder	Capital reserve from Share-Based Payment Transactions	Total
	Thousands of NIS			
Balance as of January 1, 2010	17,395	342	9,143	26,880
Exercise of options and warrants	(11,305)	-	(205)	(11,510)
Cost of share-based payment	-	-	6,415	6,415
Balance as of December 31, 2010	6,090	342	15,353	21,785
Exercise of options and warrants	(378)	-	(982)	(1,360)
Cost of share-based payment	-	-	3,813	3,813
Expiry of warrants	(3,433)	-	-	(3,433)
Balance as of December 31, 2011	2,279	342	18,184	20,805

NOTE 22: - SHARE-BASED PAYMENT

a. Expense recognized in the financial statements

The expense that was recognized in the Financial Statements for services received from employees is presented in the following table:

	For the Year Ended December 31		
	2011	2010	2009
	Thousands of NIS		
Equity-settled share-based payment plans	3,813	6,124	6,340

The share-based payment transactions that the company granted to employees and a service provider are described below.

The employee option plan was carried out in accordance with Section 102 of the Income Tax Ordinance.

NOTE 22: - SHARE-BASED PAYMENT (CONT.)

b. Option allocation to Company CEO

On May 27, 2009, the Company's Board of Directors, subject to the approval of the general meeting, approved the grant to the Company CEO of 100,000 options exercisable into 100,000 shares of NIS 1 par value each. The options have an exercise price of NIS 11 and will expire on July 5, 2015. 50,000 options will become exercisable during 16 consecutive quarters, starting from their grant date, in equal shares. 30,000 options will become exercisable upon the submittal of the registration file ("BLA") of the AAT IV drug to the FDA or upon grant, whichever comes last. 20,000 additional options will become exercisable upon receipt of FDA approval to market the Company’s AAT IV drug in the U.S. within a period of time determined.

In June 2009, the Company submitted the BLA of the AAT IV drug to the U.S. FDA, and accordingly, recognized share-based payment expenses to the amount of NIS 630 thousand for the 30,000 options stipulated on this milestone.

In July 2009, the general meeting approved the gtant of the options in question. Upon receiving the approval of the general meeting, the option grant date was set, and accordingly: (1) the benefit for the 30,000 options stipulated on the submittal of the BLA was set at NIS 613 thousand; (2) the Company set the sum of the expenses due to the remaining 70,000 options.

In July 2010, the FDA granted its approval to market the Company’s AAT IV drug in the U.S. within a period of time set, and accordingly, 20,000 options vested.

According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the 100,000 options as of their grant date was estimated at NIS 2,049 thousand.

On August 28, 2011, the Company’s Board of Directors approved the grant, or no consideration, of 71,875 options to the Company's CEO, exercisable into 71,875 ordinary shares. The options have an exercise price of NIS 23.70 and will expire on February 27, 2018. The options shall vest as follows: (1) 25% - at the end of the first year from the date of grant; (2) 75% - over a period of 3 years, on a quarterly basis.
As of the grant date, the fair value was estimated at NIS 808 thousand.

c. Employee options

1. On May 27, 2009, the Company's Board of Directors decided to grant to the Company’s employees, for no consideration, up to 737,620 options exercisable into 737,620 shares of NIS 1 par value each. The options have an exercise price of NIS 11 and will expire on July 5, 2015. The options were granted in practice in July 2009, when the announcement was made to the employees.

NOTE 22: - SHARE-BASED PAYMENT (CONT.)

The options will vest as follows: (1) up to 690,182 options will vest in quarterly batches during a period of up to four years from the grant date for employees to whom options have been granted in the past; for employees for whom this was the first grant – the options will become exercisable in 13 batches, 25% of the total options will be exercisable starting 12 months from gtant date, 6.25% of the total options will be exercisable at the end of each quarter and up to four years from the grant date; (2) up to 47,438 options will vest in 8 equal quarterly batches over a period of two years from the grant date.

