Annual Report 2003

Dear Shareholder,

SuperCom's goal for the year 2003 was to expand its worldwide distribution and penetration of secure smart card solutions, both in the commercial and governmental sectors. This accomplishment was achieved by means of establishing distributor and system integrator networks in vertical markets and by bidding and winning governmental tenders that will influence our revenue in 2004-2005.

The revenues of 2003 were $7.2M compared to $6.1M in 2002 (without consolidating InkSure's revenues), an increase of 18% that was primarily due to the expansion of our commercial sales. Following the 9/11 events, SuperCom has recognized the need to adapt its solutions and products to the current market. A "window of opportunity" has been presented to SuperCom. The Company has fine-tuned its products to the demanding security needs and is expanding its activities into Homeland Security projects in the US and also on the international market where SuperCom forecasts the evolution in the Smart Passport projects around the world. We believe that this market will increase dramatically in the next coming years and we see in this market SuperCom's growth that will generate revenue to the company.

As a strategic move of increasing the liquidity of the traded shares, SuperCom came to the decision to be listed on the NASDAQ Stock Exchange. In order to achieve this move, we entered into a reverse merger transaction with PerfectData. Unfortunately, this transaction was terminated according to the terms of the agreement, as well as for the best interest for both parties. We will try to list SuperCom on NASDAQ during 2004. In addition, following the announcement by NASDAQ Europe that all of its operations would be discontinued by the end of November 2003, SuperCom's shares were admitted on Euronext Brussels' New Market on October 23, 2003.

During 2003, SuperCom signed distributor agreements with leading distributors in the American and European markets. In addition to a network of distributors, the Company partners with system integrators such as HP Worldwide, EDS and others in order to bid some of the Homeland Security projects in the US and the new initiatives for smart passport projects on the international markets. SuperCom launched new technologies during 2003 that will be part of the Company's complete offering for the coming years. We have introduced to the market the portable wireless biometric data agent DynaGate and the SmartGate application, which is a smart card RFID solution for secured access control. We also introduced the first version of the EduGate system, an RFID, smart card system for monitoring and truancy for the education market.

SuperCom increased its backlog for the next 3 years to the level of $15 million from a level of $9.6 million last year.

We believe that through the distribution and system integrator channels implemented this year, and the recognition of the Company's leading-edge technology and our backlog, SuperCom will meet its strategic growth plan and have the opportunity to emerge as a key player in governmental and commercial markets.

Sincerely,
Avi Schechter
President & Chief Executive Officer

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SuperCom Ltd.

(“The Company”)

In this document, references to "we," "us," and "our," refers to SuperCom.

CHAPTER 1 - DESCRIPTION OF BUSINESS

1.1 Overview of the Company

SuperCom is a smart card technology company that designs, develops and markets advanced smart card technologies and products for the governmental and commercial secured identification markets. With an embedded microcontroller, smart cards have the unique ability to store large amounts of data, perform on-card functions, such as encryption, and interact intelligently with a smart card reader. Smart cards connect to a smart card reader through either direct physical contact or a remote contactless radio frequency interface. SuperCom functions as a "one stop" technological integration and support source for smart card system integrators, utilizing our know-how and technologies. We develop and market a wide range of complementary technologies and solutions for the smart card market, including customizable smart cards, smart card-related products, proprietary smart card production technologies, and advanced identification, or ID, technologies, complemented by brand protection and authentication technologies. SuperCom was founded in 1988 and became a publicly-traded company on Nasdaq Europe in 1999. During 2003, following the closing of Nasdaq Europe, we transferred the listing of the shares to Euronext Brussels New Market.

Since 1994, our technologies and products have been included in several large governmental projects worldwide, such as the Hong Kong government passport project, the United Kingdom passport project and the Ukraine passport project. We believe that our extensive product line and experience, combined with our growth strategy in governmental projects and commercial solutions, position us for further growth. We cannot assure you, however, that such growth will be achieved.

Beginning in the fourth quarter of 2001, we completely reorganized our operational and strategic structure. This reorganization included an in-depth analysis of our technologies, products, applications, target markets, business and marketing strategies, as well as instituting aggressive cost-cutting measures. As a result of this process, we decided to focus on what we believed to be our core strengths:

- Smart card technology integration know-how;
- High security solution integration;
- Proprietary smart card technologies and products;
- Expertise in multi-application smart cards; and
- Extensive experience with the government ID market.

We have partnered with several of the industry's leading smart card system integrators, such as EDS, for an Israeli identification project and Unisys for a Philippines passport project, and our products are used on a daily basis in a number of successful projects with certain governments and businesses worldwide.

Our objective is to become a leading provider of high-end smart card systems by marketing our extensive technological know-how, advanced technologies and value-added products and applications for government and commercial smart cards in the secured identification and access control markets, worldwide. While we intend to continue to participate in governmental ventures, we also plan to increase our sales efforts in the private commercial market through our distribution channels, including our recently distribution arrangements with Clinton Electronics Corporation, TransTech Systems, Inc., Laminex, Inc. and Eastern DataComm.

We are marketing our products and proprietary technologies to position us as:

- A horizontal smart card technology provider and integrator with the ability to respond to complex security and multi-application smart card system challenges; and

- A provider of a combination of unique and traditional smart cards and complementary smart card-related products, which, as applicable, will be sold "off-the-shelf" as complete solutions.

There can be no assurance as to whether we shall achieve our objective, or to the degree of our success in growth in the commercial market, or whether we shall obtain the desired position.

1.2 THE MARKET

1.2.1 Our Market Opportunity

Many industries are rapidly adopting smart cards due to their enhanced security features. One reason for this move is the ability to use smart cards for multiple purposes. In today's world, mobile phones are used not only for communication, but also for mobile commerce. Credit cards are used as loyalty cards and as a means of authenticating e-commerce transactions. Transportation payment cards at once support multiple transportation providers and function as debit cards for select retailers. Smart cards can carry personal information for identification purposes, biometric data for physical access control, and digital signatures for network security.

A smart card stores information on an integrated circuit chip embedded within the card, rather than on the surface of a magnetic stripe. While a typical magnetic stripe card stores approximately 212 bytes of information, a smart card can store 64 kilobytes or more of information, which is many times more than a traditional magnetic stripe credit card. Additionally, the integrated circuit within a smart card serves as a central processing unit when, combined with its memory capacity, facilitates the use of encryption applications, which secure data and value exchanges within networks and the Internet. Smart cards also permit bi-directional authentication, which means that in addition to authenticating the identity of the user, the card can authenticate the validity of the intended party or device prior to exchanging information or value.

Due to the need for more secure identification and authentication, and the ability to incorporate multi-application features, there has been a shift towards adapting high-end smart card systems in both governmental and commercial market segments. Governments are seeking to move away from their traditional paper-based identification systems, and commercial entities are also shifting their secured systems away from basic, low memory single application cards.

The demand for increasingly sophisticated smart card systems with novel technological abilities, combined with cost-effective systems, has fostered the emergence of multiple entrants in the smart card market, each specializing in specific aspects of smart card production, software or technology. However, the complexity and sheer volume of these specialized providers have generated an outcome in contrary to the market's needs. This specialization has required a growing number of entities to become involved in a single project, thereby causing longer timelines, higher costs, and less optimized solutions.

1.2.2 Security, Cost Reduction and Smart Cards

Governments and commercial entities control and mass-produce various types of identification documents and cards, such as passports, visas, drivers' licenses, and national or contactless smart cards. Such documents and cards generally provide their owners with the ability to exercise special rights, obtain benefits, effect commercial transactions, or cross restricted borders. As a result of their importance, identification cards and related documents are often forged or altered. The costs associated with such fraud, for both victims and law enforcement agents, are significant. Consequently, governments and commercial organizations are seeking solutions that will heighten security, reduce costs associated with forged or fraudulent identification documentation and enable cost-effective production of secure and durable documentation.

1.2.3 Technological Developments

As an additional means of detecting fraud, identification systems increasingly use biometric data, which are unique biological characteristics such as fingerprints and facial images, to verify personal identity and other personal data, such as medical and financial information. For example, in our Philippines passport project, the identification system includes a fingerprint as verification of a person's identity. The inclusion of this information in cards or documents for on-line or real-time verification is particularly important for identification cards, as they are often used in commercial transactions.

1.2.4 Political Developments

The growth in the national identification documentation market has been fueled by geopolitical developments including the disintegration of several federal states (such as the former Soviet Union), the subsequent emergence of newly independent nations, and the creation of regional communities (such as the European Union). These political developments have created significant opportunities as an increasing number of governments are seeking to create digital population registry databases and cost-effective, secure and durable national identification documentation. Over the past year, we have submitted a number of proposals to governments, including the Israeli and Ethiopian governments, to spearhead national identification documentation projects. Since the events of September 11, 2001, we have observed increased interest in government ID projects. Governments that had previously planned to change their national ID documents delayed implementation until 2003 or 2004 in order to establish an identification system with a higher degree of security.

1.2.5 Authentication and Security of Documents

Today, with the help of advanced printing technologies, counterfeiters can produce most of the current identification documents that exist in the world. The events of September 11, 2001 revealed to governments and security agencies worldwide that one way to fight terrorism is to require national ID documents with a high level of security. Our printing production and security technologies provide governments and their law enforcement agencies advanced and highly secure ID documents that help reduce and detect counterfeited ID documents.

1.3 Our Strategy

We are a provider of high-end smart card systems and secured ID document technologies. We believe that the government and commercial sectors are moving towards the more functional and broader applications that a smart card solution can provide over traditional methods. We are positioning ourselves to become a key player in government and commercial smart card markets as a result of our ability to function as a one-stop shop for cost-effective high-end smart card systems. Our objective is to become a market leader in the development and marketing of our advanced smart card technologies and value-added related products and applications for contactless smart card and ID markets worldwide.

We intend to achieve our goal by:

- Focusing on both government and commercial customers;
- Leveraging our technological competence and reputation;
- Focusing on the smart card business;
- Focusing research and development on adapting our current technology achievements to market demands;
- Increasing sales and marketing resources; and

- Seeking partnerships with other relevant companies.

There can be no assurance that we shall achieve our goal, whether in whole or in part.

1.3.1 Extend Technological Recognition

We believe that our customized systems, proprietary printing and production technologies, software packages and integration capabilities will enable us to position ourselves as a key technological player in the secured identification document/card market. There can be no assurance, however, that we shall become such a key technological player.

1.3.2 Leverage Technology/Know-How Into Complementary Markets

We intend to leverage our core technologies and know-how in order to respond to the needs of existing and potential customers. These technologies involve document authentication and registry database systems. We intend to tailor our marketing and sales efforts so as to integrate such technologies into the actual solutions offered to our governmental and commercial customers. There can be no assurance, however, that we shall be successful in these efforts.

1.3.3 Expansion of the Contactless Smart Card Business

We believe that the picture identification contactless smart card represents the next generation of national identification documentation and anticipate increasing demand for this technology from our existing and potential customer base. We have positioned ourselves to service this demand through the development of our smart card production line technology. We intend to become a key player in the supply of contactless smart cards to the governmental and commercial markets, and are consequently investing in research and development to enhance our contactless smart card technologies in order to satisfy end-user requirements. There are two aspects of the expanding commercial market: (i) new applications and (ii) replacement of low-end magnetic stripe cards with contactless smart cards with security features. There can be no assurance that we shall become a key player in the governmental and commercial smart card markets.

1.3.4 Leverage Public Sector Expertise Into Commercial Applications

We believe that significant commercial possibilities exist for our secure and durable document/card production solutions. We have completed the process of leveraging our expertise to the production of picture identification contactless smart cards, and now provide solutions for commercial applications with requirements similar to those in the public sector, such as private or corporate identification cards, medical cards and benefits administration.

1.3.5 Penetrating New Markets

We intend to increase our penetration of existing markets by leveraging our current products and systems to new applications and new vertical markets, which can be used to produce various types of documents and cards. We will also seek to leverage our existing relationships and established reputation in new markets. We have initiated entry into geographic markets upon which we have not traditionally focused, such as the United States. There can be no assurance, however, that our efforts will achieve their objectives.

1.3.6 Research and Development

Our past research and development efforts have helped us to achieve the goal of offering our customers a complete line of products and solutions. As a result of our past efforts, we reduced the number of employees in our research and development activities to ten people as of December 31, 2003. We spent $1.2 million, $1.3 million and $0.9 million on research and development in, 2001, 2002 and 2003, respectively. These amounts were spent on the development or improvement of our technologies and products, primarily in the areas of an automatic contactless smart card production line, data capture, management software, population registry software packages, security printing, contactless smart cards and document authentication. We will continue to research and develop new security and identification features through laser printing and pre-printing, create new personalization methods for contactless smart cards, develop a range of smart card applications and continue to develop our automatic contactless smart card production line. There can be no assurance that we can achieve any or all of our research and development goals.

1.4 Products and New Technology

Since our inception in 1988, we have been involved in the development of advanced technologies for the national documentation market. In view of the increasing demand for identification cards that are based on contactless smartcard technologies, we have developed a fully automated production line for picture identification contactless smart cards. We also offer to our customers raw materials and maintenance and service agreements. In 2002, we decided to focus on the commercial market through several new applications. Today, we have two major groups of solutions for our customers that are organized as separate marketing divisions:

- SuperCom's ID and smart card division provides ID solutions for governments and contactless smart card production facilities for the governmental markets; and
- SuperCom's commercial marketing division focuses on commercial applications such as SmartGate 2400, Power Reader and EduGate in the United States and Asia Pacific.

1.4.1 Contactless Smart Cards

Our contactless smart cards are customizable, machine-readable smart cards designed for a broad range of commercial and governmental applications. From traditional ID documents to modern e-commerce cards, our contactless smart cards carry large quantities of data, securely stored in a sealed microchip and are read using our Smart Card Reader. The cards come in different sizes and can incorporate virtually any chip on the market. For increased durability, the cards are constructed from Teslin®, an ultra-thin material that resists abrasion. The cards are suitable for many existing and future applications, such as e-identity verification, contactless credit cards, loyalty cards, health cards, financial sector cards, transportation cards and others. Currently, our customers are using the cards as loyalty cards as part of our Edugate and Smartgate systems and as financial sector cards.

We have designed and developed what we believe are unique technologies for the production of our proprietary contactless smart card. The smart card is a pre-fabricated multi-layered Teslin® and polyester card that contains a radio frequency antenna and a programmable memory chip. Each smart card is personalized, including the initialization of its memory chip, in order to produce a particular contactless smart card. The design of the contactless smart card minimizes the number of steps necessary to produce smart cards because our proprietary printing technology allows customers to print directly onto multiple pages of the smart card. The smart card uses read/write memory chips supplied by third parties with a capacity that ranges from one to eight kilobytes and contains an installed "on-board" operating system. This allows customers to re-program the chip following initialization, thereby adding, removing or updating applications and data without the need to replace the chip.

We have also developed the contactless smart card Production Line 1000 (SPPL 1000), a technology designed for the mass production of secure and durable picture identification contactless smart cards. The SPPL 1000-A automated smart card inlet production line produces the inlet that contains the chip and an antenna that carries the secure, personalized data in the finished card, which is the core of the contactless smart card. Producing a continuous reel of inlets, the SPPL 1000-A increases throughput and reduces waste. Utilizing our universal chip packaging, it can accommodate virtually any chip on the market.

Our SPPL 1000-B automated contactless smart card and pouch production line produces the highly durable casing for our inlet: either the finished, personalized smart card or our card-base or our pouch. The SPPL 1000-B uses pre-printed ultra-strong Teslin® pages to produce high quality color smart cards laminated with additional protective layers of polyester. The SPPL 1000-B accepts continuous reels of our smart card inlets, thereby maximizing flexibility and cost efficiency.

1.4.2 Contactless Smart Card Reader/Writer - 5600 Series

Our Contactless Smart Card Readers/Writers are devices that transfer data to and from contactless smart cards. Our Contactless Smart Card Readers/Writers are easily integrated with devices such as vending machines, access gates and hand-held terminals. Unlike readers/writers that require direct contact between the card and reader, SuperCom Contactless Smart Card Readers/Writers operate by radio frequency technology, which allows the transmission of data by simply holding the card near the reader. The ability to read cards without physical contact speeds reaction time and prolongs the life of both the smart card and the reader/writer. In addition, given that the 5600 Series Reader/Writer has no moving parts, maintenance and cost of ownership is considerably reduced.

1.4.3 Smart Card 8500 Series

Our Smart Card 8500 series offers more features than our other smart cards. These smart cards are color personalized, highly durable, and may be produced at remote issuing stations by customers using our equipment. In addition, the 8500 Series smart cards are designed to meet size and thickness standards regardless of the size of the chip the customer chooses.

The 8500 series smart cards may incorporate a variety of security features such as ID pictures and holograms, hidden features detectable by ultraviolet lamps or two-dimensional bar-code readers, and proprietary features that require special forensic equipment for authentication. Customers can select the security level required for each card, creating customized security solutions for different ID types.

1.4.4 Security Printing

We have developed fully automated production lines that allow for rapid mass production of generic pouches and personalized cards. Our ability to produce generic pouches is important because such pouches may be personalized through our proprietary transfer printing technology at a later stage. This provides customers with the option to decentralize the mass production of cards by manufacturing pouches in a centralized location and distributing them to sites (such as regional documentation issuing sites or embassies) where the pouch is personalized and the final card is produced.

1.4.5 Transfer Process Printing

Our proprietary transfer printing technology, which is patented in five jurisdictions, including the United States, Europe and Hong Kong, allows us to print captured data on booklets and pouches regardless of the size, design, type, thickness or lamination method used. This technology offers the customer the option of combining the security of personalized pouches and pre-sewn laminated booklets with the durability of laser printing in a cost-effective manner. The ability to affix data on any size pouch or booklet provides us with a competitive advantage as governments often purchase quantities of different types of blank passport booklets and pouches in bulk and desire the ability to produce durable passports and similar documents in various formats while utilizing their entire existing stock of booklets and cards. Our technology allows the printing of personalized data on multiple passport pages in the same step. This allows additional security data to be included in a passport without incurring a substantial increase in the cost of producing each booklet.

1.4.6 Teslin Printing

A growing segment of the national identification documentation market uses Teslin® as its primary printing substrate. Teslin® is a polymer that was developed and patented in the United States by PPG Industries. We purchase all of the Teslin® used in our business from PPG Industries. Teslin® has been identified by the identification documentation production industry as a potential substrate because of its high absorption level, attractive print stability, and plastic-like flexibility and durability. Teslin®, however, is extremely sensitive to high temperatures. This renders useless any conventional printing technique based on extreme heat, such as laser printing. In addition, Teslin® is not receptive to ink jet printing. The practice adopted by the national identification production industry is to use thick pieces of Teslin® coated with various chemicals in order to increase its resistance to heat. This process, however, makes the cards more vulnerable to damage, thus vitiating the very attractiveness of Teslin®. We offer our customers the ability to print on Teslin® using high quality color laser printers. Our use of laser printing provides us with an important competitive advantage given that laser printing can retain functional stability for up to 10 years, as opposed to ink jet or thermal transfer technology printing, which are generally stable for only two to five years.

Our solution features a production process in which laser printing is controlled by proprietary software rather than the typical heat and pressure process. This solution makes laser printing possible on extremely thin layers of uncoated Teslin®, which maximizes durability while minimizing the possibility of forgery or tampering. We also utilize our Teslin® printing capability for the production of picture identification contactless smart cards in order to make such cards significantly more durable.

