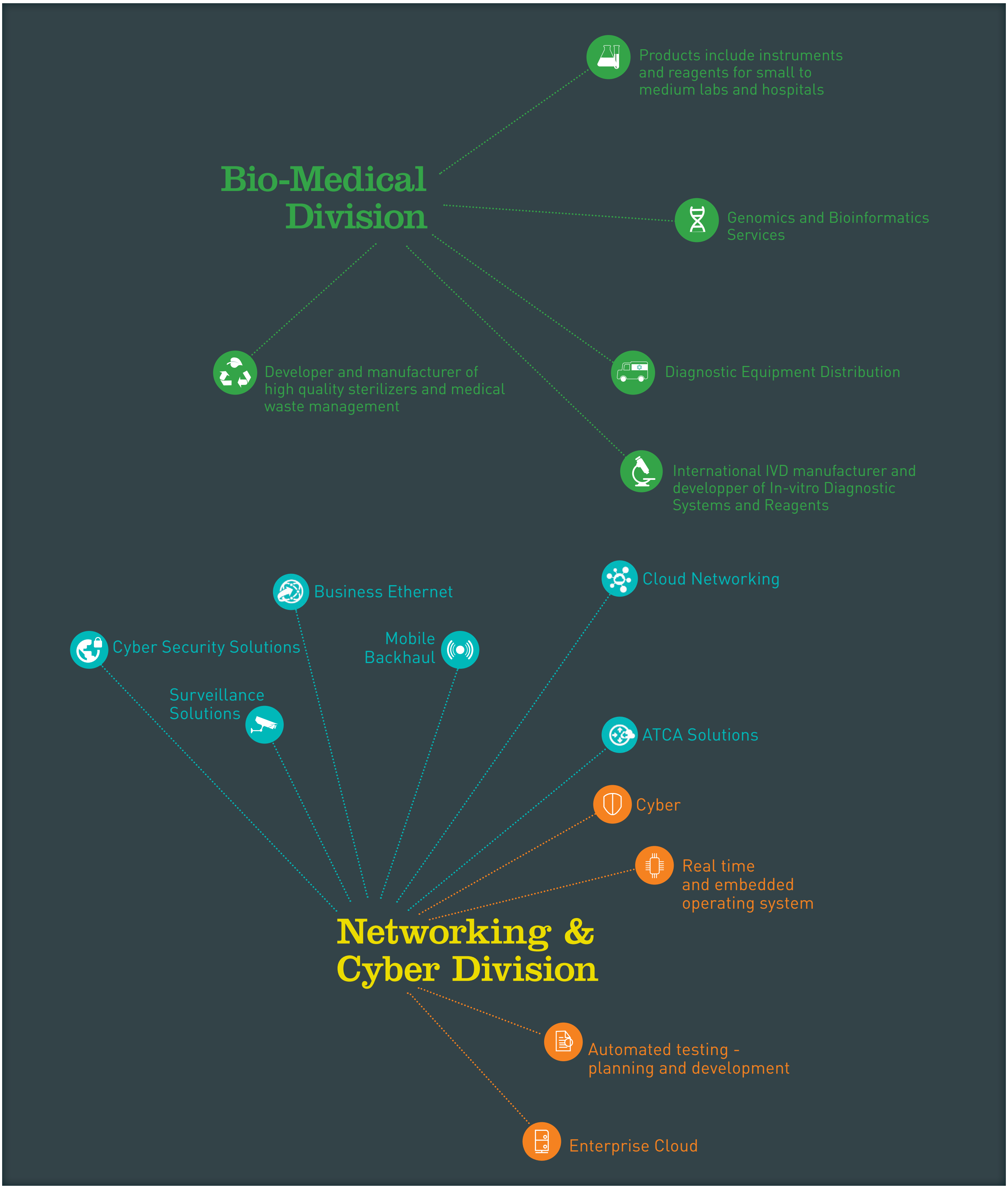
BATM Advanced Communications



Annual Report and Accounts

for the year ended 31 December 2017

CONTENTS

Directors, Secretary & Advisers

Directors

Dr. Gideon Chitayat – Non-Executive Chairman
Dr. Zvi Marom – Founder & CEO
Dr. Avigdor Shafferman – Non-Executive Senior Independent 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 Adviser & Stockbroker

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

Link 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 increased to
$107.1m
(2016: $90.4m)

Adjusted operating profit* of
$5.6m
(2016: $0.9m)

As at 31 December 2017, the Group had cash and financial assets of
$24.0m
(30 June 2017: $22.4m; 31 December 2016: $27.6m)

Gross profit of
$32.7m
(2016: $28.4m)

EBITDA of
$7.7m
(2016: $2.8m)

Earnings per share of
0.06¢
(2016: 0.27¢ loss per share)

Gross margin of
30.6%
(2016: 31.4%)

Operating profit of
$4.2m
(2016: $0.3m loss)

* This report includes Alternative Performance Measure of adjusted operating profit. For a reconciliation of this measure to the IFRS please refer to page 11

Bio-Medical Division (54% of total revenue)

- **Revenues increased by 11.2% to $57.4m (2016: $51.6m)**
- **Blended gross margin was maintained at 25% (2016: 25%)**
- **Diagnostics Unit**
  - Increased penetration and geographical expansion with existing products, but overall revenue lower compared with prior year due to reduced sales in China, a key market
  - Launched a new ELISA instrument, Personal LAB, in December 2017, with several orders received to date
  - Progressed the development, through the Ador joint venture, of new unique rapid-results sample-to-answer multiplexed molecular diagnostics system, which has already been granted several patents in the US, and reagents
  - Increased sales activity to end the period with a higher order book than at the period end of the previous year
- **Eco-Med Unit**
  - Significant progress in Eco-Med unit with revenues increasing by 29.3% over the prior year
  - Launched the world's first mobile agri-waste treatment solution and was awarded a contract for $2.5m, subsequently extended by $1.1m for a fixed unit, and the mobile unit has now been delivered
  - First large installation of the Group's new solution for treating agricultural waste, that was installed at a poultry processing facility, continued to perform well; and the Group is in the process of providing the second large installation at a bovine slaughterhouse
  - Commenced sales of the new ISS 500 with automated reloading system for treating medical waste in hospitals, with the first systems delivered to customers in the Middle East and Europe and first order received from a customer in the US
  - Higher order book than at the same point of the prior year

Bio-Medical Division (54% of total revenue) *continued*

- **Distribution Unit**
  - Increased sales primarily due to strong growth in the distribution of diagnostic kits and services
  - Acquired Zer Laboratories Ltd, the largest private diagnostic laboratory in Israel for clinical tests, and commenced offering molecular diagnostics (genetics-based) diagnostics solutions in Israel with strong sales during the year
  - Commenced operations at the two new diagnostic and analytic laboratories opened in Romania during 2016

Networking and Cyber Division (46% of total revenue)

- **Sales growth with revenues increasing by 28.3% to $49.4m (2016: $38.5m) – first annual period of sales growth since 2011**
- **Blended gross margin was 36% (2016: 40%)**
- **Networking Unit**
  - Growth in the division due to increase in sales of ICT services and solutions
  - Gained 47 new client accounts, such as Google and TPx Communications
  - A Tier 1 cyber security customer launched new security systems, basing its networking capability on the Group's state-of-the-art 100 Gigabit Ethernet (100GE) card
  - Awarded a framework agreement valued at up to $35.8m over five years to provide ICT services and solutions to an agency of a government defence department
- **Substantial progress in implementing Software-Defined Networking ("SDN")/Network Function Virtualisation ("NFV") strategy:**
  - Established partnerships with a number of leading telecoms organisations, including NXP Semiconductors and Arm Holdings, with the respective partners offering joint solutions for network virtualisation
  - Only worldwide software vendor to provide NFV functionality to Arm architecture and all Intel platforms
  - Successful proof-of-concept trials ("POCs") conducted worldwide
- **Cyber Unit**
  - Received expansion of a contract awarded last year by a government defence department, which is now worth $5.2m
  - Conducted successful POC for cyber monitoring and detection systems for first European government customer and engaged in several other POCs in multiple countries
  - Post period end, awarded $4m contract extension for cyber security solution by a government defence department

STRATEGIC REPORT

Chairman's Statement

BATM has returned to growth demonstrating significant improvement in its operating performance and, most importantly, with its strategic plan. Our excellent Executive Team and the heads of the business units deserve the credit in returning BATM to growth and delivering the financial results set out in 2017 Annual Report. It is also pleasing to see that this performance was reflected in an improvement in our share price over the year.

In 2017, we achieved the goals that we set for ourselves for the year. We gained new customers and partners, secured new contracts, expanded into new territories and continued to establish a leading position in our target markets. The strategies we implemented in both our divisions – Bio-Medical and Networking & Cyber – are coming to fruition as new products and technologies have completely replaced legacy products and are gaining traction in areas that we had previously identified as growth markets.

The Bio-Medical Business

The Bio-Medical division continued to demonstrate growth in product sales and we made a strong start in providing services while we continued to advance the development of disruptive patented technologies that will soon be introduced to the markets. The division saw growth in its Eco-Med and Distribution units and lower revenues in Diagnostics unit.

At the beginning of the year, the Group acquired Zer Laboratories a private diagnostics laboratory in Israel for clinical tests. With Zer, we primarily conduct the pre-natal screening tests for non-invasive pre-natal tests, and towards the end of the year we added new molecular biology tests especially for cancer. We are happy to enter into the services business and expect it to expand in 2018.

The Networking and Cyber Business

The Networking and Cyber division achieved an increase in revenue for the first time since 2011. Sales in this division grew by 28.3% compared with the previous year. This was mostly due to growth in ICT services and solutions as well as the success of the strategic decision to focus on software-based Network Function Virtualisation (NFV) solutions that have come now of age. The partnerships established with NXP Semiconductors and ARM Holdings has laid the groundwork for future growth where our open and agile service delivery platform can meet the growing demand from telecoms operators and managed service providers.