In practice, the Company's Board of Directors granted 677,140 options.

According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the 677,140 options granted, as described above, is estimated at NIS 11,753 thousand.

In addition, the Company's Board of Directors decided to reduce the exercise price of option granted in the past to Company employees, the current exercise prices of which range between NIS 27.47 per share and NIS 40.51 per share, as follows:

(1) Reduction of the exercise price of 70,108 options that have yet to vest as of June 1, 2009 to NIS 11 per share. The options will vest according to their original vesting dates.

(2) Reduction of the exercise price of 56,492 options that have been fully vested as of June 1, 2009 to NIS 22 per share.

2. On March 3, 2010, the Company’s Audit Committee and Board of Directors, acting on the recommendation of the Board of Directors Committee on the Remuneration of Employees and Consultants, approved the grant, for no consideration, of an additional 81,600 options of the 2009 outline options, as follows: (1) 30,000 options exercisable into 30,000 ordinary shares, which will vest subject to and immediately upon receiving FDA approval to start marketing the AAT IV drug in the U.S.; (2) 45,600 options exercisable into 45,600 ordinary shares, which will vest during a period of 4 years, on a quarterly basis; (3) 6,000 options exercisable into 6,000 ordinary shares, a quarter of which will vest by the end of the first year from the grant date and the rest will vest over a period of 3 years on a quarterly basis. The options are exercisable by July 5, 2015 at an exercise price of NIS 11. The said grant took place on March 25, 2010 by way of a private placement and according to the outline to Company employees, including to senior Company executives.

According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the options was estimated at NIS 1,480 thousand on date of grant.

NOTE 22: - SHARE-BASED PAYMENT (CONT.)

3. On July 24, 2011, the Company's Board of Directors approved the grant, for no consideration, of 571,704 options to employees, exercisable into 571,704 ordinary shares, a quarter of which will vest at the end of the first year from the date of grant and the rest will vest over a period of 3 years on quarterly basis. The options are exercisable by January 23, 2018 at an exercise price of NIS 26.60. The fair value of the options was estimated at NIS 4.7 million as of the date of grant.

   In practice, the Company's Board of Directors granted 550,786 options.

   On October 27, 2011, the Company Board of Directors approved the grant, for no consideration, of 20,000 options to the Company's Chief Financial Officer, exercisable into 20,000 ordinary shares of NIS 1 par value each. . A quarter of the options will vest at the end of the first year from the date of grant and the rest will vest over a period of 3 years on a quarterly basis. The options are exercisable by June 13, 2018 at an exercise price of NIS 20.64. The fair value of the options was estimated at NIS 250 thousand as of the date of the grant's approval by the Company's Board of Directors.

4. During 2011, 64,882 options were exercised by employees in return for a total of NIS 786 thousand (see also Note 21d).

d. <u>Options to service providers</u>

1. On May 27, 2009, the Company's Board of Directors approved the grant of 9,000 options exercisable into 9,000 ordinery shares of NIS 1 par value each to a Company service provider according to an agreement signed between the parties in October 2008. The options, will vest in 16 equal quarterly batches over a period of 4 years starting October 1, 2008. The option are exerciseable by July 5, 2015 at an exercise price of NIS 11,

   According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the options was estimated at NIS 156 thousand.

2. On April 26, 2009, the Company signed an agreement with a consulting and investments company (see Note 19l), according to which the Company granted 25,946 non-marketable warrants to the Consulting Company under terms identical to those of the warrants granted to the Investors in May 2009. In February 2010, the said warrants were exercised into 25,946 ordinary shares in return for NIS 285 thousand.

3. In May 2010, the Company's Board of Directors approved the grant of 20,000 options exercisable into 20,000 ordinary shares of NIS 1 par value each as a contribution to a Tmura fund. The options have an exercise price of NIS 24.7 and will be exercisable, in whole or in part, at any time starting from the end of the first year since their grant until their expiry date on July 5, 2015.