1.4.7 Software Packages

Our software packages are designed for data collection and management, and capturing and encoding various types of data in a personal digitized file. This facilitates control over the data printing process and storage of digitized files at either a remote site or central registry. The packages can handle all types of data ranging from images captured through live video, photo or color scanning to biometric information, including palm geometry, fingerprints and facial recognition. The packages are configurable with all types of database software, can be used with all commercially available platforms, including mainframe computers and UNIX servers, can support multiple document types and printers and can operate in Windows 98, Windows 2000, Windows XP and Windows NT environments.

Our proprietary software integrates these data capture technologies with a PC-based workstation in a modular configuration, allowing for the easy establishment and operation of multiple data collection stations and provision of customer-specific solutions. In addition, our software enables data capture workstation operators to control the image capture process exclusively through the keyboard and to calibrate multiple units of image capture equipment through one centralized workstation.

1.4.8 Raw Materials

We sell specially designed kits containing the raw materials necessary to produce some of our products, including silicon sheets, polyethylene terephthalate (PET) and Teslin®. Among the raw materials we sell are plastics, various printing substrates, toners and printing drums. Although not all of these materials incorporate our technologies, they include components necessary for the operation of certain systems. In some cases, our customer agreements require that customers purchase raw materials from us for the production of documents and cards exclusively for the term of the agreement.

1.4.9 Commercial Products

1.4.9.1 EduGate

EduGate is an access control and attendance system designed to combat school truancy. The system allows school personnel to record and automatically report students' entry or exit by using a system of smart cards and smart card readers while a remote central computer compiles data about students' attendance. An optional feature is PhoneGate, an automated system that contacts parents by email or text messaging if their child is absent from school.

1.4.9.2 DynaGate

DynaGate is a portable smart card reader and data collection device that can also be integrated into our EduGate system. It utilizes the Dynamic Access Control (DAC) concept (patent pending in the United States and Israel) to enable school personnel to check, record and automatically report a student's entry or exit using a specially designed mobile reader. The school's main management system records activity and automatically notifies parents of their child's absence from school.

1.4.9.3 SmartGate 2400

Security and identification authorization are important concerns for businesses and individuals alike. SmartGate 2400 is an integrated solution for these concerns, providing secured access control to targeted environments using contactless smart cards, controllers and readers. These units are programmed according to client specifications and carry an array of personalization and security features. The multi-application system can be integrated into a variety of environments, including office buildings, residential buildings, nursing homes, hospitals, universities and schools.

1.4.10 New Technologies

Through our involvement in the national identification documentation market, we have identified features that require new technologies that are complementary to our core technologies, primarily for document authentication and population registry systems. Magna is our comprehensive, web-based population registration and document issuance system that we market to businesses and government offices. An off-the-shelf software solution, Magna features generic core technology, intuitive modular structure and easy-to-use tools. Magna enables customization without dependency on technical experts as well as allowing controlled, seamless integration with existing legacy systems.

1.5 Customers and Projects

1.5.1 Passports and ID Card, Africa

In April 2003, we entered into an agreement with the Security, Immigration and Refugees Affaires Authority of an African country ("The customer"), in connection with passports and other travel documentation project in the African country. The agreement has a term of five years. Pursuant to the agreement, we will supply the customer with equipment and raw materials necessary for the production of passports and other travel documents, as required from time to time under the agreement. Pursuant to the Agreement, the customer is required to pay us for the equipment and the raw materials that we supply an amount of US $1.6M. During the Year 2003, we generated $536,000 in revenues pursuant to this agreement.

1.5.2 Passports and ID Smart Cards, Ukraine

In September 1999, a consortium led by us was awarded a contract from the Ukrainian government for a national passport and ID smart card project. Over the course of the project, we will supply technology, production equipment and raw materials for the issuance of passports and ID smart cards. In April 2001, we signed the first phase of this agreement, which provided the Ukrainian government with a central production system for issuing Ukrainian passports and finished the initial implementation phase. During the next ten years, we will provide maintenance and raw materials to the Ukrainian government for its passport project. Pursuant to the terms of the second phase agreement, we will also provide our technology-based equipment and raw materials for the production of ID smart cards. Equipment sales from this project are valued at over $17.5 million and are expected to be recognized between the years 2002 to 2006. During 2002, we began the delivery of the first phase of the Ukraine ID smart card project and generated revenues of $2.1 million. During the year, 2003, we generated an aggregate of $1.97 million in revenues from this project. In April 2004, we were informed by the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry ("Arbitration Court") that the Department for Resources Supply of the Ministry of Internal Affairs of Ukraine (the Ministry) had filed with the Arbitration Court a statement of claim to declare that Contract No. 10/82, dated April 9,2002 between SuperCom and the Ministry as void due to defaults in the tender proceedings under which the contract had been awarded to SuperCom. We are currently handling this claim and examining the options available to us. We strongly believe that the claim has no merits and we intend to vigorously defend the validity of the contract. However, we are not anticipating any revenues from this project during 2004. A net provision conservatively applied, for future possible negative influences on the implementation of the Ukrainian Project, following the request for arbitration filed by the Ministry with the Arbitration Court, although at this preliminary stage, the Company is unable to estimate the arbitration results. (See Chapter 14, note 10)

1.5.3 National Documentation, Moldova

In August 1995, we entered into an agreement with Intercomsoft Ltd., an Irish company, or Intercomsoft, which was subsequently amended on May 5, 1998 and July 22, 1998, in connection with a national documentation project in Moldova. The agreement has a term of ten years. Pursuant to the agreement, we will supply Intercomsoft with equipment and raw materials necessary for the production of passports, drivers' licenses, vehicle registrations, identification cards and other documents, as required from time to time under an agreement between Intercomsoft and the Ministry of Internal Affairs of Moldova, or MIAM. Pursuant to the Agreement, Intercomsoft is required to pay us for the equipment and raw materials that we supply to Intercomsoft. In addition, we are entitled to 25% of Intercomsoft's gross profits from the sale of ID documentation to the MIAM. In addition, Trimol Group Inc., a publicly traded company in the United States and the parent company of Intercomsoft, issued 125,000 Trimol shares to us as partial consideration for the equipment supplied and the other undertakings. This holding is accounted according to the market value of the shares. In 2002, we generated revenues of $1.5 million pursuant to this agreement. During the year 2003, we generated $1,184,000 in revenues pursuant to this agreement.

1.5.4 Drivers' Licenses/Vehicles Registrations, Gruzia (Georgia)

CT Card Technologies (1994) Ltd., or CT Card Tech, our 40%-owned subsidiary, received orders from Raney Investment Inc., which has an agreement with the Government of Gruzia, for the supply of equipment and raw materials for the production of drivers' licenses and vehicle licenses. Pursuant to the CT Card Tech Agreement, as subcontractor, we will supply the equipment and raw materials for the project. In 2002, we generated revenues of $100,000 pursuant to this agreement. During the year 2003, we did not generate any revenues pursuant to this agreement.

1.5.5 Passports, Hong Kong

In September 1996, SuperCom Asia Pacific Ltd., or SuperCom Asia Pacific, as of December 31, 2003, our 100%-owned subsidiary, entered into an agreement with China Travel Service (Holdings) H.K. Ltd., or CTSH, which supplies passports to the Hong Kong government. Pursuant to the agreement, SuperCom Asia Pacific, as subcontractor, is obligated to provide CTSH with all the equipment and raw materials required for the production of passports in Hong Kong. The agreement provides for payments for equipment and raw materials purchased plus annual fees for maintenance after the first 12 months. In September 1999, the parties signed a supplementary agreement whereby they agreed to extend the agreement for an additional term of three years through December 31, 2003. In September 2003, the parties signed a supplementary agreement whereby they agreed to extend the agreement for an additional term of one year through December 31, 2004. In 2002, we generated revenues of $940,000 pursuant to this agreement. During the year 2003, we generated $927,000 in revenues pursuant to this agreement.

1.5.6 Hong Kong - China Re-Entry Cards

In 1996, SuperCom Asia Pacific entered into an agreement with China Travel Services (CHK) Ltd., or CTS, which is responsible for the supply of Hong Kong - China re-entry cards to the Hong Kong government. According to the agreement, SuperCom Asia Pacific, as subcontractor, will provide CTS with all the equipment and raw material necessary for the production of the Hong Kong - China re-entry cards. The agreement provides for payment of equipment and raw material plus annual maintenance fees after the first 12 months. The term of the agreement is five years with a five-year renewal option and can be terminated for cause. In 2002, we generated revenues of $600,000 pursuant to this agreement. During the year, 2003, we generated $811,000 in revenues pursuant to this agreement.

In December 1999, the parties signed a supplementary agreement in which they agreed to maintain the unit price of raw materials for an additional period of three years starting on January 1, 2000, provided that CTS will maintain during that term a minimum annual order of raw materials of 1,000,000 units per year.

1.5.7 Passports, United Kingdom

In December 1997, we entered into an agreement with the Stationary Office Limited, or TSO, an English company, which was awarded a ten-year agreement in June 1997 to supply passports to the United Kingdom Passport Agency. Pursuant to the agreement, we, as subcontractor, will supply TSO with equipment and training for the production of passports at TSO's central facility in Manchester, England and at six regional offices of the United Kingdom Passport Agency. In addition, TSO has the option to purchase raw materials from us at prices specified in the agreement. The TSO agreement may be terminated for cause and upon termination of TSO's agreement with the Passport Agency. In 2002, we generated revenues of $285,000 pursuant to this agreement. During the year, 2003, we generated revenues of $140,000 pursuant to this agreement.

1.6 Sales And Marketing

We sell our systems and products worldwide through distribution channels that include direct sales and traditional distributor or reseller sales. We have approximately 27 employees directly engaged in the sale, distribution and support of our products and are represented by seven independent distributors and resellers with which we have distribution agreements. We are implementing a U.S. and European penetration plan, geared at establishing a strong U.S. and European sales and marketing presence and strategic partnerships. We expect these efforts to lead to a strong project flow and increased product sales, and we anticipate that by 2006 nearly a majority of all of our overall revenues will come from U.S.-based projects. However, we cannot assure you that we will meet this objective.

Our resellers sell our systems and products to business enterprises, healthcare and educational institutions and government agencies and act as the initial customer service contact for the systems and products they sell. We establish relationships with resellers through written agreements that provide prices, discounts and other material terms and conditions under which the reseller is eligible to purchase our systems and products for resale. These agreements generally do not grant exclusivity to the resellers.

During 2003, we signed distribution agreements with three U.S. distributors: TransTech Systems, Inc., Laminex Inc. and Clinton Electronics Corporation, providing us with what we believe to be, but cannot assure you will be, complete nationwide sales, distribution and support coverage for our systems and products for the U.S. market.

1.7 Customer Service

We believe that customer support plays a significant role in our sales and marketing efforts and in our ability to maintain customer satisfaction, which is critical to our efforts to build our reputation and permit us to grow in both new and existing markets. In addition, we believe that the customer interaction and feedback involved in our ongoing support functions provide us with information on customer needs that contributes to our product development efforts.

We generally provide maintenance services under our agreements pursuant to terms that are according to each particular agreement. We provide service either through customer training, local third-party service organizations, our subsidiaries, or our personnel, including appropriate personnel sent from our headquarters in Israel. We generally provide our customers with a warranty for our products varying in length from 12 to 36 months. Costs incurred annually by SuperCom for product warranties have to date been insignificant; however, there can be no assurance that these costs will not increase significantly in the future.

1.8 Manufacturing

Our manufacturing operations consist primarily of materials planning and procurement, quality control of components, kit assembly and integration, final assembly, and testing of fully-configured systems. A significant portion of our manufacturing operations consists of the integration and testing of off-the-shelf components. All of our products and systems, whether or not manufactured by us, undergo several levels of testing, including configuration to customer orders and testing with current release software, prior to delivery.

Certain components, such as printers and digital cameras, are purchased and then integrated by us into a data capture workstation. We perform a significant amount of primary assembly of our printers. We contract with manufacturers to produce less technologically sensitive and complex features of our printers to our specifications.

In addition, we purchase raw materials such as Teslin®, silicon, toners and certain security features, used by our customers in the production of ID documents from third parties. While third parties process many of the materials according to our specifications, we carry out the finishing and packaging of the consumable materials.

We do not have minimum supply commitments from our vendors and generally purchase components on a purchase order basis. Although we generally use standard raw materials and components for our systems, some of the key raw materials or components are available only from a single source, such as Teslin®, which is only available from PPG Industries, or from limited sources, including various chips and toners. Even where multiple sources are available, we typically obtain components and raw materials from only one vendor to ensure high quality, prompt delivery and low cost. If one of our suppliers were unable to meet our supply demands and we could not quickly replace the source of supply, it could have a material adverse effect on our business, operating results and financial condition, for reasons including a delay of receipt of revenues and damage to our business reputation. We have, however, identified alternate sources of supply for most of our components and raw materials. We believe that our open systems architecture facilitates the substitution of components when this becomes necessary or desirable.

1.9 Competition

The market for our products and services is extremely competitive. Our management expects this competition to intensify as the markets in which our products and services compete continue to develop. We face competition from technologically sophisticated companies, many of which have substantially greater technical, financial, and marketing resources. In some cases, we compete with entities that have pre-existing relationships with potential customers. As the national documentation production market expands, we expect additional competitors to enter the market. However, to date we have been able to compete because our products combine technologies and features that provide customers with a complete and comprehensive solution. There can be no assurance, however, that other companies will not offer similar products in the future.

In the passport production and national identification card markets, we compete with local governments and government-owned or private sector security printing companies. These companies have either adapted new printing technologies to the passport production market or use the same technologies as we do. These companies include Canadian Bank Notes; Thomas De la Rue, a publicly held English company; Giesecke & Devrient GmbH, a German company; 3M Inc., a publicly-held American company; Setec Oy, a Finnish company that produces passports using laser engraving technology; Toppan, a Japanese company that manufactures laser printers; and American Banknote Corporation. We are able to compete to date on the basis of, among other things, our ability to produce national identification cards of any size that feature high-speed laser printing on Teslin® and polyester, which provides enhanced security and significant durability. There can be no assurance, however, that other companies will not offer similar products in the future.

We also compete with system integrators such as EDS, Unisys, Siemens, TRW, Lockheed-Martin and IBM, which act as prime integrators in connection with government agreements. These system integrators, however, sometimes act as our partners when we participate in consortiums led by, or including, one or more of these system integrators.

In projects where customers require biometric data collection technology, we compete with automatic fingerprint identification system, or AFIS providers such as Lockheed-Martin, Printrak International (Motorola), TRW, Cogent Technology, Sagem Morpho of France and NEC of Japan. AFIS suppliers tend to position themselves as prime integrators on turnkey projects. We have developed integration capabilities with AFIS systems and can print encrypted AFIS data onto our national identification cards and passports.

In the emerging market for contactless smart cards for use in national documentation systems, we compete with companies such as Schlumberger, Gempluss and Orga Cards, which supply smart cards for commercial applications using polyvinylchloride, or PVC, and other material platforms; Giesecke & Devrient Oberthur, which supplies smart cards; ODS Landis & Gyr and Maurer, a German company, which produces laser engraved polycarbonate cards; Nova Card and Amatech, German companies, and Austrian Cards, an Austrian company, which also use antenna winding technology, PET cards and sell contactless production equipment; Muhlbauer and Meltzer, German companies which are competitors in manufacturing contactless equipment; and Bull and De La Rue, which is engaged in the business of printing money, passport and other secured documents.

1.10 Intellectual Property

Our ability to compete is dependent on our ability to develop and maintain the proprietary aspects of our technology. We rely on a combination of trademark, copyright, trade secret and other intellectual property laws, employee and third-party nondisclosure agreements, licensing and other contractual arrangements and have also applied for patent protection to protect our proprietary technology and intellectual property. These legal protections afford only limited protection for our proprietary technology and intellectual property.

1.10.1 Patents

We currently have three registered patents in Israel, one in Europe, one in the United States, one in Hong Kong, one in Ukraine and two patent applications pending in the United States and Europe and other jurisdictions for technology related to our smart card technology. We intend to file additional patent applications when and if appropriate. There is no guarantee that patents will arise from our applications or, if patents do arise, that we will be afforded proprietary protection should claims arise.

In addition, we recognize that our existing patents provide us only limited protection. Moreover, not all countries provide legal protection of proprietary technology to the same extent. There can be no assurance that the measures taken by us to protect our proprietary technologies are or will be sufficient to prevent misappropriation of our technologies or portions thereof by unauthorized third parties or independent development by others of similar technologies or products. In addition, regardless of whether our products infringe on proprietary rights of third parties, infringement or invalidity claims may be asserted or prosecuted against us and we could incur significant expenses in defending them. Our costs could also increase if we have to pay license fees as a result of these claims.

1.10.2 Licenses

We license technology and software, such as operating systems and database software from third parties for incorporation into our smart card systems and products and we expect to continue to enter into these types of agreements for future products. Our licenses are either perpetual or for specific terms.

1.11 Government Regulation

Some of our contracts relate to projects that have elements that are classified for national security reasons. Although most of our contracts are not themselves classified, persons with high security clearances are often required to perform portions of the contracts. We believe that our employment of personnel with high security clearances is helpful in obtaining such contracts. Doing business with governments is complex and requires the ability to comply with intricate regulations and satisfy periodic audits.

Our smart card readers must comply in the United States with the regulations of the Federal Communications Commission, or the FCC, which may require certification, verification or registration of the equipment with the FCC. Certification and verification of new equipment requires testing to ensure the equipment's compliance with the FCC's rules. In addition, the equipment must be labelled according to the FCC's rules to show compliance with these rules. Electronic equipment permitted or authorized to be used by the FCC through our certification or verification procedures must not cause harmful interference to licensed FCC users, and it is subject to radio frequency interference from licensed FCC users. To date, our smart card readers have complied with the regulations of the FCC; however, there can be no assurance that they will continue to do so in the future.

1.12 Sales Analysis

1.12.1 Sales by Geographic Destination:

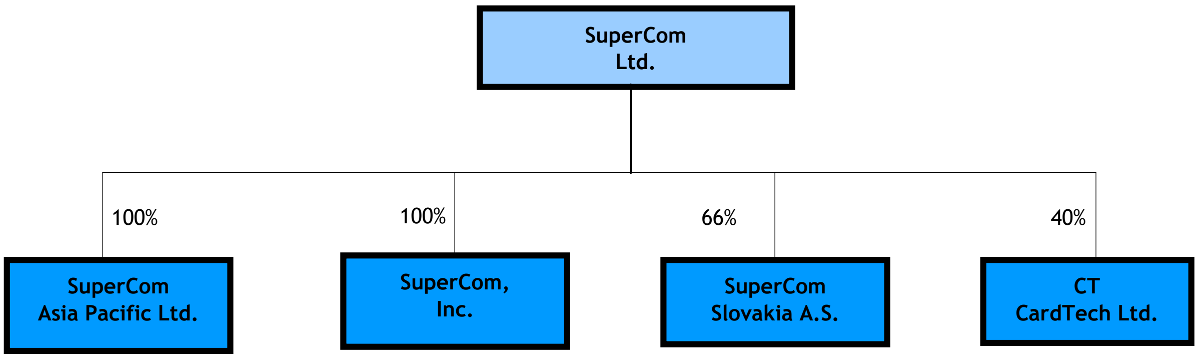
Year	2001	2002	2003
Eastern Europe	1,749	3,680	3,154
Western Europe	322	319	161
Asia Pacific	2,240	1,942	2,067
Africa	0	0	536
Middle East	326	228	498
North America	2,241	581	828
South America	10	5	0
Turkey	1	1,272	0
Total	**6,889**	**8,027**	7,244

1.12.2 Major Customers as a Percentage of Total Sales

	Year ended December 31,		
	2001	2002	2003
Customer A	-	26%	27%
Customer B	16%	19%	16%
Customer C	--	16%	-
Customer D	17%	12%	12%
Customer E	8%	8%	11%
Customer F	23%	6%	-
Customer H	14%	-	-

1.13 Subsidiaries and Affiliates

The diagram below shows the Company's holdings in its subsidiaries and affiliates as of December 31, 2003: (See Chapter 14, note1.c.)