It was pleasing to see the operational success of our businesses translating into financial success too. Our EBITDA in 2017 was $7.7m compared with an EBITDA of $2.8m in 2016. BATM was able to report positive earnings per share for the first time since 2012.

I am confident that BATM will meet its goals for 2018, generating sustainable growth across the Bio-Medical and the Networking & Cyber divisions, which should in turn drive shareholder returns. We will continue to oversee performance of all our businesses closely, ensuring that the Group executes its strategy with financial discipline and with integrity.

Finally, I would like to thank Dr. Zvi Marom our CEO, Mr. Moti Nagar our CFO and our Executive Team for their efforts. Many thanks to my Board colleagues for their considerable contribution. We all appreciate the dedication, skills and professionalism of our employees all over the globe.

Mostly, I would like to thank our loyal shareholders for their ongoing support.

We all are committed to creating substantial value for our shareholders. BATM Group is well positioned to benefit from growing markets, and I look forward to reporting on our progress.

Dr. Gideon Chitayat
Chairman
29 April 2018

Chief Executive Officer's Review

This was a turnaround year for BATM as the Networking and Cyber division achieved increased year-on-year revenue for the first time since 2011 and the Bio-Medical division continued to demonstrate strong growth. The strategy that we had implemented in the Bio-Medical division to establish the Eco-Med unit also began to come to fruition with its newly-launched solutions gaining significant traction during the period and an accrual of a substantial order book for delivery in 2018.

Both divisions gained new customers, secured new contracts and expanded into new territories. New products and technologies have replaced legacy products, and we advanced our sales and marketing strategies in targeting new areas that we had identified as growth markets.

As a result, total Group revenue increased by 18.5% to $107.1m (2016: $90.4m), of which the Bio-Medical division accounted for 54% with the contribution from the Networking and Cyber division being 46%. We also increased our operating profit and returned to generating positive earnings per share.

Now to look at each division in more detail.

Bio-Medical Division

The Bio-Medical division achieved significant revenue growth in the Eco-Med and Distribution units, which offset the lower revenues in the Diagnostics unit. However, as a result of the latter, adjusted operating loss for the division was greater than the prior year.

Distribution

The Distribution unit accounted for 74% of the Bio-Medical division's revenues in 2017 compared with 68% of revenues in 2016, reflecting an increase in sales of 21.3%. This was due to strong growth in the distribution of diagnostic kits and services.

At the beginning of the year, we acquired the entire issued share capital of Zer Laboratories for a consideration of NIS 2.75m (c. £580,000) payable in cash. Zer Laboratories is the largest private diagnostic laboratory in Israel for clinical tests, mainly providing prenatal screening tests for Down's syndrome, genetic tests and additional non-invasive prenatal tests (NIPT) performed during IVF and fertility treatments. During the year, we commenced providing these tests and achieved strong, better-than-expected sales. Towards the end of the year, new molecular biology tests, especially for cancer, were added in cooperation with leading US companies. These tests have received a very good initial response with first sales from several prominent oncologists.

Also during the year, operations commenced at the two new diagnostic and analytic laboratories that we opened in Romania in 2016.

Eco-Med

The Eco-Med unit accounted for 13% of the Bio-Medical division's revenues in 2017 compared with 11% of revenues in 2016, reflecting an increase in revenues of 29.3%. This growth is primarily due to sales of our new, larger solutions, based on our unique patented Integrated Shredder and Steriliser ("ISS") technology, developed for treating biological waste in the biopharma and agri-business sectors. We are also leveraging the ISS technology to apply to other industries where the solutions have a higher value and greater market potential.

The unit achieved a significant improvement in gross margin to 23.2% (2016: 12.7%) as a result of sales of higher margin agri-waste solutions.

During the year, we launched the world's first mobile agri-waste treatment solution and were awarded a contract of $2.5m, subsequently extended by $1.1m for a fixed unit. The delivery of the mobile unit has now been completed.

The first large installation of our new solution for treating agricultural waste, which was installed in 2016 at a processing facility of a major poultry farming company, continued to perform very successfully. We are also in the process of providing a second unit at a bovine slaughterhouse facility for the largest and leading food group in Israel, which follows the successful installation and operation of an initial unit in 2016.

We commenced sales of the new ISS 500 that has been adapted for the disposal of medical waste in hospitals. The product is receiving a lot of interest from hospitals because of its automated reloading system, which reduces human exposure to medical waste. During the period, the first systems were delivered to customers in the Middle East and Europe and the first orders for the new solution were received from the US.

Diagnostics

The Diagnostics unit represented 13% of the Bio-Medical division's revenues in 2017 compared with 20% during 2016 reflecting a decrease in revenues to $7.4m (2016: $10.2m). This reduction was primarily due to weakness in China. However, we expanded the geographic sales reach to increase market penetration of our existing products, resulting in the unit entering 2018 with a higher order book than at the same point in the prior year.

We continued to develop our new products for the diagnostics

Chief Executive Officer's Review *continued*

market. In December, we launched a new ELISA instrument, called Personal LAB, with several orders received to date. Progress also continued to be made by our joint venture company, Ador, established in December 2015 with Gamida for Life group, in its preparations for the production and marketing of a unique rapid-results sample-to-answer multiplexed molecular diagnostics system – that has already been granted several patents in the US – and a selection of reagent kits.

In July 2017, we appointed Dr. David Perry MD as Chief Executive Officer of Adaltis, whose previous experience includes VP Global Clinical and Medical Affairs at Baxter Bioscience. The new role was created within Adaltis as it begins to gear up to take advantage of the advances within its molecular biology business unit, as well as the growing in-vitro diagnostics field. In particular, we intend to use the Zer Laboratories acquisition – in addition to distributing diagnostic tests of Abbot and other third parties – for launching new, advanced diagnostic DNA-based tests and molecular biology solutions developed by Adaltis.

Networking and Cyber Division

This was a milestone year for the Networking and Cyber division as the significant level of investment in prior years has driven a return to growth. Revenue increased by $10.9m to $49.4m (2016: $38.5m) for 2017, which was largely due to growth in the ICT services and solutions business as well as our success in implementing our strategy to leverage the telecom industry transition from hardware to Network Function Virtualisation and Software-Defined Networking. We achieved an adjusted operating profit for the Networking and Cyber division of $0.9m in 2017 compared with a loss of $2.2m for the prior year. Gross profit margin for the division reduced to 36% (2016: 40%) due to the contribution to revenues from a large government contract that carried a lower gross margin.

ICT solutions and services

During the year, ICT services and solutions gained 47 new client accounts in North America, including blue-chip companies such as Google, TPx Communications, Union Wireless and Alpine Communications. In particular, a Tier 1 cyber security customer launched its new security systems that contain our latest ATCA product 100GE card. The new ATCA 100GE is gaining increasing momentum and interest from various customers. In addition, the 100GE card is playing a key role in the new aggregation platform, T-Metro 8100 – a next-generation, high-density, standalone 100GE services aggregation platform that was released in H2 2017.

Also during the year, NGSoft, a high-end software development and design business and subsidiary within the Networking and Cyber division, was awarded a framework agreement, valued at up to $35.8m over five years, to provide ICT services and solutions to an agency of a government defence department.

SDN/NFV solutions

We made significant progress in advancing our SDN/NFV offer. We established partnerships with a number of leading telecoms organisations, with the respective partners offering joint solutions for network virtualisation. The partnerships include leading providers of central processing unit technology, white box hardware and across a range of virtual network functions. This included a collaboration with NXP Semiconductors (NASDAQ: NXPI) and Arm Holdings to develop a NFV solution that enabled the first virtualised operating system to support Arm architecture as well as all Intel architecture. We are the only worldwide software vendor to provide NFV functionality to Arm architecture and all Intel platforms.

Our open and agile service delivery platform can meet the growing demand from telecoms operators and managed service providers for solutions that offer increased performance, flexibility and cost savings on their networks, regardless of their hardware or what they may choose to use. During the year, we conducted several successful POCs worldwide, which we expect to translate into significant orders during 2018.

Cyber

We continued to grow our cyber security business. We received an expansion to a contract that was originally awarded in 2016 for the supply of an ICT solution combined with several cyber elements to a government defence department, which increased in value to $5.2m. We engaged in several POCs in multiple countries, including conducting a successful POC for cyber monitoring and detection systems for a European government customer, the first such European government customer for our cyber solutions.

Post period end, we were awarded a significant contract to supply a cyber communication technology solution to a government defence department, which is worth approximately $4m in 2018. This contract is the fourth such contract awarded to us by a national government and followed a successful deployment of our solution previously. We expect to commence delivery of the contract in Q2 2018 with completion by year-end, and anticipate receiving follow-on orders after the completion of this contract.

Outlook

BATM entered 2018 in a stronger position than at the same point in the prior year with a higher order book in all of our units, particularly in the Networking and Cyber division and the Eco-Med unit. Both divisions are receiving increasing demand for the newly-launched products and solutions, with the Networking and Cyber division having conducted multiple POCs for our SDN/NFV and cyber solutions that we expect to translate to significant orders in 2018.

The Diagnostics unit of the Bio-Medical division is making significant advancements in the development and introduction of new molecular-diagnostics instruments, which we expect to launch in 2018. It is also experiencing a return to growth in sales for existing analytics equipment and reagents as a result of geographic expansion of our sales and marketing efforts. In addition, we expect to be able to leverage the Zer Laboratories acquisition in offering our own diagnostic tests.

As a result, we expect to report year-on-year revenue growth for full year 2018, and the Board remains highly confident in the outlook for the Group and delivering shareholder value.

