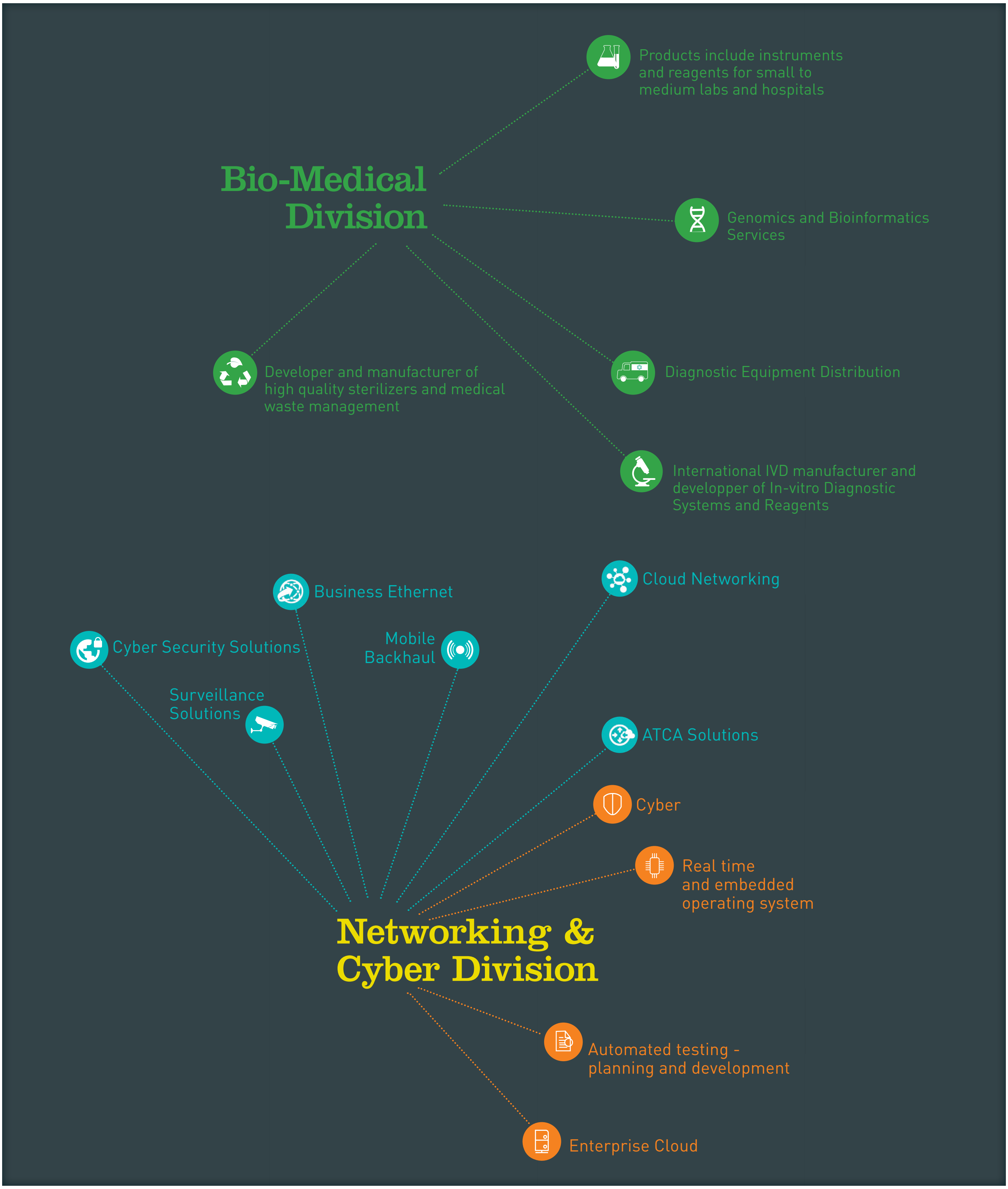
BATM Advanced Communications



Annual Report and Accounts

for the year ended 31 December 2016

CONTENTS

Directors, Secretary & Advisors

Directors

Dr. Gideon Chitayat – Non-Executive Chairman
Dr. Zvi Marom – Founder & CEO
Dr. Avigdor Shafferman – Non-Executive Senior Director
Moti Nagar – Executive Director & CFO
Harel Locker – Non-Executive External Director
Orna Pollack – Non-Executive External Director

Registered Office

P.O.B. 7318, Neve Ne'eman Ind. Area, 4 Ha'harash Street, 4524075 Hod Hasharon, Israel

Company Number

520042813 – Registered in Israel

Auditors

Brightman Almagor Zohar & Co.
a member firm of Deloitte Touche Tohmatsu, 1 Azriely Center, Tel-Aviv 67021, Israel

Financial Advisors & Stockbrokers

finnCap Limited, 60 New Broad Street, London EC2M 1JJ, UK
Shore Capital, Bond Street House, 14 Clifford Street, London W1X 1RE, UK

Legal Counsel in Israel

Lipa Meir & Co., Beit Amot Hashkaot, 2 Weitzman Street, Tel-Aviv 64239, Israel

Legal Counsel in UK

Fladgate LLP, 16 Great Queen Street, London WC2B 5DG, UK

Bankers

Bank Hapoalim, 45 Hamelacha Street, Netanya, Israel,
Bank Leumi, 25 Habarzel Street, Tel-Aviv, Israel

Company Secretary

Mr Arthur Moher, Lipa Meir & Co.

Registrar

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, UK

Financial PR Consultants

Luther Pendragon, 48 Gracechurch Street, London EC3V 0EJ, UK

Financial & Operational Summary

Group revenue of
$90.4m
(2015: $97.1m)

Group margin of
31.4%
(2015: 31.8%)

Cash inflow from operating activities of
$0.9m
(2015: $2.2m outflow)

Adjusted operating profit* of
$0.9m
(2015: $0.7m)

EBITDA of
$2.8m
(2015: $2.5m)

Reduced loss per share to
0.27¢
(2015: 3.29¢ loss per share)

As at 31 December 2016, the Group had cash and financial assets of
$27.6m
(30 June 2016: $18.6m; 31 December 2015: $23.8m)

Operating loss
$0.3m
(2015: $0.7m loss)

* See page 9

Bio-Medical Division (57% of total revenues)

- **Blended gross margin for the Bio-Medical division maintained at 25% (2015: 25%)**
- **Diagnostics Unit**
  - Revenues increased by 15.5% from $8.8m to $10.2m
  - Broadening of customer base as 505 diagnostic machines were sold to multiple new and existing customers compared with 462 in 2015
  - 14% increase in production of reagents compared with 2015
  - Adaltis' Chinese partner, Egens Biotechnology Company Ltd, purchased 4.93% of Adaltis' enlarged share capital for RMB20m (c. $2.9m) valuing Adaltis at approximately $58m
- **Pathogenic Waste Treatment and Sterilisation Unit**
  - Received a second order for the Group's biological waste solution developed for the biopharmaceutical industry from Ceva Animal Health ("CEVA"), one of the world's largest manufacturers of vaccines for animal health, following the successful delivery of an initial contract in H1 2016
  - Successfully delivered first large installation of the Group's new solution for treating agricultural waste for a major poultry farming company
  - Delivered an initial unit of the agri-waste treatment solution for a bovine slaughterhouse facility of the largest and leading food group in Israel and received an order in Q4 2016 for a second, larger installation
  - Post period, launched the world's first mobile agri-waste treatment solution and was awarded a contract of $2.5m for the delivery of a mobile unit
- **Distribution Unit**
  - Acquired Green Lab Hungary Engineering Ltd, a developer and distributor of analytical instruments, for $3.8m payable in cash over a three-year period, to strengthen the Group's regional distribution network and expand the Group's ecologic activities
  - Increase in volume of Abbott products being distributed in Romania
  - Commenced providing maintenance services for Abbott products and other solutions distributed by the Group
  - Opened two new diagnostics laboratories in Romania to provide customers' products and diagnostic tests to end customers
  - Post period, entered into an agreement to purchase the entire issued share capital of Zer Laboratories Ltd., for NIS 2.75m (c. £580,000) in cash, to advance the Group's development and offer of diagnostics solutions

Networking and Cyber Division (43% of total revenues)

- **Blended gross margin in-line with 2015 at 40%**
- **Networking Unit**
  - Gained over 58 new customers (2015: 22 new customers) that are purchasing from the Networking unit's comprehensive portfolio of solutions
  - CloudMetro (SDN & D-NFV) platform is gaining momentum with Communication Service Providers (CSPs), including dozens of proof-of-concept trials which were conducted successfully, including with Tier 1 operators
  - Awarded a multi-year contract, by a major provider of high-speed network and ICT services to education and research facilities in Australia, to provide a managed MPLS solution
- **Cyber Unit**
  - Awarded a significant contract as the leading supplier for an ICT solution combined with several cyber elements to a government defence department, worth $4.5m over a period of up to three years, subsequently increased to $5.2m in 2017
  - Engaged in several POC trials in multiple countries

STRATEGIC REPORT

Chairman's Statement

2016 was an important year for BATM as we made significant achievements in developing new lines of products and accessing new markets.

More importantly, we believe that 2016 will be recognized as the year in which we started unlocking the value inherent in BATM.

During the year, our businesses won new customers laying the foundations for growth in the coming years.

I am particularly pleased with the achievements of the Diagnostics unit. We succeeded in increasing the volume of the machines sold to over 500 units, which enabled a growth in the unit's revenues compared to last year.

2016 was a transitional year for Telco Systems as shifted our focus to software-based Network Function Virtualization (NFV) solutions. Telco Systems launched the first NFVTime software-based solution, which we believe will become the de facto standard operating system for the NFV domain. While the financial performance of our Telco business was less than we planned, we succeeded in approaching several Tier 1 Communication Service Providers who are adopting NFV solutions and are conducting proof-of-concept trials with our products. Our Cyber unit also succeeded in winning new contracts.

At the beginning of the year we acquired Green Lab, a Hungary-based developer and distributor of environmental-measuring analytical instruments. The Green Lab team has developed a wealth of expertise and enjoys an excellent reputation. In 2016, Green Lab contributed both to the Distribution business of BATM group in the CIS countries and to our growing business in the ECO environment. In 2016 and early 2017, the Bio-Medical Division took several steps to broaden our laboratory services, geographic reach and analytics offerings. We have completed our first analytic laboratory in Romania. In particular, we extended our reach by acquiring Zer Laboratories, our latest acquisition in Israel.

The Pathogenic Waste Treatment and Sterilization unit is shifting its focus away from control systems and medical sterilizers to our ISS (Integrated Sterilizer and Shredder) technology. Our ISS technology is now deployed in three important market segments: medical, pharmaceutical and agricultural. We expect to win more lucrative projects in these segments in 2017.

In June 2016, our then fully-owned subsidiary, Adaltis, signed an investment agreement with its Chinese partner, Egens Biotechnology Company Ltd. Adaltis was valued at the time of the transaction at more than $58m, clearly demonstrating the value BATM has within the group.

We also realized value during the year from the sale of one our properties.

In 2017, we fully expect our Bio-Medical Division to be the growth engine for BATM. The Board of Directors is encouraging our senior executives to utilize our strong IP portfolio (boasting over 40 patents in the Bio-Medical Division) to create value for our shareholders. I also believe that in 2017 the Cyber unit will achieve new contracts, and both the bio-pharma and agri-waste solutions will develop new markets globally.

I would like to thank Dr. Zvi Marom, our CEO, for his efforts and my Board colleagues for their considerable contribution. Mostly I would to thank our shareholders for their continued support and our employees all over the globe for their dedication, skills and professionalism that has brought BATM to this exciting position and will continue to move us toward growth and profitability.

As always, we are committed to creating value for our shareholders in the years to come and look forward to continuing to report our progress.

Dr. Gideon Chitayat
Chairman
27 April 2017

Chief Executive Officer's Review

We are pleased with the commercial advancements made in 2016 by most of our businesses in winning new customers, laying foundations for a sustainable recovery and growth. Both divisions achieved significant operational progress as new products and technologies continued to replace legacy products. We were successful in advancing our sales and marketing strategies, with the business units in both divisions achieving milestones in targeting new areas that we had identified as growth markets.

In particular, the Diagnostics unit saw a solid year-on-year increase in revenues as the unit increased the number of machines sold to over 500. Additionally, there is a significant inherent value in the Group with Adaltis valued at $58m post investment by our Chinese partner and a strong IP portfolio with over 40 patents across BATM, granted mostly in the US.

Now to look at each division in more detail.

Bio-Medical Division

Distribution

Sales were flat year-on-year in US$ terms, but grew on a local currency basis. The unit contributed approximately 68% of the Bio-Medical division revenues. There was an expansion in the relationship with Abbott and, as a result, an increase in Romania in the volume of Abbott products being distributed. We also started to provide maintenance to some Abbott products as well as those of other customers. Abbott is one of the top three vendors in this field in this territory and the distribution of its products carries a higher margin. As a result, the gross margin in 2016 improved to 24% compared with 22% in 2015.

In the first half of the year, we acquired the entire issued and to be issued share capital of Green Lab Hungary Engineering Ltd, a Hungary-based developer and distributor of analytical instruments for environmental and industrial sectors, for a total consideration of $3.8m payable in cash over a three-year period. We expect the Distribution unit to benefit from the synergies with the Green Lab operations in Hungary and from Green Lab's extensive network. Since acquisition, the integration has progressed well, with Green Lab continuing to achieve a good level of sales and profitability.

Facilitated by the Green Lab acquisition, we opened two new diagnostics laboratories in Romania during the year: an analytics lab in Timisoara and a genetic lab in Bucharest. We will use these labs to provide customers' products and diagnostic tests to end customers, thereby establishing a footprint in the end-customer market and selling services in addition to products. Both laboratories are expected to be operational and fully certified in H1 2017.

