

# ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED  
31 DECEMBER 2019





# CONTENTS

Directors, Secretary & Advisers	1
Financial & Operational Summary	2

---

## Strategic Report

Chairman's Statement	4
Chief Executive Officer's Review	6
Chief Financial Officer's Review	9
Corporate Strategy	11
Principal Risks and Uncertainties	13
Stakeholder Engagements	14
Conducting Business Responsibly	20

---

## Corporate Governance

Directors' Biographies	23
Directors' Report	25
Corporate Governance Report	28
Directors' Remuneration Report	35

---

## Financial Statements

Independent Auditor's Report	50
Consolidated Statements of Profit or Loss	55
Consolidated Statements of Comprehensive Income	56
Consolidated Statements of Financial Position	57
Consolidated Statements of Change in Equity	58
Consolidated Statements of Cash Flow	59
Notes to the Consolidated Financial Statements	60



# DIRECTORS, SECRETARY & ADVISERS

## Directors

**Dr. Gideon Chitayat** – Non-Executive Chairman

**Dr. Zvi Marom** – Founder & CEO

**Moti Nagar** – Executive Director & CFO

**Harel Locker** – Non-Executive Director & Senior Independent Director

**Prof. Ari Shamiss** – Non-Executive Director

**Prof. Varda Shalev** – Non-Executive 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.**

Certified Public Accountants

A Firm in the Deloitte Global Network, 1 Azriely Center, Tel-Aviv, Israel

## Financial Adviser & Stockbroker

**Shore Capital**, Cassini House, 57 St James's Street, London SW1A 1LD, 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**, 4 Hatzoran, Netanya, Israel

**Bank Leumi**, 7 Menahem Begin Street, Ramat-Gan, Israel

## Company Secretary

**Mr. Arthur Moher**, Lipa Meir & Co.

## Registrar

**Link Asset Services**, The Registry, 65 Gresham Street, London EC2V 7NQ, UK

## Financial PR Consultants

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

# FINANCIAL & OPERATIONAL SUMMARY

Group revenue increased to  
**\$123.4m**  
(2018: \$119.6m)

Adj. operating profit\* of  
**\$5.3m**  
(2018: \$2.6m)

Cash and financial assets of  
**\$44.8m**  
(31 Dec 2018: \$24.4m)

Gross profit of  
**\$33.1m**  
(2018: \$34.5m)

EBITDA\* of  
**\$9.8m**  
(2018: \$4.9m)

Earnings per share of  
**0.93¢**  
(2018: 0.09¢)

Gross margin of  
**26.9%**  
(2018: 28.8%)

Cash from operating activities of  
**\$7.2m**  
(2018: \$2.6m)

\* This report includes Other Alternative Measures. For a reconciliation of these measure to the IFRS please refer to page12

## Bio-Medical Division (52% of total revenue)

- Revenue increased to \$64.4m (2018: \$62.1m)
- Adj. blended gross margin\* of 23.8% (2018: 25.0%)

### • Diagnostics Unit

- Signed conditional investment agreement for up to \$30m, with first instalment of \$14.5m received during the year, into Ador Diagnostics ("Ador") and, post period, received first commercial order for Ador's NATlab solution
- Increased sales of new highly-compact metabolism testing analyser, Hemo One
- Sustained growth in sales of new molecular biology diagnostics Adaltis product line, and introduced new reagents
- Post period, launched new COVID-19 diagnostics kit for medical facilities, which has received certification and production and sales are ramping up. Also entered a collaboration with Novamed Ltd, an Israeli life sciences company operating in the in-vitro rapid diagnostics market, for the joint development and marketing of a home-use testing kit for COVID-19

### Eco Med Unit

- Commenced delivery on first agri-waste treatment contract outside of Israel with a major food manufacturing group in the Philippines, which is expected to be completed by the end of H1 2020



### *Bio-Medical Division (52% of total revenue) continued*

- Awarded \$4m contract for agri-waste treatment solution in Taiwan by agri-food conglomerate and, post period, received a contract from a major poultry processor in the Middle East – representing further geographic expansion of the customer base
- Post period, received c. \$31m order from a European government for the delivery of 1,000 critical care ventilators in response to COVID-19