As part of our reorganization plan, we have made a strategic decision to focus on our core business and shut down all operations that are not a part thereof. As a result, we liquidated Genodus Inc. and its subsidiary; Kromotech Inc. and its subsidiary, both of which developed technology used in our business, which we currently own, and sold all of our equity in InkSure Technologies, Inc. and its subsidiaries.

SuperCom Asia Pacific Ltd. And SuperCom, Inc. are included in the consolidation of the Company.

SuperCom Slovakia A.S. and CT CardTech ltd. are not included in the consolidation. Equity method has been applied as principle of consolidation for subsidiaries which are not wholly owned.

None of the affiliated non-consolidated companies had any significant effect, if at all, on the consolidated financial report of the Company (See Chapter 14, note 5.a.).

No significant change has taken place in the consolidation scope over the past three years.

SuperCom Asia Pacific Limited ("SAP")
SAP, registered in Hong Kong with registered office at Suite 3403, Chine Resources Building, 26 Harbour Road, Wanchai, Hong Kong, is responsible for our sales and marketing efforts in the Far East. SAP was 80% owned by us and 20% by Chandler Technology Limited, a company owned by SAP's former managing director, Thomas Chan. On November 17, 2003 we entered into an agreement with Chandler Technology Limited for purchasing the 20% remaining shares of Supercom Asia Pacific from Chandler Technology Limited in consideration for $70,000. SAP is currently 100% owned by us.

C.T. Card Tech Technologies (1994) Ltd. ("CT Card Tech")
CT Card Tech, incorporated in Israel in 1994 with registered office at Millennium Bldg., 3 Tidhar St., P.O.B 2094, Raanana 43665, Israel, is responsible for our sales and marketing activities in the former Soviet Union (other than the Ukraine and Moldova). CT Card Tech is 40% owned by us and 60% owned by CT Card Tech's managing director.

SuperCom Slovakia a.s. ("SuperCom Slovakia")
SuperCom Slovakia, incorporated in Slovakia with registered office at Pekna cesna 17 SK-83407 Bratislava, Slovakia, was established to implement a national documentation project in the Republic of Slovakia. SuperCom Slovakia is 66% owned by us and 34% owned by EIB Group a.s., a privately held Czech company.

SuperCom, Inc.
SuperCom, Inc., incorporated in Delaware, with registered office at 245 Fifth Avenue, New York, New York 10016-8728, is responsible for our sales and marketing efforts in the United States. SuperCom, Inc. is 100% owned by us.

1.14 Prospects for 2004

On January 20, 2004, the Company and Perfect Data announced that their merger agreement and related agreements have been terminated according to the terms of the agreements.

We believe that through the distribution and system integrator channels implemented this year, and the recognition of the Company's leading-edge technology and our backlog, SuperCom will meet its strategic growth plan and have the opportunity to emerge as a key player in governmental and commercial markets.

We believe that the government and commercial sectors are moving towards the more functional and broader applications that a smart card solution can provide over traditional methods. We are positioning ourselves to become a key player in government and commercial smart card markets as a result of our ability to function as a one-stop shop for cost-effective high-end smart card systems. Our objective is to become a market leader in the development and marketing of our advanced smart card technologies and value-added related products and applications for contactless smart card and ID markets worldwide.

We intend to achieve our goal by:

- Focusing on both government and commercial customers;
- Leveraging our technological competence and reputation;
- Focusing on the smart card business;
- Focusing research and development on adapting our current technology achievements to market demands;
- Increasing sales and marketing resources; and
- Seeking partnerships with other relevant companies.

There can be no assurance that we shall achieve our goal, whether in whole or in part.

As of December 31, 2003, we had 59 full-time employees. The following table describes our employees and the employees of our subsidiaries by department.

	2001	2002	2003
Research, Development & Manufacturing	34	25	21
Marketing and Sales	13	15	27
Administration	12	11	11
Total	**59**	**51**	**59**

SuperCom's Israeli employees are not part of a collective bargaining agreement. However, in Israel we are subject to certain labor statutes, and to certain provisions of collective bargaining agreements between the Histadrut, the General Federation of Labor in Israel, and the Coordinating Bureau of Economic Organizations, including the Industrialists' Association. These are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Labor and Welfare. These statutes and provisions principally concern the length of the workday, minimum daily wages for professional workers, procedures for dismissing employees, determination of severance pay, annual and other vacations, sick pay and other conditions for employment. We provide our employees with benefits and working conditions that comply with the required minimum. In addition, all employees in Israel under collective bargaining agreements and expansion orders are entitled to automatic adjustment of wages relative to increases in the Consumer Price Index in Israel. The amount and frequency of these adjustments are modified from time to time.

Generally, all male adult citizens and permanent residents of Israel under the age of 54 are, unless exempt, obligated to perform up to 30 days of military reserve duty annually. Additionally, all such residents are subject to being called to active duty at any time under emergency circumstances. Some of our officers and employees are currently obligated to perform annual reserve duty. While we have operated effectively under these requirements since we began operations, no assessment can be made as to the full impact of such requirements on our workforce or business if conditions should change, and no prediction can be made as to the effect on us of any expansion of such obligations.

All of our employees have entered into confidentiality agreements. We have also granted certain employees options to purchase shares of our ordinary shares under our option plan. We consider our relationship with our employees to be a good one and have never experienced a strike or work stoppage.

Our ability to succeed depends, among other things, upon our continuing ability to attract and retain highly qualified managerial, technical, accounting, sales and marketing personnel.

CHAPTER 3 - DESCRIPTION OF PROPERTY

The Company does not own any real estate property.

The Company currently leases approximately 1,844 square meters facilities Ra'anana, Israel. The leases for most of this space expire towards the end of 2010. The Company sublets space in this facility to CT Card Tech.

Other offices of the group include SuperCom Asia Pacific's offices in Hong Kong, and SuperCom, Inc. in New York and Washington, D.C.

The total annual rental fee for 2001, 2002 and 2003 is US$ 571,000, US$ 414,121 and US$ 311,804 respectively, and is linked to the Consumer Price Index in the United States. The total annual lease commitments for 2004 are US$ 370,000

CHAPTER 4 - LEGAL PROCEEDINGS

Other than as described below, there are no materials pending legal proceedings in which we are a party or of which our property is subject.

In April 2004, the Company was informed by the International Commercial Arbitration Court at the Ukrainian Chamber of Commerce and Industry (Arbitration Court) that the Department for Resources Supply of the Ministry of Internal affairs of Ukraine (the Ministry) has filed with the Arbitration Court a statement of claim to declare the Contract No. 10/82, in the amount of $17.5M, dated April 9, 2002 (the Contract) between SuperCom and the Ministry as void. The Company is currently dealing with the arbitration process, and, we strongly believe that the claim no merits and we vigorously intend to uphold the validity of the contract.

On November 10 2003, Supercom Slovakia, a subsidiary (66%) of Supercom Ltd., has received an Award by the International Arbitral Centre of the Austrian Federal Economic Chamber ("IAC"), in the case against the Ministry of Interior of the Slovak Republic which refers to the agreement on delivery of Technology, Cooperation and Services signed on 17 March 1998.

According to the Arbitral Award, the Ministry of Internal affairs of the Slovak Republic has been ordered to pay Supercom Slovakia the amount of SKK 80,000,000 (Approximately US $2.27M). In addition, the Ministry of of Internal affairs of the Slovak Republic has been ordered to pay the costs of arbitration in the amount of EUR 42,715.64 and Supercom Slovakia's legal fees in the amount of EUR 63,611.11.

The Ministry of Interior of the Slovak Republic has the right to appeal in the Austrian Courts within 3 months from the date of this award on only legal procedures. We have begun the enforcement procedure of the arbitral award and in parallel, we have indirectly received information that the Ministry of Interior of the Slovak Republic has filed an appeal.

On July 14, 2003, Mr. Yaacov Pedhatzur, an Israeli citizen filed a complaint against us, in the Magistrate's Court of Tel Aviv, Israel. The plaintiff claims that we owe him NIS 250,000 in commissions allegedly due for his part in establishing business connections for us in Eastern Asia during the years 1993-1998. We plan to contest this claim.

On December 12, 1999, Secusystem Ltd., an Israeli company, filed a claim against us and one of our former subsidiaries, InkSure Technologies Ltd., (InkSure), a former subsidiary of us, in the District Court in Tel Aviv-Jaffa, Israel. The plaintiff alleges that the development of certain products by InkSure involves confidential information belonging to the plaintiff and that its use constitutes, among other things, a breach of a confidentiality agreement executed between the plaintiff and us and a breach of the plaintiff's trade secrets. The plaintiff claims that such products should be deemed to be entirely owned by it or owned in equal parts with InkSure. Based on such allegations, the plaintiff asked the court to order the defendants to: (i) cease any activity which involves the plaintiff's confidential information; (ii) furnish the plaintiff with a certified report detailing all profits derived by the defendants from such activity; (iii) pay the plaintiff an amount equal to all such profits; and (iv) pay the plaintiff additional damages in the amount of NIS 100,000. Alternatively, the plaintiff asked the court to declare that the above-mentioned products are owned by the plaintiff and InkSure in equal parts and that the plaintiff is entitled to 50% of all profits derived there from, in which case, the plaintiffs asked that the defendants disgorge 50% of the profits detailed in the above-mentioned report. We believe that we, together with InkSure, have good arguments to defend against this claim.

CHAPTER 5 – INVESTMENT POLICY

The Company's functional currency is the USD. The Company invested most of the proceeds from revenues in interest bearing bank deposits in the United States based on the USD. Financial expenses in 2002 was US$ 0.05 million and for the year 2003 financial expenses totaled to $0.2 million.

During the year 2003 the Company invested $1,196,000 in short-term bank deposits. During the year 2002 the Company invested $908,000 in marketable debt securities, of which $362,000 and $440,000 were redeemed during the year 2002 and 2003, respectively. During the year 2001 the Company invested $1,172,000 in property and equipment, net of proceeds from sales of equipment.

No future investments are planned for the moment.

CHAPTER 6 – SUBMISSION OF MATTERS TO A VOTE FINANCIAL HOLDERS

On January 26, 2003, a special general meeting, approved to grant each of the directors of the Company that is not an external director, commencing on October 1, 2002, a monthly remuneration of 1,000 US Dollars for his contribution to the work of the Board of Directors and further granting him a participation remuneration of 1,000 US Dollars per meeting of the Board of Directors, provided however, that each of the directors of the Company which is not an external director shall be entitled to an aggregate sum of monthly Remuneration and Participation Remuneration of not more than 18,000 US Dollars per year.

In the same meeting, it was approved granting an option to acquire up to 50,000 shares of the Company to each of the directors of the Company, which are not external directors. The exercise price under the terms of such options shall be US$0.42 per share and also granting an option to acquire up to 670,981 shares of the Company (the "Option") to Mr. Eli Rozen in lieu of his rights due to the termination of his employment. The exercise price under the terms of the Option shall be US $ 0.42 per share.

Also in the same meeting, it was approved to amend the Articles of Association of the Company concerning the issue of indemnification and insurance of directors and office holders.

CHAPTER 7 – INFORMATION CONCERNING NATURE & EXTENT OF THE TRADING MARKET

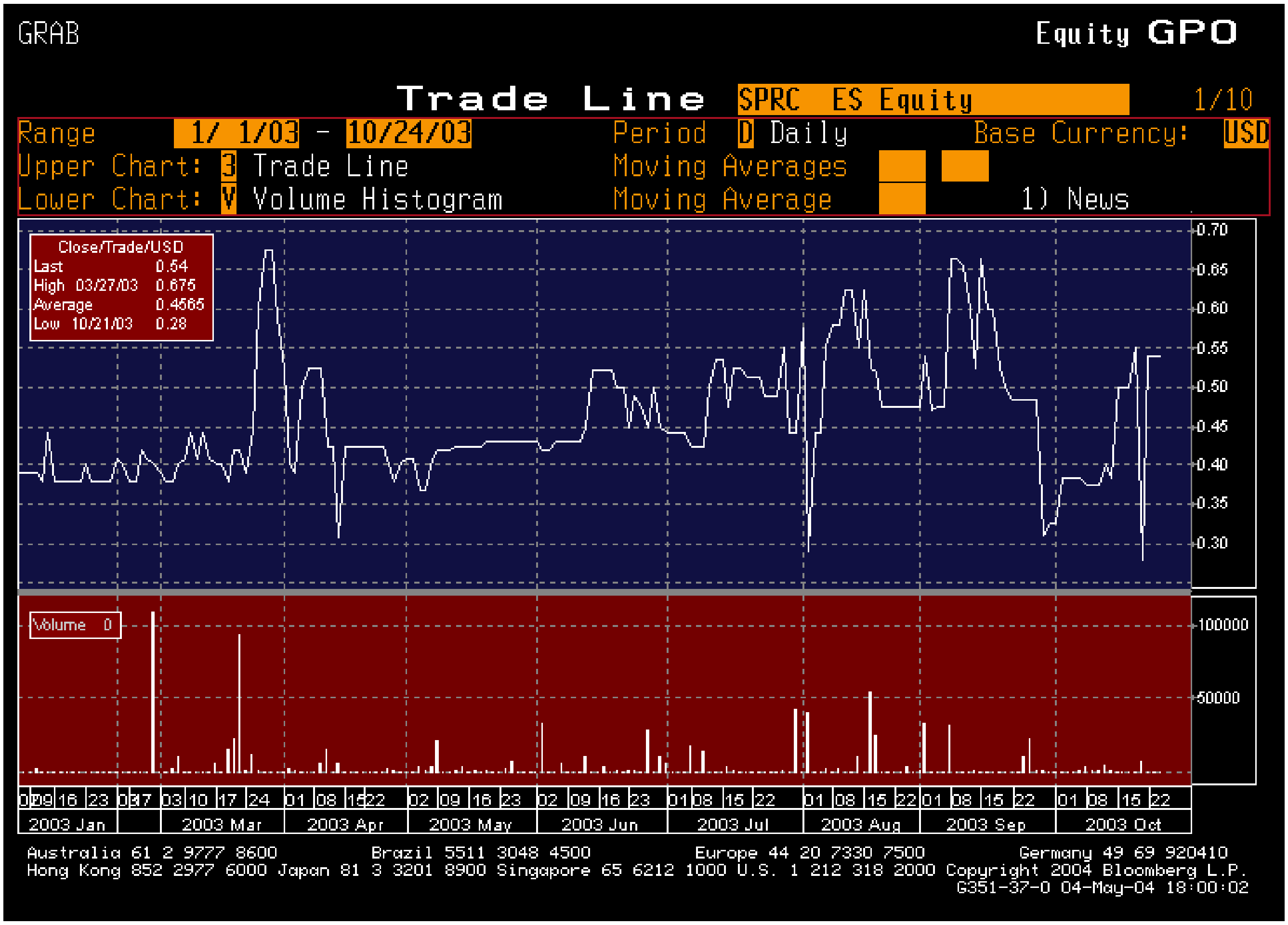
Highest and lowest sale prices (USD) for the Company's share for each quarter in 2002

	Quarter I	Quarter II	Quarter III	Quarter IV
Low	0.20	0.275	0.12	0.10
High	0.41	0.565	0.535	0.55

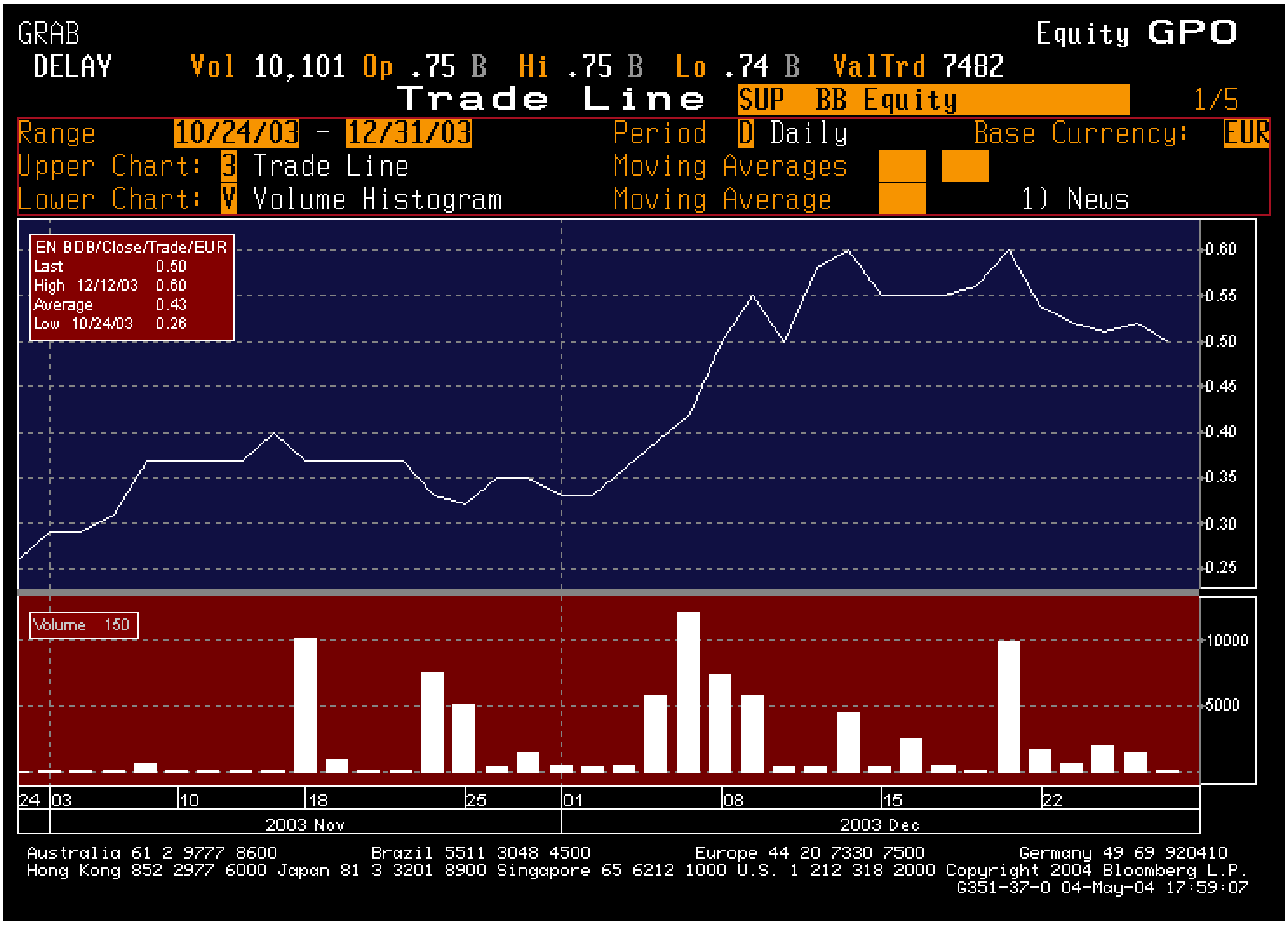
Highest and lowest sale prices (USD) for the Company's share for each quarter in 2003

	Quarter I	Quarter II	Quarter III	Quarter IV
Low	0.38	0.3088	0.29	0.28
High	0.675	0.525	0.665	0.75

Trade Line Chart and Volume Histogram from January 1, 2003 until October 24, 2003 on NASDAQ Europe



Trade Line Chart and Volume Histogram from October 24, 2003 until December 31, 2003 on Euronext Brussels' New Market



CHAPTER 8 – INFORMATION ABOUT THE CONTROL OF THE COMPANY

8.1 Shareholders

The following table sets forth the ownership(1), of the Company's outstanding Shares as of December 31, 2003 to the extent known to the Company:

Shareholders	Shares held	% of Ownership
Jacob Hassan(2)	2,346,358	18.18
Avi Landman(3)	2,345,764	18.17
Eli Rozen(4)	2,425,359	18.79

(1) Above five percent of the Company's share capital as of the date of this report.
(2) Jacob Hassan is the Company's Machinery and Plastics Research Manager. During the year 2002, he resigned his duty as a member of the Board of Directors of the Company.