Post period, we entered into an agreement to purchase the entire issued share capital of Zer Laboratories, which is the largest private diagnostic laboratory in Israel for clinical tests, mainly providing prenatal screening tests for Down's Syndrome, genetic tests and additional tests performed during IVF and fertility treatments, for a consideration of NIS 2.75m (c. £580,000) payable in cash ("the acquisition"). We expect the acquisition to enable us to capture the growth market in non-invasive prenatal tests (NIPT) in Israel and Europe, enhancing the activities of, and benefiting from synergies with, our genetic lab in Bucharest.

Pathogenic Waste Treatment and Sterilisation

The Pathogenic Waste Treatment and Sterilisation unit accounted for 11% of the Bio-Medical division's revenues in 2016 compared with 16% of revenues in 2015, reflecting a reduction in sales. This decrease is primarily due to the implementation of the strategic decision to transition from sales of control systems and products for treating medical waste to new, larger solutions developed for the biopharma and agri-business sectors. The unit continues to focus on the treatment of biological waste, based on our unique patented Integrated Shredder and Steriliser ("ISS") technology, which we are leveraging to apply to industries where the solutions have a higher value and greater market potential.

During the year, we successfully delivered on our contract with CEVA, one of the world's largest manufacturers of vaccines for animal health, to provide our biological waste solution developed for the biopharmaceutical industry, which was our first significant contract for this new solution. An order for a second unit was received from CEVA in Q4 2016.

We also made progress during the year in the agri-business sector. We delivered on our first significant contract for our new agri-waste treatment solution, which was for a poultry farming company, as well as providing an initial unit at a bovine slaughterhouse facility for the largest and leading food group in Israel. Following the successful installation and operation of this initial unit, the customer ordered a second, larger unit for the same facility. The project is progressing well and installation is due to commence in H2 2017.

This unit also benefits from synergies with Green Lab, which has already provided access to a larger number of markets for the ecologic solutions of the Pathogenic Waste Treatment and Sterilisation business.

Post period, we launched the world's first mobile agri-waste

Chief Executive Officer's Review *continued*

treatment solution and were awarded a contract of $2.5m for the delivery of a mobile unit. The solution will be deployed by the customer for the safe disposal of mass poultry affected by disease and illness. We have received an advance payment from the customer of $1m with delivery of the product expected to commence in H2 2017 and due to complete in Q1 2018.

Diagnostics

The Diagnostics unit represented 20% of Bio-Medical division revenues in 2016 compared with 17% during 2015 reflecting an increase in revenues of 16%. This was primarily due to the increased sales of machines as well as production and sales of reagents. The three largest geographical markets for the Diagnostics unit are the Far East, Europe and the Middle East.

During the year we sold 505 instruments to multiple new and existing customers compared with 462 in 2015. In addition, production of reagents increased 14% in 2016 over the prior year partly as a result of the increased automation of our process. With more automation due to be installed this year, we believe production of reagents will increase substantially in 2017.

Progress was made by our joint venture company, Ador, established in December 2015 with Gamida for Life, an international group of companies focused on healthcare and life sciences, in preparing for the production and marketing of a unique, rapid-results molecular diagnostics system, and a selection of reagent kits. The first new instrument and reagents are expected to reach the market by the end of H2 2017.

A significant milestone was achieved when our diagnostics subsidiary, Adaltis, entered into an investment agreement and a strategic joint venture with our Chinese partner, Egens, a leading biotechnology company combining biological material development and diagnostic reagent manufacturing. Under the terms of the agreement, Egens purchased RMB20m (c. $2.9m) of new shares in Adaltis, equivalent to 4.93% of Adaltis' enlarged share capital, valuing Adaltis at approximately $58m.

In addition, we intend to use Zer Laboratories for launching new, advanced diagnostic DNA-based tests in Israel, and as a local reference lab, together with several reputable European- and US-based labs, for new molecular biology solutions from Adaltis.

Networking and Cyber Division

In 2016, there was a $5.6m decrease in revenues to $38.5m as we continued to wind down the legacy products business in this division. Gross profit margin was maintained at 40% and adjusted operating loss for 2016 was $2.2m (2015: $0.1m profit).

Our wholly-owned Telco Systems subsidiary gained over 58 new customers in the period compared with 22 new customers in 2015. This included the successful deployment of a new high capacity Carrier Ethernet network for the Kenya Education Network and the award of a multi-year contract to provide a managed MPLS solution by a major provider of high-speed network and ICT services to education and research facilities in Australia.

We continued to invest in Telco Systems' leading-edge technology and solutions and added 100GE capabilities to the new aggregation and ATCA solutions to meet the ever-increasing demand for bandwidth. During the period, we completed a project extension to a Tier 1 network service provider in Southeast Asia with the deployment of a 10GE solution to expand the customer's broadband capacity in compliance with latest industry standards. In addition, our CloudMetro (SDN & D-NFV) platform is gaining momentum with Communication Service Providers and dozens of proof-of-concept trials were conducted successfully, including with Tier 1 operators.

Our Cyber unit was awarded a significant contract as the leading supplier for the delivery of an ICT solution combined with several cyber elements to a government defence department, which is the second such contract awarded to BATM by a national government. The delivery of the contract was scheduled to commence in 2016, however, due to a counterparty being late in integrating their services, the delivery and completion of the project has been deferred to 2017. The customer has amended this contract with the total value increasing to $5.2m from $4.5m, over a period of up to three years. The Cyber unit also conducted several proof-of-concept trials with Tier 1 companies and government agencies.

Outlook

The underlying businesses within BATM are robust with significant commercial development in most units, laying the foundations for a sustainable recovery and growth. Additionally, there is a significant inherent value in the Group with Adaltis valued at $58m post investment by our Chinese partner and a strong IP portfolio with 40 patents across BATM.

Looking ahead, we remain optimistic in our outlook due to the visibility of revenues from contracts already signed as well as growth in the Bio-Medical division. We expect the Diagnostics business to continue to grow as it is well positioned to capture market share in the Chinese diagnostics market and in other markets as well. Additionally, we expect the investments made in the Pathogenic Waste Treatment and Sterilisation unit in 2016 to show positive results this year. We also expect the Cyber unit to grow through the addition of new customers as well as delivery on the contract delayed from last year.

Dr. Zvi Marom
Chief Executive Officer
27 April 2017

Chief Financial Officer's Review

Revenues in 2016 decreased to $90.4m (2015: $97.1m), mainly due to a reduction in sales in the Networking and Cyber division. Overall, the Bio-Medical division accounted for 57% of total revenues and the Networking and Cyber division accounted for 43% (2015: 54% and 46% respectively).

The blended gross profit margin for the year was 31.4% (2015: 31.8%). This decrease is mostly due to a decrease in the gross margin of the Pathogenic Waste Treatment and Sterilisation unit as a result of the transition of that business as described in the Chief Executive Officer's Review.

Sales and marketing expenses were $14.3m (2015: $14.4m), representing 16% of revenues compared with 15% in 2015.

General and administrative expenses were $9.6m (2015: $9.6m), representing 11% of revenues compared with 10% in 2015.

R&D investment in 2016 increased to $7.6m (2015: $6.7m). This increase of $0.9m was primarily due to investment in the Cyber unit.

Adjusted operating profit amounted to $0.9m (2015: $0.7m profit).

Financial income and expenses are described in Notes 13 and 14 to the financial statements.

The Group's balance sheet remains strong with effective liquidity of $27.6m at 31 December 2016 compared with $18.6m at 30 June 2016 and $23.8m at 31 December 2015. Period-end cash is comprised as follows: cash and deposits up to three months duration of $22.0m and short-term cash deposits up to one year and held for trading bonds of $5.6m. The increase in cash balances is a result of the proceeds received from the disposal of one of the Group's properties and an improvement in working capital.

Bio-Medical Division	H1 2016	H2 2016	FY 2016	FY 2015
Revenues	$25.8m	$25.8m	**$51.6m**	$52.7m
Gross margin	26%	23%	**25%**	25%
Adjusted operating profit (loss)	$0.0m	$(0.3m)	**$(0.3m)**	0.4m

Inventory was $20.5m (30 June 2016: $20.9m; 31 December 2015: $22.6m). The decrease is due to a lower level of inventory in Romania and in the Networking and Cyber division. Trade and other receivables stood at $28.1m (30 June 2016: $28.1m; 31 December 2015: $31.2m), with the decline compared with the prior year being mostly due to a decrease in trade receivables in the Networking and Cyber division.

Intangible assets and goodwill was $20.6m (30 June 2016: $20.2m; 31 December 2015 $15.6m). This increase compared with the prior year was mostly due to the investment in Green Lab.

Property, plant and equipment and investment property decreased to $17.7m (30 June 2016: $23.2m; 31 December 2015: $21.9m). The decrease is due to the disposal of one of the Group's properties and depreciation of property, plant and equipment, see also Note 12 to the financial statements.

The balance of trade and other payables excluding provision was $26.9m (30 June 2016: $22.6m; 31 December 2015: $27.4m).

Cash inflow from operating activities was $0.9m for 2016, compared with an outflow of $2.2m for the prior year, due to an improvement in working capital and decrease in tax payments.

Moti Nagar
Chief Financial Officer
27 April 2017

Networking & Cyber Division	H1 2016	H2 2016	FY 2016	FY 2015
Revenues	$19.1m	$19.4m	**$38.5m**	$44.1m
Gross margin	42%	39%	**40%**	40%
Adjusted operating profit (loss)	$0.0m	$(2.2m)	**$(2.2m)**	$0.1m

Corporate Strategy

BATM is a leading provider of real-time technologies with two divisions providing networking and cyber solutions and bio-medical systems.

These two divisions have been built on the creation of strong intellectual property backed by strong patents. This is the foundation for the development of BATM's market-leading innovative and cost-effective solutions in the divisions' respective fields.

Bio-Medical Division

The Bio-Medical Division is focused on becoming a leading provider of diagnostic laboratory equipment as well as innovative products to treat biological pathogenic waste in the medical, agricultural and pharmaceutical industries.

In the field of laboratory diagnostic equipment, the Group has developed its own equipment and reagents, which have enabled it to grow in various markets and establish an expanding customer base.

While continuing to innovate and increase its presence in traditional markets, the Group is also investing, directly and through joint ventures, in developing the most advanced molecular biotechnology.

The diagnostics unit's current highly reliable, fast and easy to operate equipment for small diagnostic laboratories are sold primarily to labs in emerging markets, such as China, Russia, Mexico, Brazil and others, which have significant potential for growth. The unit sells instruments as well as associated reagents and consumables.

In addition, Ador, the joint venture company of BATM's Bio-Medical Division, is scheduled to introduce, in 2017, a unique solution in multiplexed molecular biology, which is already protected by more than 40 granted patents and more pending.

The division's other innovative product treats pathogenic and medical waste in laboratories and hospitals is based on unique patented technology that has been used and recommended by the WHO (World Health Organization). The business remains focused on the treatment of medical and biological waste and the expansion of its OEM (Original Equipment Manufacturer) relationships. In 2016, the Group continued the expansion of the applications for its biological waste solution, building solutions for pharmaceutical manufacturing plants and agricultural applications.

The division is also a distributor of leading brands of other diagnostic equipment suppliers to emerging market countries. The Bio-Medical Division, which focuses on developing countries in Eastern Europe and Asia, continues to benefit from the increase in investment in developing the health systems in these countries. It has partnerships with reagent manufacturers and academic institutions to develop an innovative, "one stop shop", flexible offering to its customers.

Networking and Cyber Division

BATM is growing its Networking and Cyber Division to be the worldwide leader of Carrier Ethernet and MPLS access solutions, mainly targeting Tier 1 telecom operators in developed markets. This industry is undergoing a transition to more cloud-based solutions and software defined products, and BATM's Networking and Cyber Division has shifted its product focus to address these trends.

The Group is servicing a wide need for networking access solutions to the ever-expanding mobile and cloud markets as well as for the wireline infrastructure. The division is working closely with customers and partners to define needs in cloud-based networks, Network Function Virtualization (NFV) and advanced access solutions. Several of these applications are already reaching the markets and are at the proof-of-concept phase with customers. The business model is based on selling a solution that combines integrated hardware and sophisticated software. The Group is expanding its investment in software-based products, which it expects to result in higher volume of software licensing revenues in the coming years.

Future Developments

Management intends to continue to invest significantly in R&D and sales and marketing activities in order to support the organic growth of the business.

In addition, management intends to make bolt-on acquisitions to strengthen its position in the Networking and Cyber Division and Bio-Medical markets to maintain its leading position.

Key Performance Indicators

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

	2016	2015	Change %
Revenue	$90.4m	$97.1m	-6.9
Gross profit margin	31.4%	31.8%	-8.3
Research and development expenses	$7.6m	$6.7m	+13.8
Cash and Financial Assets	$27.6m	$23.8m	+16.0
Adjusted operating profit, net[1]	$0.9m	$0.7m	+28.5
Loss per share	(0.27)¢	(3.29)¢	+1118.5

1. Excluding amortization of intangible assets.

Other alternative performance measures

	Year ended 31 December	
	2016 $'000s	2015 $'000s
Operating loss	(302)	(674)
Amortisation of Intangible assets	1,157	1,354
Adjusted operating profit	**855**	**680**

Principal Risks and Uncertainties

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

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

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

Directors' Biographies

Gideon Chitayat
Non-executive Chairman

Dr. Gideon Chitayat is the Chairman and CEO of GMBS Ltd Strategic Consulting Firm. He is currently a director of Delta Galil Industries, Paz Oil Company and Milissron Shopping malls. Dr. Chitayat has served as a director for Teva Israel Pharmaceutical Industries, Bank Hapoalim and Israel Aircraft Industries. He has provided consultancy services to the Board and Presidents of Companies. Dr. Chitayat holds a Ph.D. in Business & Applied Economics from the University of Pennsylvania and a Masters in Business & Applied Economics from the Hebrew University, Jerusalem and joined the Board of BATM in June 2010. The unexpired period of this director's term is until September 2017 and the Company will propose this director for re-election as Chairman of the Board at the coming Annual General Meeting.