NOTE 22: - SHARE-BASED PAYMENT (CONT.)

According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the options was estimated at NIS 179 thousand.

In July 2011, all of the said options were exercised into 2,166 Company shares, for no consideration, by way of a cashless exercise.

e. In November 2011, the Company's Board of Directors approved the accelerated vesting of options held by the outgoing CFO, who ended his employment at the Company in September 2011.

f. On May 27, 2009, the Company's Board of Directors decided to increase the stock pool from the Company's authorized capital that had yet to be issued, reserved for allocation pursuant to the 2005 employee and consultant remuneration plan, by 725,000 shares, so that the total number of shares reserved for the purpose of allocation pursuant to the plan in question will amount to 847,000 ordinary shares.

Movement during the Year

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee and service provider option plans during the current year:

	2011		2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		In NIS		In NIS		In NIS
Share options outstanding at beginning of year	1,159,219	11.93	1,215,733	11.7	447,347	18.15
Share options granted during the year	642,661	26.09	101,600	13.6	812,086	11.06
Options exercised during the year	(64,882)	12.11	(99,227)	11.6	(17,018)	21.21
Share options forfeited during the year	(62,906)	13.9	(58,887)	11.9	(26,682)	11.93
Share options outstanding at end of year	1,674,092	26.42	1,159,219	11.93	1,215,733	13.13
Share options exercisable atend of year	908,623	11.71	580,792	11.62	360,829	12.20
The weighted average remaining contractual life for the share options		4.53		4.52		5.52

The range of exercise prices for share options outstanding as of December 31, 2011 and 2010 were NIS 11-26.6 (after re-pricing).

The average share price on the exercise date is NIS 27.

NOTE 22: - SHARE-BASED PAYMENT (CONT.)

Measurement of the fair value of equity-settled share options

The Company uses the binomial model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share optionssince the options were granted to employees.

For options granted to service providers, the fair value is remeasured as the services are received.

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

	2011	2010
Dividend yield (%)	-	-
Expected volatility of the share prices (%)	37-54	57
Risk-free interest rate (%)	2.77-4.63	2.1-4.07
Expected life of share options (years)	4.53	3.75
Weighted average share prices (NIS)	17.12	26.9
Expected dividends (NIS)	-	-
Expected forfeiture rate (%)	3	6

The expected life of the share options is based on historical data, and is not necessarily indicative of the exercise patterns of share options that may occur in the future. The expected volatility of the share prices reflects the assumption that the historical volatility of the share prices is reasonable indicative of expected future trends.

NOTE 23: - TAXES ON INCOME

a. Tax laws applicable to the Company

Income tax (inflationary adjustments) law, 1985

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

NOTE 23: - TAXES ON INCOME (CONT.)

The law for the encouragement of capital investments, 1959 (“the Law”)

Under the Law, the Company is entitled to various tax benefits by virtue of the “approved enterprise” status given to some of its factories, as implied by this Law. The principal benefits by virtue of the Law are:

Tax benefits and reduced tax rates

Grants track

The Company is eligible for investments grants awarded at various rates according to the development area in which the plant is located: in national priority area A the rate is 24% and in national priority area B the rate is 10%.
In addition to the above grants, the Company is subject, in the benefit period, tax exempt for the first two years of the benefit period and is subject to tax at the reduced rate of 25% during the remaining five years of the benefit period.
The benefit period starts with the first year the approved enterprise earns taxable income, provided 14 years have not passed since the approval was granted and 12 years have not passed since the enterprise began operating. The benefit period for part of the factories of the company has ended and, for part, it will end in 2012 to 2017.
If dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise in the year in which the income was earned, as if it was not in the exemption period. The Company's policy is not to distribute dividend as above.

Alternative track

Under this track, the Company is tax exempt in the first two to ten years of the benefit period (dependent on the development area) and subject to tax at the reduced rate of 10%-25% for a period of five to eight years for the remaining benefit period (dependent on the level of foreign investments).