(3) Avi Landman is a member of the Company's Board of Directors and a Research Manager of the Company. The 2,345,764 Shares include 500,000 Shares held by a company fully owned by Mr. Avi Landman. .
(4) Eli Rozen is the Chairman of the Board of the Company.

8.2 Disclosure of Beneficial Interests in the Shares

Pursuant to the Articles of Association of the Company, each legal or natural person (or persons if acting in concert) who directly or indirectly acquires or disposes of voting financial instruments of the Company is required to notify the Company on a form issued by the Market Authority of Euronext within five Euronext business days from the date of such acquisition or disposal. This in all cases where the proportion of voting financial instruments held directly or indirectly by such person following the acquisition or disposal of such voting financial instruments exceeds or falls below the threshold of 5% or any multiple of 5% of all outstanding voting financial instruments of the Company. Failure to make such disclosure may lead to suspension of the voting rights attached to the relevant Shares. The Company shall, within three Euronext business days following receipt of the declaration, notify the Market Authority on a form prescribed by the Market Authority and disclose to the public through the Euronext Publication an updated schedule setting forth, per class of the Company's voting financial instruments, the person, entity or group of persons or entities, known to the Company whose ownership of the voting financial instruments of such class exceeds or falls below the threshold of 5% or any multiple of 5% of all outstanding voting financial instruments of the Company, and the number and percentage of financial instruments held by such person, entity or group of persons or entities.

CHAPTER 9 - INFORMATION CONCERNING THE COMPANY AND ITS CAPITAL

SuperCom was incorporated on 4 July 1988 under the laws of Israel as a company limited by shares, and registered in Israel under Company number 520044074. Its registered office and principal establishment is at Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel. The object of the company is to develop, manufacture and market, smart Cards, and secured documents.

SuperCom became a publicly traded company on Nasdaq Europe (former EASDAQ) in 1999. Following the announcement by NASDAQ Europe that all of its operations would be discontinued by the end of November 2003, SuperCom's shares were admitted on Euronext Brussels' New Market on October 23, 2003 under the symbol SUP BB.

The documents to which this annual report refers can be consulted upon request at the registered office of the Company.

9.1 Issued Capital

As of 31 December 2003, the issued share capital of SuperCom was NIS 129,068.72 consisting of 12,906,872 fully paid up shares of the same class, with nominal value of NIS 0.01 per share.

9.2. Authorized Capital

The authorized share capital of the Company is NIS 265,000 consisting of 26,500,000 Shares.

9.3 Stock options

On 6 January 2004, the Banking, Finance and Insurance Commission waived the prospectus requirement in relation to a request for the admission on Euronext Brussels' New Market of a maximum of 1,790,078 new shares of the Company to be issued in relation to the exercise of stock options, in accordance with Section 6, 2° c) of the Royal Decree of 18 September 1990.

200,533 of these stock options have been exercised and the shares issued further to this exercise have been listed on Euronext Brussels' New Market.
As of December , 1,534,514 stock options of the Company are outstanding.

9.4 Own stock ownership

SuperCom has not bought and is not the owner of any of its shares. Currently, it has no intention to enter into any own stock purchase program.

9.5 Rights Attached to the shares of SuperCom

Each share of the Company is entitled to one vote at the general meeting of shareholders of the Company. The annual meeting of the Company is in principle held once a year, not later than 15 months after the last general meeting. Holders of the shares are entitled to participate in the payment of dividends and to the payment of the nominal paid-up value of the shares pro rata of the remaining assets. These shares are freely tradable and not subject to any pre-emptive rights.

The following is an explanation of the rights of a shareholder under the Israeli Companies Law, or the ICL and the Articles of Association of SuperCom. Copies of the SuperCom Memorandum of Association and Articles of Association are available for inspection at the principal executive offices of SuperCom, and copies will be sent to shareholders of SuperCom.

Voting Power

The ICL permits a corporation to allocate different voting rights to different classes of shares. SuperCom has currently only one class of shares (Ordinary Shares) and under SuperCom's Articles of Association the holder of each such outstanding share has the right to one vote for such share at all meetings of shareholders. However, by a resolution approved by 75% of the voting power represented and voting in a general meeting, SuperCom may provide for shares with preferred or deferred rights, including in regard to voting rights.

Power to Call Special Meeting of Shareholders

Under the ICL, a special meeting of shareholders of a public corporation may be called by the board of directors, a request of two directors or 25% of the directors in office, shareholders holding at least 5% of the issued capital of the corporation and at least 1% of the voting rights of the corporation, or shareholders holding at least 5% of the voting rights of the corporation.

Action of Shareholders Without a Meeting

Under the ICL, only a private company may adopt a resolution of the general meeting without a meeting. SuperCom is currently not a private company and, thus, despite a contrary provision contained in its Articles of Association, all resolutions of the shareholders must be passed at a general meeting.

Dividends and Repurchases of Shares

The ICL provides that dividends may generally be paid out of a corporation's profits, provided that there is no reasonable concern that the distribution will prevent the corporation from being able to meet its existing and anticipated obligations when they become due. "Profits" are defined as the greater of: (i) a corporation's surplus, defined as those amounts included in the capital of the corporation originating from the corporation's net profits, as well as other amounts in the capital of the corporation that are not share capital or premiums on shares; and (ii) a corporation's accumulated surplus for the two previous fiscal years. Under the SuperCom Articles of Association, payment of dividends requires a proposal by the board of directors and approval by ordinary resolution of the shareholders. Such resolution may not provide for payment of an amount exceeding that proposed by the board of directors.

Shareholder Derivative Suits

Under the ICL, a derivative action may be brought in Israel by a shareholder or a director of a corporation for the benefit of that corporation and with the approval of the court. A shareholder may not sue derivatively unless the shareholder has first demanded that the corporation take action, and the demand has been refused, ignored, delayed or responded to in a manner which the shareholder or director does not believe eliminates the grounds for the cause of the action. A creditor of a corporation may also bring derivative action for the benefit of that corporation solely in connection with a prohibited distribution by the corporation.

CHAPTER 10 – DIVIDENDS AND ISRAELI TAX CONSIDERATIONS

10.1 Dividends

The Company distributed a cash dividend to its shareholders on one occasion on 26 August 1997 in the amount of NIS 1 million and prior to that dividends in the form of bonus shares were distributed on two other occasions. The Company does not expect to declare or pay cash dividends in the foreseeable future and currently intends to retain future earnings, if any, to finance the growth and development of its business.

10.2 Relevant Israeli Tax Considerations

The following is a summary of the current tax structure applicable to companies in Israel, with special reference to its effect on the Company, and certain Israeli Government programs benefiting the Company. The following also contains a discussion of certain Israeli tax consequences for persons acquiring Shares. To the extent that the discussion is based on new tax legislation that has been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussions will be accepted by the tax authorities in question. The discussion should not be construed as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Each potential investor is urged to consult its tax advisor as to the Israeli or other countries tax consequences of the purchase, ownership and disposition of the Shares, including, in particular, the effect of any foreign, state or local taxes.

10.2.1 General Corporate Tax Structure

The general corporate tax rate in Israel is currently 36%. The effective tax rate payable by a company that derives income from an "Approved Enterprise," however, may be considerably less. See "Law for the Encouragement of Capital Investments, 1959" below.

10.2.2 Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law"), a company qualifies as an "Industrial Company" if it is a resident in Israel and at least 90% of its income in a given tax year (exclusive of certain income) is derived from Industrial Enterprises which was defined as an enterprise whose major activity in a particular tax year is industrial manufacturing. The Company currently qualifies as such.

A qualifying Industrial Company is entitled to deduct the purchase price of know-how and patents and is also entitled to deduct expenses of issuing publicly traded shares.

Additionally, under certain income tax regulations, Industrial Companies qualify for special accelerated depreciation rates. An Industrial Company owning an Approved Enterprise (see "Law for the

Encouragement of Capital Investments, 1959" below) may choose between the above depreciation rates and the depreciation rules available to Approved Enterprises.

Qualification as an Industrial Company is not conditional upon the receipt of prior approval from any Israeli Government authority. No assurance can be given that the Company will continue to qualify as an Industrial Company or will in the future be able to avail itself of any benefits available to companies so qualifying.

10.2.3 Law for the Encouragement of Capital Investment, 1959

The Law for the Encouragement of Capital Investment, 1959 (the "Investment Law") provides that capital investment in a production facility (or other eligible assets) may, upon application to the Israeli Investment Center, be designated as an "Approved Enterprise". Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. A company having an Approved Enterprise is entitled to certain benefits, including Israeli Government cash grants and tax benefits. Each application for an investment program is evaluated by the Investment Center and there can be no assurance that any such application will be approved. The Company currently has three Alternative Benefits Programs under the Investment Law, which entitle the Company to certain tax benefits. The benefits available to a company having an Approved Enterprise are conditional upon the fulfilment of certain conditions stipulated in the Investment Law and its regulations and the criteria set forth in the specific certificate of approval. The Company believes its Approved Enterprises operate in substantial compliance with all such conditions and criteria.

10.2.4 Tax Benefits

Taxable income derived from an Approved Enterprise is subject to a reduced corporate tax rate of 25%. Such income is eligible for further reductions in tax rates (up to 10% total tax rate) depending on the percentage of the foreign investment in the Company's share capital combined with loan capital owned by non-Israeli residents ("foreign investment level"). These tax benefits are granted for a limited period not exceeding seven years, or ten years for a company whose foreign investment level exceeds 25% from the first year in which the Approved Enterprise has taxable income. The period of benefits may in no event, however, exceed the lesser of 12 years from the year in which production commenced or 14 years from the year of receipt of Approved Enterprise status.

A company having an Approved Enterprise approved after April 1, 1986 may elect to forego any entitlement to the grants otherwise available under the Investment Law and, in lieu, participate in an alternative benefits program (the "Alternative Benefits Program'), under which the undistributed income from the Approved Enterprise is fully exempt from corporate tax for a defined period of time. The period of tax exemption ranges between two and ten years, depending upon the location within Israel of the Approved Enterprise and the type of the Approved Enterprise. On expiration of the exemption period, the Approved Enterprise would be eligible for the otherwise applicable beneficial tax rates under the Investment Law (generally 25%) for the remainder, if any, of the otherwise applicable benefits period. The Company elected to participate in the Alternative Benefits Program.

A company that has elected to participate in the Alternative Benefits Program and that subsequently pays a dividend out of the income derived from the Approved Enterprise during the tax exemption period will be subject to corporate tax in respect of the amount distributed (including withholding tax thereon) at the rate that would have been applicable had the company not elected to participate in the Alternative Benefits Program (generally 25%). The dividend recipient is taxed at the reduced rate of 15%, applicable to dividends from Approved Enterprises if the dividend is distributed within 12 years of the benefits period. The withholding tax rate will be 25% after such period. In the case of a company with over 25% foreign investment level (as defined by law), the 12-year limitation on reduced withholding tax on dividends does not apply.

From time to time, the Israeli Government has discussed reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law could materially impact the cost of future investments by the Company.

Income derived from the Company's Approved Enterprise programs is exempt from tax for a period of either two or four years, commencing in the first year in which the Company generates taxable income from such Approved Enterprise and is subject to a reduced tax rate (25%) for a further five or three years, respectively. See Note 11 to the Consolidated Financial Statement included in Chapter 14 of this Annual Report.

10.2.5 Other Benefits

An Approved Enterprise is also entitled to accelerated depreciation on property equipment.

For companies whose foreign investment level exceeds 25%, Approved Enterprises would create an entitlement to reduced tax rates for a period of not more than ten tax years, rather than the seven tax years applicable to other companies.

10.2.6 Taxation Under Inflationary Conditions

The Income Tax (Inflationary Adjustment) Law, 1985 (the "Inflationary Adjustment Law"), attempts to overcome some of the problems presented to a traditional tax system by an economy experiencing rapid inflation. Generally, the Inflationary Adjustment Law provides significant tax deductions and adjustments to, among others, depreciation and tax loss carry forwards to compensate for loss of value resulting from an inflationary economy. The Company's taxable income is determined under this law.

10.2.7 Tax Benefits for Research and Development

Israeli tax law permits, under certain conditions, a tax deduction in the year incurred for expenditure (including capital expenditure) in scientific research and development projects, if the expenditure is approved by the relevant Israeli Government Ministry (determined by the field of research), the research and development is for the promotion of the enterprise and is carried out by, or on behalf of, a company seeking such deduction. Expenditures not so approved are deductible over a three-year period; however, grants made available to the Company by the Government of Israel are considered taxable income.

10.2.8 Capital Gains and Income Taxes Applicable to Non-Israeli and Israeli Shareholders

Israeli law imposes a capital gains tax on capital gains derived from the sale of securities and other Israeli capital assets, including shares. The capital gain or loss amount is equal to the consideration received by the holder for the shares less the holder’s tax basis in the shares. Gains from sales of our ordinary shares will be tax exempted for non-residents of Israel if the shares are quoted on the NASDAQ National market or listed for trading on a stock exchange recognized by the Israeli Ministry of Finance. If our shares are delisted, gain from sale of ordinary shares will be subject to 25% capital gain tax on the capital gain derived since December 31, 2002, and 36% capital gain tax for companies and up to 50% capital gain tax for individuals on the capital gain derived until December 31, 2002, while the allocation of the gain between the two periods is proportional to the holding periods until December 31, 2002, and after December 31, 2002 and certain withholding obligations may apply unless a reduced rate or an exemption is provided under any tax treaty applicable to the specific holder.

Israeli law imposes a capital gains tax on capital gains derived from the sale of securities and other Israeli capital assets, including shares by Israeli residents. The capital gain or loss amount is equal to the consideration received by the holder for the shares less the holder’s tax basis in the shares. Under current law, effective commencing January 1, 2003 gains from sales of our ordinary shares incurred after December 31, 2002, are subject to 15% capital gains tax for individuals and Israeli companies not subject to the Income Tax Law (Inflation Adjustments) – 1985 (the “Adjustment Law”) and 36% capital gain tax for Israeli companies subject to the Adjustment Law if the ordinary shares are quoted on the NASDAQ National market or listed for trading on a stock exchange recognized by the Israeli Ministry of Finance. For individuals and Israeli companies not subject to the Adjustment Law the purchase price for purposes of capital gains commencing January 1, 2003.Gains incurred until December 31, 2002, are exempt from capital gains tax for so long as (i) the ordinary shares are listed on a stock exchange recognized by the Israeli Ministry of finance and (ii) SuperCom Qualifies as an Industrial Company or Industrial Holding Company under the law for Encouragement of Industry (Taxes)- 1969. We believe that we qualify as an Industrial Company under the law for Encouragement of Industry (Taxes)- 1969. Gains incurred until December 31, 2002 are subject to 36% capital gains tax for Israeli Companies subject to the adjustment law. If our shares are delisted, gains from sales of ordinary shares will be subject to 25% capital gain tax on the capital gain derived since December 31, 2002, and 36% capital gain tax for companies and up to 50% capital gain tax for individuals on the capital gain derived until December 31, 2002, while the allocation of the gain between the two periods is proportional to the holding periods until December 31, 2002, and after December 31, 2002 and certain withholding obligations may apply.

On the distribution of dividends other than share dividends, income tax at the rate of 25% (15% in the case of dividends distributed from the taxable income attributable to an Approved Enterprise) is withheld at distribution, unless a different rate is provided for in a treaty between Israel and the shareholder's country of residence. Under the Treaty, the maximum tax on dividends paid to a shareholder resident in Belgium is 15%. The withheld tax is the final tax in Israel on dividends paid to non-residents who do not conduct a business in Israel and they are generally exempt from the duty to file tax returns in Israel with respect to such income. Residents of Belgium may be entitled to a credit or deduction for Belgian income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in the Treaty and in Belgian tax legislation.

Israel presently has no estate or gift tax.

10.3 Belgian and Foreign Tax Considerations

The Company's non-Israeli shareholders may be subject to tax in their country of residence. The following summary is based on tax laws of the Kingdom of Belgium and is subject to changes in Belgian law, including changes that could have a retroactive effect. This summary does not take into account or discuss the tax laws of any country other than the Kingdom of Belgium. This summary does not take account of Belgian federal and regional estate and gift tax considerations. Furthermore, it does not address Belgian tax considerations relevant to potential purchasers, subject to taxing jurisdictions other than, or in addition to, the Kingdom of Belgium, and does not address all possible categories of securities' holders, some of who may be subject to special rules. As in any other case of investment the investor or potential investor should seek professional tax advice that will take into account his/her special circumstances.

10.3.1 Taxation of Dividends

The amount of dividends (after deduction of the Israeli withholding tax, if any) is in principle, subject to a 25% withholding tax if these dividends are paid or attributed by a paying agent in Belgium. However, provided that the appropriate formalities have been fulfilled, no dividend withholding tax is due in Belgium if the shareholder is a Belgian company subject to the Belgian corporate income tax.

Non-resident shareholders can benefit from an exemption from the dividend withholding tax in Belgium provided the Shares have been deposited for custody with a Belgian financial institution and provided that the shareholders do not use the Shares within the framework of a professional activity in Belgium.

In the case where the dividends are paid or attributed outside Belgium without any intervention of a paying agent in Belgium, no dividend withholding tax is due. However, in a case where the shareholder is a Belgian resident entity, which is subject to the legal entities tax (e.g. pension fund), this shareholder has itself to pay the 25% dividend withholding tax.

For Belgian resident individual investors holding the Shares as a private investment, the Belgian dividend withholding tax is a final tax the dividends need not be reported in the individual's annual income tax return unless their taxable income is lower than the taxable minimum.
For an individual Belgian investor whose Shares are effectively connected with his business, the dividends are taxable at the ordinary rates for business. Any Belgian withholding tax can be credited against the final income tax due

For Belgian resident companies and for companies with their tax residence outside Belgium holding the Shares through a permanent establishment or a fixed base in Belgium, the withholding tax can be credited against their corporate income tax liability and any excess is refundable. The applicable withholding tax rate is 25%. The Belgian dividend withholding tax is a final tax.

A non-resident shareholder who does not hold the Shares through a permanent establishment or fixed base in Belgium, will not be subject to any Belgian income tax other than the dividend withholding tax, which constitutes the final Belgian income tax. If no exemption applies, the Belgian withholding tax may be reduced for non-Belgian investors pursuant to double taxation treaties concluded by the Kingdom of Belgium and their Country or State of residence.

10.3.2 Capital Gains

Belgian resident individuals: Unless the Belgian Tax Administration demonstrates that the capital gain is the result of speculation, Belgian resident individuals are, in principle, not liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of Shares.

Belgian resident individual investors whose holding of Shares is effectively connected with a business or an enterprise are taxable at the ordinary progressive income tax rates for business income on any capital gains realized on the disposal of Shares.

Belgian legal entities subject to the *"rechtspersonenbelasting / impôt des personnes morales"* are in principle not liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of Shares.

Belgian resident companies and companies with tax residence outside Belgium who hold Shares through a permanent establishment or a fixed base in Belgium, are not liable for Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of Shares.

Capital losses realized upon the sale, exchange, redemption or other transfer of Shares are generally not tax deductible.