Zvi Marom
Founder & CEO

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

Avigdor Shafferman
Non-executive Senior Director

Dr. Avigdor Shafferman holds a Ph.D. in physical chemistry from the Hebrew University of Jerusalem. He has served for the past eighteen years as general manager and Head of R&D of a leading governmental applied research institute specialising in the fields of biology, medicinal chemistry and environmental sciences. He was a visiting professor in the University of California, San Diego at the biology department as well as a visiting senior research scientist at various leading research institutions in the United States in various medical areas including vaccines.

Moti Nagar
Executive Director & CFO

Moti Nagar joined BATM in 2014. Previously, Mr. Nagar held several management positions in Deloitte – Israel. As Senior Manager at Deloitte – Israel, he interfaced and handled the engagement relationships with leading corporate global clients, including companies traded on the LSE, NASDAQ, TSE and large private companies in the fields of industry, services, energy and holding companies. Mr. Nagar also led and supported public offerings of corporations in Israel and provided advice on taxation, including international taxation. Mr. Nagar graduated in Business Management and Accounting and qualified as an Israeli certified Accountant (CPA, Israel) in 2008. He also holds an MBA in Financial Management from Tel Aviv University. Mr. Nagar does not serve as a director in any other publicly listed companies.

Harel Locker
Non-executive External Director

Harel Locker holds an LL.B. degree from Tel Aviv University's School of Law (1994), a B.A. degree in accounting from Tel Aviv University Business School (1994) and an LL.M. (with distinction) in taxation from Georgetown University Law School, Washington DC (2001). Mr. Locker has wide experience in law and finance with first tier law firms in both Tel Aviv and New York, including Danziger, Clagsbald & Co., Law Firm, Tel Aviv, Israel; Fried, Frank, Harris, Shriver & Jacobson LLP, New York, N.Y. (2001-2004); Shohat, Locker &Co., Law Firm (2005-2007); and S. Friedman & Co., Law Firm (2007-2011). He was appointed and served as the Director General of the Israeli Prime Minister's Office and head of Prime Minister Benjamin Netanyahu's economic headquarters, between 2011 and 2015. He is currently the sole owner and director of his consultancy and investments company, Pitkrai Investments Ltd, and he is currently an external director of Matomy Media Group Ltd. (LSE: MTMY). Mr. Locker was appointed to the Board of BATM in September 2016.

Orna Pollack
Non-executive External Director

Orna Pollock has extensive experience of more than twenty years in senior management positions in the fields of biotechnology, medical diagnostics, medical devices and clinical laboratory automation.

Mrs. Pollack holds a B.Sci degree from the Hebrew University of Jerusalem and a Masters in Science degree in biochemistry from the Hebrew University of Jerusalem. She currently holds the position of CEO of Galmedics Biotechnologies and previously held CEO or similar level executive positions in well-known medical biotech companies, such as MicroMedic Technologies (TASE: MCTC), AgroGreen and Gamidor Diagnostics. Mrs Pollack was appointed to the Board in September 2015.

Directors' Report

Principal Activities

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

Financial Statements

The Directors present their report together with the audited financial statements for the year ended 31 December 2016. The results of the year are set out in the consolidated statement of profit or loss. After reporting a $1.2 million amortisation of intangible assets for the year, BATM recorded a loss of $2.2 million.

Dividends

The Board is not proposing a dividend this year.

Business and Strategic Review

The review of the Group's business operations, including key performance indicators, principal risks and uncertainties, research and development and future developments, are set out in the Strategic Report section on pages 4 to 10 together with this Directors' Report.

Directors

The Directors who served for the year ended 31 December 2016 and are currently serving are as follows:

- Dr. Gideon Chitayat, Non-Executive Chairman
- Dr. Zvi Marom, Executive Director and Chief Executive Officer
- Dr. Avigdor Shafferman, Non-Executive Senior Director
- Moti Nagar, Executive Director and Chief Financial Officer
- Harel Locker, Non-Executive External Director
- Orna Pollack, Non-Executive External Director

The following served as Director during 2016:

- Gideon Barak, Non-Executive External Director (three-year term concluded June 2016)

The following served as Director during 2015:

- Ofer Bar-Ner, Executive Director and COO of Bio-Medical Division (resigned as director effective 1 January 2016)

Corporate Governance Statement

The information that fulfils the requirement of the corporate governance statement in accordance with Rule 7.2 of the Financial Conduct Authority's Disclosure and Transparency Rules can be found in this Directors' Report and in the Corporate Governance information on pages 12 to 23 which is incorporated into the Directors' Report by reference.

Directors' Remuneration and Interests

The Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 20 to 21 and in note 35 to the consolidated financial statements.

Rules about appointment and replacement of Directors; Amendment of Articles

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

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

Two executive Directors, being the CEO, Zvi Marom and the CFO, Mr. Moti Nagar will be proposed for re-election at the coming Annual General Meeting (AGM). The unexpired period of these directors' term of office is until September 2017.

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

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Viability Statement

The Directors have assessed the Company and the Group's viability over a period of three years. In making their assessment, the Directors took account of the Company and the Group's current financial and operational positions and contracted capital expenditure. They also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties set out on page 10 and the likely degree of effectiveness of current and available mitigating actions. Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to three years as above.

In making this statement, the Directors have also made key assumptions (see note 4 to the financial statements).

Statement of Directors' Responsibilities

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

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

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make an assessment of the Company's ability to continue as a going concern and disclose where they consider it appropriate; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

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

1. the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
3. the annual report and financial statements, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Accountability and Audit

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

The Directors Report has been brought for review to the Board and has been approved in its present form. The Directors Report is signed on behalf of the Board by:

Dr. Zvi Marom
Executive Director & CEO
27 April 2017

Corporate Governance Report

The Company is committed to high standards of corporate governance and the Board is accountable to the Company's shareholders for such governance. The Board carefully reviews all new regulations relating to the principles of good corporate governance and practice and endeavours to apply them where applicable. It also carefully reviews any comments received from independent reviewing agencies and shareholders and communicates with them directly. The Company believes that the combination of the experience of its Chairman, Dr. Gideon Chitayat, as well as the experience and expertise of its external directors provides the Company with the relevant leadership to address its position as an Israeli company that is traded on the London Stock Exchange. As a result of amendments in the Israeli Companies Law on corporate governance which came into effect during 2012, as well as comments received during 2012 from corporate governance consultants of UK institutional and pension investors, the Company implemented various improvements in its corporate governance policies, as described in more detail in this Report, and which continue to be effective.

The main thrust of the improvements was designed to:

(a) Guarantee full independence of the various committees of the Board, including the nomination, audit and remuneration committees;
(b) Improve transparency between the Board and senior management of the Company;
(c) Improve the remuneration policy of the Company by refining the parameters and determining pre-defined key performance indicators as a requisite for performance-linked remuneration to its senior executives; and
(d) Improve the Company's environmental policy and responsibility.
(e) This report also outlines how the Company has applied the Main Principles set out in the UK Corporate Governance Code as amended by the UK Financial Reporting Council in April 2016 (the "Governance Code").

Compliance with the Governance Code

Throughout the year ended 31 December 2016, and through to the date of approval of the financial statements, the Board considers that the Company has complied with the Main Principles of the Governance Code. The Company has applied the Main Principles by complying with the Governance Code as set forth below and in the Directors' Remuneration Report below. Further explanation of how the principles and supporting principles have been applied is set out below and in the Directors' Remuneration Report.

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

The current independent non-executive Directors which qualify as "external directors" under Israeli law are Mr. Harel Locker, Mrs. Orna Pollack and Dr. Avigdor Shafferman. Mr. Locker was appointed in September 2016 for a term of three years. Dr. Shafferman was appointed in February 2015 for a term of three years and Mrs. Pollack was appointed in September 2015 for a term of three years.

The Board – leadership and effectiveness

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

Board and committee activities in 2016 were as follows:
There is not a formal schedule of matters specifically reserved to the Board for its decision, as set out in A.1.1 of the Governance Code, since the Israeli Companies Law which applies to the Company sets out and defines the responsibilities and duties

	Meetings	Attendance	Note
Board of Directors	6	Note 1	(1) All Directors attended 100% of the Board meetings during 2016 except for 1 absence of Mr. Harel Locker from one board meeting, due to a last-minute trip overseas.
Audit Committee	4	Note 2	(2) All Audit Committee members attended 100% of meetings during 2016, except for 1 absence of Mr. Gideon Barak, due to a last-minute trip overseas, and 1 absence of Mr. Harel Locker, due to a last-minute trip overseas.
Remuneration Committee	–		
Nominations Committee	1		

of and areas of decision for the Board. These include approval of financial statements, dividends, Board appointments and removals, long-term objectives and commercial strategy, changes in capital structure, appointment, removal and compensation of senior management, major investments including mergers and acquisitions, risk management, corporate governance, engagement of professional advisors, political donations and internal control arrangements. The ultimate responsibility for reviewing and approving the annual report and financial statements, and for ensuring that they present a balanced assessment of the Company's position, lies with the Board. These provisions have been fully complied with.

The Board comprises six Directors, four of whom are non-executive Directors, under the chairmanship of Dr. Gideon Chitayat. The Chief Executive is Dr. Zvi Marom. The Board's members have a wide breadth of experience in areas relating to the Company's activities and the non-executive Directors in particular bring additional expertise to matters affecting the Company. All of the Directors are of a high calibre and standing. The biographies of all the members of the Board are set out on pages 12 to 13. The interest of the Directors in the Company and their shareholdings are set out on page 21. All the non-executive Directors are independent of management and not involved in any business or other relationship that could materially interfere with the exercise of their independent judgment. The Board is of the opinion that each of its members has the skills, knowledge, aptitude and experience to perform the functions required of a director of a listed Company and that the Board is comprised of a good balance of executive and non-executive Directors.

The induction of newly elected Directors into office is the responsibility of the Chairman of the Board. The new Directors receive a memorandum on the responsibilities and liabilities of directors from the Company's general counsel as well as presentations of all activities of the Company by senior members of management and a guided tour of the Company's premises. All Directors are invited to visit the Company premises and its manufacturing facilities.

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

The Company has an experienced Company Secretary, Mr. Arthur Moher, who is also one of the Company's legal advisers and all the Directors have access to Mr. Moher's services. Accordingly, the Company complies with section B.5.2. of the Governance Code.

The Directors may take independent professional advice at the Company's expense in furtherance of their duties in accordance with section B.5.1. of the Governance Code. Independent outside counsel is also present at every Board meeting and Board committee meetings.

Relations with Shareholders and Significant Shareholders

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

As of 31 December 2016, to the best of the Company's knowledge, the following persons or entities had a significant holding of BATM ordinary shares:

Dr. Zvi Marom, the Company's CEO and founder – 23.98%

Henderson Volantis Capital – 19.67%

Legal & General Investment Management – 10.60%

Herald Investment Management – 5.43%

All of the above hold ordinary shares of the Company.

Committees

As required by the provisions of the Israeli Companies Law, the Board has appointed an Audit Committee, a Remuneration Committee and a Nomination Committee to deal with specific aspects of the Company's affairs and ensures that each such Committee is fully constituted and operates as required under the Israeli Companies Law.

Audit Committee

Members: Mr. Harel Locker, Mrs. Orna Pollack and Dr. Avigdor Shafferman

Chairman: Mr. Harel Locker (*)

(*) Mr. Gideon Barak was the chairman until 30 June 2016; Mr.Harel Locker replaced him as Chairman immediately after his appointment in September 2016.

The Chairman of the Audit Committee has significant financial expertise and experience. The Committee's terms of reference include, among other things, monitoring the scope and results of the external audit, the review of interim and annual results, the involvement of the external auditors in those processes, review of whistle blowing procedures, considering compliance with legal requirements, accounting standards and the Listing Rules of the Financial Conduct Authority, and for advising the Board on the requirement to maintain an effective system of internal controls. The Committee also keeps under review the independence and objectivity of the Group's external auditors, value for money of the audit and the nature, extent and cost-effectiveness of the non-audit services provided by the auditors (see note 9 to the financial statements).

The Committee has discussed with the external auditors their independence, and has received and reviewed written disclosures from the external auditors regarding independence. During 2016 the external auditors replaced the partner in charge of the audit to comply with their internal independence regulations. Non-audit work is generally put out to tender. In cases which are significant, the Company engages another independent firm of accountants to consulting work to avoid the possibility that the auditors' objectivity and independence could be compromised; work is only carried out by the auditors in cases where they are best suited to perform the work, for example, tax compliance. However, from time to time, the Company will engage the auditors on matters relating to acquisition accounting and due diligence (the scope of which is very limited) thus ensuring the continued objectivity and independence of the external auditors.

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

The Audit Committee adheres to the functions and requirements prescribed to it by the Israeli Companies Law and Israeli Regulations and takes account of the relevant provisions of the disclosure, guidance and transparency Rules and the UK Corporate Governance Code. The Chairman of the Audit Committee maintains close contact with the Company on a regular basis.

The FRC's Audit Quality Review team ("AQRT") selected the audit of the Group's 2015 consolidated financial statements to review as part of their 2015 annual inspection of audit firms. The focus of the review of the auditors is to identify areas where the audit's conduct could be improved rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee has received a full copy of the findings of the AQRT and has discussed these with Brightman Almagor Zohar & Co. ("Deloitte"), the Group's external auditors who were subject to the review. The Audit Committee is satisfied that the findings of the review have been appropriately addressed by Deloitte with some additional procedures being incorporated into the 2016 audit and the Board of Directors and the Audit Committee are satisfied that there is nothing within the report which might have a bearing on the audit appointment.