### **Distribution Unit**

- Doubled the number of NIPT (pre-natal diagnostics) tests provided by the Group's genetic laboratory in Eastern Europe
- Strong growth in provision of cancer diagnostics tests in Israel, and received regulatory approval to offer further molecular genetics tests with sales commencing during the year

## **Networking and Cyber Division (48% of total revenue)**

- **Revenue increased to \$59.0m (2018: \$57.5m)**

- **Adj. blended gross margin\* of 30.9% (2018: 33.6%)**

- **Networking Unit**

- Completed delivery under partnership with Arm to expand the Group's NFVTime ecosystem optimised for Arm infrastructure and entered proof-of-concept with Tier 1 network operator – with negotiations underway with several others
- Commenced revenue generation from sales of the Group's NFV products
- Developed new technology to enable significant increase in network traffic when licensing NFVTime on Arm-based NXP Semiconductors ("NXP") processors
- Introduced TM-8104 – a new ultra-high capacity networking platform ready for hyper-cloud connectivity, 5G and Multi-access Edge Computing (MEC)
- Commenced sales of the T-Marc R3305 series – BATM's first solution for multiservice business routing

- **Cyber Unit**

- Revenue in 2019 doubled over 2018 with delivery on previously-awarded contracts and new orders received during the year
- Received orders totalling \$9.1m during the year, including first order for a combined cyber security and networking solution
- Post period, awarded a \$4m cyber security contract from the Group's long-standing government defence department customer

*\* See table on page 12 - Key Performance Indicators*

# STRATEGIC REPORT

## CHAIRMAN'S STATEMENT



I am delighted to present our 2019 Annual Report, which shows how we've significantly advanced the execution of our strategy. We are proud of being a successful, growing business and of the important contributions we make to wider society. At a time of global uncertainty, we believe an important role of business is to seek solutions and create opportunities. By growing and sustaining a financially-strong and responsible business over the long-term, guided by a clear purpose, we can make a positive and significant impact not just to our clients and our people, but to the economy and society.

### SUCCESSFUL EXECUTION OF STRATEGY

We believe the strategy we adopted in both of our divisions is proving to be correct. In particular, the COVID-19 pandemic has demonstrated the value of our solutions that help with

the containment of infectious disease outbreaks – namely, our NATlab diagnostic system, which can identify human pathogens with unparalleled speed and accuracy, and our Eco-Med products for pathogenic waste treatment. At the same time, the importance of secure, virtual networks has never been more apparent.

In 2019, we achieved the goals that we set for ourselves for the year. We delivered growth in revenue to \$123.4m (2018: \$119.6m) and adjusted operating profit was \$5.3m (2018: \$2.6m). We saw meaningful progression in NFV and molecular diagnostics – our key future growth markets. We are also pleased with the solid commercial traction that we have established in our Eco-Med and Cyber businesses. We gained new customers and partners, secured new contracts, expanded into new territories and continued to establish a leading position in our target markets.

Right: NATlab system



## CONDUCTING BUSINESS RESPONSIBLY

As noted, providing solutions that benefit society is an important element of BATM's strategy. The Board is pleased with the progress achieved during 2019. A highlight was the increasing recognition within international markets of our agri-waste treatment solution that provides the poultry industry with significant environmental and safety benefits. We also strengthened our governance of these matters with the establishment of a Corporate Social Responsibility and Environment Committee of the Board.

I am excited by, and proud of, the work that BATM is undertaking to address urgent human medical issues. Clearly, an important example is BATM's current contribution in two key areas to support the worldwide response to the COVID-19 crisis. Firstly, through the development of molecular diagnostics kit for medical facility and home testing use. Secondly, through the manufacture of critical care ventilators.

I am confident that BATM is well positioned to meet the challenges of 2020 and generating sustainable long-term 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.