A non-resident shareholder who does not hold the Shares through a permanent establishment or fixed base in Belgium, will generally not be subject to any Belgian income tax on capital gains realized upon the sale, exchange, redemption or other transfer of Shares.

10.3.3 Tax on Stock Exchange Transactions

Belgian residents are subject to the Tax on Stock Exchange Transactions in the amount of 0.17% (but limited to EUR 250 per transaction) on the purchase and sale of Shares through a professional intermediary. The subscription (through a professional intermediary) to offered Shares is subject to this tax in the amount of 0.17% (but limited to EUR 250 per transaction).

The following persons or categories of persons are not subject to the tax on stock exchange transactions: (i) professional intermediaries referred to in Article 2 of the Law of 6 April, 1995 acting for their own account, (ii) insurance companies referred to in Article 2, §1 of the Law of 9 July, 1975 acting for their own account, (iii) pension funds referred to in Article 2, §3, 6 of the Law of 9 July, 1975 acting for their own account, (iv) collective investment institutions referred to in the Law of 4 December, 1990 acting for their own account nor by (v) non-residents (upon presentation of a certificate of non-residence).

To the extent that the Shares remain in book entry form only and will not be physically delivered this tax does not apply.

10.4 Form and Transferability of the Shares

Book-entry is mandatory for settlement of market transactions on Nasdaq Europe. Therefore, the Shares are in bearer form and are represented by one or more global certificates. Such certificates are deposited with the Clearing Agency directly or indirectly through one of its depositories, acting as custodian agent and clearing institute. Ownership rights are then attributed to the shareholders in book-entry form. Such book entries constitute proof that the Clearing Agency holds the shares referenced in the book entry for and on behalf of the investor concerned. The Company will not deliver physical share certificates.

10.5 Entitlement to Dividends

Holders of Shares are entitled to participate in the payment of dividends pro-rata in accordance with the amount paid-up or credited as paid-up on the nominal value of such Shares at the time of payment (without taking into account any premium paid thereon) subject to the rights of holders of shares with special rights with respect to dividends which may be authorized in the future.

The Board of Directors is entitled to declare and authorize the payment of an interim dividend (a dividend that is declared by the Board of Directors during the course of the year, which is then deducted from the amount of the final annual dividend that must be approved by the shareholders) in such amount as the Board of Directors in its discretion determines to be justified, taking into account the profits (adjusted to the CPI Index) of the Company. The Board of Directors may recommend a final dividend with respect to any given fiscal year out of retained earnings. Declaration of the final dividend requires shareholder approval by ordinary resolution at a general meeting as described below. Such resolution may confirm or reduce, but not increase, such dividend from the amount recommended by the Board of Directors. Dividends may be paid in cash or by the distribution of specific assets or in additional securities of the Company or any other company.

Under the Israeli Law of Limitation, 1958, the limitation period for claiming dividends due and not paid is generally seven years from the date specified for payment of the dividend.

10.6 Paying Agent

In Belgium, Leleux Associated Brokers S.A., acts as a paying agent (the "Paying Agent") for the Shares.

The Company will pay the costs of distributing dividends, if any, through the Paying Agent. Any changes in or additions to paying agents will be announced in the Belgian financial press and through the Euronext Regulatory Company Reporting System.

10.7 Liquidity Provider Agreement

Leleux Associated Brokers S.A undertakes to comply with the liquidity provider obligations as currently set forth in the Liquidity Provision Agreement (Art.2103q2 of the Harmonized Market Rules) of Euronext, more specifically the obligations that apply to “Penny Stocks” (i.e. shares with a price lower than 5 Euro per share).

Supercom Ltd – Summary of non-consolidated financial data

Summary of non-consolidated financial data	**Year Ended 31 December, (In thousands of USD, except per share data)**		
	***2001**	***2002**	**2003**
Summary of Statement of Operations:			
Revenues	4,639	5,127	6,572
Cost of Revenues	3,144	1,743	3,093
Gross Profit	1,495	3,384	3,479
Operating Expenses:			
Research and Development	-	803	914
Selling and Marketing	1,519	1,863	2,775
General and Administrative	1,714	1,116	1,460
Total Operating Expenses	3,233	3,782	5,149
Operating Income (Loss)	(1,738)	(398)	(1,670)
Financial Income (loss), Net	(46)	(272)	(215)
Other Income (Expenses), Net.	(104)	6,286	(83)
Income (Loss) before Taxes on Income	(1,888)	5,616	(1,968)
Income Taxes			
Equity in Earnings (Loss) of an Affiliated Company, Net	(4,660)	134	(27)
Net Income (Loss) from continued operation	(6,548)	5,750	(1,995)
Loss from discontinued operations	-	-	-
Net income (loss)	(6,548)	5,750	(1,995)
Per Share Data:			
Basic and Diluted Income (Loss) from continued operation	(0.52)	0.45	(0.15)
Basic and Diluted Income (Loss) from discontinued operation	-	-	-
Basic and Diluted Income (Loss) per share for combined operation	(0.52)	0.45	(0.15)
Summary of Balance Sheet Data:			
Cash and Cash Equivalents	6	4,475	1,869
Restricted cash deposit	-	11	665
Bank Deposits	100	-	1,196
Marketable Securities	62	609	117
Total Curent Assets	2,921	10,194	8,389
Investment in affiliates and subsidiaries	1,945	563	864
Total Assets	**6,451**	**13,040**	**11,682**
Total Current Liabilities	1,432	2,778	3,462
Excess of losses over investment in subsidiaries	799	7	7
Accrued Severance Pay	357	329	414
Total Shareholders' Equity	**3,863**	**9,497**	**7,612**

Investment in affiliates and subsidiaries

The investment in a company, over which the Company can exercise significant influence, over operating and financial policies of affiliates or subsidiaries (generally, entities in which the Company holds 20% to 100% of ownership or voting rights) is presented using the equity method of accounting

The Summary of the consolidated financial data set forth below as of and for the years ended 31 December, 2001, 2002 and 2003 have been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements, including the notes thereto and the auditors' report thereon (the "Consolidated Financial Statements"), included in Chapter 13 of this Annual Report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and have been audited by Kost, Forer & Gabbay, a member of Ernst & Young International, independent public accountants.

Summary of Consolidated Financial Data	**Year Ended 31 December, (In thousands of USD, except per share data)**		
	***2001**	***2002**	**2003**
Summary of Statement of Operations:			
Revenues	6,889	8,027	7,244
Cost of Revenues	2,574	1,830	3,102
Gross Profit	4,315	6,197	4,142
Operating Expenses:			
Research and Development	1,225	1,334	918
Selling and Marketing	4,628	2,828	3,026
General and Administrative	3,604	1,988	1,829
Total Operating Expenses	9,457	6,150	5,773
Operating Income (Loss)	(5,142)	47	(1,631)
Financial Income (loss), Net	123	(35)	(233)
Other Income (Expenses), Net.	(241)	6,203	(83)
Income Loss before Taxes on Income	(5,260)	6,215	(1,947)
Income Taxes	-	-	-
Equity in Earnings (Loss) of an Affiliated Company, Net	-	(38)	(48)
Net Income (Loss) from continued operation	(5,260)	6,177	(1,995)
Loss from discontinued operations	(1,288)	(427)	**-**
Net income (loss)	(6,548)	5,750	**(1,995)**
Per Share Data:			
Basic and Diluted Income (Loss) from continued operation	(0.42)	0.49	(0.15)
Basic and Diluted Income (Loss) from discontinued operation	(0.1)	(0.04)	**-**
Basic and Diluted Income (Loss) per share for combined operation	(0.52)	0.45	**(0.15)**
Summary of Balance Sheet Data:			
Cash and Cash Equivalents	274	4,567	1,912
Restricted cash deposit	-	53	681
Bank Deposits	100	-	1,196
Marketable Securities	62	609	117
Total Curent Assets	6,006	11,092	9,994
Total Assets	**8,531**	**13,756**	**12,434**
Total Current Liabilities	4,226	3,468	4,199
Accrued Severance Pay	442	362	436
Total Shareholders' Equity	**3,863**	**9,497**	**7,612**

CHAPTER 12- EXCHANGE RATES (NIS PER US$ 1.00)

On 31 December 2003, the exchange rate between the NIS and the U.S. dollar was NIS 4.379 = US$ 1.00 and the exchange rate between the NIS and the euro was NIS 5.5331 = 1.00 euro. The following table shows for the periods and dates indicated, certain information concerning the representative US$ exchange rate for translating NIS as determined by the Bank of Israel for the years ended 31 December, 1999 through 2003.

Year	Exchange Rate At End of Period	Average Rate (1)	High	Low
1999	4.15	4.14	4.29	4.01
2000	4.04	4.08	4.20	3.97
2001	4.416	4.205	4.416	4.041
2002	4.737	4.738	4.991	4.437
2003	4.379	4.5483	4.924	4.283

1. The average of the daily exchange rates during the year.

CHAPTER 13 - MANAGEMENT DISCUSSION, ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

The following discussion and analysis of the financial position and operating results should be read in conjunction with the Consolidated Financial Statements included in Chapter 13 of this Annual Report. The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP.

During the year 2002, the company completed its reorganization plan that started in 2001. According to the plan the company decided to focus its marketing and sales efforts in the commercial market with a new line of products like the Smartgate 2400, Edugate, Dynagate etc. without giving up its continuing business in the governmental market.

During the year 2002, the Company sold its shares held in the subsidiary “Inksure Inc.” The reason for this divestment was that this transaction was a good business opportunity to sell shares in a subsidiary that did not fit with the Company’s core technology and core business. The income cash flow from this divesting of share was $6,600,000.

13.1 Financial Overview

Financial Calendar

2003 Q4	31 March 2004
2004 Q1	31 May 2004
2004 Q2	30 July 2004
2004 Q3	30 November 2004

Annual Shareholders' Meeting 31 August 2004

Revenues

The primary products that we sell are smart card systems, smart card production machines and raw materials used for the production of smart cards and secured ID cards. We derive the majority of our revenues during the first two years of an agreement with a customer. This revenue is generated by the delivery of the data collection and document production systems. Following delivery of such systems, the majority of revenues generated from the agreement results from ongoing deliveries of raw materials for use with the installed systems. We also typically generate additional revenues from maintenance fees.

Our systems are tailored to meet the specific needs of our customers. In order to satisfy these needs, the terms of each agreement, including the duration of the agreement and prices for our products and services differ from agreement to agreement.

Additional revenue is generated through licensing technology, mostly with commercial customers.

Operating Expenses

Our costs associated with a particular project may vary significantly depending on the specific requirements of the customer and the terms of the agreement, as well as on the extent of the technology licensing. As a result, our gross profits from each project may vary significantly.

Our research and development expenses consist of salaries, raw material and equipment costs, as well as financing research and development operations in subsidiaries.

Net Income

Our operating results are significantly affected by, among other things, the timing of contract awards and performance of agreements. As a result, our revenues and income may fluctuate substantially from quarter to quarter, and comparisons over longer periods of time may be more meaningful. Our operating results are not seasonal because contracts are awarded and performed throughout the year. The nature of our expenses (including cost of revenues) are mainly fixed or semi-fixed and any fluctuation in revenues will generate a significant variation in gross profit and net income.

13.2 Year Ended 31 December, 2003 Compared to Year Ended 31 December, 2002

Revenues

Our revenues in 2003 were $7,244,000 compared to $8,027,000 in 2002, a decrease of 9%. The decrease was primarily due to the inclusion of InkSure's revenues ($1,884,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, revenues would have increased to $7,244,000 from $6,143,000 representing an increase of 18%. This increase was primarily due to the implementation of a new 5-year governmental project in Africa, plus the expansion in the commercial markets systems and their implementation during 2003. The primary commercial revenues contribution has come from the U.S.A, Asia Pacific and the Israeli commercial markets, by the sale of our automatic production line, SmartGate, EduGate and DynaGate systems.

Gross Profit

Our gross profits in 2003 were $4,142,000 compared to gross profits of $6,197,000 in 2002, a decrease of 33%. The gross profit margin for the year 2003 decreased by 20% as compared to 77% in 2002. The decrease in our 2003 gross profit was primarily due to the inclusion of InkSure's gross profit ($1,613,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, gross profit would have decreased to $4,142,000 from $4,584,000, representing a decrease of 9%. This decrease was primarily due to an increase in the volume of commercial systems, which carries lower margins.

Net Income

Our net loss in 2003 was $1,995,000 compared to a net income of $5,750,000 in 2002. ($6,203,000 was booked as other income originated from the divestment of the InkSure shares and net income of InkSure's activities $294,000). This was primarily due to a decrease in gross profit margins and an increase in the Company's sales and marketing expenses in the US and Israeli markets, as well as in the international governmental project market. Not including InkSure's influences on 2002 net income, 2003 net loss would have increased to $1,995,000 from $747,000, representing an increase of 167%. This increase was primarily due to a decrease in gross profit margins and an increase in the company's sales and marketing expenses in the U.S.A. and Israeli markets as well as the above-mentioned provision regarding the Ukrainian project implementation.

Expenses

Our research and development expenses in 2003 were $918,000 compared to $1,334,000 in 2002, a decrease of 31%. The decrease in the research and development expenses was primarily due to the inclusion of InkSure's research and development expenses ($330,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, research and development expenses would have decreased to $918,000 from $1,004,000, representing a decrease of 9%.

Our selling and marketing expenses in 2003 were $3,026,000 compared to $2,828,000 in 2002, an increase of 7%. The increase in the selling and marketing expenses was due to the inclusion of InkSure's selling and marketing expenses ($788,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, selling and marketing expenses would have increased to $3,026,000 from $2,040,000, representing an increase of 48%. The increase was primarily due to a provision of $700,000 and the expansion of marketing activities related to commercial activity in the US and the Israeli markets.

Our general and administrative expenses in 2003 were $1,829,000 compared to $1,988,000 in 2002, a decrease of 8%. The decrease in the general and administrative expenses was primarily due to the inclusion of InkSure's general and administrative expenses ($189,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, general and administrative expenses would have increase to $1,829,000 from $1,799,000, representing an increase of 2%.

Our operating expenses in 2003 were $5,773,000 compared to $6,150,000 in 2002, a decrease of 6%. The decrease in operating expenses was primarily due to the inclusion of InkSure's operating expenses ($1,307,000) in the 2002 results of operations. Not including InkSure's results of operations for 2002, operating expenses would have increase to $5,773,000 from $4,843,000, representing an increase of 19%. This increase was primarily due to the above-mentioned increase in selling and marketing expenses.

Liquidity And Capital Resources

Net cash used in operating activities from continuing operations for the period ended December 31, 2003 was $2,152,000 compared to 1,876,000 during the period ended December 31, 2002, an increase of $276,000 or 15%. This increase was primarily as a result of an increased operational loss. In additional to operational loss our net cash used in operating activities in the period ended December 31, 2003 and in the period ended December 31, 2002 influenced by the increases in our accounts receivable balances.

Net cash used in operating activities from continuing operations for 2002, and 2001 was $1,876,000, and $7,566,000 respectively a decrease of $5,690,000 or 75%. This decrease was primarily as a result of a decrease in operational loss.

Net cash used in investing activities during the period ended December 31, 2003 was $1,539,000 compared to $5,596,000 provided by investing activities during the period ended December 31, 2002, a decrease of $7,135,000. This decrease was primarily due to an investment of $1,196,000 in short term bank deposits during the period ended December 31, 2003 and to $5,982,000 net proceeds from sale of our subsidiary Inksure shares during the period ended December 31, 2002.

Net cash provided in investing activities in 2002 was $5,596,000 compared to $1,821,000 used in 2001, an increase of $7,417,000. This increase was primarily due to net proceeds from sale of Inksure shares of $5,982,000 in 2002 and to $1,172,000 net used in purchase of property and equipment and $549,000 used in investment activities from discontinued operations in 2001.

Net cash provided by financing activities during the period ended December 31, 2003 was $1,036,000 compared to $574,000 during the period ended December 31, 2002, an increase of $462,000. This increase was primarily due to an increase in net bank credit provided during the period ended December 31, 2003.

Net cash provided by financing activities was $574,000 and $1,096,000 in 2002 and 2001 respectively. The net cash provided by financing activities in 2002 and 2001 was primarily due to proceeds from bank credit.

As of December 31, 2003, our cash, short-term deposits, and marketable debt securities totaled $3,225,000, compared to $5,176,000 as of December 31, 2002.

13.3 Year Ended 31 December, 2002 Compared to Year Ended 31 December, 2001

Revenues
Our revenues in 2002 were $8,027,000 compared to $6,889,000 in 2001, an increase of 17%. The increase was primarily due to a growth in international governmental projects. The delivery of the first phase of the Ukraine ID project, from which we expect revenues to continue until the end of 2005, was a major element of this growth. We have also launched a new series of commercial access control products, including the SmartGate 2400 system. This is part of our new commercial marketing strategy to supplement our on-going governmental projects.

Gross Profit
Our gross profits in 2002 were $6,197,000 compared to gross profits of $4,315,000 in 2001, an increase of 44%. The gross profit margin for the year 2002 increased by 14% as compared to 63% in 2001. The increase in our 2002 gross profit was primarily due to high gross profits came from the delivery of the first phase of the Ukraine ID project and from one time increasing of raw materials sales with high gross margins sold in 2002 compared to 2001.

Net Income
SuperCom's net income in 2002 was $5,750,000 compared to a net loss of $6,548,000 in 2001. This increase was primarily due to our divestment of InkSure for an aggregate consideration of $6,600,000. Commencing with the quarter ended June 30, 2002, the financial results of InkSure are not included in our financial statements. For the fiscal years 2002, 2001 and 2000, InkSure's operations generated revenues of $1,880,000, $1,760,000 and $140,000, respectively. In addition, InkSure had a net income of $300,000 in 2002 and a net loss of $480,000 and $1,730,000 in 2001 and 2000, respectively.

Expenses
Our research and development expenses in 2002 were $1,334,000 compared to $1,225,000 in 2001, an increase of 9%. The increase in the research and development expenses was mainly due to the intensive research and development activities pursued by InkSure.

Our selling and marketing expenses in 2002 were $2,828,000 compared to $4,628,000 in 2001, a decrease of 39%. The decrease in the selling and marketing expenses was primarily as a result of InkSure and another of our subsidiary's, SuperCom SmartCards Inc. reduced expenses in connection with its efforts to penetrate new markets in the United States and Europe which have been cut back since the fourth quarter of 2001.

Our general and administrative expenses in 2002 were $1,988,000 compared to $3,604,000 in 2001, a decrease of 45%. The decrease in the general and administrative expenses was due to our cost-cutting plan that resulted in increased efficiency.

Our operating expenses in 2002 were $6,150,000 compared to $9,460,000 in 2001, a decrease of 35%. The decrease in operating expenses was primarily due to our reduction of general and administrative expenses and the exclusion of InkSure's financial results from our financial reports. The decrease in general and administrative expenses was due to a cost-cutting plan that resulted in increased efficiency.

Discontinued Operations

As part of our reorganization plan, we have made a decision to focus on our core business and to shut down all operations not included in our core business that result in losses. As a result, we closed SuperCom SmartCards Inc., Genodus Inc., and its subsidiary; and Kromotec Inc., and its subsidiary. Loss from discontinued operations for 2002 totaled $427,000, compared to $1,288,000 for 2001.

The following chapter contains the consolidated financial statement of the Company and its subsidiaries as of December 31, 2003.

SUPERCOM LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

IN U.S. DOLLARS

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ERNST & YOUNG

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

SUPERCOM LTD.