Remuneration Committee

Members: Dr. Avigdor Shafferman, Mrs. Orna Pollack and Mr. Harel Locker
Chairman: Dr. Avigdor Shafferman (*)

(*) Mr. Gideon Barak was the chairman until 31 December 2015, Dr. Avigdor Shafferman replaced him on 1 January 2016

The Company's Remuneration Committee is constituted in accordance with the recommendations of the Governance Code. The Committee consists of three out of the four non-executive Directors and excludes the chairman as is required under Israeli Company Law. Since January 2016 the Committee has been chaired by Dr. Avigdor Shafferman, one of the external Directors (as mandatory under the Israeli Companies Law) and its other members are Orna Pollack and Harel Locker, both of whom are non-executive independent Directors. None of the Committee members has any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

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

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

The primary responsibilities of the Committee are to ensure:

1. That individual pay levels for executive Directors should generally be in line with levels of pay for executives in similar companies with similar performance achievement and responsibilities.
2. That share option and bonus schemes should be set at a level that provides sufficient incentive to the executive to produce results that will reflect and exceed the Board's expectations, and be appropriately balanced alongside fixed-level and more immediate remuneration.
3. That total pay and long-term remuneration will be sufficient to retain executives who perform.
4. That aggregate pay for all executive Directors is reasonable in light of the Company's size and performance and is compatible with the Company's risk policies and systems.
5. Information of the Company's policy regarding the setting of Directors' remuneration together with the remuneration of Directors is set out in the Directors' Remuneration Report on pages 20 to 21. The Company's remuneration policy as recommended by the Remuneration Committee was approved at the Annual General Meeting of the Company in September 2014. The remuneration policy is more fully explained below in the Directors' Remuneration Report.
6. No external remuneration advisers were engaged during the year.

Nomination Committee

Members: Mr. Gideon Chitayat, Dr. Zvi Marom and Dr. Avigdor Shafferman
Chairman: Dr. Gideon Chitayat (*)

(*) Dr. Avigdor Shafferman was the chairman until 31 December 2015, Dr. Gideon Chitayat replaced him on 1 January 2016

In addition to the Company's diversity policy for existing employees (as disclosed on page 22), the Nomination

Committee is specifically tasked with assessing the process utilised by the Company in relation to Board appointments and in monitoring diversity during the recruitment process and in the context of the resulting appointment made. During the process, the Nomination Committee ensures that assessment is made of the skills and experience in identifying a candidate pool and in the recruitment of Board members from such potential candidates, with consideration given to the balance of skills, experience, independence and knowledge of the Board. Board appointments are made on merit set against objective criteria having due regard, amongst other things, to the benefits of diversity on the Board, including gender. In accordance with Israeli Companies Law, the Company has one female non-executive Board member. As at 31 December 2016, there was one woman on the Board (representing 16.6% of Board membership), Orna Pollack having been appointed to the Board in September 2015 following Elka Nir having stepped down from the Board in July 2015.

Prior to the date of expiration of office of a non-executive director or in cases of early resignation of a director, the Committee considers the necessary skills, experience, expertise and gender required of potential candidates and prepares a list of potential candidates. Since Israel is a relatively small country, it is quite easy for the Nominations Committee to obtain recommendations through objective professional directors in various industries of persons that could fit the requirements needed by the Company. Once this is done, a number of appropriate candidates (who have relevant experience in those lines of business in which the Company is engaged and the personal qualifications that fit the Company) are interviewed by the Chairman of the Board. After the interview, the Nomination Committee presents its recommendations to the Board which, if deemed necessary may expand on the interview and research process in order to find the optimum candidate for the office of director in the Company. Generally, no external search consultancy firm is used or advertisement published by the Company, for the reasons explained above.

Conflicts

Throughout 2016 the Company has complied with procedures in place for ensuring that the Board's powers to authorize conflict situations have been operated effectively and this has also been considered at a committee level where appropriate. During 2016 no conflicts arose which would require the Board to exercise authority or discretion in relation to such conflicts.

Risk Management and Internal Control

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

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

The Board has overall responsibility for ensuring that the Company maintains adequate systems of internal control and for determining the nature and extent of principal risks. The Board confirms that they have carried out during 2016 a robust assessment of such risks accordingly, including those that would impact the Company's business model, future performance, solvency or liquidity, and have considered how they are to be mitigated. To this end, in accordance with the Israeli Companies Law, the Company has appointed and retains the services of an independent qualified internal auditor. Each year, the Audit Committee reviews with the internal auditor potential risks and a proposed plan for their scope of work. Each year the Audit Committee usually selects at least two areas of the Company's operations on which it requests the internal auditor to focus and prepare an internal audit report with recommendations. Following the completion of each report the internal auditor sends it to all the Directors and presents his findings to the Audit Committee. The Audit Committee then reports to the Board on any major findings together with the internal auditor's recommendations for improving controls and corporate responsibility and the Board instructs management to implement the recommendations.

The key features of the financial controls of the Company include a comprehensive system of financial reporting, budgeting and forecasting, and clearly laid down accounting policies and procedures.

The main elements of internal control currently include:

- **Operating Controls:** The identification and mitigation of major business risks on a daily basis is the responsibility of the executive Directors and senior management. Each business function within the Group maintains controls and procedures, as directed by senior management, appropriate to its own business environment while conforming to the Company's standards and guidelines. These include procedures and guidelines to identify, evaluate the likelihood of and mitigate all types of risks on an ongoing basis.
- **Information and Communication:** The Group operating procedures include a comprehensive system for reporting financial and non-financial information to the Directors. Financial projections, including revenue and profit forecasts, are reported on a monthly basis to senior management compared with corresponding results for previous periods. The central process for evaluating and managing non-financial risk is monthly meetings of business functions, each involving at least one Director, together with periodic meetings of executive Directors and senior management.
- **Finance Management:** The finance department operates within policies approved by the Directors and the Chief Financial Officer. Expenditures are tightly controlled with stringent approvals required based on amount. Duties such as legal, finance, sales and operations are also strictly segregated to minimise risk.
- **Insurance:** Insurance coverage is provided externally and depends on the scale of the risk in question and the availability of coverage in the external market.

Directors' Remuneration Report

Introduction

This report sets out BATM Advanced Communication's executive remuneration policy and details Directors' remuneration and benefits for the financial year under review. The recent amendments to the UK Companies Act 2016 in relation to the preparation and approval of directors' remuneration policies and reports for certain listed companies do not apply to BATM as it is not incorporated in England. The remuneration policy and report referred to below are not necessarily intended to comply with the provisions of such laws, although the Board considers that the Company's current remuneration policy would comply with the Governance Code and have taken into account the requirement that the Company's remuneration policies (including any performance-related elements of executive remuneration) must be designed to promote the long-term success of the Company.

In accordance with Israeli Companies Law, the Board recommends and the General Meeting of the Company is asked to approve the remuneration policy of the Company for executives in the Company, after it has been first approved by the Company's Remuneration Committee and Board of Directors. The current remuneration policy was approved by the shareholders at the AGM held in September 2014.

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

No remuneration consultants were engaged by the Company in 2016.

Unaudited information – Remuneration Policy

The Company's current Remuneration Policy and Guidelines (hereinafter – "Remuneration Policy") came into effect after its approval by the Shareholders' Meeting by a majority vote as prescribed in section 267A (b) of the Israeli Companies Law, 1999 (the "Law") at the Annual General Meeting held in September 2014.

Objectives of the Remuneration Policy

a) To design appropriate remuneration packages to attract, retain and motivate senior executives and managers (including the CEO, CFO, executive and non executive directors and others determined by the Board to fall within this category) of the quality required to run the Company successfully (without paying more than is necessary for this purpose) while considering and managing the business risks and linking such remuneration policy to the Company's long-term strategy and performance and its sustainable financial health;
b) To create long-term performance-linked remuneration that will incentivise the senior executives to achieve those performance criteria and profits for the Company;
c) To link rewards for senior executives of the Company to corporate and individual performance which will be measured by both quantitative and qualitative criteria, balancing reward in the short and long term and fixed and variable elements of reward packages;
d) To control and position compensation for executive directors and senior executives in the Company in comparison with salaries and benefits of other employees in the Company, as well as senior executives in similar companies;
e) To align the interests of executive directors and senior executives with the interests of shareholders; and
f) To design remuneration packages that are flexible enough to cope with the Company's changing needs as it grows and its strategy evolves.

Remuneration Principles

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

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

(ii) **Variable remuneration**, may be comprised of:

(A) Annual Bonus

The level of the bonus paid to any executive director or senior executive, and its composition in cash and/or deferred payment (such as conditional share awards or options) will be established to link rewards with the Company's annual business targets, based on quantifiable measurements and targets set out at the start of the financial year by the Remuneration Committee. The maximum aggregate bonus may not exceed 100% of annual base salary and may be delivered in cash or partly in cash and partly in share options under the BATM Share Option Scheme ("Scheme") (or through another long-term incentive mechanism) subject to appropriate vesting conditions, as the Remuneration Committee may determine.

(B) Long-Term Incentives ("LTI")

The Company's LTI package for senior executives will be established to support the Company's strategy by incentivising the delivery of growth, increase in profitability, superior shareholder returns and sustained financial performance. LTI are currently intended to be satisfied by the issue of options under the Scheme, although other incentive mechanisms may be established following appropriate Board, Remuneration Committee and shareholder approvals. All LTIs are subject to the achievement of financial performance as the Remuneration Committee determines. A full description of the remuneration policy is available on the Company's website.

Audited information

The table of Directors' remuneration is set out below and is consistent with note 35 to the financial statements.

Table A – Emoluments of the Directors with comparatives

	Basic Salary $'000	Social Benefits $'000	Pension Benefits $'000	Performance Bonus $'000	2016 Total $'000	2015 Total $'000
Zvi Marom	399	–	–	–	399	373
Moti Nagar	198	25	9	–	232	–
Gideon Chitayat	59	–	–	–	59	52
Avigdor Shafferman	44	–	–	–	44	44
Gideon Barak	30	–	–	–	30	39
Orna Pollack	44	–	–	–	44	17
Harel Locker	10	–	–	–	10	–
Elka Nir	–	–	–	–	–	19
Ofer Bar-Ner(*)	–	–	–	–	–	274

(*) Mr. Bar-Ner resigned as director effective 1 January 2016

The total liability for the Executive Directors in the year-end 2016 was $42 thousand (2015: $45 thousand) related to December 2016 and 2015 wages paid in January 2017 and 2016 respectively.

Table B – Interests of the Directors

The interests of the Directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2016 and 2015 were as follows:

	2016 Ordinary Shares	2015 Ordinary Shares
Zvi Marom	96,694,500	96,394,500
Moti Nagar	–	–
Gideon Chitayat	3,000,000	2,000,000
Avigdor Shafferman	–	–
Gideon Barak*	–	–
Orna Pollack	–	–
Harel Locker	–	–

(*) Mr. Barak's three-year term as an external director concluded in June 2016.

Share Options

During 2015 the Board approved the grant of 3,906,200 options to purchase BATM shares to Mr. Moti Nagar, Executive Director and CFO. 50% of the options became exercisable on 31 December 2016 and the remaining 50% may be exercised by Mr. Nagar starting 31 December 2017 provided that Mr. Nagar remains in his position as CFO at that date and certain pre-defined financial performance criteria have been achieved by the Group. The options were granted by the Board at an exercise price of GBP 0.127.

Corporate, Social and Environmental Responsibility

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

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

Whilst the Board considers that material risks arising from social, ethical, employment and environmental issues are limited, given the nature of the Company's business, policies have been adopted in key areas to ensure that such risks are limited. The Company's policy is to behave in an environmentally responsible manner consistent with local environmental regulations and standards. These include ensuring that any waste is dealt with in accordance with all local waste disposal regulations, improving recycling and upgrading the energy and lighting systems in the Company's facilities to more low energy equivalents.

Employment Policies

BATM employs approximately 949 people and in order to continue to grow as a business, the Company needs to continue to recruit and retain only the best talent. Therefore, it is the Company's policy to pursue practices that are sensitive to the needs of its people. The Company strives for equal opportunities for all of its employees, including disabled employees, and does not tolerate harassment of, or discrimination against, its staff. The Company's priorities are:

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

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

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

Employees with Disabilities

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

Environmental Policies and adherence to EU Environmental Directives

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

Its environmental policy is to:

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

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

In addition the Company designs certain product lines that are designed to reduce energy consumption and waste production. During 2012 the Company launched a new product, in the Bio-Medical Division, to treat medical waste and convert it into normal waste. The successful launch of this product into dialysis centres, laboratories and hospitals and the relevant environmental certifications will position the Company as a leader in this field. The Pathogenic Waste Treatment Sterilisation unit launched a unique solution, based on its patented Integrated Shredder and Steriliser ("ISS") technology, for agri-business, which treats waste from poultry and larger animals such as cattle, pigs and cows. The solution has been tested with the relevant regulatory authorities to confirm its uniqueness and efficiency.

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

The Company is ISO 14000 certified and the Group's facilities are also ISO 9001:2008 certified for their quality management systems and controls, thus ensuring that the Company's Networking and Cyber and Bio-Medical products comply with relevant quality and safety standards.

Ethical Business Practices

All employees are expected to behave ethically when working for the Company and this is reflected in our policies which are disseminated to all of our employees.

Charitable Policies

BATM maintains a number of small charitable giving policies. BATM did not make any political donations in the 2016 financial year and made only charitable donations.

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

Community Involvement

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

BATM
Consolidated Financial Statements
for the year ended 31 December 2016

Independent Auditor's Report to the Shareholders of BATM Advanced Communications Ltd.

Deloitte.