Dr. Zvi Marom
Chief Executive Officer
29 April 2018

Chief Financial Officer's Review

Total Group revenue for 2017 increased by 18.5% to $107.1m (2016: $90.4m) reflecting growth in both divisions: 11% increase in revenue in the Bio-Medical division, which contributed 54% of total sales, and 28% increase in the Networking and Cyber division, which contributed 46% of total sales. As mentioned in Dr. Marom's CEO Review, the increase in revenue in the Networking and Cyber division was due to growth in our existing ICT services and solutions business as well as success in implementing our SDN/NFV strategy. The Bio-Medical division growth was due to an increase in sales in the Distribution and the Eco-Med units, which more than offset lower sales in the Diagnostics unit.

The blended gross profit margin for the year was 30.6% (2016: 31.4%). This decrease is mostly due to a reduction in the gross margin of the Networking and Cyber division as a result of the contribution to revenue from a large government contract that carried a lower margin.

Sales and marketing expenses were $15.0m (2016: $14.3m), representing 14% of revenues compared with 16% in 2016.

General and administrative expenses were $10.3m (2016: $9.6m), representing 10% of revenues compared with 11% in 2016.

R&D investment in 2017 was $7.8m (2016: $7.6m).

Adjusted operating profit increased significantly to $5.6m (2016: $0.9m). This was due to both stronger trading and the capital gain from the selling of a building as announced on 4 December 2017. On an underlying basis, excluding the capital gain from property, plant and equipment of $5.5m (2016: $3.1m), we delivered an adjusted operating profit of $0.1m compared with an adjusted operating loss of $2.2m in 2016, which also excludes the capital gain from property, plant and equipment in the prior year.

EBITDA increased 175% to $7.7m in 2017 (2016: $2.8m). Excluding the benefit of profits on the disposal of property, plant and equipment, EBITDA was $2.2m in 2017 compared with a loss in 2016 of $0.3m.

As a result, we achieved earnings per share of 0.06¢ (2016: 0.27¢ loss per share), which is the first time that we have reported positive earnings per share since 2012.

Our balance sheet remains strong with effective liquidity of $24.0m at 31 December 2017 compared with $22.4m at 30 June 2017 and $27.6m at 31 December 2016. In H1 2018, we are due to receive a further $5.8m as the final payment from the sale of the building noted above. Period-end cash is comprised as follows: cash and deposits up to three months duration of $18.2m and short-term cash deposits up to one year and held-for-trading bonds of $5.8m. The decrease in cash balances compared with the same period the prior year is mainly as a result of the acquisition of Zer Laboratories, and investment in the development of the Diagnostic unit's Ador joint venture and investment in fixed assets.

Inventory was $23.2m (31 December 2016: $20.5m). The increase is mostly due to currency fluctuations of $2.1m and an increase in inventory in the Diagnostic unit to satisfy the increased order book for delivery in 2018. Trade and other receivables increased to $46.9m (31 December 2016: $28.1m), mostly due to an increase in trade receivables from the selling of the building at the end of the year as well as an increase in trade receivables in the Networking and Cyber division due to strong sales towards the end of the year. Post year end, the trade receivables position has been reduced as the customers have paid.

Intangible assets and goodwill were $22.9m (31 December 2016: $20.6m), with the increase mostly due to the acquisition of Zer Laboratories.

Bio-Medical Division	H1 2017	H2 2017	FY 2017	FY 2016
Revenues	$28.6m	$28.8m	**$57.4m**	$51.6m
Gross margin	25%	25%	**25%**	25%
Adjusted operating loss	$(0.3m)	$(0.8m)	**$(1.1m)**	$(0.3m)

Networking & Cyber Division	H1 2017	H2 2017	FY 2017	FY 2016
Revenues	$21.0m	$28.4m	**$49.4m**	$38.5m
Gross margin	37%	36%	**36%**	40%
Adjusted operating profit (loss)	$(0.4m)	$1.3m	**$0.9m**	$(2.2m)

Property, plant and equipment and investment property decreased to $16.7m (31 December 2016: $17.7m). The decrease is primarily due to the disposal of the building in the year.

The balance of trade and other payables was $39.8m (31 December 2016: $27.1m). The increase is mostly due to an increase in trade payables in the Networking and Cyber division as well as an increase in government taxes due to tax on the capital gain from the selling of the building.

Cash inflow from operating activities was $0.1m for 2017 compared with an inflow of $0.9m for the prior year due to an increase in working capital and increase in tax payments.

Moti Nagar
Chief Financial Officer
29 April 2018

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 developing a unique rapid-results multi-plexed molecular biology diagnostics system, which is already protected by more than 40 granted patents and more pending.

The division's other innovative solution treats pathogenic and medical waste in laboratories and hospitals, and in pharmaceutical manufacturing plants and for agricultural applications. These solutions are 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.

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. 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:

	2017	2016	Change %
Revenue	$107.1m	$90.4m	+18.5
Gross profit	$32.7m	$28.4m	+15.1
Gross profit margin	30.6%	31.4%	-2.5
Research and development expenses	$7.8m	$7.6m	+2.6
Cash and Financial Assets	$24.0m	$27.6m	-13.0
Adjusted operating profit, net[1]	$5.6m	$0.9m	+522
Profit (loss) per share	0.06¢	(0.27)¢	+122

1. Excluding amortisation of intangible assets, refer to reconciliation below.

Alternative performance measures

	Year ended 31 December	
	2017 $'000s	2016 $'000s
Operating profit (loss)	4,225	(302)
Amortisation of Intangible assets	1,349	1,157
Adjusted operating profit	**5,574**	**855**

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, a 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 2018 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 Independent 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). He currently also holds the position of Chairman of the Board of Israel Aircraft Industries Ltd, the leading Israeli corporation in the aerospace industry. 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 2017. The results of the year are set out in the consolidated statement of profit or loss. After reporting a $1.3 million amortisation of intangible assets for the year, BATM recorded a loss of $0.1 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 12 together with this Directors' Report.

Directors

The Directors who served for the year ended 31 December 2017 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 Independent Director (SID)
- 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)

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 14 to 26 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 22 to 24 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.

The two executive Directors, being the CEO, Dr. 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 the upcoming Annual General Meeting in 2018.

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 12 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
29 April 2018

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. This report 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 2017, 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 his office was terminated in February 2018 and Mrs. Pollack was appointed in September 2015 for a term of three years, which terminates in September 2018. As will be seen below, the various Committees of the Board are comprised of the external directors, which guarantees full independence while these Committees perform their corporate functions in the Company.

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 2017 were as follows:

	Meetings	Attendance	Note
Board of Directors	7	Note 1	(1) All Directors attended 100% of the Board meetings during 2017 except for the absence of Mr. Harel Locker from two board meetings, due to last-minute trips overseas.
Audit Committee	5	Note 2	(2) All Audit Committee members attended 100% of meetings during 2017, except for 1 absence of Mr. Harel Locker, due to a last-minute trip overseas.
Remuneration Committee	1		
Nominations Committee	–		

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 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. In addition, the Audit Committee as well as the directors review and assess on an annual basis, the performance of the external auditors, their independence, reasonableness of their audit fees as compared with peer tier 1 accountancy offices in Israel and make recommendations to be brought forward to the shareholders' meeting as to the appointment, or reappointment, or replacement of the external auditors of the Group. While the Audit Committee as part of its activity reviews and monitors the external auditor's independence and objectivity (see page 20) there is no requirement under Israeli law and regulations and it is not common market practice in Israel to have maximum terms for auditors. Rotation of external auditors is not accepted practice in the Israeli market and the Company would like to point out that it is not subject to EU audit regulations that relate to rotation of the external auditors.

The Board comprises six Directors, four of whom are non-executive Directors, under the chairmanship of Dr. Gideon Chitayat. 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 14 to 15. The interest of the Directors in the Company and their shareholdings are set out on page 24. 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 operating 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.

The Board carried out a review of its own effectiveness and that of its various committees during the year. The review was facilitated by the Chairman of the Board who reviewed the performance of each director, his/her knowledge and comprehension of the nature of the Group's business, how the Board works together and other factors relevant to its effectiveness.

With respect to succession of the Board members, it is the role of the Nomination Committee (see page 21) to identify succession planning. Non-executive directors are replaced regularly in accordance with the requirements of Israeli legislation in respect of the appointment of qualified external directors for a three-year period and the ongoing obligation to replace them regularly as the term of their office expires.

The Board also works to ensure that within the Group there exists a culture that is free from discrimination and harassment in any form. The Board ensures that the Company complies with Israeli legislation known as the Israeli Equal Rights for People with Disabilities Law, 5748-1988 to ensure that appropriate consideration is given to employees with disabilities. The Company is also in full compliance with Israeli legislation known as the Employment (Equal Opportunities) Law, 5758-1998, which requires an employer not to discriminate amongst employees on account of sex, sexual tendencies, personal status and any other forms of discrimination. As of 31 December 2017, of the total workforce of the Group companies, 58% of the employees were women.

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, and are available on the Company's website to all shareholders. Printed copies of the full Annual Report are 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 2017, 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%

Lombard Odier Investment Managers - 16.67%

Legal & General Investment Management – 10.63%

Herald Investment Management – 5.43%

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

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. 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 Committee also meets with representatives of the Company's external auditors at least twice per year and raises on a regular basis any issues it has with the review and/or audit carried out by the external auditors and comments on specific issues it believes the auditors should be focusing on.

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.

Remuneration Committee

Members: Dr. Avigdor Shafferman, Mrs. Orna Pollack and Mr. Harel Locker
Chairman: Dr. Avigdor Shafferman
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). During 2017, the Committee was active in the preparation of an updated remuneration policy, which was presented at the AGM in October 2017 and approved by shareholders.