Following the enactment of Amendment No. 60 to the Law, subsequent to April 1, 2005, companies under the alternative benefits track are no longer required to obtain a letter of approval from the Investment Center. In addition, programs whose year of election entitled them to a beneficiary enterprise status are required, among others, to make a minimum qualifying investment. This condition requires an investment in the acquisition of productive assets such as machinery and equipment (and for hotels, buildings as well), which must be carried out within three years. The minimum qualifying investment required for setting up a plant is NIS 300 thousand, linked to the Israeli CPI in accordance with the guidelines of the Israeli tax authorities. As for plant expansion, the minimum qualifying investment is the higher of NIS 300 thousand, linked to the Israeli CPI as stated above, and an amount equivalent to the "qualifying percentage" of the value of the productive assets. Productive assets that are used by the plant but not owned by it will also be viewed as productive assets.

NOTE 23: - TAXES ON INCOME (CONT.)

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

The value of productive assets before the expansion (NIS in millions)	new proportion that the required investment bears to the value of productive assets
Up to NIS 140	12%
NIS 140 - NIS 500	7%
More than NIS 500	5%

The income qualifying for tax benefits under the alternative track is the taxable income of a company that has met certain conditions as determined by the Law ("a beneficiary company"), and which is derived from an industrial enterprise or a hotel. The Law specifies the types of qualifying income that is entitled to tax benefits under the alternative track both in respect of an industrial enterprise and of a hotel, whereby income from an industrial enterprise includes, among others, revenues from the production and development of software products and revenues from industrial research and development activities performed for a foreign resident (and approved by the Head of the Administration of Industrial Research and Development).

In May 2008, the Company submitted a pre-ruling application to be granted a beneficiary enterprise under the alternative track and to establish 2009 as the year of election in accordance with Section 51d in Amendment 60 to the Law.

In respect of expansion programs pursuant to Amendment No. 60 to the Law, the benefit period starts at the later of the year elected and the first year the Company earns taxable income provided that 12 years have not passed since the beginning of the year of election and for companies in development area A - 14 years since the beginning of the year of election.

If a dividend is distributed out of tax exempt profits, as above, the Company will become liable for tax at the rate applicable to its profits from the approved enterprise / beneficiary enterprise in the year in which the income was earned, as if it was not under the alternative track. The Company's policy is not to distribute dividends as above.

As for programs under the grants track which were approved after April 1, 2005 and beneficiary enterprises pursuant to Amendment No. 60 to the Law, the basic condition for receiving the benefits under this track is that the enterprise contributes to the country's economic growth and is a competitive factor for the Gross Domestic Product ("a competitive enterprise"). In order to comply with this condition, the Law prescribes various requirements regarding industrial enterprises.

As for industrial enterprises, in each tax year during the benefit period, one of the following conditions must be met:

NOTE 23: - TAXES ON INCOME (CONT.)

1. The industrial enterprise's main field of activity is biotechnology or nanotechnology as approved by the Head of the Administration of Industrial Research and Development, prior to the approval of the relevant program.

2. The industrial enterprise's sales revenues in a specific market during the tax year do not exceed 75% of its total sales for that tax year. A "market" is defined as a separate country or customs territory.

3. At least 25% of the industrial enterprise's overall revenues during the tax year were generated from the enterprise's sales in a specific market with a population of at least 12 million.

Conditions for the entitlement to the benefits

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The managements believe that the companies are meeting the aforementioned conditions.

Amendment to the law for the encouragement of capital investments, 1959

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2011 and 2012 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).The Company is considering whether to adopt the amendment, and as of the publication of the Financial Statements the Company has yet to decide whether to apply the amendment. The amendment in question has no impact on the Company’s Financial Statements for the year ended December 31, 2011.

b. Tax rates applicable to the Company

The Israeli corporate tax rate was 26% in 2009, 25% in 2010 and 24% in 2011.