We have audited the accompanying consolidated balance sheets of Supercom Ltd. ("the Company") and its subsidiaries as of December 31, 2001, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included financial statement schedule listed in Item 19 of the Company's 20-F. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of "Supercom Asia Pacific Limited" a subsidiary, the financial statements of which reflect total assets of 5.7% of the consolidated assets as of December 31, 2003, and total revenues of 29% of the consolidated revenues for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the data included for this subsidiary, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2001, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Additionally, in our opinion, the related financial statement schedule when considered in relation to the basic financial statements and schedule taken as a whole, presents fairly in all material respects the information set forth therein.

Tel-Aviv, Israel
March 22, 2004

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2001	December 31, 2002	December 31, 2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 274	$ 4,567	$ 1,912
Restricted cash deposits	-	53	681
Short-term deposit	100	-	1,196
Marketable debt securities	62	609	117
Trade receivables (net of allowance for doubtful accounts of $ 1,200, $ 1,200 and $ 3,333 as of December 31, 2001, 2002 and 2003, respectively)	573	2,202	1,808
Other accounts receivable and prepaid expenses	408	517	680
Inventories	3,777	3,144	3,236
Assets of discontinued operations	812	-	-
Total current assets	6,006	11,092	9,630
LONG-TERM INVESTMENTS:			
Long-term trade receivables	-	-	364
Investment in an affiliate and others	323	323	275
Severance pay fund	339	288	333
	662	611	972
PROPERTY AND EQUIPMENT, NET	1,863	1,880	1,676
OTHER ASSETS	-	173	156
	$ 8,531	$ 13,756	$ 12,434

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	December 31, 2001	December 31, 2002	December 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit and current maturities of long-term loan	$ 1,076	$ 851	$ 2,131
Trade payables	1,252	691	1,085
Employees and payroll accruals	533	192	161
Accrued expenses and other liabilities	1,266	1,734	822
Liabilities of discontinued operations	99	-	-
Total current liabilities	4,226	3,468	4,199
LONG-TERM LIABILITIES:			
Long-term loan, net of current maturities	-	429	187
Accrued severance pay	442	362	436
Total long-term liabilities	442	791	623
COMMITMENTS AND CONTINGENT LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital:			
Ordinary shares of NIS 0.01 par value -			
Authorized: 26,500,000 shares as of December 31, 2001, 2002 and 2003;			
Issued and outstanding: 12,706,339, 12,706,339 and 12,906, 872 shares as of December 31, 2001, 2002 and 2003, respectively	40	40	40
Additional paid-in capital	25,949	25,730	25,814
Deferred stock compensation	(245)	(26)	-
Accumulated other comprehensive income	116	-	-
Accumulated deficit	(21,997)	(16,247)	(18,242)
Total shareholders' equity	3,863	9,497	7,612
	$ 8,531	$ 13,756	$ 12,434

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except shares data

	Year ended December 31,		
	2001	**2002**	**2003**
Revenues	$ 6,889	$ 8,027	$ 7,244
Cost of revenues	2,574	1,830	3,102
Gross profit	4,315	6,197	4,142
Operating expenses:			
Research and development	1,225	1,334	918
Selling and marketing, net	4,628	2,828	3,026
General and administrative	3,604	1,988	1,829
Total operating expenses	9,457	6,150	5,773
Operating income (loss)	(5,142)	47	(1,631)
Financial income (expenses), net	123	(35)	(233)
Other income (expenses), net	(241)	6,203	(83)
Income (loss) before income taxes	(5,260)	6,215	(1,947)
Equity in losses of affiliates and impairment, net of taxes	-	(38)	(48)
Net income (loss) from continuing operations	(5,260)	6,177	(1,995)
Loss from discontinued operations	1,288	427	-
Net income (loss)	$ (6,548)	$ 5,750	$ (1,995)
Net earnings (loss) per share:			
Basic and diluted earnings (loss) from continuing operations	$ (0.42)	$ 0.49	$ (0.15)
Basic and diluted loss from discontinued operations	$ (0.10)	$ (0.04)	$ -
Basic and diluted net earnings (loss) per share	$ (0.52)	$ 0.45	$ (0.15)
Weighted average number of Ordinary shares outstanding	12,706,339	12,706,339	12,718,426

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share amount

	Number of Ordinary shares	Share capital	Additional paid-in capital	Deferred stock compensation	Other accumulated comprehensive income (loss)	Accumulated deficit	Total comprehensive income (loss)	Total shareholders' equity
Balance as of January 1, 2001	12,706,339	$ 40	$ 25,752	$ (114)	$ 116	$ (15,449)		$ 10,345
Forfeiture of stock options	-	-	(22)	22	-	-		-
Deferred stock compensation	-	-	219	(219)	-	-		-
Amortization of deferred stock compensation	-	-	-	66	-	-		66
Net loss	-	-	-	-	-	(6,548)	$ (6,548)	(6,548)
Total comprehensive loss							$ (6,548)	
Balance as of December 31, 2001	12,706,339	40	25,949	(245)	116	(21,997)		3,863
Forfeiture of stock options held by Inksure's employees	-	-	(219)	219	-	-		-
Other comprehensive income:								
Functional currency adjustment due to sale of Inksure	-	-	-	-	(116)	-	$ (116)	(116)
Net income	-	-	-	-	-	5,750	5,750	5,750
Total comprehensive income							$ 5,634	
Balance as of December 31, 2002	12,706,339	40	25,730	(26)	-	(16,247)		9,497
Exercise of stock options	200,533	*) -	84	-	-	-	-	84
Amortization of stock compensation	-	-	-	26	-	-		26
Net loss	-	-	-			(1,995)	$ (1,995)	(1,995)
Total comprehensive loss							$ (1,995)	
Balance as of December 31, 2003	12,906,872	$ 40	$ 25,814	-	-	$ (18,242)		$ 7,612

*) Less than $ 1.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2001	**2002**	**2003**
Cash flows from operating activities:			
Net income (loss)	$ (6,548)	$ 5,750	$ (1,995)
Loss for the period from discontinued operations	1,288	427	-
Net income (loss) from continuing operations	(5,260)	6,177	(1,995)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	372	442	371
Equity in losses of an affiliates, net	-	38	-
Accrued severance pay, net	(288)	(20)	29
Amortization of deferred stock compensation	66	-	26
Decline in market value below cost of marketable debt securities	-	-	52
Decrease (increase) in trade receivables	(412)	(2,061)	30
Decrease (increase) in other accounts receivable and prepaid expenses	272	(153)	(79)
Increase in inventories	(945)	(217)	(92)
Increase (decrease) in trade payables	(312)	(355)	394
Decrease in employees and payroll accruals	(14)	(341)	(31)
Increase (decrease) in accrued expenses and other liabilities	(390)	881	(912)
Loss on sale of property and equipment	511	209	5
Accumulated interest on marketable debt securities	-	(1)	-
Gain on issuance of subsidiary's shares	-	(1,802)	-
Gain on sale of subsidiary's shares	-	(1,936)	-
Accumulated interest on long-term loan	-	-	2
Write-off of investment in an affiliate	-	-	48
Gain on sale of subsidiary	-	(2,685)	-
Net cash used in operating activities	(6,400)	(1,824)	(2,152)
Adjustments to reconcile net loss to net cash used in operating activities from discontinued operations	122	375	-
Net cash used in operating activities from discontinued operations	(1,166)	(52)	-
Net cash used in operating activities of continuing operations	(7,566)	(1,876)	(2,152)
Cash flows from investing activities:			
Proceeds from sale of property and equipment	719	14	2
Purchase of property and equipment	(1,891)	(73)	(87)
Proceeds from short-term deposit	-	100	-
Investment in short-term deposits	(100)	-	(1,196)
Proceeds from sale of subsidiary	-	4,352	-
Investment in marketable debt securities	-	(908)	-
Proceeds from redemption of marketable debt securities	-	362	440
Restricted cash deposits	-	(53)	(628)
Realization of investment in a subsidiary	-	(58)	-
Proceeds from issuance of shares in Inksure	-	230	-
Proceeds from sale of subsidiary's shares	-	1,630	-
Net cash used for investment activities from discontinued operations	(549)	-	-
Investment in other assets	-	-	(70)
Net cash provided by (used in) investing activities	(1,821)	5,596	(1,539)
Cash flows from financing activities:			
Short-term bank credit, net	1,076	(192)	1,196
Proceeds from long-term loan	-	850	250
Principal payment of long-term loan	-	(64)	(410)
Net cash provided by (used in) financing activities from discontinued operations	20	(20)	-
Net cash provided by financing activities	1,096	574	1,036
Increase (decrease) in cash and cash equivalents	(8,291)	4,294	(2,655)
Less - increase (decrease) in cash and cash equivalents from discontinued operations	11	(1)	-
Cash and cash equivalents at the beginning of the year	8,554	274	4,567
Cash and cash equivalents at the end of the year	$ 274	$ 4,567	$1,912
Supplemental disclosure of non-cash investing activities:			
Receivables on account of shares	$-	$-	$84

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2001	**2002**	**2003**
Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Interest	$ 75	$ 60	$ 135
Supplemental disclosure of non-cash investing and financing activities:			
Transfer of inventory to property and equipment	$ -	$ 789	$ -

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

a. Supercom Ltd. ("the Company") was established in 1988 in Israel and has been listed for trade since October 23, 2003 on Euronext Brussels New Market, under the symbol SUP (see Note 17b).

The Company is a technology integrator and provider of high-end smartcard systems. The Company functions as a "one-stop" technological integration and support source for system integrators, utilizing its unique know-how and technologies. The Company is also a developer and provider of a wide-range of complementary technologies and solutions for the smartcard market. The Company develops and markets innovative smartcards, smartcard-related products, proprietary smartcard production technologies and advanced identification technologies, complemented by brand protection and authentication technologies. The Company also sells specially designed kits containing the raw materials necessary to produce cards and smartcards.

The Company sells its products through centralized marketing offices in distinct world regions. The Company has a subsidiary in Hong-Kong, Supercom Asia Pacific Limited; in which the Company holds 100% of the shares, and in the United States SuperCom Inc. that was established by the Company during 2003 in order to market commercial and governmental contactless smart cards and readers in the United States.

b. Concentration of risk that may have a significant impact on the Company:

The Company derived most of its revenues from several major customers (see Note 14).

The Company purchases certain raw materials used in its products from a sole supplier. Although there are only a limited number of manufacturers of those particular raw materials, management believes that other suppliers could provide similar components on comparable terms without affecting operating results.

c. Sale of Inksure Technologies Inc.:

During March 2002, the Company divested part of its investment in InkSure Technologies Inc. (a subsidiary), to Elad Ink, a privately held investment company. Under the terms of the transaction, the Company sold 1,141,553 shares in the subsidiary for $ 1,000.

During May 2002, the Company divested part of its investment in InkSure Technologies Inc. (a subsidiary), to ICTS Information Systems BV, a member of the ICTS group (NASDAQ: ICTS). Under the terms of the transaction, the Company sold 782,771 shares in the subsidiary for $ 1,000.

As a result of those divestitures, the Company realized gains net of expenses in the amount of $ 1,936.

In July 2002, Inksure Technologies Inc. issued 3,850,945 Ordinary shares to a private investor. In September 2002, Inksure Technologies Inc. issued 310,560 Ordinary shares to a private investor. As a result of those placements, the Company had gains net of expenses in the amount of $ 1,802.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL (Cont.)

On October 2, 2002, the Company divested the remaining investment in InkSure Technologies Inc., to ICTS Information Systems BV. Under the terms of the transaction, the Company sold 3,075,676 shares in InkSure for $ 4,583. As a result of this divestiture, the Company realized gains net of expenses in the amount of $ 2,685.

d. Discontinued operations:

In December 2002, the Company discontinued the operations of two subsidiaries, ("Genodous Inc." and "Kromotek, Inc.") and disposed of all assets related to them. The operations and cash flows of those two subsidiaries have been eliminated from the operations of the Company. The Company has no intention of continuing the activities of the subsidiaries. The Company's plan for discontinuing the operations of the subsidiaries involved (i) termination of all employees related to those subsidiaries, including payment of all statutory and contractual severance payments, by the end of the fourth quarter of 2002, and (ii) disposal of the equipment.

The discontinuance of operations of the subsidiaries was accounted for in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets" ("SFAS No. 144").

As a result of the above, the results of operations of the two subsidiaries were reported separately as discontinued operations in the statement of operations for the years ended December 31, 2001, 2002 and 2003, respectively, and are summarized as follows:

	Year ended December 31,		
	2001	**2002**	**2003**
Revenues	$ 373	$ -	$ -
Operating expenses:			
Research and development	1,063	132	-
Selling and marketing, net	113	46	-
General and administrative	497	-	-
Total operating loss	1,300	178	-
Financial income	12	-	-
Other expenses	-	249	-
Net loss	$ 1,288	$ 427	$ -

The Company management has decided to increase its doubtful accounts in an aggregate amount of $ 2,133 due to the debt of the Ukraine Government. The doubtful accounts related to revenues derived from 2002 and 2003.(see Note 10(c 4)).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the sales of the Company and its subsidiaries' is made in U.S. dollars. In addition, a substantial portion of the costs of the Company and its subsidiaries' is incurred in dollars.

Company's management believes that the dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement No. 52 of the Financial Accounting Standards Board ("FASB") "Foreign Currency Translation". All transaction gains and losses from the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses as appropriate.

Through 1999, the financial statements of a subsidiary, whose functional currency was not the U.S. dollar, have been translated into U.S. dollars, in accordance with Statement of Financial Accounting Standards ("SFAS") 52, "Foreign Currency Translation". All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The resulting aggregate translation adjustments are reported as a component of other comprehensive income (loss). Starting January 1, 2000, the U.S. dollar became the functional currency of the subsidiary.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its majority of wholly-owned subsidiaries (unless the minority shareholders have certain approval or veto rights) in Israel, the United States and Hong-Kong. Intercompany transactions and balances have been eliminated upon consolidation.
As for the investment in the affiliate C.T. CardTech and the wholly-owned subsidiary Supercom Slovakia , see Note 5.

d. Cash equivalents:

The Company considers highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Restricted cash:

Restricted cash is primarily invested in certificates of deposit, which mature within one year, and is used to secure an agreement with a customer or a bank.

f. Short-term deposits:

The Company classifies deposits with maturities of more than three months and less than one year as short-term deposits. The short-term deposits are presented at their cost.

g. Marketable securities:

The Company accounts for investments in debt securities in accordance with Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity and are stated at amortized cost. The amortized cost of held-to-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization of any decline in value judged to be other than temporary and interest are included in financial income, net. At December 31, 2003 and 2002, marketable debt securities were designated as held-to-maturity.

According to Staff Accounting Bulletin No. 59 ("SAB 59"), management is required to evaluate each period whether a security's decline in value is other than temporary. The Company considers fair value below cost for two consecutive quarters to be other than a temporary impairment.

Due to a permanent decline in the value of marketable debt securities, the Company recorded an impairment of its investments in those securities. (See Note 3).

h. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs are provided to cover risks arising from slow-moving items or technological obsolescence. Cost is determined as follows:

Raw materials, parts and supplies - using the moving average cost method.

Work-in-progress - represents the manufacturing costs.

Finished products - on the basis of direct manufacturing costs, with the addition of allocable, indirect manufacturing costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Investment in an affiliate and majority owned subsidiary:

The investment in a company, over which the Company can exercise significant influence over operating and financial policies of the investee (generally, entities in which the Company holds 20% to 50% of ownership or voting rights), is presented using the equity method of accounting.

The investment in a majority-owned company is represented using the equity method of accounting due to the participation rights that the minority has. (See Note 5).

j. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method, over the estimated useful lives, at the following annual rates:

	%
Computers and peripheral equipment	6 - 33
Office furniture and equipment	6 - 20
Leasehold improvements	Over the term of the lease

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

k. Accrued severance pay:

The liabilities of the Company and its Israeli subsidiaries' for severance pay are calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability for all its employees is fully provided by monthly deposits with severance pay funds, insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies and includes immaterial profits.

Severance expenses (revenues) for the years ended December 31, 2001, 2002 and 2003 amounted to \$ (41), \$ 88 and \$ 153, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Intangible assets:

Intangible assets acquired on or after July 1, 2001, should be amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with SFAS No. 142.

The Company's identifiable intangibles are reviewed for impairment in accordance with SFAS No. 144 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

m. Revenue recognition:

The Company and its subsidiaries generate their revenues from the sale of products, maintenance and royalties. The sale of products involves the sale of the Smartcard System and raw materials. The Company sells its products through centralized marketing offices in distinct world regions.

Product sales of smartcard systems, contactless smart card Production Line 1000 (SPPL 1000) and raw materials are recognized in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101") when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, collectability is probable, and inconsequential or perfunctory performance obligations remain.

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," ("SAB No. 104") which revises or rescinds certain sections of SAB No. 101, "Revenue Recognition," in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on the Company's consolidated results of operations, consolidated financial position or consolidated cash flows.

In November 2002, Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables, " EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 applied to revenue arrangements entered into in fiscal periods beginning after June 15, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Additionally, companies will be permitted to apply the consensus guidance in this issue to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes". The adoption of EITF Issue No. 00-21 did not have a material impact on the Company's financial position, cash flows or results of operations.

The Company does not provide a right of return to its customers.

The Company provides maintenance services. Maintenance income is recognized when the services are performed.

The Company is entitled to royalties upon the sales of smart card systems that are recognized when they are reported to the Company.

Deferred revenues and customer advances include amounts received from customers for which revenues have not been recognized.

n. Research and development costs

SmartCard systems research and development costs are charged to the statement of operations as incurred.

Research and development costs incurred in the process of software production before establishment of technological feasibility, are charged to expenses as incurred. Costs of the production of a product master incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in SFAS No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design or a working model.

Costs incurred by the Company between completion of the detailed program design and the point at which the product is ready for general release have been capitalized.

Capitalized software development costs will be amortized on a product-by-product basis commencing with general product release by the greater of the amount computed using: (i) the ratio that current gross revenues from sales of the software bear to the total of current and anticipated future gross revenues from sales of that software, or (ii) the straight-line method over the estimated useful life of the software product (three years).

The Company assesses the recoverability of this intangible asset on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product sold. Based on its most recent analyses, management believes that no impairment of capitalized software development costs exists as of December 31, 2003.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes". This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and trade receivables. The Company's trade receivables are derived from sales to customers located primarily in Europe (including Eastern Europe), South-East Asia, England, Turkey, the United States and Israel. Management believes that its credit risk is moderated by the diversity of its customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful accounts is determined with respect to specific debts that the Company has determined to be doubtful of collection.

Cash and cash equivalents and marketable debt securities are deposited with major banks in Israel, Hong-Kong and the United States. Management believes that the financial institutions that hold the Company's investments are financially sound, and accordingly, minimal credit risk exists with respect to these investments.

The Company's marketable debt securities include investments in securities of U.S. corporations. Minimal credit risk exists with respect to these marketable debt securities.

The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

q. Basic and diluted net earnings (loss) per share:

Basic net earnings (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus the dilutive potential stock options outstanding during the year, in accordance with FASB Statement No. 128, "Earnings Per Share".

All outstanding stock options have been excluded from the calculation of the diluted net earnings (loss) per share because all such securities are anti-dilutive for all periods presented. The number of outstanding options was 543,495, 880,712 and 1,534,514, for the years ended December 31, 2001, 2002 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Fair value of financial instruments:

The following methods and assumptions were used by the Company and its subsidiaries in determining their fair value disclosures for financial instruments:

At December 31, 2003 and 2002, the carrying amounts of cash and cash equivalents, restricted cash deposits, short-term deposits, trade receivables, other accounts receivable, trade payables, short-term bank credit and other accounts payable approximate their fair value due to the short-term maturity of such instruments. The fair value for marketable securities is based on quoted market prices.