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 22 to 24. The Company's remuneration policy as recommended by the Remuneration Committee was approved at the Annual General Meeting of the Company in October 2017. The remuneration policy is more fully explained below in the Directors' Remuneration Report.
6. The Company engaged external remuneration advisers (KPMG in Tel Aviv and London) during the year, to provide the Remuneration Committee with guidance in preparing

an updated remuneration policy for the Company, which was presented to the shareholders at the annual general meeting in October 2017 and approved by shareholders.

Nomination Committee

Members: Dr. Gideon Chitayat, Dr. Zvi Marom and Dr. Avigdor Shafferman

Chairman: Dr. Gideon Chitayat

In addition to the Company's diversity policy for existing employees (as disclosed on page 25), 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 2017, there was one woman on the Board (representing 16.6% of Board membership).

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 2017 the Company has complied with procedures in place for ensuring that the Board's powers to authorise conflict situations have been operated effectively and this has also been considered at a committee level where appropriate. During 2017 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 2017 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

The Board is pleased to present the Remuneration Committee's Report for the year ended 31 December 2017.

The main purpose of the Remuneration Committee is to design appropriate remuneration packages to attract, retain and motivate senior executives and managers of the experience and expertise required to run the Company successfully. The Remuneration Committee reviews and considers the remuneration of, amongst others, the CEO, CFO, executive and non-executive directors and other individuals determined by the Board to be material to the Company's current and future prospects.

The Remuneration Committee must ensure that a remuneration framework is established and implemented that addresses the need of the Company to attract, retain and motivate such individuals, while considering and managing business risks and ensuring the Company's remuneration policy facilitates, so far as possible, the Company's long-term strategy and performance and ensures its sustainable financial health.

The Remuneration Committee remains focused on ensuring that the overall remuneration strategy adopted by the Company remains aligned with the interests of its shareholders. The Remuneration Committee, when necessary, engages external executive remuneration advisers to give it guidance regarding the accepted levels of salary, bonuses and LTIs payable by similar sized companies listed on the London Stock Exchange to its CEO, CFO and other senior executives and ensures that the level of remuneration offered to its senior executives is both fair and reasonable.

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 Company is incorporated in Israel, and the Company's current Remuneration Policy and Guidelines ("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 ("Companies Law") at the Annual General Meeting held in October 2017. The Companies Law requires that the Remuneration Policy must be presented to the shareholders for approval at least once every three years, and therefore the next such approval is anticipated to be in October 2020.
While the Company is not subject to the Companies Act 2006 or the amendments introduced in relation to the preparation and approval of directors' remuneration policies and reports for listed companies, the Company complies with the UK Corporate Governance Code ("Code") and believes that the Company's remuneration strategy would comply with the requirements of the Code and of the Companies Act 2006 and related legislation.

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 October 2017.

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.

During 2017 remuneration consultants (KPMG's executive remuneration departments in Tel Aviv and London, UK) were engaged by the Company to assist it in adopting an updated Remuneration Policy for the Company.

Recruitment Remuneration

The Company's policy on recruitment remuneration is to consider the market conditions and the Company's requirements, while ensuring that it complies with the Remuneration Policy, in determining the appropriate level of remuneration (including in respect of any buy-out award) in connection with the appointment of Executive Directors.

Remuneration Committee

The Remuneration Committee works within its terms of reference to make recommendations to the board of Directors of the Company. The Remuneration Committee's full terms of reference are available on the Company's website. The Remuneration Committee complies with the Code.

The members of the Remuneration Committee during the year under review were:

- Dr Avigdor Shafferman (Chairman)
- Orna Pollack
- Harel Locker

Further details of the members of the Remuneration Committee and their attendance at meetings during the course of the year under review are available at page 20.
No member of the Remuneration Committee has any personal financial interest (other than as a shareholder, if applicable) in the decisions made by the Remuneration Committee, conflicts of interest arising from cross-directorships or day to day involvement of the running of the business.

The Remuneration Committee engaged external advisers in relation to remuneration in respect of the year under review.

Unaudited information – The Main principles of the Company's Remuneration Policy

Remuneration Principles

a) The Company's Remuneration Policy is divided into:

(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; and

(ii) **Variable remuneration**, which may be comprised of a mix of annual bonuses and long-term incentives:

(A) Annual Bonus

The Company's Remuneration Policy enables the Company to pay annual bonuses to executive directors or senior executives. The Company will use the annual bonus to establish a link between the Company's annual business targets, which are based on quantifiable measurements and targets set out at the start of the financial year by the Remuneration Committee, and the executives' remuneration. The maximum aggregate bonus may not exceed for the CEO – up to 75% of his annual salary and social benefits and with respect to other senior executives – up to 50% of annual salary and social benefits. In line with UK market practice, the Remuneration Policy includes maximum incentive opportunities for executives and also includes maximum thresholds for annual salary or fees of the Non-Executive Chairman, the CEO and the CFO as well as other senior executives, which are based on median quartiles for senior executives in FTSE SmallCap companies (which was provided to the Remuneration Committee by its external consultants, KPMG).

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

The Company's LTI package for senior executives is designed 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

	Salary $'000	Social Benefits $'000	Pension Benefits $'000	Performance Bonus $'000	2017 Total $'000	2016 Total $'000
Zvi Marom(*)	398	–	–	–	398	399
Moti Nagar	167	53	11	–	231	232
Gideon Chitayat	56	–	–	–	56	59
Avigdor Shafferman	46	–	–	–	46	44
Orna Pollack	46	–	–	–	46	44
Harel Locker(**)	43	–	–	–	43	10
Gideon Barak(***)	–	–	–	–	–	30

(*) Since Dr. Marom moved to a Service agreement in 2015, his salary includes a basic salary of $300 thousand and Social and Pension Benefits of $98 thousand according to his employment agreement

(**) Mr. Locker joined as a director effective September 2016

(***) Mr. Barak resigned as a director effective June 2016

The total liability for the Executive Directors in the year-end 2017 was $11 thousand (2016: $42 thousand) related to December 2017 and 2016 wages paid in January 2018 and 2017 respectively.

Table B – Directors' shareholdings in the Company

While the Company does not require any Director to hold shares in the Company, the interests of the Directors and their immediate families, both beneficial and non-beneficial, in the ordinary shares of the Company as at 31 December 2017 and 2016 were as follows:

	2017 Ordinary Shares	2016 Ordinary Shares
Zvi Marom	96,694,500	96,694,500
Moti Nagar	–	–
Gideon Chitayat	3,000,000	3,000,000
Avigdor Shafferman	–	–
Orna Pollack	–	–
Harel Locker	–	–
Gideon Barak	–	–

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% became exercisable on 31 December 2017 since Mr. Nagar remained in his position as CFO at the vesting dates and the financial performance criteria determined by the Remuneration Committee were achieved by the Group. The options were granted by the Board at an exercise price of GBP 0.127.

Corporate, Social and Environmental Responsibilities

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

The Board is committed to monitoring the Company's corporate social responsibility policies in key areas. Management monitors the Company's day-to-day activities in order to assess risks in these areas and identify actions that may be taken to address those risks. At present, the Board does not consider it appropriate to link the management of these risks to remuneration incentives, given the difficulties in measuring the changes to those risks objectively. Given the Company's relatively low social and environmental impact, the Company believes that there are few risks to its short- and long-term value proposition arising from these matters, although it considers the potential to deliver greater value by responding to these issues appropriately. The Board believes the Company has adequate information to assess these matters, and effective systems for managing any risks. 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 1,058 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 Eco-Med 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, and at pharmaceutical manufacturing plants. This 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 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 2017 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 2017**

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

Opinion

We have audited the consolidated financial statements of BATM Advanced Communications Ltd. and its subsidiaries ("the Group") set out on pages 33 to 86, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 2017, the Group held inventories of $23,238 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 judgement 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; and • 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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KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Impairment of goodwill and other intangible assets As detailed in Notes 22 and 23, as at 31 December 2017, the Group had goodwill and other intangible assets of $22,944 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.	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 2017. We considered the disclosure of the goodwill and other intangible assets to be appropriate for purposes of the consolidated financial statements.
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.	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 (including the impact of tax reform in the USA); • 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 judgements used in determining current and deferred tax balances to be appropriate.

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

Deloitte.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Construction contracts Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by the Group using the Percentage of Completion Method ("PCM") by reference to the stage of completion of the contract activity at the consolidated statements of financial position date determined mainly by number of time spent in relation to total projected time in certain projects and by engineering percentage of completion in others. Total revenues and expenses recognized for the year ended 31 December 2017, amounted to $10,729 thousand and $9,212 thousand, respectively. Using the PCM, can be highly subjective as significant judgement is required by the management in determining the percentage of completion stage which is based mainly on engineering determination or time consumed in relation to total forecasted time needs together with the estimations of cost to complete the contracts.	• We have examined of the appropriateness of using of the PCM by reviewing the specific arrangements. • We have examined the Percentage of Completion ("POC") used by developing an independent estimation on contracts that are using time spent as a basis for the completion stage and by evaluating the stage of completion based on other evidences in the case of an engineering determination of POC. We have also preformed post balance sheet examination procedures. • We have examined the reasonability of the estimated costs to complete used for the determination the completion. • We have examined of the completion percentage arrived at as compared to previous periods. • We have assessed management's ability to provide accurate estimations by comparing actual results to previous forecasts. ***Findings*** The results of our testing were satisfactory and we found the judgements used in using the PCM to be appropriate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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.