NOTE 23: - TAXES ON INCOME (CONT.)

A company is taxable on its real (non-inflationary) capital gains at the corporate tax rate in the year of sale. A temporary provision for 2006-2009 stipulates that the sale of an asset other than a quoted security (excluding goodwill that was not acquired) that had been purchased prior to January 1, 2003, and sold by December 31, 2009, is subject to corporate tax as follows: the part of the real capital gain that is linearly attributed to the period prior to December 31, 2002 is subject to the corporate tax rate in the year of sale as set forth in the Israeli Income Tax Ordinance, and the part of the real capital gain that is linearly attributed to the period from January 1, 2003, through December 31, 2009, is subject to tax at a rate of 25%.

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25% in 2012, the real capital gains tax rate and the real betterment tax rate were also increased accordingly.

The abovementioned changes have no effect of the Company's financial statements.

c. Tax assessments

1. Final tax assessments

The Company received final tax assessments through 2003.

2. Tax assessments in dispute

During 2010, the Company has received assessments made according to the best possible judgment for tax years 2004-2006 to the amount of NIS 17 million (including accumulated interest and linkage differentials), for which the Company has filed a reservation. In January 2012, the Company was issued a tax payment order for these years in accordance with section 152b of the Ordinance to the amount of NIS 15 million (including accumulated interest and linkage differentials). The Company has appealed the assessment in question in court. In the opinion of Company management, according to its legal advisors, an additional provision was not needed beyond that included in the Financial Statements.

d. Carryforward losses for tax purposes and other temporary differences

The Company has losses and deductions for tax purposes carried forward to future years, totaling NIS 247 million as of December 31, 2011.

NOTE 24: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2011	2010	2009
	Thousands of NIS		
a. Additional information about revenues			
Revenues from major customers each of whom amount to 10% or more, of total revenues reported in the financial statements:			
Customer A – Manufacture Segment	87,440	38,800	-
Customer B – Manufacture and Distribution Segment	21,822	3,285	10,926
Customer C – Manufacture and DistributionSegment	17,586	19,206	8,740
Customer D – Manufacture Segment	3,886	3,345	7,505
Customer E – Manufacture and DistributionSegment	29,986	18,053	6,970
	154,366	82,689	34,141

Revenues reported in the financial statements based on the location of the customers, are as follows:

	Year Ended December 31, 2011	2010	2009
	Thousands of NIS		
Israel	100,125	62,243	30,718
U.S.A.	69,540	24,102	-
Europe	20,056	20,433	-
South America	11,541	11,340	11,839
Asia	10,996	10,583	8,707
Others	577	-	5,479
	212,835	128,701	56,743

NOTE 24: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME (CONT.)

	Year Ended December 31, 2011	2010	2009
	Thousands of NIS		
b. Cost of sales and services			
Use of materials	131,830	67,083	32,725
Salary and related expenses	35,975	31,033	14,688
Depreciation and amortization	9,178	8,171	6,097
Other manufacturing expenses	1,718	4,622	8,041
Cost of providing services	-	-	89
	178,701	110,909	61,640
Increase in inventories of finished products and work in progress	(25,697)	(3,751)	(1,692)
	153,004	107,158	59,948
c. Other operating expenses			
Salary and related expenses	-	-	4,319
Depreciation and amortization	-	-	1,738
Other manufacturing expenses	-	-	1,471
	-	-	7,528
d. Research and development expenses			
Salary and related expenses	13,007	12,180	15,266
Subcontractors	18,301	14,075	10,260
Materials	8,856	6,383	5,478
Others	1,805	1,998	2,685
	41,969	34,636	33,689
e. Selling and marketing expenses			
Salary and related expenses	1,819	1,982	913
Commissions	447	512	227
Packing, shipping and delivery	507	542	390
Marketing and advertising	2,199	2,299	670
Registration and marketing fees	2,214	1,974	87
Others	1,156	725	480
	8,342	8,034	2,767

NOTE 24: - SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF COMPREHENSIVE INCOME (CONT.)

	Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
f. General and administrative expenses			
Salary and related expenses	7,007	7,387	6,459
Professional fees	2,791	2,718	2,790
Depreciation and amortization	1,177	1,180	1,111
Allowance for doubtful accounts	-	-	(11)
Others	7,365	5,694	4,491
Loss (gain) from the sale of fixed assets	-	(21)	(8)
	18,340	16,958	14,832
g. Finance incomes and expenses			
Finance incomes			
Net change in the fair value of liability due to research and development grants	-	-	428
Net change in the fair value of warrants	1,931	-	-
Interest incomes	3,113	1,899	441
Exchange rate differences	4,910	193	169
	9,954	2,092	1,038
Finance expenses			
Net changes in the fair value of warrants and liability due to research and development grants	71	2,798	6,788
Interest on short-term loans	18	71	58
Interest on long-term loans and convertible debentures	12,675	10,688	15,243
Bank fees	108	180	328
Exchange rate differences and derivatives	1,556	4,104	-
Others	-	-	61
	14,428	17,841	22,478

NOTE 25: - LOSS PER SHARE

a. Details of the number of shares and loss used in the computation of loss per share

	Year Ended December 31,					
	2011		2010		2009	
	Weighted Number of Shares	Loss Attributed to equity holders of the Company	Weighted Number of Shares	Loss Attributed to equity holders of the Company	Weighted Number of Shares	Loss Attributed to equity holders of the Company
		Thousands of NIS		Thousands of NIS		Thousands of NIS
For the computation of basic loss	27,550,643	13,294	26,674,717	53,834	20,163,083	83,461
Effect of potential dilutive ordinary shares	152,688	1,931	-	-	-	-
For the computation of diluted loss	27,703,331	15,225	26,674,717	53,834	20,163,083	83,461

b. To compute the diluted loss per share, convertible securities (dilutive potential ordinary shares), detailed below, have not been taken into account since their conversion decreases the loss from continuing operations (anti-dilutive effect): non-marketable warrants, options to employees and service providers under share-based payment plans and convertible debentures.

NOTE 26: - OPERATING SEGMENTS

a. General

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the products and services of the business units and has two operating segments as follows:

Manufacture activity segment	-	Medicine development, manufacture and sale
Distribution activity segment	-	Marketing of complementary products

The accounting policy for operating segments is consistent with that described in Note 2u.

Segment performance (segment income (loss)) is evaluated based on operating income (loss) in the financial statements.

NOTE 26: - OPERATING SEGMENTS (CONT.)

The segment results reported to the CODM include items that are allocated directly to the segments and items that can be allocated on a reasonable basis. Items that were not allocated, mainly the Group's headquarter assets, general and administrative costs, finance (consisting of finance expenses and finance income, including fair value adjustments of financial instruments), are managed on a group basis.

The segment liabilities do not include loans and financial liabilities as these liabilities are managed on a group basis.

Capital expenditures consist of additions to fixed and intangible assets.

b. Reporting on operating segments

	Manufacture Activity Segment	Distribution Activity Segment	Total
	Thousands of NIS		
Year Ended December 31, 2011			
Revenues	126,336	86,499	212,835
Gross profit	46,945	12,886	59,831
Unallocated corporate expenses			(68,651)
Finance expenses, net			(4,474)
Loss			(13,294)

	Manufacture Activity Segment	Distribution Activity Segment	Total
	Thousands of NIS		
Year Ended December 31, 2010			
Revenues	85,783	42,918	128,701
Gross profit	15,313	6,230	21,543
Unallocated corporate expenses			(59,628)
Finance expenses, net			(15,749)
Loss			(53,834)

NOTE 26: - OPERATING SEGMENTS (CONT.)