## STAKEHOLDER ENGAGEMENT

Regular engagement, dialogue with and feedback from BATM's material internal and external stakeholders are important to our success and a core element of our business model. Understanding stakeholders' views informs and assists our decision-making processes and helps drive progress towards the achievement of our aims, objectives and strategy. In keeping with the requirements of Section 172 (1) of the UK Companies Act 2006, pages 14 to 19 record BATM's key stakeholder groups, their material issues and how we engage with them. Each stakeholder group requires a tailored engagement approach to foster effective communication and mutually beneficial relationships.

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

I have served on the Board for almost ten years, five of those as Chairman, and BATM has progressively delivered on its strategy in that time. While it hasn't been without challenges, we are now in the strongest position that I have seen, which is also reflected in the share price having increased over 200% in that time. We all are committed to continuing to create substantial value for our shareholders, and I look forward to reporting on our progress.

**Dr. Gideon Chitayat**  
Chairman  
30 April 2020

# CHIEF EXECUTIVE OFFICER'S REVIEW



I am pleased to report another good year for BATM as we delivered increased sales and profit in both of our divisions along with strong cash generation. This reflects a great performance in the second half, with revenues 20% higher than H1 2019, and a particularly robust fourth quarter.

We achieved a number of operational milestones in 2019 that significantly advanced the execution on our strategy in areas that we have identified as growth markets. In particular, in Network Function Virtualisation ("NFV"), we completed delivery under our agreement with Arm and in molecular biology diagnostics, we made strong progress in the development of our NATlab solution under Ador – both of which are now positioned for commercialisation.

During the year, we also established good momentum with our Cyber and Eco-Med activities – with both units receiving several high-value contracts and expanding their customer base.

Now to look at each division in more detail.

## Bio-Medical Division

### *Distribution*

Revenues for the Distribution unit increased by 4.5% and accounted for 81.3% (2018: 80.7%) of the Bio-Medical division's revenue in 2019.

In Israel, our Zer Laboratories subsidiary achieved strong growth in sales of pre-natal diagnostic tests. We received regulatory approval for Zer Laboratories to be able to offer further pre-natal genetics screening tests, becoming one of only two private laboratories in Israel able to provide these tests, with sales commencing during the year. During 2019, there was also an increase in the provision of the new genetics screening tests for the Israeli market that we introduced following investment to expand the local laboratory to install the required technology last year. In addition, Pro-Genetics, in which we hold 49% through Zer Laboratories, achieved good growth in the distribution of cancer diagnostics tests.

Following the introduction of Non-Invasive Prenatal Testing (NIPT) diagnostics tests at our genetics laboratory in Eastern Europe last year, we doubled the sales of such tests in 2019 compared with 2018.

### *Eco-Med*

The Eco-Med unit accounted for approximately 10.1% of the Bio-Medical division's revenues in 2019 compared with 8.7% in 2018, which reflects an increase in revenue of 21.1%. The majority of the growth was due to the completion of the installation of our agri-waste treatment solution, which is based on its Integrated Sterilizer and Shredder patented technology

("ISS"), at a bovine slaughterhouse under a previously-won contract.

We also made significant progress in winning new customers for our agri-waste treatment solution, including introducing the product to new geographies. The first international contract, worth approximately \$1.5m and with delivery having commenced in 2019, was with a poultry processing facility in the Philippines.

An important customer win was achieved with the award of a \$4m contract by a Taiwanese agri-food conglomerate, whose business activities span the agri-food supply chain in Taiwan, mainland China and elsewhere in Asia. The contract, which is expected to be delivered by the end of 2020, is for three units of our agri-waste treatment solution for two separate poultry processing facilities. This solution will be used in the rendering process to allow the safe treatment of poultry remains to generate valuable proteins that can be used for the production of animal nutrition.

Post period, we received our third international contract for our agri-waste treatment solution, which is worth approximately \$1.3m and is expected to be delivered in 2020. The customer is a major poultry integrator that produces, processes, markets and distributes high quality fresh and frozen chicken to customers throughout the Middle East, where it is based – representing further geographic expansion of the customer base for this solution – as well as to several countries in Asia.