To the Shareholders of BATM Advanced Communications Ltd.
Neve Ne'eman Ind. Area
4, Ha'harash Street, P.O.B. 7318
4524075 Hod Hasharon, Israel

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BATM Advanced Communications Ltd. and its subsidiaries (the Group) set out on pages 29 to 80, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Inventory provisions and net realizable value As at 31 December 2016, the Group held inventories of $20,479 thousand. See the composition in Note 19 to the consolidated financial statements. As described in the Accounting Policies in Note 3 to the consolidated financial statements, inventory is carried at the lower of cost and net realizable value. The inventory is comprised of items that serve the Group's different segments of operations and different products. As result, management applied judgment in determining the appropriate provisions for obsolete stock based upon analysis of the diversification of products in inventory and the Group forecasts for the sale of the respective goods while net realizable value is based upon plans for inventory to go into sales.	We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by: • Attending inventory counts at main locations. • Checking for a sample of individual products that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated. • Comparing the net realizable value to the cost price of inventories to check for completeness of the associated provision. • Performing audit analytics on stockholding and movement data including sales subsequent to year end, to identify product lines with indicators of low stock turn or stock ageing. • Reviewing the historical accuracy of inventory provisioning and the level of inventory write-offs during the year in relation to stock loss. ***Findings*** The results of our testing were satisfactory.

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<table>
<tr><th>KEY AUDIT MATTER</th><th>HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER</th></tr>
<tr><td>Impairment of goodwill and other intangible assets
As detailed in Notes 22 and 23, as at 31 December 2016, the Group had goodwill and other intangible assets of $20,615 thousand.

Goodwill and other intangible assets arise as a result of acquisitions by the Group. Management conducted their annual impairment test to assess the recoverability of the goodwill and consider whether there are indicators of impairment with respect to other intangible assets. In order to establish whether an impairment exists, fair value less costs to sell or the value in use is determined and compared to the net book value of cash-generating unit to which the goodwill is allocated and other intangible assets.

This determination of an impairment is highly subjective as significant judgement is required by the management in determining the cash-generating units and the fair value less costs to sell or the value in use as appropriate. The value in use is based on the cash flow forecast model for each cash-generating unit and requires the estimation of valuation and business assumptions, most importantly the discount rate and growth rate.</td><td>We focused our testing of the impairment of goodwill and other intangible assets on the key assumptions made by the directors. Our audit procedures included:

• Critically evaluating the determination of the cash generating units;
• Evaluating whether the model used to calculate the fair value less costs to sell and value in use of the individual cash-generating units complies with the requirements of IAS 36: Impairment of Assets;
• Using specialists when applicable for the interest used in the fair value calculations;
• Validating the assumptions applied and inputs in the respective models by comparing it to historical information, market researches when available, contractual arrangements and approved budgets; and
• Subjecting the key assumptions to sensitivity analyses.

Findings
We found the models and assumptions applied in the goodwill impairment assessments to be appropriate at 31 December 2016. We considered the disclosure of the goodwill and other intangible assets to be appropriate for purposes of the consolidated financial statements.</td></tr>
<tr><td>Deferred tax
As disclosed in Note 25, the Group has recognized deferred tax assets in respect of certain entities to the extent that it is probable that historical assessed tax losses will be realized. Due to the multiple tax jurisdictions within which the Group operates, determining the amounts, which should be recognized as an asset, is also subject to judgement. Management's judgement includes estimation of future taxable income and consideration of regulations by various tax authorities with respect to transfer pricing regulations and other tax positions. The above requires management judgement and is accordingly a key audit matter.</td><td>We involved our tax specialists to evaluate the recognition and measurement of the current and deferred tax assets and liabilities.
This included:
• Ensuring current and deferred tax calculations complied with relevant tax rates and regulations;
• Evaluating management's assessment of the estimated manner in which the timing differences, including the recoverability of the deferred tax assets and need for valuation allowances, would be realized by comparing this to evidence obtained in respect of other areas of the audit, including cash flow forecasts, business plans, and our knowledge of the business; and
• Challenging the assumptions made by management for uncertain tax positions to assess whether appropriate deferred tax assets have been recognized and are based on the most probable outcome.

Findings
We found the judgments used in determining current and deferred tax balances to be appropriate.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises the Directors' Report, Audit Committee's Report and Company Secretary's Certificate.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Shareholders of BATM Advanced Communications Ltd. (continued)

Deloitte.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chaim Schwartzbard.

Brightman Almagor Zohar and Co.
Chaim Schwartzbard
Member of Deloitte Touche Tohmatsu Limited
1 Azrieli Center, Tel Aviv
Israel

27 April 2017

Consolidated Statements of Profit or Loss

for the year ended 31 December

	Note	2016 US$'000	2015 US$'000
Revenues	5, 6	90,404	97,096
Cost of revenues	7	62,048	66,175
Gross profit		28,356	30,921
Operating expenses			
Sales and marketing expenses	8	14,307	14,388
General and administrative expenses	9	9,584	9,556
Research and development expenses	10	7,620	6,692
Other operating expenses (income)	12	(2,853)	959
Total operating expenses		28,658	31,595
Operating loss		(302)	(674)
Finance Income	13	291	257
Finance expenses	14	(650)	(10,937)
Loss before tax		(661)	(11,354)
Income tax expense	15	(774)	(2,746)
Loss for the year before share of a loss of a joint venture		**(1,435)**	**(14,100)**
Share of a loss of a joint venture		(810)	–
Loss for the year		**(2,245)**	**(14,100)**
Attributable to:			
Owners of the Company		**(1,070)**	**(13,250)**
Non-controlling interests		**(1,175)**	**(850)**
Loss for the year		**(2,245)**	**(14,100)**
Loss per share (in cents) basic and diluted	16	**(0.27)**	**(3.29)**

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

Consolidated Statements of Comprehensive Income (Loss)

for the year ended 31 December

	2016 US$'000	2015 US$'000
Loss for the year	(2,245)	(14,100)
Items that may be reclassified subsequently to profit or loss:		
Net loss on available-for-sale financial assets	–	(473)
Exchange differences on translating foreign operations	(362)	(4,463)
	(362)	(4,936)
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement of defined benefit obligation	211	–
Total comprehensive loss for the year	(2,396)	(19,036)
Attributable to:		
Owners of the Company	(1,364)	(17,964)
Non-controlling interests	(1,032)	(1,072)
	(2,396)	**(19,036)**

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

Consolidated Statements of Financial Position

for the year ended 31 December

	Note	2016 US$'000	2015 US$'000
Assets			
Current assets			
Cash and cash equivalents		22,015	17,042
Trade and other receivables	18	28,124	31,180
Financial assets	17	5,593	6,778
Inventories	19	20,479	22,630
		76,211	77,630
Non-current assets			
Property, plant and equipment	20	14,078	18,140
Investment property	21	3,669	3,791
Goodwill	22	15,011	11,430
Other intangible assets	23	5,604	4,168
Investment in associate	12	854	-
Available for sale Investments carried at fair value	28	614	611
Deferred tax assets	25	3,570	3,582
		43,400	41,722
Total assets		**119,611**	**119,352**
Equity and liabilities			
Current liabilities			
Short-term bank credit		4,407	2,763
Trade and other payables	26	27,100	27,659
		31,507	30,422
Non-current liabilities			
Long-term bank credit	26	1,104	3,374
Long-term liabilities	26	4,722	3,262
Deferred tax liabilities	25	912	1,095
Retirement benefit obligation	34	476	707
		7,214	8,438
Total liabilities		**38,721**	**38,860**
Equity			
Share capital	27	1,216	1,216
Share premium account		407,544	407,436
Reserves		(21,070)	(20,388)
Accumulated Deficit		(303,810)	(306,314)
Equity attributable to the:			
Owners of the Company		83,880	81,950
Non-controlling interests		(2,990)	(1,458)
Total equity		**80,890**	**80,492**
Total equity and liabilities		**119,611**	**119,352**

The financial statements were approved by the board of directors and authorised for issue on 27 April 2017. They were signed on its behalf by:

Dr. Z. Marom, CEO **M. Nagar, CFO**

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

Consolidated Statements of Changes in Equity

for the years ended 31 December 2016 and 2015

	Share Capital	Share Premium Account	Translation Reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the Parent	Non-Controlling Interests	Total Equity
	US$ in thousands							
Balance as at 1 January 2015	1,216	407,345	(15,812)	138	(293,064)	99,823	(386)	99,437
Loss for the year	–	–	–	–	(13,250)	(13,250)	(850)	(14,100)
Other comprehensive loss for the year	–	–	(4,241)	(473)	–	(4,714)	(222)	(4,936)
Total comprehensive loss for the year	–	–	**(4,241)**	**(473)**	**(13,250)**	**(17,964)**	**(1,072)**	**(19,036)**
Recognition of share-based payments	–	91	–	–	–	91	–	91
Balance as at 1 January 2016	1,216	407,436	(20,053)	(335)	(306,314)	81,950	(1,458)	80,492
Loss for the year	–	–	–	–	(1,070)	(1,070)	(1,175)	(2,245)
Re-measurement of defined benefit obligation	–	–	–	–	211	211	–	211
Exhange differences on translating foreign operations	–	–	(505)	–	–	(505)	143	(362)
Total comprehensive loss for the year	–	–	**(505)**	–	**(859)**	**(1,364)**	**(1,032)**	**(2,396)**
Recognition of share-based payments	–	108	–	–	–	108	–	108
Disposal of partial interest in subsidiary	–	–	–	(177)	3,363	3,186	(500)	2,686
Balance as at 31 December 2016	**1,216**	**407,544**	**(20,558)**	**(512)**	**(303,810)**	**83,880**	**(2,990)**	**80,890**

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

Consolidated Cash Flow Statements

for the year ended 31 December

	Note	2016 US$'000	2015 US$'000
Net cash from (used in) operating activities	29	**915**	**(2,247)**
Investing activities			
Interest received		95	128
Proceeds on disposal of property, plant and equipment		9,126	1,402
Tax paid on disposal of property, plant and equipment		(674)	–
Proceeds on disposal of deposits		1,801	14,222
Proceeds on disposal of financial assets carried at fair value through profit and loss		525	270
Proceeds on disposal of held to maturity investment		3,229	–
Purchases of property, plant and equipment		(3,748)	(2,460)
Increase of other intangible assets		(2,272)	(1,361)
Purchases of financial assets carried at fair value through profit and loss		(3,095)	(573)
Purchases of deposits		(1,302)	(1,800)
Investment in available for sale investments carried at fair value and loan		–	(6,621)
Acquisition of subsidiary, net of cash acquired	30	(1,864)	–
Net Cash outflow on acquisition of business combinations		–	(546)
Net cash from investing activities		1,821	2,661
Financing activities			
Decrease in short-term bank credit		–	(55)
Bank loan repayment		(4,810)	(1,717)
Bank loan received		4,211	2,778
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control	26	2,928	–
Net cash from financing activities		2,329	1,006
Increase in cash and cash equivalents		5,065	1,420
Cash and cash equivalents at the beginning of the year		17,042	15,940
Effects of exchange rate changes on the balance of cash held in foreign currencies		(92)	(318)
Cash and cash equivalents at the end of the year		**22,015**	**17,042**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

1. General Information

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

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

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

New and revised IFRSs issued but not yet effective

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

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)[2]
IFRS 16	Leases[3]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that

liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of IFRS 9 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company do not anticipate that the application of IFRS 15 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases). The Company has not yet examined the impact of the provisions of the amendment on asset lease contracts it has.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   (i) the original liability is derecognised;
   (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

The Company has not yet examined the impact of the amendments on the Group's consolidated financial statement.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The Company has not yet examined the impact of the amendments on the Group's consolidated financial statement.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The Company has not yet examined the impact of the amendments on the Group's consolidated financial statement.

3 Significant Accounting Policies

Statement of compliance

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

Basis of preparation

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Basis of consolidation

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

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

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

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

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

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

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

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

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

Goodwill

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

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

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

Non-current assets held for sale

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

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

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

Revenue recognition

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

For new IFRS 15 Revenue from Contracts with Customers see note 2.

Sale of goods

(communication products, Bio-Medical products such as primarily laboratory diagnostics and sterilization products)

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

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

Dividend and interest income

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

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

Long-term contracts

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

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

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

Foreign currencies

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

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

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

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

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

Government grants

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

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

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

Employee benefits

Retirement benefit costs and termination benefits

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

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

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

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

The Group presents the first two components of defined benefit costs in profit or loss in the line item employee benefits expense Curtailment gains and losses are accounted for as past service costs.

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

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

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Share-based payments arrangements

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

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

Taxation

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

Current tax

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Investment Property

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

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the cost model.

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

Property, plant and equipment

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

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

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

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

Buildings	2%-5%
Plant and equipment	10%-33%
Motor Vehicles	15%-20%
Furniture and fittings	6-15%
Leasehold Improvements	10%

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

Research and development expenditure

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

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

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method between 10%-20%.

Acquired intangible assets

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

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

Impairment of tangible and intangible assets other than goodwill

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

Inventory

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

Financial instruments

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 36.

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

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

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance income/(expenses)' line item. Fair value is determined in the manner described in note 36.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 36.

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

Bank borrowings

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

Trade and other payables

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

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

Provisions

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

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

4 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Critical judgments in applying the Group's accounting policies

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

Key sources of estimation uncertainty

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

Impairment of Intangible Assets and goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGU) to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows of the CGU and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets and goodwill at the consolidated statement of financial position date was $20.6 million (2015: $15.6 million), see note 22 and note 23.

Judgments with respect to Available for sale Investments carried at fair value and loan

The fair value of Available for sale Investments and loan are determined using discounted cash flows based on assumptions supported by prices and observable market rates. The Company's management used the services of an external valuator for the measurement of fair value and examined the assumptions that were used. For further information about the assumptions used by the Group, see note 36.