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 judgement 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

29 April 2018

BATM Advanced Communications

Consolidated Statements of Profit or Loss

for the year ended 31 December

	Note	2017 US$'000	2016 US$'000
Revenues	5, 6	107,137	90,404
Cost of revenues	7	74,402	62,048
Gross profit		32,735	28,356
Operating expenses			
Sales and marketing expenses	8	14,987	14,307
General and administrative expenses	9	10,297	9,584
Research and development expenses	10	7,752	7,620
Other operating income	12	(4,526)	(2,853)
Total operating expenses		28,510	28,658
Operating profit (loss)		4,225	(302)
Finance Income	13	331	291
Finance expenses	14	(742)	(650)
Profit (loss) before tax		3,814	(661)
Income tax expense	15	(2,364)	(774)
Profit (loss) for the year before share of loss of a joint venture and associated companies		**1,450**	**(1,435)**
Share of loss of a joint venture and associated companies	24	(1,574)	(810)
Loss for the year		**(124)**	**(2,245)**
Attributable to:			
Owners of the Company		**233**	**(1,070)**
Non-controlling interests		**(357)**	**(1,175)**
Loss for the year		**(124)**	**(2,245)**
Profit (loss) per share (in cents) basic and diluted	16	**0.06**	**(0.27)**

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

Consolidated Statements of Comprehensive Income (Loss)

for the year ended 31 December

	2017 US$'000	2016 US$'000
Loss for the year	(124)	(2,245)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4,903	(362)
	4,779	(362)
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement of defined benefit obligation	6	211
Total comprehensive income (loss) for the year	4,785	(2,396)
Attributable to:		
Owners of the Company	5,752	(1,364)
Non-controlling interests	(967)	(1,032)
	4,785	**(2,396)**

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

Consolidated Statements of Financial Position

for the year ended 31 December

	Note	2017 US$'000	2016 US$'000
Assets			
Current assets			
Cash and cash equivalents		18,182	22,015
Trade and other receivables	18	46,916	28,124
Financial assets	17	5,782	5,593
Inventories	19	23,238	20,479
		94,118	76,211
Non-current assets			
Property, plant and equipment	20	14,720	14,078
Investment property	21	1,951	3,669
Goodwill	22	16,817	15,011
Other intangible assets	23	6,127	5,604
Investment in joint venture and associate	12, 24	953	854
Available for sale Investments carried at fair value	28	576	614
Deferred tax assets	25	2,909	3,570
		44,053	43,400
Total assets		**138,171**	**119,611**
Equity and liabilities			
Current liabilities			
Short-term bank credit	26	5,324	4,407
Trade and other payables	26	37,607	26,999
Tax liabilities	26	2,232	101
		45,163	31,507
Non-current liabilities			
Long-term bank credit	26	910	1,104
Long-term liabilities	26	5,261	4,722
Deferred tax liabilities	25	336	912
Retirement benefit obligation	34	682	476
		7,189	7,214
Total liabilities		**52,352**	**38,721**
Equity			
Share capital	27	1,216	1,216
Share premium account		407,688	407,544
Reserves		(15,557)	(21,070)
Accumulated Deficit		(303,571)	(303,810)
Equity attributable to the:			
Owners of the Company		89,776	83,880
Non-controlling interests		(3,957)	(2,990)
Total equity		**85,819**	**80,890**
Total equity and liabilities		**138,171**	**119,611**

The financial statements were approved by the board of directors and authorised on 29 April 2018. 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 2017 and 2016

	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 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 1 January 2017	1,216	407,544	(20,558)	(512)	(303,810)	83,880	(2,990)	80,890
Profit (loss) for the year	–	–	–	–	233	233	(357)	(124)
Re-measurement of defined benefit obligation	–	–	–	–	6	6	–	6
Exhange differences on translating foreign operations	–	–	5,513	–	–	5,513	(610)	4,903
Total comprehensive income for the year	–	–	**5,513**	–	**239**	**5,752**	**(967)**	**4,785**
Exercise of shares based options by employees	–	35	–	–	–	35	–	35
Recognition of share-based payments	–	109	–	–	–	109	–	109
Balance as at 31 December 2017	**1,216**	**407,688**	**(15,045)**	**(512)**	**(303,571)**	**89,776**	**(3,957)**	**85,819**

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

Consolidated Cash Flow Statements

for the year ended 31 December

	Note	2017 US$'000	2016 US$'000
Net cash from operating activities	29	**56**	**915**
Investing activities			
Interest received		132	95
Proceeds on disposal of property, plant and equipment		3,229	9,126
Tax paid on disposal of property, plant and equipment		–	(674)
Proceeds on disposal of deposits		4,503	1,801
Proceeds on disposal of financial assets carried at fair value through profit and loss		3,260	525
Proceeds on disposal of held to maturity investment		–	3,229
Loans granted		(322)	–
Purchases of property, plant and equipment		(3,260)	(3,748)
Increase of other intangible assets		(996)	(2,272)
Purchases of financial assets carried at fair value through profit and loss		(2,452)	(3,095)
Investment in deposits		(5,503)	(1,302)
Investment in joint venture		(1,339)	–
Investment in associated company		(343)	–
Acquisition of subsidiaries	30	(1,378)	(1,864)
Net cash from (used in) investing activities		(4,469)	1,821
Financing activities	26		
Increase in short-term bank credit		28	–
Bank loan repayment		(5,257)	(4,810)
Bank loan received		5,327	4,211
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control		–	2,928
Proceed on exercise of shares		35	–
Net cash from financing activities		133	2,329
Increase (decrease) in cash and cash equivalents		(4,280)	5,065
Cash and cash equivalents at the beginning of the year		22,015	17,042
Effects of exchange rate changes on the balance of cash held in foreign currencies		447	(92)
Cash and cash equivalents at the end of the year		**18,182**	**22,015**

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

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, 4524075 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 sterilisation equipment.

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

2.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 26) and certain other financial liabilities (note 36). A reconciliation between the opening and closing balances of these items is provided in note 26 consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

2.2 New and revised IFRSs in issue 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[1]
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]

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

Notes to the Consolidated Financial Statements *(continued)*

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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.

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.

The Company is engaged in several lease agreements and examines the impact of the provisions of the new standard on asset lease contracts.

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 directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

IFRIC 23- Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

If the entity considers that it is probable that the taxation authority will accept an uncertain tax treatment, the Interpretation requires the entity to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

If the entity considers that it is not probable that the taxation authority will accept an uncertain tax treatment, the Interpretation requires the entity to use the most likely amount or the expected value (sum of the probability, weighted amounts in a range of possible outcomes) in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The method used should be the method that the entity expects to provide the better prediction of the resolution of the uncertainty.

The Interpretation will be applied to the accounting periods beginning on or after 1 January, 2019, although early application is permitted.

Notes to the Consolidated Financial Statements *(continued)*

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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.

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 in 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 without 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 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;

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- 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.

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 sterilisation 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 construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

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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.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the date of the consolidated statements of financial position. 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 or engineering 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 construction 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.

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 from 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 where the lender (Israeli Chief Scientist Officer (ISO)) undertakes to waive repayment under certain prescribed conditions. In a case where a government grant takes the form of a forgivable loan, a liability is recognised 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 39and , as such, all changes in the fair value of such a liability are recognised in the consolidated statement of profit or loss.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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:

Notes to the Consolidated Financial Statements *(continued)*

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- 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.

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 are made when the Company ends 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	3%-4%
Plant and equipment	10%-33%
Motor Vehicles	15%-20%
Furniture and fittings	6%-15%
Leasehold Improvements	7%-20%

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.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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.

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.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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.

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:

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

- 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.

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.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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 $22.9 million (2016: $20.6 million), see note 22 and note 23.

Judgments with respect to a liability to the chief scientist

The assessment of the liabilities to the chief scientist requires management to exercise judgement 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 $3.5 million (2016: $3.6 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 utilise them in the foreseeable future, see note 15.

Judgments with respect to construction contracts

The Company accounts for its revenue in accordance with IAS 11 Construction Contracts, which requires estimates to be made for contract costs and revenues. Revenue is recognised using the percentage of completion method based on the ratio of labour costs incurred to total estimated labour costs or engineering completion percentage. Estimating total direct labour costs and the engineering status is subjective and requires the use of management's best judgments based on the information available at that time. Total revenues and expenses recognised for the year ended 31 December 2017, amounted to $10,729 thousand and $9,212 thousand, respectively.

5 Revenues

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

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Sales of goods(*)	73,661	71,712
Services(*)	22,747	12,558
Construction Contracts(*)	10,729	6,134
	107,137	**90,404**

(*) For more details see note 6

Notes to the Consolidated Financial Statements *(continued)*

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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. The Bio-Medical Division is engaged in the research and development, production, marketing and distribution of medical products, primarily laboratory diagnostic equipment and sterilisation equipment. Sales for this segment are primarily in Europe.

A. Segment revenues and segment results

Year ended 31 December 2017

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Revenues	49,366	57,393	378	107,137
Adjusted Operating profit (loss)(*)	867	(1,068)	5,775	5,574
Reconciliation-Other operating expenses				(1,349)
Operating profit				4,225
Net Finance expense				(411)
Profit before tax				3,814

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)

(*) Excluding amortisation of Intangible assets see note 23

Revenue reported above represents revenue generated from external customers. There were immaterial inter-segment sales in the year.

B. Segment assets, liabilities and other information

As at 31 December 2017

	Networking and Cyber $'000s	Bio-Medical $'000s	Unallocated $'000s	Total $'000s
Assets	69,719	66,501	1,951	138,171
Liabilities	25,824	26,528	–	52,352
Depreciation and amortisation	1,405	2,022	54	3,481
Additions to non-current assets	2,384	3,486	–	5,870

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 amortisation	1,415	1,608	98	3,121
Additions to non-current assets	2,602	7,214	–	9,816

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 December	2017 $'000s	2016 $'000s
Telecommunication Products	27,740	25,834
Software services	22,004	12,995
Distribution of medical products	42,243	35,332
Clinical Chemistry diagnostic products	7,676	10,464
Sterilisation products	7,474	5,779
	107,137	90,404

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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		Non-current assets	
	2017	2016	2017	2016
USA	13,550	16,210	5,182	5,323
Israel	41,499	24,175	17,058	17,407
Moldova	26,887	23,692	3,036	2,548
Italy	7,424	10,221	9,302	8,365
Rest of Europe (*)	17,777	15,609	5,946	5,529
Other	–	497	44	44
Total	107,137	90,404	40,568	39,216

(*) Including: Romania, Hungary and UK.