We were also delighted that, post period, we received a €29m (c. \$31m) order from a European government to deliver 1,000 ventilators in the coming months to help with the fight against COVID-19. This ventilator, which is being manufactured by our Celitron subsidiary in Hungary, is a high-performance ventilator for ICU environments. It has already received CE certification with further certifications pending.

### *Diagnostics*

The Diagnostics unit represented approximately 8.6% of Bio-Medical division revenues in 2019 (2018: 10.6%). As stated previously, the Diagnostics unit has been undergoing a re-organisation, which is now almost complete, as it transitions from ELISA to focus on molecular biology solutions and products. This has resulted in a temporary reduction in sales, with 2019 being slightly lower than 2018. However, there was a return to growth in sales of the Diagnostics unit in the second half of the year, with H2 2019 revenues increasing over both H1 2019 and H2 2018 based on diagnostic instrument sales, with this momentum expected to continue in 2020. In addition, we continued to invest in our manufacturing facilities in Italy to increase the efficiency of the production process for systems



and reagents, which is expected to generate substantial efficiencies in 2020.

During the year, our new highly compact metabolism testing analyser, the Hemo One, performed well with sales in multiple countries across Europe, Asia and South America. We also continued development work to be able to offer further panels and cartridge-based testing for this instrument, which has been based on demand from medical offices as well as major clients.

Sales increased of our molecular biology diagnostics Adaltis product line that was launched at the end of 2018, including commencing selling in Mexico in addition to Europe. We also extended the range of reagents and entered into new collaboration agreements with significant distributors in the molecular biology field in Italy and Mexico, which translated to initial sales in H2 2019 and is expected to ramp up from 2020.

Post period, we successfully developed a new diagnostics kit to detect the COVID-19 virus. This kit, which is part of the MOLgen molecular diagnostics line that was launched at the end of 2018, has undergone testing by several central laboratories and hospitals that have now verified its ability to diagnose COVID-19. The MOLgen COVID-19 kit is designed to be used with our diagnostic instruments, which offers benefits of speed and accuracy, but it can also be used with some competing diagnostic instruments. Initial production of the kit has commenced at our Adaltis facility, and we are working with academic and research institutions, mainly in Europe, to progress the kit to make it at a price point suitable for large-scale production. The kit, which supports all the Centers for Disease Control and Prevention recommendations, has already received interest from customers in several countries.

During the year, strong progress was made in advancing the NATlab molecular biology solution that is being developed through Ador, which has undergone extensive lab testing and partnerships have been established with several leading research institutions. NATlab provides rapid sample-to-answer diagnosis of bacterial, viral or fungal infections, within approximately 15-90 minutes, using DNA sampling. The unique system is modular, compact and mobile, and is designed to be used at the point-of-care as well as in hospital labs. We believe that NATlab – which has been awarded over 40 global patents, including in Europe and the US, with more pending – will allow medical practitioners to provide far quicker and more efficient treatment.

An important milestone was the signing of a conditional agreement for an investment of up to \$30m, and Ador received the initial instalment of \$14.5m, to provide additional funds for the commercialisation of NATlab. The second instalment of \$15.5m is expected to be funded by the end of 2020, subject to certain milestones being achieved and we have made material progress towards meeting those milestones.

Post period, Ador received its first commercial order for NATlab, which was from the leading Italian distributor of molecular biology and genomics products. Under the agreement, Ador

will deliver the new NATlab reader and cartridges for the identification of meningitis in the second half of 2020.

In addition, COVID-19 will be included within the Ador suite of testing kits as part of its travel panels. Laboratory bench tests are expected to commence imminently.

## Networking and Cyber Division

### NFV solutions

Delivery was completed on our joint development agreement with Arm to develop our NFVTime operating system to enable an ecosystem of Virtual Network Function ("VNF") services optimised to run on Arm's architecture. NFVTime enables a significant increase in throughput compared with competing solutions. We have been working with Arm to conduct joint marketing of the solution that enables carriers to deploy their own virtualised networks, which can also be a key element in allowing operators to leverage the benefits offered by 5G.