The carrying amount of the Company's long-term loan approximates its fair value. The fair value was estimated using discounted cash flows analyses, using current interest rates for loans or similar terms and maturities.

s. Accounting for stock-based compensation:

The Company has elected to account for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB-25"), "Accounting for Stock Issued to Employees". Under APB-25, when the exercise price of the Company's stock options is lower than the market price of the underlying shares on the date of grant, no compensation expense is recognized.

Under Statement of Financial Accounting Standard No. 123, pro forma information regarding net income and income per share is required, and has been determined as if the Company had accounted for its employee share options under the fair value method of SFAS No. 123.

The fair value of these options is amortized over their vesting period and estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2002 and 2003: risk-free interest rate of 3%, 4% and 3%, respectively, with a dividend yielded of 0% for each year, volatility factors of the expected market price of the Company's Ordinary shares of 1.44, 0.515 and 1.642, respectively, and a weighted-average expected life of the option of five years for each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table summarizes relevant information as to reported results under the Company's intrinsic value method of accounting for stock awards, with supplemental information as if the fair value recognition provisions of SFAS No. 123, "Accounting for Stock Based Compensation," had been applied:

Pro forma information under SFAS 123:

	Year ended December 31,		
	2001	**2002**	**2003**
Net income (loss) from continuing operations as reported	$(5,260)	$ 6,177	(1,995)
Deduct: Stock based compensation expenses determined under fair value based method	297	256	280
Add: stock based compensation expenses included in reported net income (loss)	66	-	26
Pro forma net income (loss) from continuing operations	$ (5,491)	$ 5,921	$ (2,249)
Basic and diluted net earnings (loss) per share from continuing operations as reported	$ (0.42)	$ 0.49	$ (0.15)
Pro forma basic and diluted net earnings (loss) from continuing operations	$ (0.43)	$ 0.47	$ (0.17)
Net loss from discontinuing operations as reported	$ (1,288)	$ (427)	$ -
Deduct: Stock based compensation expenses determined under fair value based method	-	-	-
Add: stock based compensation expenses included in reported net income (loss)	-	-	-
Pro forma net loss from discontinuing operations	$ (1,288)	$ (427)	$ -
Pro forma basic and diluted loss from discontinuing operations	$ (0.10)	$ (0.04)	$ -
Net income (loss) as reported	$ (6,548)	$ 5,750	$ (1,995)
Deduct: Stock based compensation expenses determined under fair value based method	297	256	280
Add: stock based compensation expenses included in reported net income (loss)	66	-	26
Pro forma net income (loss)	$ (6,779)	$ 5,494	$ (2,249)
Basic and diluted net earnings (loss) per share as reported	$ (0.52)	$ 0.45	$ (0.15)
Pro forma basic and diluted loss	$ (0.54)	$ (0.434)	$ (0.17)

t. Non-royalty-bearing grants:

The Company received non-royalty-bearing grants from the Fund for Encouragement of Marketing Activity. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and included as a reduction in sales and marketing expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Advertising costs:

The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2001, 2002 and 2003 were approximately $ 295, $ 48 and $ 58, respectively.

v. Recently issued accounting pronouncements:

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" ("FIN No. 45"). FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. It also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. The disclosure provisions of FIN No. 45 are effective for financial statements of interim or annual periods that end after December 15, 2002, and the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end. The adoption of FIN No. 45 did not have a material impact on the results of operations or financial position of the Company.

In December 2003, the FASB issued additional guidance clarifying the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (“FIN 46-R”). FIN 46-R provides a deferral of FIN 46 for certain entities until after March 15, 2004. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company believes that the adoption of this standard will have no material impact on its consolidated financial statements.

The Company does not expect the adoption of FIN 46 to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 3:- MARKETABLE DEBT SECURITIES

The following is a summary of held-to-maturity securities:

	Amortized cost			Unrealized gains (losses)			Estimated fair value		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Corporate obligations	$ 62	$ 609	$ 117	-	$ (15)	$ (12)	$ (62)	$ (594)	$ (105)

All marketable debt securities will be redeemed by January 15, 2004. In the fourth quarter of 2003, due to a permanent decline in value for some of the securities, the Company recorded an impairment of its investment in those securities. The impariment was in the amount of $ 52.

NOTE 4:- INVENTORIES

	December 31,		
	2001	2002	2003
Raw materials, parts and supplies	833	$ 962	$ 1,662
Work in progress	330	-	-
Finished products	2,614	2,182	1,574
	3,777	$ 3,144	$ 3,236

NOTE 5:- INVESTMENT IN AFFILIATES AND OTHERS

a. The Company holds 40% of an affiliate, which serves as a regional marketing office responsible for marketing in the former Soviet territories (excluding Ukraine and Moldavia). During 2003, the affiliate downsized all of its operation, and the Company decided to write-off its entire investment in the affiliate in the amount of $ 48.

b. In December 1997, the Company established Supercom Slovakia in equal parts with another investor as a result of a transaction with the Slovakian ministry of interior.

In March 2000, the Company purchased an additional 16% of Supercom Slovakia, at the nominal value of $ 1, and granted to the third party a loan in the amount of $ 275, bearing interest of 0.7% per month for any amounts outstanding. This interest is compounded to the outstanding principal of the loan and will be repaid under the same conditions of the loan.

The third party has an option to buy back 16% of the shares, for $ 1, subsequent to repayment of the loan to the Company.

The Company currently owns 66% of Supercom Slovakia's outstanding shares. The Company has accounted for this investment using the equity method of accounting, due to the minority interest participation rights. (See also Note 10c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 6:- PROPERTY AND EQUIPMENT

	December 31, 2001	December 31, 2002	December 31, 2003
Cost:			
Computers and peripheral equipment	$ 1,682	$ 2,287	$ 2,281
Office furniture and equipment	549	410	408
Leasehold improvements	1,128	1,027	1,107
	3,359	3,724	3,796
Accumulated depreciation:			
Computers and peripheral equipment	1,151	1,423	1,412
Office furniture and equipment	166	164	192
Leasehold improvements	179	257	516
	1,496	1,844	2,120
Depreciated cost	$ 1,863	$ 1,880	$ 1,676

Depreciation expenses for the years ended December 31, 2001, 2002 and 2003 are $ 372, $ 442 and $ 371, respectively.

NOTE 7:- OTHER ASSETS

On November 17, 2003, the Company purchased 20% of the remaining shares of Supercom Asia Pacific from the minority in consideration of $ 70.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the consideration of $ 70 was attributed to customer related intangible assets.

	December 31, 2001	December 31, 2002	December 31, 2003
Customer related intangible assets	-	$ -	$ 70
Capitalized software production costs, net (see Note 2n)		173	86
	-	$ 173	$ 156

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 8:- BANK CREDIT

a. As of December 31, 2003, the Company had credit lines from several banks in the aggregate amount of $ 1,957 (including long-term loans credit lines in the amount of $ 719 of which the amount of $ 628 was used), of which $ 1,238 is denominated in NIS and bears interest at the rate of Prime, plus an additional 1% - 3%, and $ 719 is denominated in dollars and bears interest at the rate of LIBOR plus 2.5% -3.2%.

The weighted average interest rate on the credit lines as of December 31, 2002 and 2003 was approximately 11.71% and approximately 7.7%, respectively.

In addition, the Company received short-term loans from a bank in the amount of $ 500, under certain conditions (see Note 10e). The average interest rate on the loans as of December 31, 2003, was approximately 5.7%.

The Company had an unused credit facility in the amount of approximately $ 139 as of December 31, 2003 (there is no fee for the unused portion of the credit facility).

b. Long-term loans:

	December 31,		
	2001	2002	2003
Banks	-	$ 786	$ 628
Less - current maturities of long-term loans	-	357	441
	-	$ 429	$ 187

The loans bear annual average interest at the rate of LIBOR + 2.8%.

NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES

Customer advances	$ 154	$ 140	$ 166
Deferred revenues	654	304	437
Accrued expenses	366	259	171
Commissions	-	960	-
Other	92	71	48
	$ 1,266	$ 1,734	$ 822

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company's facilities and those of certain subsidiaries are rented under several operating lease agreements for periods ending in 2006.

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, are as follows:

2004	$ 370
2005	354
2006	308
	$ 1,032

Rent expenses for the years ended December 31, 2001, 2002 and 2003, were approximately $ 571, $ 414 and $ 312, respectively.

b. Guarantees:

1. The Company obtained bank guarantees in the amount of $ 60, in order to secure the Company's lease and, as a condition for those guarantees, the Company deposited $ 60 with the bank. The Company provided a guarantee in favor of Bank Hapoalim Ltd. in the amount of $ 450, for debt and other obligations. The Company provided bank guarantees in the amount of $ 91, in order to secure other obligations.

2. The Company mortgaged its deposits in the amount of $ 183 in Israel Discount Bank Ltd. in favor of the bank, and an amount of $ 117 in favor of Bank Otsar Ha-Hayal Ltd.

3. In order to secure an agreement with a customer, the Company obtained short-term loans in the amount of $ 500 and provided bank guarantees in the amounts of $ 158 and $ 156, which were deposited by the Company.

c. Litigations

1. On January 19, 2000, Supercom Slovakia, a 66% owned subsidiary of the Company, filed a claim against the ministry of interior of the Republic of Slovakia for the breach of the delivery of technology, co-operation and services agreement. The Company requests performance of the agreement. On November 17, 2003, the arbitration procedure was finalized and the ministry of interior of Slovakia has been ordered to pay Supercom Slovakia the amount of SKK 80,000 (approximately US$ 2,270 as of December 31, 2003) plus an average interest rate of 16.4% from March 1999. In addition, the Slovakian ministry of interior has been ordered to pay the costs of arbitration in the amount of € 42,716 and Supercom Slovakia's legal fees in the amount of € 63,611. The Slovakian ministry of interior has the right to appeal in the Austrian Courts within three months from the date of this award on only legal procedures. The company has begun the enforcement procedure of the arbitral award and correspondingly, indirectly received information that the slovakian ministry of interior has filed an appeal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

2. On December 12, 1999, Secu-Systems filed a lawsuit with the District Court in Tel-Aviv-Jaffa against the Company and InkSure Ltd. (a former subsidiary) seeking a permanent injunction and damages. The plaintiff asserted in its suit that the printing method applied to certain products that have been developed by InkSure Ltd. constitutes inter alia: (a) the breach of a confidentiality agreement between the plaintiff and the Company; (b) unjust enrichment of the Company and InkSure Ltd; (c) breach of fiduciary duties owed to the plaintiff by the Company and InkSure Ltd., and (d) a tort of misappropriation of trade secrets and damage to plaintiff's property. Secu-Systems, based on such allegations, asked the court to order the Company and InkSure to: (i) cease any activity which involves the plaintiff's confidential information; (ii) furnish the plaintiff with a certified report detailing all profits derived by the Company and InkSure Ltd from such activity; (iii) pay the plaintiff an amount equal to all such profits, and (iv) pay the plaintiff additional damages in the amount of NIS 100,000. Alternatively, the plaintiff asked the court to declare that the above-mentioned products are owned by the plaintiff and InkSure in equal parts and that the plaintiff is entitled to 50% of all profits derived therefrom, in which case, the plaintiffs asked that the Company and InkSure allocated 50% of the profits from the printing method at issue.

   Based upon the facts known to the Company and those provided by InkShure Ltd. and the Company's legal advisors advise which is based, inter-alia, on said facts, the Company's management is of the opinion that, the prospects are favorable that the court will not grant the permanent injunction or award damages of a substantial amount in connection with the litigation. Accordingly, the management of the Company did not provide for such potential liability.

3. On July 14, 2003, an Israeli agent ("the claimant") filed a lawsuit with the District Court in Tel-Aviv-Jaffa against the Company and its chairman of the Board of Directors; the claimant claims that the Company owes him NIS 250,000 (approximately $ 54,550) in commissions allegedly due for his part in establishing business connections for the Company in Eastern Asia during the years 1993-1998. The Company plans to contest this claim.

   The Company's management and its legal advisors cannot assess at this stage the outcome of this claim.

4. During March 2004, the Company was informed indirectly by the International Arbitration Court in Ukraine that the Ministry of Ukraine has filed a claim in order to declare the agreement that was signed between the parties on April 9, 2002, void due to errors in the tender procedures under which the contract had been awarded to the Company. The Company is currently investigating the claim. During 2002, the Company began the delivery of the first phase pursuant to this agreement and generated revenues of $ 2,100,. During 2003, the Copmany generated an aggregate of $ 1,970 , in revenues from this project.

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Company's management has decided to increase its allowance for doubtful accounts in an aggregate amount of $ 2,133 due to the Ukraine government debt to the Company. In addition, the Company has reduced its obligation to pay commissions to the distributor that mediated this agreement.
The Company does not anticipate any revenues from this project during 2004.
The management believes that the claim has no merits and intends to vigorously defend the validity of the contract.

NOTE 11:- TAXES ON INCOME

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the law"):

The Company's production facilities have been granted status as an "Approved Enterprise", under the law, for three separate investment programs that were approved in July 1992, October 1994 and March 1996.

Since the Company is operating more than one approved enterprise and since the Company is not entitled to tax benefits on part of its taxable income that is taxed at the rate of 36%, under the abovementioned law, its effective tax rate will be the result of a weighted combination of the various applicable rates and tax exemptions. The computation is made in respect of income derived from each project, on the basis of formulas specified by law and approvals.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the letters of approval for the specific investments in "approved enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2003, management believes that the Company is meeting all of the aforementioned conditions.

The tax-exempt profits that will be earned by the Company's "Approved Enterprises" can be distributed to shareholders' without tax liability to the Company only upon the complete liquidation of the Company. If these retained tax-exempt profits are distributed in a manner other than in the complete liquidation of the Company, they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits (currently 25% for an "Approved Enterprise"). The Company's Board of Directors has determined that such tax-exempt income will not be distributed as dividends.

The period of tax benefits, detailed above, is subject to limits of 12 years from the commencement of production, or 14 years from the approval date, whichever is earlier.

The law also grants entitlement to claim accelerated depreciation on buildings, machinery and equipment used by the "Approved Enterprise", during the first five tax years.

Should the Company derive income from sources other than an "Approved Enterprise" during the relevant period of benefits, such income will be taxable at regular corporate tax rate of 36%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- TAXES ON INCOME (Cont.)

b. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

The Company is an "industrial company", as defined by this law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment, the right to claim public issuance expenses and amortization of patents and other intangible property rights as a deduction for tax purposes.

c. Measurement of results for tax purposes under the Income Tax Law (Inflationary Adjustments), 1985.

Results for tax purposes are measured in terms of earnings in NIS after certain adjustments for increase in Israel's Consumer Price Index ("CPI"). As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in Israel's CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes on this difference between the functional currency and the tax bases of assets and liabilities.

d. Israeli tax reform:

On January 1, 2003, the Law for Amendment of the Income Tax Ordinance (Amendment No. 132) 2002, known as the tax reform, became effective. The tax reform changed Israel's tax system from one on a territorial basis into that of a personal basis.

In addition, the concept of a "controlled foreign corporation" was introduced, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains. Management of the Company does not expect that the tax reform will have any significant impact on the Company's activities.

e. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts, used for income tax purposes. Significant components of the deferred tax assets of the Company and its subsidiaries are as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- TAXES ON INCOME (Cont.)

	December 31, 2001	December 31, 2002	December 31, 2003
Operating loss carryforward	4,290	$ 3,256	$ 2,338
Reserves and allowances	320	290	828
Net deferred tax asset before valuation allowance	4,610	3,546	3,166
Valuation allowance	(4,610)	(3,546)	(3,166)
Net deferred tax asset	-	$ -	$ -
Deferred income taxes consist of the following:			
Domestic	3,467	$ 2,640	$ 2,971
Valuation allowance	(3,467)	(2,640)	(2,971)
Foreign	1,143	906	195
Valuation allowance	(1,143)	(906)	(195)
	$ -	$ -	$ -

The Company and its subsidiaries have provided valuation allowances of $ 3,166 in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that since the Company and its subsidiaries have a history of losses the deferred tax assets will not be realized in the foreseeable future.

f. Net operating losses carryforward:

Supercom Ltd. has accumulated losses for tax purposes as of December 31, 2003, in the amount of approximately $ 9,737, which may be carried forward and offset against taxable income in the future for an indefinite period.

Supercom's subsidiaries in the United States and Hong Kong, have estimated total available carryforward tax losses of $ 9 and $ 1,070, respectively, which are available to offset against future taxable income, if any, in the future for an indefinite period in Hong Kong and expiring in 2019 in the United States.

Utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

NOTE 11:- TAXES ON INCOME (Cont.)

g. Income (loss) from continuing operations before taxes on income consists of the following:

	Year ended December 31,		
	2001	2002	2003
Domestic	$(3,330)	$ 5,614	$(1,902)
Foreign	(1,930)	601	(45)
	$(5,260)	$ 6,215	$(1,947)

h. Reconciliation of the theoretical tax expense (benefit) to the actual tax expense (benefit):

A reconciliation of theoretical tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel (36% for each of the years ended December 31, 2001, 2002 and 2003, respectively), and the actual tax expense, is as follows:

	Year ended December 31,		
	2001	2002	2003
Income (loss) from continuing operations before taxes on income, as reported in the consolidated statements of operations	$ (5,260)	$ 6,215	$ (1,947)
Statutory tax rate in Israel	36%	36%	36%
Theoretical tax expenses (benefit)	$ (1,894)	$ 2,237	$ (701)
Carryforward losses and other deferred taxes for which a full valuation allowance was recorded	1,894	(2,237)	701
Taxes due to a subsidiary	-	-	-
Actual income tax	$ -	$ -	$ -

NOTE 12:-SHARE CAPITAL

a. Shareholders' rights:

The Ordinary shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company, and the right to receive dividends, if declared.

b. Stock options:

1. On February 14, 1999, the Board of Directors adopted the 1999 Employee Stock Option Plan that was amended and restated in March 2002 ("the Option Plan"). Under the Option Plan, 1,000,000 shares have been reserved for issuance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:-SHARE CAPITAL (Cont.)

Options become exercisable ratably over a period of three to five years, commencing with the date of grant. The options generally expire no later than 10 years from the date of grant. Any options, which are forfeited or canceled before expiration, become available for future grants.

On January 26, 2003, at the general meeting, it was resolved to grant an option to acquire up to 50,000 shares of the Company to each of the directors of the Company, who are not outside directors. The exercise price under the terms of such options is $ 0.42 per share.

It was also approved to grant an option to acquire up to 670,981 shares of the Company ("the Option") to Mr. Eli Rozen in lieu of his rights due to the termination of his employment. The exercise price under the terms of the Option is $ 0.42 per share.

In December 2003, employees of the Company exercised their options into Ordinary shares in consideration of $ 84.

On November 13, 2003, the Board of Directors approved to reprice 136,919 options to two senior employees from $ 4.02 per share to $ 0.42, the options vest over five equal portions each over a 12 month period, with the first portion vesting on February 2, 1999. The employees exercised the options and, as a result, the Company did not record any compensation expenses.

2. A summary of the Company's stock option activity, and related information is as follows:

	Year ended December 31					
	2001		2002		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	768,410	$ 4.3	543,495	$ 5.19	880,712	$ 2.88
Granted	65,000	$ 0.42	443,081	$ 0.42	1,005,981	$ 0.42
Exercised	-	-	-	-	(200,533)	$ 0.42
Canceled and forfeited	(289,915)	$ 3.36	(105,864)	$ 4.41	(151,646)	$ 0.72
Outstanding at end of year	543,495	$ 5.19	880,712	$ 2.88	1,534,514	$ 1.8
Exercisable at end of year	329,842	$ 5.58	478,714	$ 4.32	1,082,846	$ 1.91

Compensation expenses recognized by the Company related to its share-based employee compensation awards was $ 66, $ 0 and $ 26 for the years ended December 31, 2001, 2002 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share data

NOTE 12:-SHARE CAPITAL (Cont.)