7 Cost of revenues

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Direct costs- Components and subcontractors	56,992	44,879
Changes in inventory	(2,682)	2,235
Salaries and related benefits	15,439	11,668
Overhead and depreciation	3,184	1,886
Other expenses	1,469	1,380
	74,402	**62,048**

8 Sales and marketing expenses

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Salaries and related benefits	8,245	7,522
Commissions	1,309	931
Outside services	470	1,063
Advertising and sales promotion	948	1,037
Overhead and depreciation	2,122	2,008
Travelling and other expenses	1,893	1,746
	14,987	**14,307**

9 General and administrative expenses

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Salaries and related benefits	4,513	4,126
Professional services(*)	2,765	2,576
Overhead and depreciation	1,218	1,290
Other expenses	1,801	1,592
	10,297	**9,584**
(*) Including		
Auditors' remuneration for audit services	**283**	**283**

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2017 were $10,000 (2016: $8,000). In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2017, were $15,000 and $38,000, respectively (2016: $26,000 and $29,000, respectively).

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

10 Research and development expenses

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Salaries and related benefits	4,235	3,583
Purchases and subcontractors	3,110	3,160
Overhead and depreciation	984	1,007
Other expenses	693	649
Government grants	(1,270)	(779)
	7,752	**7,620**

11 Staff costs

The average monthly number of employees in 2017 (including executive directors) was 1,012 (2016: 947).

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Their aggregate remuneration comprised:		
Wages and salaries	26,620	21,699
Social security costs	4,688	4,233
Other pension costs	1,123	967
	32,431	**26,899**
Executive Directors' emoluments	**628**	**631**

12 Other operating expenses (income)

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Capital gain on sale of property, plant and equipment [1]	(5,588)	(3,144)
Capital gain on loss of control in a subsidiary [2]	–	(855)
Amortisation of intangible assets	1,100	1,157
Other income	(38)	(11)
	(4,526)	**(2,853)**

(1) (a) In 2017 the Group's real-estate management company has entered into an agreement to sell a wholly owned building situated at Yokneam, Israel. Under the terms of the agreement, BATM entitled to a total consideration of 34 million NIS (approximately $9.7 million), which compares to the building's book value of NIS 13.7 million (approximately $3.9 million). As a result, the pre-tax profit attributable to the transaction amount to NIS 19.4 million (approximately $5.6 million) net of transaction expenses of NIS 0.9 million (approximately $0.2 million).

The building was reclassified part in investment property and part in fixed assets.

(b) In 2016 the Group's real-estate management company 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 NIS 34 million (approximately $9.1 million), which compares to the building's book value of NIS 22.1 million (approximately $6.0 million). As a result, the pre-tax profit attributable to the transaction amount to NIS 11.9 million (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 2016, 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, as of the date of the transaction.

13 Finance Income

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Interest on bank deposits	83	81
Gain on derivative financial instruments	–	157
Gain on marketable securities	86	26
Foreign exchange differences, net	162	–
Other	–	27
	331	**291**

14 Finance Expense

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Loss on derivative financial instruments	(242)	–
Foreign exchange differences, net	–	(255)
Interest on loans	(500)	(395)
	(742)	**(650)**

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

15 Income (expense) tax benefits

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Current tax	(2,303)	(923)
Tax on previous years	-	1
Deferred tax *(Note 25)*	(61)	148
	(2,364)	**(774)**

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 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 utilisation 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 $97.7 million of which $91.6 million the Group did not 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. The subsidiaries have not been assessed for tax since their incorporation.

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortise 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 utilised. 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 $1.1 million have been recognised in respect of such losses. The amount of brought forward losses is $316.6 million. According to US law, losses created until 2017 can be carried forward for 20 years. Accordingly, the first portion of the tax losses in the US subsidiary will expire in 2021.

On 22 December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act contains significant changes to corporate taxes, including a permanent reduction of the corporate tax rate from 35% to 21% effective 1 January 2018. The reduction in the corporate rate requires a one-time revaluation of certain tax-related assets and liabilities. As a result of the revaluation of its deferred tax assets and liabilities at 31 December 2017, the Company recorded a one-time tax expense of approximately $1.0 million. Other influences may affect the Company in the future.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group has tax loss carry-forwards of $22.3 million in European subsidiaries of which $19.1 million the Group did not recognise deferred tax assets in respect of such losses. The corporate income tax rate in Moldova is 12% and in Italy is 27.5%.

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	
	2017 $'000s	**2016 $'000s**
Profit (loss) before tax:	**3,814**	**(661)**
Tax expense (benefit) at the Israeli corporation tax rate of 24% (2016 25%)	915	(165)
Tax reduced income	24	403
Effect of change in tax rate in the US	1,035	–
Tax losses which no deferred tax assets have been recognised	647	503
Effect of income that is exempt from taxation	-	218
Tax on previous years	-	(1)
Other differences	(257)	(184)
Tax expenses for the year	**2,364**	**774**

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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	
	2017	**2016**
Earnings (loss) for the purposes of basic and diluted earnings per share ($'000s) attributable to Owners of the Company	**233**	**(1,070)**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	403,173,012	403,150,820
Effect of dilutive potential ordinary shares:		
Share options	1,460,205	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**404,633,217**	**403,150,820**
Weighted average number of non-dilutive potential ordinary shares	**11,512**	**79,950**

17 Financial assets

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Interest-bearing deposits	2,171	1,165
Held for trading bonds	3,611	4,428
	5,782	**5,593**

The average interest rate of deposits is 1.51% and 1.34% in 2017 and 2016 respectively.

18 Trade and other receivables

	31 December	
Trade and other receivables	**2017 $'000s**	**2016 $'000s**
Trade receivable account	26,599	20,806
Participation in research and development: Government of Israel	468	202
VAT authorities	1,004	374
Tax authorities	273	234
Construction contracts	3,920	2,314
Prepaid expenses	3,835	3,378
Other debtors *	10,817	816
	46,916	**28,124**

*Other debtors include $8.2m receivables due to selling a property, see note12.(1) (a)

Construction contracts	31 December	
	2017 $'000s	2016 $'000s
Composition:		
Cumulative costs incurred due to works construction contracts	10,207	5,904
In addition – Recognised profits	1,472	208
Less accounts submitted to project customers	(7,759)	(3,798)
	3,920	**2,314**

The average credit period taken on sales of goods is 80 days (2016: 75 days). No interest is charged on the receivables. An allowance has been made at 31 December 2017 for estimated irrecoverable amounts from the sale of goods of $2,632,000 (2016: $2,245,000). 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 2017, Trade receivable account includes amounts of $6.1m, which maturity date has expired, (including a receivable in the amount of $1.0 million that is overdue for more than a year), but the Group, based on past experience and on the credit quality of the debtors, has not made an allowance for doubtful debts since the Company expects that those debts are to be collectible.

The application of IFRS 9 starting in 2018 is expected to have an immaterial impact on the provisions for doubtful debts.

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	
	2017 $'000s	2016 $'000s
Raw materials	6,527	6,643
Work-in-progress	3,134	3,059
Finished goods	13,577	10,777
	23,238	**20,479**

During 2017, $0.7 million of slow moving Inventory was impaired, and expensed to the Profit and Loss account (2016: $0.6 million).

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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

	Land and buildings(*)	Plant and equipment	Motor vehicles	Furniture and fittings	Leasehold Improvements	Total
Cost						
At 1 January 2016	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
Additions	29	1,223	315	231	1,502	3,300
Disposals (***)	(4,718)	(457)	(60)	-	(427)	(5,662)
Acquisition of subsidiary(**)	-	78	37	-	-	115
Effect of translation adjustment	1,677	642	70	171	65	2,625
At 31 December 2017	8,925	15,766	1,936	4,204	2,591	33,422
Accumulated depreciation						
At 1 January 2016	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
Depreciation expense	339	891	176	138	163	1,707
Disposals(***)	(2,797)	(270)	(58)	-	(91)	(3,216)
Effect of translation adjustment	624	410	30	144	37	1,245
At 31 December 2017	1,778	11,171	881	3,841	1,031	18,702
Carrying amount						
At 31 December 2017	**7,147**	**4,595**	**1,055**	**363**	**1,560**	**14,720**
At 31 December 2016	**8,325**	**4,140**	**841**	**243**	**529**	**14,078**

(*) 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 capitalised lease for a period of 49 years ending on July 2044. In 2017, the Group sold the building, see note 12.

Following the sale, the Company signed an operating lease agreement with the buyer, with a five-year term, and the employees in the R&D and operational functions of Telco, a subsidiary of BATM, are still located in this building.

21 Investment Property

	31 December	
	2017 $'000s	2016 $'000s
At 1 January	3,669	3,791
Disposal of Investment Property, net *	(1,702)	–
Depreciation expense	(132)	(125)
Exchange rate differences	116	3
At 31 December	**1,951**	**3,669**

*See also note 12

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

Amounts recognised in the consolidated statements of profit or loss

	31 December	
	2017 $'000s	2016 $'000s
Rental income from Investment property	608	533
Operating expenses related to Income from Investment property	(318)	(294)
Operating expenses related to Investment property which produced no income	**(37)**	**(21)**

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 2017 are as follows:

	31 December 2017		31 December 2016	
	At amortised cost $'000s	Fair value level 3 $'000s	At amortised cost $'000s	Fair value level 3 $'000s
A Israel	–	–	1,756	3,400
B USA	1,094	1,221	1,141	1,221
C Italy	858	1,309	772	1,150

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.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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 goodwill regarding Bio-Medical at the amount of $9,896 thousand (2016: $8,575 thousand) has been divided into 5 CGUs: Sterilisation, Diagnostic, Distribution, Distributor and provider of genetics tests and Analytical instruments distribution. The goodwill regarding Networking and Cyber segment at the amount of $6,921 thousand (2016:$6,436 thousand).