Judgments with respect to a liability to the chief scientist

The assessment of the liabilities to the chief scientist requires management to exercise judgment in regards to future royalty-bearing revenues and a suitable discount rate in order to calculate fair value. The total liability at the year-end is $3.6 million (2015: $3.7 million). See note 36.

Judgments with respect to deferred tax assets

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from loss carry-forwards in different territories, management's estimation that it will be able to utilize them in the foreseeable future, see note 15.

5 Revenues

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

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Sale of goods(*)	71,712	81,094
Services(*)	12,558	9,636
Construction Contracts(*)	6,134	6,366
	90,404	**97,096**

(*) For more details see note 6

6 Business and Geographical Segments

Business segments

Information reported to the chief operating decision maker (CEO of the Company) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided, and in respect of two major operating segments – Networking and Cyber Division and Bio-Medical Division. These divisions are the basis on which the Group reports its primary segment information. The principal products and services of each of these divisions are as follows: Networking and Cyber Division – mostly includes the research and development, production and marketing of data communication products in the field of local and wide area networks and premises management systems. Sales for this segment are global. Bio-Medical Division– engaged in the research and development, production, marketing and distribution of medical products, primarily laboratory diagnostic equipment and sterilization equipment. Sales for this segment are primarily in Europe.

A. Segment revenues and segment results

Year ended 31 December 2016

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Revenues	38,458	51,575	371	90,404
Adjusted Operating profit (loss)(*)	(2,173)	(314)	3,342	855
Reconciliation-Other operating expenses				(1,157)
Operating loss				(302)
Net Finance expense				(359)
Loss before tax				(661)

Year ended 31 December 2015

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Revenues	44,098	52,633	365	97,096
Adjusted Operating profit (loss)(*)	120	360	200	680
Reconciliation-Other operating expenses				(1,354)
Operating loss				(674)
Net Finance expense				(10,680)
Loss before tax				(11,354)

(*) Excluding amortization of Intangible assets see note 23

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

B. Segment assets, liabilities and other information

As at 31 December 2016

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Assets	60,212	55,730	3,669	119,611
Liabilities	17,599	21,122	–	38,721
Depreciation and amortization	1,415	1,608	98	3,121
Additions to non-current assets	2,602	7,214	–	9,816

As at 31 December 2015

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Assets	65,491	50,070	3,791	119,352
Liabilities	18,626	20,234	–	38,860
Depreciation and amortization	1,405	1,631	101	3,137
Additions to non-current assets	1,504	2,541	–	4,045

C. Revenue from major products and services

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

	Year ended 31/12/16 $'000s	Year ended 31/12/15 $'000s
Telecommunications Products	25,834	33,445
Software services	12,995	10,967
Distribution of medical products	35,332	35,148
Clinical Chemistry diagnostic products	10,464	9,026
Sterilisation products	5,779	8,510
	90,404	97,096

D. Geographical segments

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

$'000s	Revenue from external customers		Long-lived assets		Acquisition of assets	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
USA	16,210	18,621	5,323	5,470	329	358
Israel	24,175	27,092	17,407	20,595	3,886	1,965
Moldova	23,692	24,676	2,548	2,655	270	850
Italy	10,221	8,847	8,365	7,779	555	648
Rest of Europe (*)	15,609	17,474	5,529	976	4,776	224
Other	497	386	44	54	–	–
Total	90,404	97,096	39,216	37,529	9,816	4,045

(*) Including Romania, Hungary and UK.

7 Cost of revenues

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Purchases and Subcontractors	44,879	51,132
Changes in Inventory	2,235	98
Salaries and related benefits	11,668	10,415
Overhead and depreciation	1,886	2,444
Other expenses	1,380	2,086
	62,048	**66,175**

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

8 Sales and marketing expenses

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Salaries and related benefits	7,522	6,507
Commissions	931	1,474
Outside services	1,063	780
Advertising and sales promotion	1,037	864
Overhead and depreciation	2,008	1,911
Travelling and other expenses	1,746	2,852
	14,307	**14,388**

9 General and administrative expenses

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Salaries and related benefits	4,126	4,857
Professional services(*)	2,576	1,477
Overhead and depreciation	1,290	1,262
Other expenses	1,592	1,960
	9,584	**9,556**
(*) Including		
Auditors' remuneration for audit services	**283**	**237**

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2016 were $8,000 (2015: $71,000). In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2016, were $26,000 and $29,000, respectively (2015: $45,000 and nil, respectively).

10 Research and development expenses

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Salaries and related benefits	3,583	4,071
Purchases and subcontractors	3,160	2,321
Overhead and depreciation	1,007	899
Other expenses	649	549
Government grants	(779)	(1,148)
	7,620	**6,692**

11 Staff costs

The average monthly number of employees in 2016 (including executive directors) was 947 (2015: 884).

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Their aggregate remuneration comprised:		
Wages and salaries	21,699	21,220
Social security costs	4,233	3,807
Other pension costs	967	823
	26,899	**25,850**
Executive Directors' emoluments	**631**	**647**

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

12 Other operating expenses (income)

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Capital gain of property, plant and equipment [1]	(3,144)	(495)
Capital gain on loss of control in a subsidiary [2]	(855)	–
Amortization of intangible assets [3]	1,157	1,354
Other expenses (income)	(11)	100
	(2,853)	**959**

[1] The Group's real-estate management company has entered into an agreement to sell a wholly owned building situated at Hod Hasharon, Israel. Under the terms of the agreement, BATM received a total consideration of 34 million NIS (approximately $9.1 million) which compares to the building's book value of 22.1 million NIS (approximately $6.0 million) at 31 August 2016. As a result, the profits attributable to the transaction amount to 11.9 million NIS (approximately $3.1 million).

[2] Adaltis Bio Med Company ("ABC") was established in February 2014 held by Adaltis (a Group subsidiary) 51% and Egens 49%. During the year, following an investment of Egens in consideration of its US$1m investment into ABC, Adaltis interest in ABC reduced to 40% and presented as an associate Company. As part of this transaction, Egens is to make a further investment, by way of a shareholder loan, to ABC of US$1.5m. Following this investment, Adaltis' interest in ABC will remain at 40%. The fair value of the transaction is $855 thousand and the net assets of Adaltis china is zero.

[3] See note 23.

13 Finance Income

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Interest on bank deposits	81	130
Gain on derivative financial instruments	157	–
Gain on marketable securities	26	35
Other	27	92
	291	**257**

14 Finance Expense

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Loss on available-for-sale financial assets (note 28)	–	(9,618)
Foreign exchange differences, net	(255)	(840)
Interest on loans	(395)	(479)
	(650)	**(10,937)**

15 Income (expense) tax benefits

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Current tax	(923)	(327)
Tax on previous years	1	(7)
Deferred tax *(Note 25)*	148	(2,412)
	(774)	**(2,746)**

Taxation under various laws:

Israel

The Company is an "industrial Company" as defined in the Israeli Law for the Encouragement of Industry (Taxes) 1969.

In the beginning of January 2016, an amendment to the Income Tax Ordinance was published. The amendment determines that the corporate income tax rate will be reduced to 25% (instead of 26.5%). The new corporate income tax will apply to income derived or accrued starting from 1 January 2016.

On the 29 December 2016 the Economic Efficiency Law (Legislative amendments to achieve budget targets for years' budget 2017 and 2018) 5777-2016, was published in the Official Gazette.

The main changes of the abovementioned law in respect of corporate tax are as follows:

a. In 2017 the corporate income tax rate will be reduced to 24% (instead of 25%) for income derived or accrued starting from 1 January 2017 and will be reduced to 23% in 2018 for income derived or accrued starting from 1 January 2018.

b. Amendment of Encouragement of Capital Investments Law:

    a. The corporate tax rate for each company with a Preferred Enterprise will be reduced to 7.5% instead of 9% for the Preferred Enterprise's income in area A as from 1 January 2017.

    b. Creating new additional tax tracks for Preferred Technological Enterprise (tax rate of 7.5% in Area "A" and a tax rate of 12% in Area "Other") and for special Preferred Technological Enterprise (tax rate of 6%).

    c. Determining relieves of the threshold conditions to enter the track of "Special Preferred Enterprise" relevant for huge companies entitles tax rates of 5% in Area "A" or 8% in the Area "Other".

The Parent Company has a Preferred Enterprise status in area A and its Israeli Subsidiaries assessed according to the corporate income tax rate.

During the year 2013, approval was received from the tax authorities in Israel regarding the merger for tax purposes of the subsidiary Vigilant with the Company. Following the merger, $21 million losses were attributed to the Company and increased the tax loss carry-forwards. As part of the merger approval, there are limitations for utilization of these losses in the future. Legally Vigilant was merged into the Company during 2014 and no longer exists.

The Company has tax loss carry-forwards of $83.6 million of which $78.3 million the Group didn't create deferred tax assets in respect of such losses. According to the Israeli law there is no expiry date to use such losses.

The Company has received final tax assessments for the years up to and including the 2012 tax year (see below). The subsidiaries have not been assessed for tax since their incorporation. During 2014, the Company negotiated with the Tax Authority in Israel regarding the tax assessments of the years 2007 – 2012. On January 2015, the Company signed an agreement with the Tax Authorities regarding the tax assessments in respect of the years 2007 – 2012, the total effect on the financial statements was $696 thousand interest expenses and $155 thousand tax expenses. On February 2015 the Company paid $3.3m with regards to the tax assessments.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before having been utilized. Accordingly, the future use of part of these benefits is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. Deferred tax assets of $2.0 million have been recognised in respect of such losses. The amount of brought forward losses is $315.8 million. According to US law, losses can be carried forward for 20 years. Accordingly, the first portion of the tax losses in the US subsidiary will expire in 2021.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group has tax loss carry-forwards of $21.1 million in Europe subsidiaries of which $17.9 million the Group didn't recognise deferred tax assets in respect of such losses.

The income tax (benefit)/expense for the year can be reconciled to the profit per the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Loss before tax:	**(661)**	**(11,354)**
Tax benefit at the Israeli corporation tax rate of 25% (2015 26.5%)	(165)	(3,009)
Tax reduced income	403	(116)
Deferred taxes recognized in the past regarding losses carried forward, which were deducted in the current period	–	2,354
Tax losses which no deferred tax assets have been recognized	503	2,822
Effect of income that is exempt from taxation	218	–
Tax on previous years	(1)	7
Other differences	(184)	688
Tax expenses for the year	**774**	**2,746**

16 Earnings (loss) per share

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

	Year ended 31 December	
	2016	**2015**
Loss for the purposes of basic and diluted earnings per share ($'000s) attributable to Owners of the Company	**(1,070)**	**(13,250)**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	403,150,820	403,150,820
Effect of dilutive potential ordinary shares:		
Share options	–	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**403,150,820**	**403,150,820**
Weighted average number of non-dilutive potential ordinary shares	**79,950**	**176,010**

17 Financial assets

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Interest-bearing deposits	1,165	1,653
Held for trading bonds	4,428	5,125
	5,593	**6,778**

The average interest rate of deposits is 1.34% and 0.77% in 2016 and 2015 respectively.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

18 Trade & other receivables

Trade and other receivables

	31 December	
	2016 $'000s	**2015 $'000s**
Trade receivable account	23,120	24,569
Participation in research and development: Government of Israel	202	933
VAT	374	747
Tax authorities	234	155
Prepaid expenses	3,378	3,928
Other debtors	816	848
	28,124	**31,180**

The average credit period taken on sales of goods is 75 days (2015: 73 days). No interest is charged on the receivables. An allowance has been made at 31 December 2016 for estimated irrecoverable amounts from the sale of goods of $2,245,000 (2015: $2,271,000). This allowance has been determined by reference to past default experience. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

As of 31 December 2016, Trade receivable account includes amounts of $6m, which maturity date has expired, but the Group, based on past experience and on the credit quality of the debtors, not made an allowance for doubtful debts. Since the Company estimates is which those debts are estimated to be collectible.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and receivables. The amounts presented in the consolidated statements of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

19 Inventories

	31 December	
	2016 $'000s	**2015 $'000s**
Raw materials	6,643	6,811
Work-in-progress	3,059	3,481
Finished goods	10,777	12,338
	20,479	**22,630**

During the financial year 2016, $0.6 million of Inventory was impaired due to slow moving inventory, and expensed to the Profit and Loss account (2015: $0.4 million).

20 Property, plant and equipment ($'000s)

	Land and buildings(*)	Plant and equipment	Motor vehicles	Furniture and fittings	Leasehold improvements	Total
Cost						
At 1 January 2015	20,373	12,638	1,312	3,757	930	39,010
Additions	730	952	181	597	–	2,460
Disposals	–	(400)	(194)	(241)	–	(835)
Allocated to investment property(*)	(1,458)	–	–	–	–	(1,458)
Effect of translation adjustment	(838)	(520)	(54)	(155)	(38)	(1,605)
At 31 December 2015	18,807	12,670	1,245	3,958	892	37,572
Additions	344	2,064	388	338	614	3,748
Disposals (***)	(7,131)	(430)	(261)	(477)	(51)	(8,350)
Acquisition of subsidiary(**)	–	32	207	–	–	239
Effect of translation adjustment	(83)	(56)	(5)	(17)	(4)	(165)
At 31 December 2016	11,937	14,280	1,574	3,802	1,451	33,044
Accumulated depreciation						
At 1 January 2015	4,099	9,738	822	3,285	816	18,760
Depreciation expense	525	596	90	383	64	1,658
Disposals	–	(400)	(156)	(126)	–	(682)
Allocated to investment property(*)	(224)	–	–	–	–	(224)
Effect of translation adjustment	(18)	(42)	(3)	(14)	(3)	(80)
At 31 December 2015	4,382	9,892	753	3,528	877	19,432
Depreciation expense	486	595	136	478	47	1,742
Disposals(***)	(1,249)	(330)	(155)	(441)	–	(2,175)
Effect of translation adjustment	(7)	(17)	(1)	(6)	(2)	(33)
At 31 December 2016	3,612	10,140	733	3,559	922	18,966
Carrying amount						
At 31 December 2016	**8,325**	**4,140**	**841**	**243**	**529**	**14,078**
At 31 December 2015	**14,425**	**2,778**	**492**	**430**	**15**	**18,140**

(*) see note 21
(**) see note 30
(***) see note 12

Additional information:

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

21 Investment Property

	31 December	
	2016 $'000s	**2015 $'000s**
At 1 January	3,791	2,659
Allocated to Investment Property-cost	–	1,458
Allocated to Investment Property- Accumulated Depreciation	–	(224)
Depreciation expense	(125)	(125)
Exchange rate differences	3	23
At 31 December	**3,669**	**3,791**

– The useful lives used; between 10-50 years.