The options outstanding as of December 31, 2003, have been separated into ranges of exercise price as follows:

Exercise price	Options outstanding as of December 31, 2003	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable as of December 31, 2003	Weighted average exercise price
$ 0.42	1,303,781	8.95	$ 0.42	869,314	$ 0.42
$ 2.00	15,000	2	$ 2.0	9,000	$ 2.0
$ 4.00 - $ 6.00	18,670	0.5	$ 5.09	16,180	$ 5.25
$ 8.00 - $ 9.60	197,063	0.2	$ 8.14	188,352	$ 8.52
	1,534,514		$ 1.8	1,082,846	$ 1.91

c. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 13:- RELATED PARTY TRANSACTIONS

a. On October 1, 2001, the Company entered into a consulting agreement with a company owned by the Chairman of the Board of Directors who is one of the co-founders of the Company.

In consideration of these services, the Company has undertaken to pay $ 10.5 per month plus motor vehicle expenses. During 2003, the Company paid $ 126, pursuant to this agreement.

b. On October 1, 2001, the Company entered into a consulting agreement with a company owned by a member of the Company's Board of Directors ,one of the Company's co-founders and a principal shareholder

In consideration of these services, the Company has undertaken to pay $ 4.6 per month plus motor vehicle expenses. During 2003, the Company paid $ 55, pursuant to this agreement.

c. On October 1, 2001, the Company entered into a consulting agreement with a company owned by one of the co-founders of the Company.

In consideration for these services, the Company has undertaken to pay $ 4.6 per month plus motor vehicle expenses. During 2003, the Company paid $ 55, pursuant to this agreement.

d. On September 1, 2001, the Company entered into an agreement with its 40% affiliate, pursuant to which the Company agreed to sub-lease office space in the Raanana, Israel facility to CT Card Tech and to provide CT Card Tech with certain additional services in consideration of a monthly payment of $ 1. In November 2003, CT Card Tech surrendered a portion of its office space, which reduced the monthly payment to $ 0.5.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- RELATED PARTY TRANSACTIONS (Cont.)

e. On March 7, 2000, the Company entered into an agreement with IFTIC Ltd., a company registered in Israel and wholly-owned by a member of the Company's Board of Directors. Under the terms of the agreement, IFTIC provides the Company with market promotion and management services for a minimum fee of $ 2.5 per month for the first 10 hours and an additional fee of 1.5% of sales initiated from new customers first introduced by the member of the Board. The Company paid IFTIC approximately $ 17 in 2003.

f. During 2002, Avi Landman, one of the Company's co-founders, received $ 152,442 as back compensation in connection with salary and social benefits for the period he served as an employee in connection with the termination of his employment agreement.

NOTE 14:-SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Company's business) and follows the requirements of SFAS 131, "Disclosures About Segments of an Enterprise and Related Information".

The following is a summary of operations within geographic areas, based on the location of its customers:

	Year ended December 31,					
	2001		2002		2003	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
Ukraine	$ -	$ -	$ 2,120	$ -	$ 1,970	$ -
Moldova	1,075	-	1,554	-	1,184	-
Eastern Europe	674	-	6	-	-	-
Hong-Kong	2,212	144	1,942	58	2,067	28
England	213	-	285	-	154	-
Israel	327	1,493	229	1,822	460	1,647
Turkey	-	-	1,272	-	-	-
United States	2,241	120	581	-	828	1
Africa	-	-	-	-	536	-
Other	147	106	38	-	45	-
	$ 6,889	$ 1,863	$ 8,027	$ 1,880	$ 7,244	$ 1,676

b. Summary of operations based on products and services:

	Year ended December 31,		
	2001	2002	2003
SPPL 1000	$ 4,606	$ 2,080	$ 551
Raw materials and equipment	-	4,879	6,116
License fee	1,667	446	-
Maintenance	616	622	577
	$ 6,889	$ 8,027	$ 7,244

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 14:-SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

c. Major customers data as a percentage of total sales:

	Year ended December 31, 2001	2002	2003
Customer A	-	26%	27%
Customer B	16%	19%	16%
Customer C	-	16%	-
Customer D	17%	12%	12%
Customer E	-	*) -	11%
Customer F	23%	*) -	-
Customer G	14%	-	-

*) Less than 10%.

NOTE 15:- FINANCIAL INCOME (EXPENSES), NET

	2001	2002	2003
Financial expenses:			
Interest, bank charges and fees	$ (116)	$ (119)	$ (207)
Foreign currency translation	-	-	(98)
	(116)	(119)	(305)
Financial income:			
Foreign currency translation	108	50	-
Interest	131	34	72
	239	84	72
	$ 123	$ (35)	$ (233)

NOTE 16:- OTHER INCOME (EXPENSES), NET

	2001	2002	2003
Loss on sale of property and equipment, net	$ (511)	$ (209)	$ (5)
Decline in market value of held-to-maturity securities	-	-	(52)
Gain on sale of subsidiary's shares	250	1,936	-
Gain on sale of a subsidiary	-	2,685	-
Gain on issuance of subsidiary's shares	-	1,802	-
Other	20	(11)	(26)
	$ (241)	$ 6,203	$ (83)

NOTE 17:- SIGNIFICANT EVENTS

a. On May 6, 2003, the Company announced that it had executed a letter of intent which sets forth the preliminary terms and conditions of a proposed merger between the Company and PerfectData Corporation. In connection with the merger, the shareholders of the Company were to exchange their shares in the Company for shares of Common stock of PerfectData.

On October 24, 2003, Perfect Data has filed with the Securities and Exchange Commission its Registration Statement on Form S-4 regarding the proposed merger between the Company and Perfect Data.

On January 20, 2004, the Company and Perfect Data announced that their merger agreement and related agreements have been terminated according to the terms of the agreements.

b. On October 23, 2003, the Company transferred the listing of its Ordinary shares to the Euronext Brussels New Market, under the symbol SUP and has requested the delisting from NASDAQ Europe following the announcement by NASDAQ Europe that it will be discontinuing its operations by the end of November 2003. The delisting was effected at the close of business on November 27, 2003.

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CHAPTER 15 – AUDITORS

The consolidated financial statements of the Company, including the notes thereto, as of and for the years ended 31 December, 2001, 2002 and 2003, included in Chapter 16 of this Annual Report, have been prepared in accordance with U.S. GAAP and have been audited by Kost, Forer & Gabbay, a member of Ernst & Young International, independent public accountants, located at 3 Aminadav Street, Tel Aviv, Israel. The Consolidated Financial Statements have been included in this Annual Report in reliance upon the report of Kost, Forer & Gabbay, given on the authority of that firm as experts in auditing and accounting.

The Company has entered into a $60,000 retainer contract with Kost, Forer & Gabbay for tasks beyond legal mission including tax reports and other tax and accounting related matters.

CHAPTER 16 - DIRECTORS AND SENIOR EXECUTIVES OF THE COMPANY

16.1 Board of Directors

The Company is managed by its Board of Directors that, pursuant to the Articles of Association of the Company, must be comprised of between two and eight members. Members are elected for a term ending at the Company's next annual general meeting of shareholders. The Board of Directors elects one of its members to serve as the Chairman.

The Board of Directors is composed as follows (as of the date of this report):

Name	Age	Position
Eli Rozen	49	Director, Chairman of the Board
Avi Landman	49	Director
Menachem Meron	75	Director
Esther Koren	35	External Director
Avi Elkind	50	External Director

Eli Rozen is one of our co-founders and serves as a director and Chairman of the Board of Directors In 1988, Mr. Rozen joined Electrocard Ltd., our predecessor, and served as the General Manager and a director until our establishment in 1988. From 1988 until 2000, he served as our Chief Executive Officer and President. Mr. Rozen has a B.S. in Industrial Engineering and Management from the Israel Institute of Technology. The address of Mr. Rozen is Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel.

Avi Landman is a co-founder of the Company and serves as a member of the Board of Directors and as the Research Manager of the Company. Prior to joining the Company in 1988, Mr. Landman worked as a computer engineer at Gal Bakara Ltd. and prior to that as an electrical engineer at Eltam Ltd. Mr. Landman has a Bachelor of Science degree in Computer Engineering from the Israel Institute of Technology - the "Technion". The address of Mr. Landman is Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel.

Avi Elkind an external Director became a member of the Board of Directors on July 25, 2000 and a member of the remuneration committee as well as the audit committee. In recent years Mr. Elkind has been Chairman and CEO of E.A. Elkind Ltd. Prior to that, he was the CFO of Pelephone Communication Ltd. Mr. Elkind graduated from Hebrew University of Jerusalem in Social Studies-Economics, Business Administration and International Affairs. The address of Mr. Elkind is Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel.

Menachem Meron became a member of the Board of Directors on July 25, 2000. For several years now, Mr. Meron has been managing director of IFTIC Ltd., a consulting firm. Mr. Meron serves as a director with the First International Bank Ltd. (with which the company has an active account), Poalim Investment Company Ltd., Magal Securities Systems Ltd., Paz Lubricants & Chemicals Ltd., Automotive Equipment Group, and Arit Systems Ltd. The address of Mr. Meron is Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel.

Esther Koren Dalal - has been a member of the Board of Directors of SuperCom Ltd. since May 2001. As a lawyer and partner in a large, renowned Israeli lawyers office, she specialized in matters such as securities, corporate law, re-organization, contract law and transactions, as well as taxation for large corporations in Israel. She also lectures at the Tel Aviv University in the field of directorial management since 1994.Mrs. Koren Dalal holds an M.A. in Law, and a B.A. in Law, Accounting and Economics, with all degrees from the University of Tel Aviv. The address of Mrs. Koren Dalal is Millennium Bldg., 3 Tidhar St., P.O.B. 2094, Raanana 43665, Israel.

16.2 Board Committees

The Company currently has the following committees:

15.2.1 Audit Committee

The Company has an audit committee (the "Audit Committee"), a majority of whose members, including the Chairman, satisfy the criteria of independence as required by Euronext Rules. The functions of the Audit Committee include, *interalia*, reviewing and evaluating the results and scope of the audit and other services provided by the Company's independent accountants. In addition tasks include reviewing the Company's accounting principles and system of internal auditing controls and approving actions or transactions requiring Audit Committee approval under Company Law, the Articles of Association and the Euronext Rules. The Audit Committee is comprised of Mr. Avi Elkind, Mrs. Esther Koren and Mr. Menachem Meron.

15.2.2 Remuneration Committee

The Company has a remuneration committee (the "Remuneration Committee"), a majority of whose members, including the Chairman, satisfy the criteria of independence required by Euronext Rules. The Remuneration Committee is responsible for making recommendations on remuneration of Office Holders and the implementation of the Employee Share Option Plan. The Remuneration Committee is comprised of Avi Elkind, Esther Koren and Menachem Meron.

16.3 Executive Officers and Key Employees

The executive officers and certain key employees of the Company and certain subsidiaries who are not also directors are:

Name	Age	Position
Avi Schechter	38	President, Chief Executive Officer
Eli Basson	43	Vice President, Research and Development and Chief Operating Officer
Eyal Tuchman	36	Vice President, Chief Financial Officer

Avi Schechter, President and Chief Executive Officer – is SuperCom's Chief Executive Officer and President. Mr. Schechter has many years of commercial and managerial experience. From March 2001 to November 2001, he served as the Chief Executive Officer of Genodus Inc., one of SuperCom's subsidiaries. Mr. Schechter was in charge of developing a generic platform that pioneered a simplified and complete implementation of a multitude of Enterprise Application Integration projects. Prior to joining Genodus, from November 1998 to February 2001, he was the Chief Executive Officer of E-com Global Electronic Commerce, a subsidiary of the Aurec group. Prior to that, Mr. Schechter was the Chief Executive Officer of Tikal Ltd., a service company, which provides medical information for insurance companies. He holds a B.A. in Economics and Sociology from Bar-Ilan University and an M.S. in Information Systems from Recanati School of Business, Tel-Aviv University.

Eli Basson, VP IPS (Int'l Project Solutions) Division - Mr. Basson entered his position after serving as the C.E.O. of Genodus, Inc. from December 1999 to March 2001. Before joining Genodus, Basson served as our Vice President of Research & Development and Operations. From July 1994 to July 1997, he was Vice President of Customer Support for Eldor Computers, and from December 1992 to July 1994, he was Deputy Vice President of Customer Support and Response Center Manager at Orbotech (USA). Basson holds a Masters of Science in Management from Lesley College and a B.S. in Electrical Engineering from the Technion Israel Institute of Technology.

Eyal Tuchman, CPA, VP Corporate Finance and CFO – Mr. Tuchman has years of experience in accounting and finance in publicly traded companies. Prior to joining us, he served as Chief Financial Officer of Magam Group, a company traded on the Tel-Aviv Stock Exchange, from 1996 to 2002, and before that, was a Senior Auditor at Kessleman & Kessleman (today, PriceWaterhouseCoopers), one of the top five CPA firms in Israel. Mr. Tuchman holds a B.A. in Economics & Accounting from Ben Gurion University, as well as a C.P.A.

17.1 Compensation of Directors and Executive Officers

The aggregate amount of compensation paid by the Company during FY2003 to its board members and executive officers was approximately US$706,904.

The following table summarizes the compensation paid by the Company in U.S. dollars to its board members and executive officers in 2003 and share options granted thereto in 2003:

	Thousands US$
Base Salary	660
Other Benefits	47
Total	**707**
Number of Share Options	870,981

Break Down of the Board Members:

Name	Title	Base fee	Benefits	Total
Eli Rozen	Chairman of the Board and Board Member	144,000	3,000	147,000
Avi Landman	Board Member	73,000	14,000	87,000
Avi Elkind	Board Member	7,260	-	7,260
Menahem Meron	Board Member	16,800	-	16,800
Ester Korren	Board Member	8,500	-	8,500

CHAPTER 18 - EMPLOYMENT CONTRACTS

Messrs. Schechter, Tuchman, Rozen, Landman, and Basson have employment or service agreements with the Company, brief details of which are as follows:

Mr. Schechter's service agreement is dated 1st July 2002. (This service agreement replaces his previous employment agreement dated May 5, 2002) He serves as the Company's President and Chief Executive Officer. Either party may terminate the agreement without cause upon 90 days prior notice or upon 30 days by the Company for cause

Mr. Tuchman's employment agreement is dated 1st July 2002. He serves as the Corporate Vice President, Chief Financial Officer. Either party may terminate the agreement without cause upon 90 days prior notice or immediately by the Company for cause.

Mr. Basson's employment agreement is dated 28th July 1997. He serves as the Company's Vice-President, Chief Operating Officer. Either party may terminate the agreement without cause upon three months prior notice or upon two weeks prior notice by the Company for cause.

Mr. Rozen's service agreement is dated 1st September 2001. He serves as the Company's Chairman of the board. Either party may terminate the agreement without cause upon 60 days prior notice or upon 30 days by the Company for cause. Mr. Rozen is a Director and a shareholder of the Company, see Sections 17.1 and 10.1 above.

Mr. Landman's service agreement dates from 1st September 2001. He serves as the Company's Research Manager. Either party may terminate the agreement without cause upon 60 days prior notice or upon 30 days by the Company for cause. Mr. Landman is a Director and a shareholder of the Company , see Sections 17.1 and 10.1 above.

Mr. Hassan's service agreement is dated 1 September 2001. He serves as the Company's Machinery and Plastics Research and Development Manager. Either party may terminate the agreement without cause upon 60 days prior notice or upon 30 days by the Company for cause. Mr. Hassan is a shareholder of the Company, see Sections 17.1 and 10.1 above.

CHAPTER 19 - LOANS GRANTED TO MEMBERS OF THE BOARD AND THE MANAGEMENT

The following loans granted by the Company to member of the Board of Directors and the management, are currently outstanding. These loans are back-to-back loans, applicable interests being the same as those paid by the Company to Israeli Banks.

1. $10,000 open loan to Avi Schechter, CEO of the Company, as long as he is serving in the Company.

2. $30,000 open loan to Eli Rozen, Chairman of the Board of Directors, as long as he is serving in the Company.

CHAPTER 20 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 1, 2001, we entered into an agreement with our 40%-owned subsidiary CT Card Tech pursuant to which we have agreed to sub-lease office space in our Rannana, Israel facility to CT Card Tech and to provide CT Card Tech with certain additional services in consideration for a monthly payment of $1,000. In November 2003, CT Card Tech surrendered a portion of its office space, which reduced the monthly payment to US$ 500.

On 7 March 2000 the Company entered into an agreement with IFTIC Ltd., or IFTIC, a company registered in Israel and wholly-owned by Menachem Meron, a member of our board of directors. Under the terms of the agreement, IFTIC provides us with market promotion and management services for a minimum fee of $2,500 per month for the first 10 hours and an additional fee of 1.5% of sales initiated from new customers first introduced by Mr. Meron. During 2003, the Company paid $16,800 pursuant to this agreement

On October 1, 2001, the Company entered into a consulting agreement with a Company owned by the chairman of the Board of Directors and a principal shareholder, Eli Rozen.
In consideration of these services, the Company has undertaken to pay $ 10,500 per month plus car expenses. During 2003, the Company paid $126,000 pursuant to this agreement.

On October1, 2001, the Company entered into a consulting agreement with Ashland Investments Ltd., or Ashland, a Company owned Avi Landman, a current member of our board of directors, one of our co-founders and a principal shareholder.
In consideration of these services, the Company has undertaken to pay Mr. Landman $ 4,600 per month. In addition, we provide Mr. Landman with the use of an automobile and mobile telephone. During 2003, we paid Ashland $55,200 pursuant to this agreement.

During 2002, Avi Landman, one of our co-founders, received $152,442 as back compensation in connection with salary and social benefits for the period he served as an employee in connection with the termination of his employment agreement.

On October1, 2001, the Company entered into a consulting agreement with J.R. Hagran Ltd., a company owned by one of our co-founders Jacob Hassan. In consideration for these services, we have undertaken to pay Mr. Hassan $4,600 per month plus car expenses. During 2003, we paid this company $68,000 pursuant to this agreement.

During 2002, one of our co-founders, Jacob Hassan, received $154,000 as back compensation in connection with salary and social benefits for the period he served as an employee in connection with the termination of his employment agreement.

The Israeli Companies Law, (the “ICL”) codifies the fiduciary duties that office holders owe to a corporation. An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty requires the office holder to act in good faith and for the benefit of the corporation, including avoiding any action that involves a conflict of interest between the office holder’s position in the corporation and any other position he may have or his personal affairs, avoiding any action that involves competition with the business of the corporation, avoiding exploiting any business opportunity of the corporation in order to receive personal advantage for himself or others, and revealing and submitting to the corporation any information and documents relating to the corporation’s affairs which the office holder has received due to his position as an office holder in the corporation.

Under the ICL, all arrangements as to compensation of office holders who are not directors require approval of the board of directors and may require the approval of the audit committee. Arrangements regarding the compensation of directors require audit committee, board of directors and shareholder approval. The ICL requires that an office holder promptly, and not later than the board meeting at which such transaction is first discussed, disclose any personal interest that he or she may have and all related material information and documents known to him or her, in connection with any existing or proposed transaction by the corporation. The office holder must also disclose as aforesaid the interests of any entity in which he or she is a five percent or greater shareholder or holds five percent of the voting rights of such entity, director or general manager or in which he or she has the right to appoint at least one director or the general manager.

The related transactions described above have been taken in conformity with the rules of the ICL in relation to conflicts of interests.