	Manufacture Activity Segment	Distribution Activity Segment	Other	Total
	Thousands of NIS			
Year Ended December 31, 2009				
Revenues	38,206	18,308	229	56,743
Gross loss	(15,822)	4,952	137	(10,733)
Unallocated corporate expenses				(51,288)
Finance expenses, net				(21,440)
Loss				(83,461)

c. Additional Information

	Manufacture Activity Segment	Distribution Activity Segment	Other	Adjust-ments	Total
	Thousands of NIS				
Year Ended December 31, 2011					
Capital expenditures	5,697	-	-	1,870	7,567
Depreciation and amortization	6,964	24	-	3,890	10,878
Year Ended December 31, 2010					
Capital expenditures	12,514	-	-	-	12,514
Depreciation and amortization	9,253	36	-	258	9,547
Year Ended December 31, 2009					
Capital expenditures	16,603	-	196	-	16,799
Depreciation and amortization	7,774	12	-	1,589	9,375

NOTE 26: - OPERATING SEGMENTS (CONT.)

	Manufacture Activity Segment	Distribution Activity Segment	Other	Adjust-ments	Total
	Thousands of NIS				
December 31, 2011					
Segment assets	163,859	33,396	-	-	197,255
Unallocated assets	-	-	-	127,967	127,967
Segment liabilities	89,411	26,932	-	-	116,343
Unallocated liabilities	-	-	-	122,579	122,579
December 31, 2010					
Segment assets	120,947	26,732	781	-	148,460
Unallocated assets	-	-	-	176,258	176,258
Segment liabilities	80,223	20,087	-	-	100,310
Unallocated liabilities	-	-	-	141,128	141,128

NOTE 27: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. Balances with interested and related parties

December 31, 2011

	Controlling Shareholder	Interested Parties
	Thousands of NIS	
Trade payables	5	-
Other accounts payables	34	1,028
Employee benefit liabilities, net	-	699
Highest current loan and debts balance during the year	502	-

December 31, 2010

	Controlling Shareholder	Interested Party (CEO)
	Thousands of NIS	
Other accounts payables	39	1,397
Employee benefit liabilities, net	-	788
Highest current loan and debts balance during the year	346	-

NOTE 27: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONT.)

b. Benefits to related and interested parties

	Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Salary and related expenses to those employed by the Company or on its behalf	2,375	3,140	2,804
Salary of directors not employed by the Company or on its behalf	468	432	453
Number of People to whom the Salary and Benefits Refer			
Related and interested parties employed by the Company or on its behalf	2	2	2
Directors not employed by the Company	7	7	6
	9	9	8

c. Benefits to key executive personnel

	Year Ended December 31,		
	2011	2010	2009
	Thousands of NIS		
Short-term benefits	4,179	4,928	3,742
Other long-term benefits	19	157	47
Share-based payment	1,248	1,445	887
	5,446	6,530	4,676

NOTE 27: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONT.)

d. Transactions with interested and related parties

Year Ended December 31, 2011

	On the Matter of Terms see Note	Controlling Shareholder	Interested Parties (CEO, Directors and Others)
		Thousands of NIS	
Sales		934	-
Purchases		24	-
Selling and marketing expenses		-	363
General and administrative expenses		137	2,480
Finance incomes (erosion of investor liability warrants)	19j	1,309	-

Year Ended December 31, 2010

	On the Matter of Terms See Note	Controlling Shareholder	Interested Parties (CEO, Directors and Others)
		Thousands of NIS	
Sales		776	-
Purchases		31	-
Selling and marketing expenses		-	253
General and administrative expenses	19g, j	122	3,197
Finance expenses (revaluation of investor liability warrants)		1,642	-

NOTE 27: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (CONT.)