Amounts recognised in the consolidated statements of profit or loss

	31 December	
	2016 $'000s	**2015 $'000s**
Rental income from Investment property	533	336
Operating expenses related to Income from Investment property	(294)	(164)
Operating expenses related to Investment property which produced no income	**(21)**	**(33)**

Additional Information

Fair value disclosures for investment properties measured using the cost model

Details of the Group's freehold land and buildings and information about the fair value hierarchy as at 31 December 2016 are as follows:

	31 December 2016		31 December 2015	
	At amortized cost $'000s	**Fair value level 3 $'000s**	**At amortized cost $'000s**	**Fair value level 3 $'000s**
A Israel [1]	1,756	3,400	1,768	2,998
B USA [2] [*]	1,141	1,221	1,190	1,305
C Italy [2]	772	1,150	833	1,190

[1] The fair value of the investment property in Israel is determined using a discounted cash flow (DCF).

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property.

In the case of investment properties, periodic cash flow is typically estimated as gross income, non-recoverable expenses, collection losses, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted. Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition, of 9%.

(2) The fair value was in Italy and in USA determined based on the market comparable approach that reflects recent transaction prices for similar properties, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties.

Average price market, taking into account the differences in location, and individual factors, such as frontage and size, between the comparables and the property, at an average price of $1,159 per square meter for the property in Italy and an average price of $120 per square foot for the property in USA.

(*) The Company started to rent part of the office in Boston MA during October 2015. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

22 Goodwill

The Group tests annually goodwill for impairment or more frequently if there are indications that goodwill might be impaired. The Group has two reportable business segments and goodwill is associated with CGUs within the Bio-Medical segment or CGUs within the Networking and Cyber segment. The CGU of Bio-Medical at the amount of $8,575 thousand (2015: $5,059 thousand) has been divided into 4 CGUs: Sterilization, Diagnostic, Distribution and Analytical instruments distribution. The CGUs within the Networking and Cyber segment at the amount of $6,436 thousand (2015: $6,371 thousand).

The Goodwill is allocated to the following CGUs:

Sterilization: $2,550 thousand (2015: $2,550 thousand)

Diagnostic: $1,510 thousand (2015: $1,544 thousand)

Distribution: $989 thousand (2015: $965 thousand)

Analytical instruments distribution: $3,526 thousand (2015: nil)

Telecommunications: $1,984 thousand (2015: $1,984 thousand)

Software services: $4,452 thousand (2015: $4,387 thousand)

The recoverable amounts of the CGU are determined from value in use calculations except of the Diagnostic CGU. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Pre-tax discount rates of between 12% - 15.1% have been used which is consistent with the rate used for determining the value of purchased intangibles. Changes in selling prices and direct costs are based on recent history and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management and extrapolates indefinite cash flows based on estimated growth rates. For the purposes of this calculation management have used a revenue growth rates of 10% for years 1-5 and then 1% thereafter, for the Telco CGU and 10% for year 1 and 9% for years 2-5, and then 1% thereafter, for the Telecoms Outsourcing CGU and 11% for year 1 and 30% for year 2 and 15% for years 3-5 , and then 1% thereafter for the Sterilization and 16% for year 1 and 11% for years 2-5, and then 1% thereafter for the Distribution and 48% for year 1 and 10% for years 2-5, and then 1% thereafter for the Analytical instruments distribution.

Fixed expenses have been assumed to grow at 0%, 3%, 3%, 3%, 2% for years 1-5 respectively, and then 3% thereafter in the Telco and Telecoms Outsourcing CGU and (9)%, 5%, 5%, 3% and 3% for years 1-5 respectively, and then have been assumed to remain constant thereafter for Sterilization and Distribution and Analytical instruments distribution CGU. Variable expenses (directly linked to sales) have been assumed to grow at 6%, 5%, 7%, 7%, 8% for years 1-5 respectively, and then 1 % thereafter for the Telco and Telecoms Outsourcing CGU, and 11%, 13%, 12%, 12% and 12% for years 1-5 respectively, and then 1% thereafter for the Sterilization and Distribution and Analytical instruments distribution CGU. The rates used above reflect historical rates achieved and expected levels for 2016 but then are prudently adjusted for subsequent years.

The recoverable amount of the diagnostics unit is determined based on the fair value less sales costs of the investment of purchase RMB20m (approximately US$3m) of new shares in Adaltis, equivalent to approximately 5.5% of Adaltis' enlarged share capital, valuing Adaltis at approximately US$58m.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Sensitivity of the recoverable amount to changes in the key assumptions

The recoverable amount of the Sterilization activity is higher from the carrying amount in amount of $4.0 million. Reduction of 7% growth rate taken into account in calculating the value in use of the activity will result in a decrease of $3.7 million recoverable amount of the activity and no goodwill impairment will be recorded. Decrease in growth rate as stated will lead to changes in other assumptions taken for the calculation of value in use. Increase of 4% in pre-tax discount rate taken into account in calculating the value in use of the activity will result in a decrease of $3.6 million recoverable amount of the activity and no goodwill impairment will be recorded.

	2016 $'000s	2015 $'000s
Balance at 1 January	11,430	11,459
Additions in the year [*]	3,526	224
Foreign Exchange difference	55	(253)
Balance at 31 December	**15,011**	**11,430**

[*] see note 30.

23 Other Intangible Assets

	Customer Relationships and Backlog $'000s	Technology $'000s	Other [*] $'000s	Total $'000s
Cost				
At 1 January 2015	15,525	10,468	2,753	28,746
Additions	–	–	1,361	1,361
Disposals	–	–	(333)	(333)
Effect of translation adjustments	(109)	(681)	(430)	(1,220)
At 31 December 2015	15,416	9,787	3,351	28,554
Additions	97	–	2,444	2,541
Effect of translation adjustments	(96)	(93)	67	(122)
At 31 December 2016	**15,417**	**9,694**	**5,862**	**30,973**
Accumulated amortization				
At 1 January 2015	13,288	8,895	1,617	23,800
Effect of translation adjustments	(552)	(603)	293	(862)
Disposals			94	94
Amortization expense	997	318	39	1,354
At 31 December 2015	13,733	8,610	2,043	24,386
Effect of translation adjustments	(122)	(70)	18	(174)
Amortization expense	769	317	71	1,157
At 31 December 2016	**14,380**	**8,857**	**2,132**	**25,369**
Carrying amount				
At 31 December 2016	**1,037**	**837**	**3,730**	**5,604**
At 31 December 2015	**1,683**	**1,177**	**1,308**	**4,168**

[*] Include mainly Capitalized R&D (Agri sterilization devices, ATCA 510 and CloudMetro 10/100).

Other intangible assets are amortised on a straight-line basis over their estimated useful lives, which range from 3 to 11 years.

Amortization by categories:

Customer Relationships and Backlog: mainly 7 to 10 years

Technology: mainly 10 to 11 years

Other: 3 to 10 years

24 Subsidiaries

A list of the significant direct and indirect investments in subsidiaries, including the country of incorporation, and percent of ownership interest as at 31 December 2016 is presented below.

Subsidiary	Principal Activity	Country of incorporation	Ownership interest	Date of acquisition
Entity A	Telecommunication	United States of America	100%	April 2000
Entity B	Distribution	Romania	100%	June 2007
Entity C	Software	Israel	100%	October 2007
Entity D	Distribution	Moldova	51%	July 2008
Entity E	Diagnostics	Italy	100%	November 2009
Entity F	Diagnostics	Italy	100%	February 2009
Entity G	Sterilisation	Hungary	75%	February 2008
Entity H	Cyber	Israel	67%	April 2012

25 Deferred tax

Deferred tax assets

The following are deferred tax assets recognised by the Group and movements thereon during the current and prior reporting period (see also Note 15).

	Deferred development costs $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Other(*) $'000s	Total $'000s
At 1 January 2015	149	203	5,284	354	5,990
Credit (charge) to income	(149)	(120)	(1,784)	(354)	(2,407)
Effect of translation adjustments	–	(1)	–	–	(1)
At 31 December 2015	–	82	3,500	–	3,582
Credit (charge) to income	–	59	751	(812)	(2)
Effect of translation adjustments	–	–	(36)	26	(10)
At 31 December 2016	–	**141**	**4,215**	**(786)**	**3,570**

(*) Including goodwill and other temporary differences

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

The Company incurred current tax losses in previous years in certain jurisdictions, to which deferred tax assets relate. In 2016 these companies recorded taxable profits and management has convincing evidence to recognize these deferred tax assets.

Deferred tax liabilities

	Intangible Assets $'000s	Tangible assets and other $'000s	Total
At 1 January 2015	725	449	1,174
Credit to income	(176)	181	5
Effect of translation adjustments	(59)	(25)	(84)
At 31 December 2015	490	605	1,095
Credit to income	(166)	16	(150)
Effect of translation adjustments	(38)	5	(33)
At 31 December 2016	**286**	**626**	**912**

The following are unrecognised taxable temporary differences associated with investments and interests: Taxable temporary differences in relation to investments in subsidiaries for which deferred tax liabilities have not been recognised are attributable to: 31 December 2016 $7,821 thousand (31 December 2015: $3,961 thousand).

26 Financial liabilities and other

Trade and other payables

	31 December	
	2016 $'000s	**2015 $'000s**
Trade creditors	10,618	14,293
Salary accruals	5,930	4,426
VAT and other tax	1,573	679
Liability to the office of the chief scientist	709	1,001
Liability on acquisition of a subsidiary	633	–
Provision	197	217
Other creditors and accruals *	7,440	7,043
	27,100	**27,659**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2015: 59 days).The directors consider that the carrying amount of trade payables approximates to their fair value.

* Including liability to a related party, amount of $105 thousand.

Long-term liabilities

	31 December	
	2016 $'000s	2015 $'000s
Long-term bank credit [1]	1,104	3,374
	1,104	**3,374**

(1) During 2015 one of the Company's subsidiaries, Becor, received a loan from the bank: $350 thousand in local currency bearing 10% interest rate paid monthly starting October 2017 for 3 years.

During 2015 one of the Company's subsidiaries in Europe received a loan from the bank: Euro 650 thousand bearing 2.59% interest rate and linked to the Euribor, paid quarterly starting September 2017 for 5 years.

	31 December	
	2016 $'000s	2015 $'000s
Liability to the office of the chief scientist [1]	3,116	3,231
Liability on acquisition of a subsidiary	1,267	–
Derivative for non-controlling interest [2]	242	–
Government institutions and other	97	31
	4,722	**3,262**

(1) This liability (hybrid instrument containing embedded derivative) is designated at FVTPL according to relevant accounting policy (see also note 36(k)).

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

(2) Egens (the partner hold in ABC, see note 12) purchased RMB20m (approximately US$3m) of new shares in Adaltis, equivalent to approximately 5.5% of Adaltis' enlarged share capital, valuing Adaltis at approximately US$58m. The transaction recorded as disposal of partial interest in subsidiary in amount of $2,686 thousand in the total equity and $242 thousand as derivative for non-controlling interest in long-term liabilities.

27 Share capital

	Ordinary shares of NIS 0.01 each (number of shares)	
	2016	2015
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid	**403,150,820**	**403,150,820**

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

During 2016 and 2015 no options were exercised.

28 Investments

Available for sale Investments carried at fair value and loan

During 2013 the Company made an investment of $3.5m into a consortium for the construction of a new nationwide fiber optic infrastructure network in Israel named Israel Broadband Company (2013) Ltd (Hereinafter - "IBC"). During 2015, as part of the consortium agreement in IBC, the Company has transferred an additional NIS 25m ($6.5m) upon IBC's call for the additional investment, comprising NIS 6.25m ($1.6m) as an additional equity investment in IBC and NIS 18.75m ($4.9m) as a shareholder loan.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

In addition as at 31 December 2014 financial reports, the IBC investment was re-appraised by an external valuator and increased the fair value of the available-for-sale financial assets in amount of $0.5m, the increase registered in the other comprehensive income.

As at 31 December 2015, the Company prepared, with assistance of an Independent external valuator, assessing the recoverable amount of the investment in IBC. The Company recognized an impairment loss in the financial statement in the amount of $9.6m comprising: $4.7m impairment loss of the investment in IBC and $4.9m impairment loss of the loan to IBC, which included in the consolidated statement of profit or loss as financial expenses and decreased the fair value of the available-for-sale financial assets in the other comprehensive income in amount of $0.5m.

In 2016 the Company examined the value of the investment in IBC and found there was no change in the fair value compare to the end of last year.

29 Note to the cash flow statement

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Operating loss from operations	(302)	(674)
Adjustments for:		
Amortization of intangible assets *	1,157	1,354
Depreciation of property, plant and equipment and investment property	1,965	1,783
Capital gain of property, plant and equipment *	(3,929)	(495)
Stock options granted to employees	108	91
Increase (decrease) in retirement benefit obligation	(232)	(79)
Decrease in provisions	(20)	(101)
Decrease (increase) in inventory	2,348	1,683
Decrease (increase) in receivables	2,795	(768)
Increase (decrease) in payables	(2,035)	1,771
Effects of exchange rate changes on the balance sheet	(419)	(3,631)
Income taxes paid	(153)	(3,505)
Income taxes received	4	743
Interest paid	(372)	(419)
Net cash from (used in) operating activities	**915**	**(2,247)**

* Including in other operating expenses

30 Business combinations

During January 2016 the Group acquired 100% of the issued share capital of Green Lab for a consideration of $3,813,000 payable in cash over a three-year period. Green Lab is one of the leading distributors of analytical instruments for environmental and industrial sectors. Green Lab has exclusive relationships in Hungary with some of most prominent operators in the industry.