The Goodwill is allocated to the following CGUs:

Sterilisation: $2,550 thousand (2016: $2,550 thousand)

Diagnostic: $1,649 thousand (2016: $1,510 thousand)

Distribution: $1,208 thousand (2016: $989 thousand)

Distributor and provider of genetics tests: $963 thousand (2016: NIL)

Analytical instruments distribution: $3,526 thousand (2016: $3,526 thousand)

Telecommunications: $1,984 thousand (2016: $1,984 thousand)

Software services: $4,937 thousand (2016: $4,452 thousand)

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Pre-tax discount rates of between 9.4% - 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 12% for year 1 and 10% for years 2-5, and then 1% thereafter, for the Telco CGU and 34% for year 1 and 15% for years 2-5, and then 1% thereafter for the Sterilisation and 60% for year 1 and 14%, 29%, 23% and 16% for years 2-5 respectively, and then 1% thereafter, for the Diagnostic and 9% for year 1 and 11% for years 2-5, and then 1% thereafter for the Distribution and 90% for year 1 and 10% for years 2-5, and then 0% thereafter for the Distributor and provider of genetics tests and 21% for year 1 and 12% for years 2-5, and then 1% thereafter for the Analytical instruments distribution.

Fixed expenses have been assumed to grow at 10%, 3%, 3%, 3%, 3% for years 1-5 respectively, and then 3% thereafter in the Telco CGU and (7)%, 6%, 4%, 3% and 3% for years 1-5 respectively, and then have been assumed to remain constant thereafter for Sterilisation, Diagnostic, Distribution, Distributor and provider of genetics tests and Analytical instruments distribution CGU. Variable expenses (directly linked to sales) have been assumed to grow at (6)%, 6%, 6%, 8%, 10% for years 1-5 respectively, and then 1% thereafter for the Telco CGU, and 22%, 11%, 13%, 13% and 12% for years 1-5 respectively, and then 1% thereafter for the Sterilisation, Diagnostic, Distribution, Genetics laboratory distribution and Analytical instruments distribution CGU. The rates used above reflect historical rates achieved and expected levels for 2018 but then are prudently adjusted for subsequent years.

Sensitivity of the recoverable amount to changes in the key assumptions

The recoverable amount of the Diagnostic activity is higher than the carrying amount in the amount of $6.9 million. Reduction of 9% growth rate taken into account in calculating the value in use of the activity will result in a decrease of $6.4 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 used in 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 $6.6 million recoverable amount of the activity and no goodwill impairment will be recorded.

The recoverable amount of the Telecommunications activity is higher than the carrying amount in the amount of $12.7 million. Reduction of 8% growth rate taken into account in calculating the value in use of the activity will result in a decrease of $11.8 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.

	2017 $'000s	2016 $'000s
Balance at 1 January	15,011	11,430
Additions in the year [*]	1,027	3,526
Foreign Exchange difference	779	55
Balance at 31 December	**16,817**	**15,011**

[*] see note 30.

23 Other Intangible Assets

	Customer Relationships and Backlog $'000s	Technology $'000s	Other [*] $'000s	Total $'000s
Cost				
At 1 January 2016	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
Additions	-	19	1,563	1,582
Effect of translation adjustments	1,085	371	241	1,697
At 31 December 2017	**16,502**	**10,084**	**7,666**	**34,252**
Accumulated amortisation				
At 1 January 2016	13,733	8,610	2,043	24,386
Effect of translation adjustments	(122)	(70)	18	(174)
Amortisation expense	769	317	71	1,157
At 31 December 2016	14,380	8,857	2,132	25,369
Effect of translation adjustments	1,076	281	50	1,407
Amortisation expense	642	327	380	1,349
At 31 December 2017	**16,098**	**9,465**	**2,562**	**28,125**
Carrying amount				
At 31 December 2017	**404**	**619**	**5,104**	**6,127**
At 31 December 2016	**1,037**	**837**	**3,730**	**5,604**

[*] includes Capitalised R&D (Agri sterilisation devices, ATCA 510 and CloudMetro 10/100) and Brand.

Other intangible assets are amortised on a straight-line basis over their estimated useful lives.

Amortisation by categories:

Customer Relationships and Backlog: mainly 7 to 10 years

Technology: mainly 10 to 11 years

Other: 3 to 10 years

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

24 Subsidiaries and Joint venture

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 2017 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
Entity I	Distribution	Hungary	100%	January 2016
Entity J	Distribution	Israel	100%	January 2017
Entity k (*)	Diagnostics	Italy	50%	July 2016

(*) the main activity of the joint venture is R&D. The joint venture has yet generated no revenues and the amount of its assets and liabilities are immaterial.

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)*.

	Retirement benefit obligations $'000s	Losses carried forward $'000s	Other(*) $'000s	Total $'000s
At 1 January 2016	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
Credit (charge) to income	(114)	(1,042)	309	(847)
Effect of translation adjustments	-	126	60	186
At 31 December 2017	**27**	**3,299**	**(417)**	**2,909**

(*) Including goodwill and other temporary differences

The Company incurred current tax losses in previous years in certain jurisdictions, to which deferred tax assets relate, to the extent that it is expected that future taxable profit will be available and can be utilised against them. Deferred tax assets were recorded to the extent that it is expected that future taxable profit will be available and can be utilised against them. The deferred tax assets are mainly attributed to profitable companies or to companies that have current losses but a history of profitable operations. The deferred tax assets were also analysed based on forecasted operations and existing agreements and backlog.

Deferred tax liabilities

	Intangible Assets $'000s	Tangible assets and other $'000s	Total $'000s
At 1 January 2016	490	605	1,095
Credit to income	(166)	16	(150)
Effect of translation adjustments	(38)	5	(33)
At 31 December 2016	286	626	912
Acquisition of subsidiary	151	-	151
Credit to income	(146)	(640)	(786)
Effect of translation adjustments	(15)	74	59
At 31 December 2017	**276**	**60**	**336**

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 2017 $13,406 thousand (31 December 2016: $7,821 thousand).

26 Financial liabilities and other

Trade and other payables

	31 December	
	2017 $'000s	**2016 $'000s**
Trade creditors	15,706	10,618
Salary accruals	7,125	5,930
VAT and other tax	4,182	1,472
Liability to the office of the chief scientist	491	709
Liability on acquisition of a subsidiary *	633	633
Provision	181	197
Other creditors and accruals **	9,289	7,440
	37,607	**26,999**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2016: 62 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

* See also note 30

** Including a liability to a related party, amounts to $73 thousand that was repaid at the beginning of 2018.

Tax liabilities

As of 31 December 2017, including $1,939 thousand tax on selling of the building in Yokneam, see note 12.

Notes to the Consolidated Financial Statements *(continued)*

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Long-term bank credit

	31 December	
	2017 $'000s	**2016 $'000s**
Long-term bank credit [1]	910	1,104
	910	**1,104**

(1) During 2017 one of the Company's subsidiaries in Europe received a loan from the bank: Euro 200 thousand bearing 4.6% interest rate paid monthly starting February 2017 for 2 years.

Long-term liabilities

	31 December	
	2017 $'000s	**2016 $'000s**
Liability to the office of the chief scientist [1]	3,023	3,116
Liability on acquisition of a subsidiary	1,098	1,267
Government institutions and other	1,140	339
	5,261	**4,722**

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

Changes in financial liabilities where the cash flows in respect thereof are classified as cash flows from financing activities

	Open balance $'000s	**Cash flow from finance activities $'000s**	**Business combination $'000s**	**Foreign exchange differences $'000s**	**Close balance $'000s**
Short term	4,407	549	28	340	5,324
Long term	1,104	(451)	-	257	910
	5,511	**98**	**28**	**597**	**6,234**

27 Share capital

	Ordinary shares of NIS 0.01 each (number of shares)	
	2017	**2016**
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**403,300,820**	**403,150,820**

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

During 2017, 150,000 options were exercised by one employee, during 2016 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.

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 the assistance of an independent external valuator, assessing the recoverable amount of the investment in IBC. The Company recognised 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 and 2017 the Company examined the value of the investment in IBC and found there was no change in the fair value compared with the end of 2015.

29 Note to the cash flow statement

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Operating profit (loss) from operations	4,225	(302)
Adjustments for:		
Amortisation of intangible assets	1,349	1,157
Depreciation of property, plant and equipment and investment property	2,132	1,965
Capital gain of property, plant and equipment*	(5,455)	(3,929)
Stock options granted to employees	109	108
Increase (decrease) in retirement benefit obligation	59	(232)
Decrease in provisions	(15)	(20)
Decrease (increase) in inventory	(2,629)	2,348
Decrease (increase) in receivables	(11,234)	2,795
Increase (decrease) in payables	10,552	(2,035)
Effects of exchange rate changes on the balance sheet	1,934	(419)
Income taxes paid	(512)	(153)
Income taxes received	1	4
Interest paid	(460)	(372)
Net cash from operating activities	**56**	**915**

* Included in other operating expenses

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

30 Business combinations

At the beginning of the year, the Group acquired the entire issued share capital of Zer Laboratories for a consideration of NIS 2.75m (approximately $0.8m) payable in cash. Zer Laboratories is the largest private diagnostic laboratory in Israel for clinical tests, mainly providing prenatal screening tests for Down's syndrome, genetic tests and additional non-invasive prenatal tests (NIPT) performed during IVF and fertility treatments.