Together with Arm, we entered into a proof-of-concept for the joint NFV solution with a Tier 1 network operator in 2019, which is expected to progress to field trials this year. Negotiations are also underway with several other network operators in the US and Europe to undertake proof-of-concept. We commenced receiving initial revenue from NFVTime sales during the year, which we expect to ramp as the projects with network operators progress.

Key Arm-optimised VNF services that we added to the ecosystem, through integration with our NFVTime uCPE solution, include Clavister's virtualised cyber security platform and Fortinet's VMware SD-WAN solution.

A key milestone under the agreement with Arm was our development of a new technology under our long-standing partnership with NXP that enables a significant increase in network traffic, without requiring an increase in computing power. The new technology applies when licensing NFVTime on NXP's Layerscape® LS2088A and LS1088A multicore processors, which are built on Arm core technology. The solution will enable more efficient and cost-effective customer premise networking, and support next-generation 5G/MEC use cases.

### ICT and Carrier Ethernet solutions and services

The growth in revenue from ICT solutions and services was based on increased sales with both existing and new customers.

We advanced our 5G strategy with the launch of a new ultra-high capacity networking platform for network edge. The T-Metro 8104, which is NFV ready, is the industry's first CE2.0 compliant service aggregation and cloud gateway platform available at 1.2Tb capacity and it is designed to allow network operators to leverage the transformation enabled by hyper-cloud connectivity, 5G and MEC. It has a modular design that, along with having a small form factor and the ability to be installed outside a telecom cabinet, allows customers to expand and add capacity and interfaces as required.

## CHIEF EXECUTIVE OFFICER'S REVIEW *CONTINUED*

Also during the year, we introduced the T-Marc R3305 series, with sales commencing in the fourth quarter. The routers and integrated access devices support a variety of enterprise-grade features that can form the foundation of a business' entire network. This new product represents an expansion of our offering into routing as part of its strategy to target the enterprise market.

### **Cyber**

Our cyber security business made excellent progress, with a strong increase in revenue from previously awarded contracts and receiving new orders totalling \$9.1m during the year, of which \$6.5m was delivered in H2 2019.

We were awarded two further contracts, worth an aggregate of \$6.5m, from the government defence department customer that we have been supplying with cyber security products and services since 2017. Post period, we received a \$4m follow-on order, which is expected to be delivered in the second half of 2020, from this customer for the delivery of additional hardware and software cyber security products as the solution is rolled out to encompass further employees. Following this latest order, the total contracted revenue awarded to BATM to date by this customer for this cyber solution is over \$18m.

We were also awarded an initial \$2m contract by a branch of a national armed forces – a new customer – for the provision of a combined cyber security and networking solution. This is our first contract for this combined solution.

In addition, we expanded our cyber security offering by enhancing our T-Sense cyber product, which is a software-based smart network sensor that is able to discover and classify network devices, applications, services and activities over the network, so that it is compatible with Arm architecture as well as Intel-based platforms. As a result, T-Sense is now able to leverage the advantages of all major infrastructures, which expands its addressable market. This enhanced product is expected to be available to customers this year.

### **COVID-19 Update**

At the end of December 2019, we were alerted to the possibility of a pandemic outbreak by monitoring information mainly from China. The effectiveness of our response has been enabled by the significant investments we have made in advancing our Bio-Medical division in recent years and our immediate preparation of all parts of the division for an outbreak. Our Bio-Medical division is now able to quickly provide solutions that include diagnostic kits for any new pathogen that appears and devices like diagnostic instruments, ventilators, pathogenic waste disposal and more.

With the experience gained in the company and our relationships with leading academic institutions, when we received the worrying information about a possible outbreak, we were able to launch a new precise and fast molecular diagnostics kit to detect COVID-19. Clinical verification and evaluation was undertaken during February 2020 by leading universities and hospitals, and we received certification in March 2020. Since then, production and sales have been ramping up. We are also in the process of developing various other detection kits, among them kits for home testing, in partnership with Novamed, which we expect to complete within the next few months. Finally, we were honoured to receive our first order of c. \$31m from a European government to provide 1,000 ventilators by the end of Q3 2020 to support their response to COVID-19.