Year Ended December 31, 2009

	On the Matter of Terms See Note	Controlling Shareholder	Interested Parties (CEO, Directors and Others)
		Thousands of NIS	
Sales		913	-
Purchases		32	-
Selling and marketing expenses		-	172
General and Administrative expenses	19g, j	-	3,085
Finance expenses (revaluation of investor liability warrants)		1,695	-

e. Revenues and expenses from related and interested parties

Terms of transactions with related parties

Sales to related parties are conducted at market prices. Balances that have yet to be repaid by the end of the year are not guaranteed, bear no interest and their settlement will be in cash. No guarantees were received or given for sums receivable or payable. For the years ended December 31, 2009, 2010 and 2011, the Company recorded no allowance for doubtful accounts for sums receivable from related parties.

On May 26, 2011, the Company announced its engagement in a corrective agreement that revises and replaces the distribution agreement signed in 2001 between the Company and Tuteur SACIFIA, a company registered in Argentina, under the control of Mr. Ralph Hahn, serving as the Chairman of the Company's Board of Directors and considered one of the Company’s controlling shareholders.

Revision of the agreement is necessary in preparation for the expected completion of the product’s registration in Argentina and the beginning of its marketing and constitutes an improvement to the terms of the 2001 agreement as far as the Company is concerned.

According to the revised agreement, the distributor will continue to serve as the sole distributor of the Company’s AAT IV product in Argentina, Paraguay and Uruguay, subject to upholding the product’s minimal sales obligations.

NOTE 28: - INVESTMENTS IN INVESTEES

Subsidiaries

a. Further information on subsidiaries held directly by the Company

	Country of Incorporation	Company's Interests in Equity and Voting Rights	Loans	Investment in Subsidiary
		%	Thousands of NIS	
2011				
Kamada Assets Ltd.	Israel	74	-	5,034
Bio-Kam Ltd. *)	Israel	100	-	-
Kamada Inc. *)	Delaware	100	-	-

	Country of Incorporation	Company's Interests in Equity and Voting Rights	Loans	Investment in Subsidiary
		%	Thousands of NIS	
2010				
Kamada Assets Ltd.	Israel	74	-	5,034
Bio-Kam Ltd. *)	Israel	100	-	-
Kamada Inc. *)	Delaware	100	-	-

*) Inactive companies.

b. List of subsidiaries

	December 31,			
	2011		2010	
	Shares Granting Voting Rights	Shares Granting Rights to Profits	Shares Granting Voting Rights	Shares Granting Rights to Profits
	Stake			
Company Name				
Kamada Assets Ltd.	74	100	74	100
Bio-Kam Ltd. *)	100	100	100	100
Kamada Inc. *)	100	100	100	100

*) Inactive companies.

NOTE 29: - SEPARATE FINANCIAL INFORMATION

The Company did not include separate financial information in its Periodic Report for 2011 in accordance with Regulation 9c. of the Regulations, due to the negligibility of the added information given to investors as a result of the attachment of such information, due to the following reasons:

a. The subsidiaries are fully controlled by the Company;

b. The scope of assets, liabilities, revenues and comprehensive losses of the subsidiaries amounts to a negligible rate of 2%, 0%, 0%, and 0% relative to the scope of the assets, liabilities, revenues and comprehensive loss in the Consolidated Financial Statements;

c. Over 99% of the cash flow derives from the Company.

NOTE 30: - SUBSEQUENT EVENTS

a. Subsequent to the reporting date, employees exercised 36,822 options into 36,822 ordinary shares of NIS 1 par value each in return for a total of NIS 405 thousand.

b. On January 30, 2012, the Company reported the issuence of 117,813 non-marketable Company stock options that can be exercised into upto 117,813 ordinary shares of NIS 1 par value each, on a cashless basis, to 54 Company employees. According to a calculation formula based on the Cox, Ross and Rubinstein Binomial Model, the fair value of the options was estimated at NIS 1.2 million.

The following table presents the data used to measure the fair value of the options in question as of January 30, 2012:

Dividend yield (%)	-
Expected volatility in share prices (%)	36-58
Risk-free interest rate (%)	2.45-3.99
Expected life of share options (years)	3.75
Share prices (NIS)	21.5
Expected dividends (NIS)	-
Expected forfeiture rate (%)	5

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