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

ZER LABORATORIES

	2017 US$ in thousands Unaudited
Net assets acquired	
Property, plant and equipment	78
Net working capital	109
Retirement benefit obligation	(107)
	80
Deferred tax	(126)
Other Intangible assets	586
Goodwill (*)	898
Onerous contracts	(169)
Total consideration	**1,269**
Satisfied by:	
Cash	804
Consideration recorded as a contingent liability (**)	465
	1,269
Net cash outflow arising on acquisition	
Cash consideration	804
Cash and cash equivalents acquired	-
	804

(*) 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

Zer Laboratories contributed $2,249 thousand revenue and loss of $418 thousand to the Group's profit before tax for the period between the date of acquisition and 31 December 2017.

GREEN LAB

In January 2016 the Group acquired 100% of the issued share capital of Green Lab for a consideration of $3,813 thousands 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.

	2016 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 2017

32 Operating lease arrangements

The Group as lessee

	Year ended 31 December	
	2017 $'000s	**2016 $'000s**
Minimum lease payments under operating leases		
Recognised in income for the year	**2,045**	**1,671**
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	
	2017 $'000s	**2016 $'000s**
Within one year	2,325	1,795
In the second to fifth years inclusive	2,543	2,832
	4,868	**4,627**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years.

The Group as lessor

Property rental income earned during 2017 was $609,000 (2016: $582,000). 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	
	2017 $'000s	**2016 $'000s**
Within one year	235	548
In the second to fifth years inclusive	495	1,043
	730	**1,591**

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 over the 30 days before the date of grant.

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

	2017		2016	
	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	6,462,711	0.2014	4,341,028	0.2507
Granted during the year	225,000	0.1840	3,013,879	0.1298
Forfeited during the year	(217,408)	0.2833	(892,196)	0.1995
Exercise during the year	(150,000)	0.1787	–	–
Outstanding at the end of the year	**6,320,303**	**0.1985**	**6,462,711**	**0.2014**
Exercisable at the end of the year	**5,895,303**	**0.2004**	**4,159,611**	**0.2398**

The options outstanding at 31 December 2017 had a weighted average exercise price of 0.1985 GBP, and a weighted average remaining contractual life of 6.15 years. 225,000 options were granted on 17 August . The aggregate of the estimated fair values of the options granted on this date is $52,000. In 2016, options were granted on 29 February and 27 June. The aggregate of the estimated fair values of the options granted on this date is $634,000.

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

	2017	2016
Weighted average share price (GBP)	0.26	0.19
Weighted average exercise price (GBP)	0.13	0.13
Expected volatility	24-90	24-90
Expected life	5-7	5-7
Risk-free rate	1.3%	1.3%
Expected dividends	0%	0%-2.5%

The inputs into the Black-Scholes model for the options granted in 2017 are as follows:

	2017
Weighted average share price (GBP)	0.18
Weighted average exercise price (GBP)	0.18
Expected volatility	27
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 3 years. 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 $109,000 and $108,000 related to equity-settled share-based payment transactions in 2017 and 2016, respectively.

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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: $908 thousand in the year 2017 (2016: $700 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 Unites States. The subsidiary contributes a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Defined benefit 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 29 January 2018 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:

	2017	2016
Discount rate(s)	2.81%	2.53%
Expected rate(s) of salary increase	0-5%	1-3%
Expected inflation rate	1.61%	1.26%
Employee turnover rate	8%	8%

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

Service cost:

	2017 $'000s	2016 $'000s
Current service cost	240	164
Past service cost	-	11
Net interest expenses	22	30
Components of defined benefit costs recognised in profit or loss	**262**	**205**

Re-measurement on the net defined benefit liability:

	2017 $'000s	2016 $'000s
Return on plan assets (excluding amounts included in net interest expense)	56	(45)
Actuarial gains and losses arising from changes in financial assumptions	72	(15)
Actuarial gains and losses arising from other	(134)	(148)
Adjustments for restrictions on the defined benefit asset	–	(3)
Components of defined benefit costs recognised in other comprehensive	**(6)**	**(211)**
Total	**162**	**(6)**

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:

	2017 $'000s	2016 $'000s
Present value of funded defined benefit obligation	2,652	2,460
Fair value of plan assets	(1,970)	(1,984)
Net liability	682	476

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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

	2017 $'000s	2016 $'000s
Opening defined benefit obligation	2,460	3,203
Current service cost	229	246
Interest cost	60	69
Remeasurement (gains)/losses arising from changes in financial assumptions	59	(56)
Benefits paid	(465)	(1,145)
Reclassified to short-term	-	(92)
Exchange rate differences	309	235
Closing defined benefit obligation	**2,652**	**2,460**

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

	2017 $'000s	2016 $'000s
Opening fair value of plan assets	1,984	2,496
Interest income	38	39
Premeasurements gains/(losses) Return on plan assets (excluding amounts included in net interest expense)	(46)	41
Contributions from the employer	148	240
Benefits paid	(362)	(1,027)
Exchange rate differences	208	195
Closing fair value of plan assets	**1,970**	**1,984**

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

	Salary $'000	Social Benefits $'000	Pension Benefits $'000	Performance Bonus $'000	2017 Total $'000	2016 Total $'000
Zvi Marom(*)	398	-	-	–	398	399
Moti Nagar	167	53	11	–	231	232
Gideon Chitayat	56	-	-	–	56	59
Avigdor Shafferman	46	-	-	–	46	44
Orna Pollack	46	-	-	–	46	44
Harel Locker(**)	43	-	-	–	43	10
Gideon Barak(***)	-	-	-	–	-	30

(*) Since Zvi Marom moved to a Service agreement, his salary includes a basic salary of $300 thousand and Social and Pension Benefits of $98 thousand.

(**) Mr. Locker joined as a director effective September 2016.

(***) Mr. Barak resigned as a director effective June 2016.

The total liability for the Executive Directors in the year-end 2017 was $11 thousand (2016: $42 thousand) related to December 2017 and 2016 wages paid in January 2018 and 2017 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 2017 and 2016 were as follows:

	2017 Ordinary shares	2016 Ordinary shares
Zvi Marom	96,694,500	96,694,500
Moti Nagar	-	–
Gideon Chitayat	3,000,000	3,000,000
Avigdor Shafferman	-	–
Orna Pollack	-	–
Harel Locker	-	–
Gideon Barak	-	–

Share Options

Options to subscribe for or acquire ordinary shares of the Company were held by the following Director during the year.

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% became exercisable on 31 December 2017 since Mr. Nagar remains in his position as CFO at the vesting dates and the financial performance criteria determined by the Remuneration Committee were 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 2017

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.

	2017 $'000s	2016 $'000s
Short-term employee benefits	591	614
Post-employment benefits	12	9
Other long-term benefits	12	12
Termination benefits	14	13
	629	**648**

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 Group to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Group such as credit providers and employees of the Group, and sustain future development of the business. Management of the Group monitors return on capital, defined as the total amount of equity attributable to the shareholders of the Group 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

	2017 $'000s	2016 $'000s
Financial assets		
Cash and cash equivalents*	18,182	22,015
Fair value through profit or loss held for trading	5,782	5,593
Receivables	45,638	27,516
Available for sale Investments carried at fair value	576	614
Financial liabilities		
At amortised cost	38,354	29,736
Fair value through profit or loss	5,504	5,730

*cash and cash equivalents comprises $6.3 million deposits up to three months and $11.9 million cash (2016: $6.6 million deposits up to three months and $15.4 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	
	2017 $'000s	**2016 $'000s**	**2017 $'000s**	**2016 $'000s**
New Israeli Shekel	16,489	5,004	32,560	16,831
Euro	15,424	12,425	9,505	11,191
MDL	2,769	1,338	3,804	3,621
Other	3,402	2,240	5,211	4,394

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2017

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 2017 (2016: 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 the US$ weakens against the respective currency. If the 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

	2017 $'000s	2016 $'000s
NIS Impact	349	73
Euro Impact	44	28

Equity

	2017 $'000s	2016 $'000s
NIS Impact	1,258	1,110
Euro Impact	(636)	(152)
MDL Impact	104	228
Other currencies Impact	185	212

This is mainly attributable to the exposure outstanding US$ 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 ten financial instruments which resulted in $242 thousand recorded as finance expenses. (2016: four financial instrument which resulted in $157 thousand recorded as finance income).

(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 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
	%	$'000s	$'000s	$'000s	$'000s
31 December 2017					
Non-interest bearing	–	32,120	566	5,483	38,169
Bank loans interest bearing (*)	4.11	4,909	415	910	6,234
		37,029	981	6,393	44,403
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

(*) 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 $164 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 amortised 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	
	2017 $'000s	2016 $'000s
Opening balance	3,570	3,727
Losses/(Gains) in profit or loss(*)	(176)	(811)
Received	609	1,217
Paid	(489)	(563)
Closing balance	**3,514**	**3,570**

(*) Mainly in R&D

Notes to the Consolidated Financial Statements *(continued)*

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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 $114 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	
	2017 $'000s	**2016 $'000s**
Opening balance	46	45
Unpaid investment	–	–
Revaluation	–	–
Translation differences	5	1
Closing balance	**51**	**46**

37 Non-cash transactions

Other receivables in the amount of $5.8m excluding VAT with regards to the selling of the building (see Note 12) expected to be received in 2018.

The acquisition of Zer Laboratories at the beginning of 2017 was for a total consideration of $1,269 thousand, of which $804 thousand was paid in cash on the acquisition date and $465 thousand was recorded as a contingent liability and presented as non-cash transaction (Note 30).

In 2016 the acquisition of Green Lab was for a total consideration of $3.8m payable over a three-year period of which: $1.9m has been paid in 2016, $0.6m has been paid in 2017 and the remaining $1.3m is to be paid in two equal annual instalments ending in 2019.

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