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

GREEN LAB

	US$ in thousands Unaudited
Net assets acquired	
Property, plant and equipment	239
Inventory	85
Trade and other receivables	645
Cash	49
Trade payables and other liabilities	(1,000)
	18
Other intangible assets	269
Goodwill (*)	3,526
Total consideration	**3,813**
Satisfied by:	
Cash	1,913
Deferred Consideration recorded as liability (**)	1,900
	3,813
Net cash outflow arising on acquisition	
Cash consideration	1,913
Cash and cash equivalents acquired	(49)
	1,864

(*) the goodwill represents expected synergies from combining operations of the acquiree and the acquirer and intangible assets that do not qualify for separate recognition or other factors.

(**) see note 26

Green Lab contributed $2,506 thousand revenue and income of $255 thousand to the Group's profit before tax for the period between the date of acquisition and 31 December 2016.

31 Guarantees and liens

The Group provided from time to time bank guarantees due to advances from customers.

The Company registered several liens in favour of banks.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

32 Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2016 $'000s	**2015 $'000s**
Minimum lease payments under operating leases		
Recognised in income for the year	**1,671**	**1,571**

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

	31 December	
	2016 $'000s	**2015 $'000s**
Within one year	1,795	1,231
In the second to fifth years inclusive	2,832	1,603
	4,627	**2,834**

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

The Group as lessor

Property rental income earned during 2016 was $582,000 (2015: $366,000). The properties under lease agreements to third parties by the Group have committed tenants for most of the property for the next year. At the consolidated statements of financial position date, the Group had contracted with tenants for the following future minimum lease payments:

	31 December	
	2016 $'000s	**2015 $'000s**
Within one year	548	558
In the second to fifth years inclusive	1,043	1,304
	1,591	**1,862**

33 Share-based payments

Equity-settled share option scheme

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

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

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

	2016		2015	
	Number of share options	Weighted average exercise price (in GBP)	Number of share options	Weighted average exercise price (in GBP)
Outstanding at beginning of year	4,341,028	0.2507	4,278,237	0.2849
Granted during the year	3,013,879	0.1298	1,192,321	0.1269
Forfeited during the year	(892,196)	0.1995	(1,129,530)	0.2496
Exercise during the year	(–)	–	(–)	–
Outstanding at the end of the year	**6,462,711**	**0.2014**	**4,341,028**	**0.2507**
Exercisable at the end of the year	**4,159,611**	**0.2398**	**2,748,706**	**0.2872**

The options outstanding at 31 December 2016 had a weighted average exercise price of 0.2014 GBP, and a weighted average remaining contractual life of 6.78 years. In 2016, options were granted on February 29 and June 27. The aggregate of the estimated fair values of the options granted on those dates is $634,000. In 2015, options were granted on May 5. The aggregate of the estimated fair values of the options granted on this date is $261,000.

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

	2016	2015
Weighted average share price (GBP)	0.19	0.17
Weighted average exercise price (GBP)	0.13	0.17
Expected volatility	24-90	24-58
Expected life	5-7	7
Risk-free rate	1.3%	1.3%-1.5%
Expected dividends	0%-2.5%	0%-2.5%

The inputs into the Black-Scholes model for the options granted in 2016 are as follows:

	2016
Weighted average share price (GBP)	0.13
Weighted average exercise price (GBP)	0.15
Expected volatility	90
Expected life	5
Risk-free rate	1.3%
Expected dividends	0%

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

The Group recognised total expenses of $108,000 and $91,000 related to equity-settled share-based payment transactions in 2016 and 2015, respectively.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

34 Retirement benefit obligation

Defined contribution plans

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

Total expenses related to the contribution retirement benefit schemes are: $700 thousand in the year 2016 (2015: $530 thousand).

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

Defined benefit plans

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

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

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 26 January 2017 by Elior Weissberg, FILAA on behalf of Elior Weissberg Ltd. a member of the Institute of Actuaries regarding the employees in Israel. The present value of the defined benefit, obligation, the related current service cost and past service cost were measured using the projected unit credit method. The discount rate was based on high quality corporate bonds.

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

	2016	2015
Discount rate(s)	2.53%	2.3%
Expected rate(s) of salary increase	1-3%	1-3%
Expected inflation rate	1.26%	1.13%
Employee turnover rate	8%	8%

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

Service cost:

	2016 $'000s	2015 $'000s
Current service cost	164	226
Past service cost	11	–
Net interest expenses	30	33
Re-measurement on the net defined benefit liability and assets from changes in financial assumptions	–	(173)
Components of defined benefit costs recognised in profit or loss	**205**	**86**

Re-measurement on the net defined benefit liability:

	2016 $'000s	2015 $'000s
Return on plan assets (excluding amounts included in net interest expense)	(45)	–
Actuarial gains and losses arising from changes in financial assumptions	(15)	–
Actuarial gains and losses arising from other	(148)	–
Adjustments for restrictions on the defined benefit asset	(3)	–
Components of defined benefit costs recognised in other comprehensive	**(211)**	**–**
Total	**(6)**	**86**

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

	2016 $'000s	2015 $'000s
Present value of funded defined benefit obligation	2,460	3,203
Fair value of plan assets	(1,984)	(2,496)
Net liability	476	707

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

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

	2016 $'000s	2015 $'000s
Opening defined benefit obligation	3,203	3,748
Current service cost	246	226
Interest cost	69	84
Remeasurement (gains)/losses arising from changes in financial assumptions	(56)	(199)
Benefits paid	(1,145)	(1,024)
Reclassified to short-term	(92)	(259)
Exchange rate differences	235	627
Closing defined benefit obligation	**2,460**	**3,203**

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

	2016 $'000s	2015 $'000s
Opening fair value of plan assets	2,496	2,962
Interest income	39	51
Premeasurements gains (losses) Return on plan assets (excluding amounts included in net interest expense)	41	(28)
Contributions from the employer	240	175
Benefits paid	(1,027)	(783)
Reclassified to short-term	–	(166)
Exchange rate differences	195	285
Closing fair value of plan assets	**1,984**	**2,496**

35 Related party transactions

Remuneration of key management personnel

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

Table A – Emoluments of the Directors with comparatives

	Basic Salary $'000	Social Benefits $'000	Pension Benefits $'000	Performance Bonus $'000	2016 Total $'000	2015 Total $'000
Zvi Marom	399	–	–	–	399	373
Moti Nagar	198	25	9	–	232	–
Gideon Chitayat	59	–	–	–	59	52
Avigdor Shafferman	44	–	–	–	44	44
Gideon Barak	30	–	–	–	30	39
Orna Pollack	44	–	–	–	44	17
Harel Locker	10	–	–	–	10	–
Elka Nir	–	–	–	–	–	19
Ofer Bar Ner(*)	–	–	–	–	–	274

The total liability for the Executive Directors in the year-end 2016 was $42 thousand (2015: $45 thousand) related to December 2016 and 2015 wages paid in January 2017 and 2016 respectively.

(*) Mr. Bar-Ner resigned as director effective 1 January 2016

Table B – Interests of the Directors

The interests of the Directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company at 31 December 2016 and 2015 were as follows:

	2016 Ordinary shares	2015 Ordinary shares
Zvi Marom	96,694,500	96,394,500
Moti Nagar	–	–
Gideon Chitayat	3,000,000	2,000,000
Avigdor Shafferman	–	–
Gideon Barak	–	–
Orna Pollack	–	–
Harel Locker	–	–

Share Options

During 2015 the Board approved the grant of 3,906,200 options to purchase BATM shares to Mr. Moti Nagar, Executive Director and CFO. 50% of the options became exercisable on 31 December 2016 and the remaining 50% may be exercised by Mr. Nagar starting 31 December 2017 provided that Mr. Nagar remains in his position as CFO at that date and certain pre-defined financial performance criteria have been achieved by the Group. The options were granted by the Board at an exercise price of GBP 0.127.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Table C – Remuneration of key management personnel

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

	2016 $'000s	2015 $'000s
Short-term employee benefits	614	644
Post-employment benefits	9	11
Other long-term benefits	12	15
Termination benefits	13	18
	648	**688**

36 Financial Instruments

(a) Capital risk management

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

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

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

(c) Categories of financial instruments

	2016 $'000s	2015 $'000s
Financial assets		
Cash and cash equivalents*	22,015	17,042
Fair value through profit or loss held for trading	5,593	6,778
Receivables	27,516	30,277
Available for sale Investments carried at fair value	614	611
Financial liabilities		
At amortized cost	29,736	32,404
Fair value through profit or loss	5,730	3,727

*cash and cash equivalents comprised by $6.6 million deposits up to three months and $15.4 million cash (2015: $0.9 million deposits up to three months and $16.1 million cash).

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

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

(d) Financial risk management objectives

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

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

(e) Market risk

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

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

(f) Foreign currency risk management

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

The Company does not implement hedge accounting.

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

	Liabilities		Assets	
	2016 $'000s	2015 $'000s	2016 $'000s	2015 $'000s
New Israeli Shekel	5,004	4,614	16,831	11,242
Euro	12,425	14,091	11,191	6,744
MDL	1,338	3,126	3,621	4,742
Other	2,240	1,409	4,394	4,270

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

Foreign currency sensitivity

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

The following table details the Group's sensitivity to a 10 percent change in US$ against the respective foreign currencies in 2016 (2015: 10 percent). The 10 percent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit or loss and other equity where US$ weaken against the respective currency. If US$ were to strengthen by the same percentage against the respective currency there would be a similar but reverse impact on the profit or loss and equity as presented in the tables below.

Profit or loss

	2016 $'000s	2015 $'000s
NIS Impact	73	291
Euro Impact	28	28

Equity

	2016 $'000s	2015 $'000s
NIS Impact	1,110	372
Euro Impact	(152)	(762)
MDL Impact	228	162
Other currencies Impact	212	284

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

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

During the year the Company engaged in four financial instruments which resulted in $157 thousand recorded as finance income (2015: one financial instrument which resulted in $3 thousand recorded as finance expenses).

(g) Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposure to interest rate on financial assets and financial liabilities are detailed in the liquidity section to this note. The exposure to floating rate loans is not material.

(h) Liquidity risk management

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

Financial liabilities

	Weighted average effective interest rate	0-3 months	3 months to 1 year	1-5 years	Total
	%	US$'000s	US$'000s	US$'000s	US$'000s
31 December 2016					
Non-interest bearing	–	24,834	522	5,796	31,152
Bank loans interest bearing (*)	3.98	4,212	195	1,104	5,511
		29,046	717	6,900	36,663
31 December 2015					
Non-interest bearing	–	26,267	571	6,065	32,903
Bank loans interest bearing (*)	4.27	1,147	1,616	3,374	6,137
		27,414	2,187	9,439	39,040

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

The future bank loan interest to be paid is $190 thousand

(i) Finance liabilities

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

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

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

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

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

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

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

Fair value through profit or loss	31 December	
	2016 $'000s	2015 $'000s
Opening balance	3,727	3,927
Losses/(Gains) in profit or loss(*)	(811)	259
Received	1,217	167
Paid	(563)	(626)
Closing balance	**3,570**	**3,727**

(*) Mainly in R&D

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2016

The liability was measured using the discounted cash flow (DCF) method. The discount rate used to measure the liability is 15.1%. If the discount rate decreased by 1% the liability will Increase by $103 thousand.

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

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

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

Reconciliation of Level 3 fair value measurements of Available for sale Investments carried at fair value- IBC

	31 December	
	2016 $'000s	**2015 $'000s**
Opening balance	45	5,294
Unpaid investment	–	–
Revaluation	–	(5,231)
Translation differences	1	(18)
Closing balance	**46**	**45**

Based on the valuation as mentioned, been found that the recoverable amount of the Company's share in the project is estimated as of 31 December 2016, in amount of $46k (2015: $45k) since the prevailing uncertainty regarding the project has grown significantly and therefore, as part of the WACC (Weighted average cost of capital) of the investment was taken specific risk premium of 2%, and leverage rate lower than the comparison companies which led to WACC of 15.4%. Therefore, the Company recognized an impairment loss in the financial statement. Aforementioned impact on the financial statements of the Company reflected in recorded a loss in amount of $5.2m, which included: $4.7m in the consolidated statement of profit or loss as financial expenses and decreased the fair value of the available-for-sale financial assets in the other comprehensive income in amount of $0.5m.

During October 2015 the Company gave a loan to IBC in the amount of $4.9m (see note 28). At the end of the year, according to the external valuation mentioned above, the Company recognized an impairment loss for the whole loan.

37 Non-cash transactions

The acquisition of Green Lab in the total consideration of $3.8m payable in cash over a three-year period comprising: $1.9m paid in cash on the acquisition date and $1.9m will be paid in three equal annual instalments and presented as non-cash transaction (Note 30).

38 Post balance sheet events

Post period, BATM entered into an agreement to purchase the entire issued share capital of Zer Laboratories, which is the largest private diagnostic laboratory in Israel for clinical tests, mainly providing prenatal screening tests for Down's Syndrome, genetic tests and additional tests performed during IVF and fertility treatments, for a consideration of NIS 2.75m (approximately $0.73m) payable in cash (the "Acquisition"). BATM expects the Acquisition to enable it to capture the growth market in non-invasive prenatal tests (NIPT) in Israel and Europe, enhancing the activities of the Group's genetic lab in Bucharest.

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