Our primary facilities in the Bio-Medical division, in Israel, Italy and Hungary, have remained operational throughout this period. They are able to produce at a substantial capacity despite the measures taken to ensure the health and safety of our employees in those locations as well as several regulatory limitations and other impacts of lockdown.

In our Networking & Cyber division, our facilities have remained open in both Israel and the US subject to public health controls. During Q1 2020, the effect of the outbreak was minimal. As a result of COVID-19, some customers are temporarily postponing certain projects and we are currently unable to perform some activities due to the restrictions on travelling to a customers' premise or a supplier. Consequently, it is prudent to anticipate some lost revenue in this division, however it is too early in the current financial year to determine if this will have any material impact on the Networking & Cyber division.

As a result of the above, we expect the Bio-Medical division to perform well and the Networking & Cyber division to experience a temporary slowdown. Given the uncertainty surrounding the length and economic severity of the crisis, it is too early to estimate the financial impact on BATM.

We continue to work hard to ensure our employees are fully supported in remaining safe, well and able to work. Today, BATM is well positioned in large markets showing long-term growth potential and with a set of technologies, services and solutions to meet its customers' evolving needs. As a result, the Board believes that, with the actions taken to date in response to the pandemic along with the further work to be undertaken to achieve the Group's strategic objectives in 2020, BATM will continue to deliver shareholder value.

**Dr. Zvi Marom**  
**Chief Executive Officer**  
**30 April 2020**

# CHIEF FINANCIAL OFFICER'S REVIEW



Total Group revenue for 2019 increased to \$123.4m (2018: \$119.6m), reflecting growth in both divisions. On a constant currency basis, revenue for 2019 would have been \$126.5m, with an immaterial impact on operating profit. The primary currency fluctuation that impacted the reported revenue was the weakening of the Moldovan Leu and the Romanian Leu against the US Dollar. The Bio-Medical division accounted for 52.2% of total revenue (2018: 51.9%) and 47.8% was contributed by the Networking and Cyber division (2018: 48.1%). Both divisions had a significantly stronger second half of the year, with revenue in H2 2019 being higher than H1 2019 – by 13.2% in the Bio-Medical division and by 26.9% in the Networking and Cyber division.

The blended gross margin for the year was 26.9% (2018: 28.8%). This decrease is due to the increased contribution to revenue from the Bio-Medical division, which carries a lower margin than the Networking and Cyber division, as well as a slight softening in gross margin in both divisions respectively. We anticipate an improvement in gross margin for 2020.

Sales and marketing expenses were \$16.3m (2018: \$15.6m), representing 13.2% of revenue compared with 13.1% in 2018. The increase is due to the expansion of marketing in the Networking unit to support the launch of the NFV products and in the Diagnostics unit for the launch of the molecular biology products. There was also an increase in sales activity in the Distribution unit.

General and administrative expenses were \$11.8m (2018: \$11.2m), representing 9.5% of revenue compared with 9.4% in 2018.

Investment in R&D was lower in 2019 than the previous year at \$6.8m (2018: \$7.1m), primarily due to the allocation of certain R&D expenses to cost of revenues.

Adjusted operating profit increased significantly to \$5.3m compared with an adjusted operating profit of \$2.6m in 2018. This includes a capital gain of \$3.2m from the part realisation of our ownership of Ador as part of the investment in that

business. The fair value of our remaining holdings in Ador, based on the transaction agreement, is \$17m. Implementation of IFRS accounting standards requires the investment to be measured according to the equity method, which excludes fair value measurement, therefore only a \$3.2m profit was recorded. In addition, there was a capital gain of \$3.4m from the sale of the Group's rights in IBC Holdings (compared with a capital gain in 2018 of \$1.6m from the selling of intangible assets to a joint venture).

We achieved a strong increase in EBITDA, which doubled to \$9.8m (2018: \$4.9m).

Net finance income was \$0.3m (2018: \$0.3m expenses), which includes \$0.3m in expenses relating to interest on lease liabilities following the implementation of IFRS 16 on 1 January 2019.

Net profit after tax attributable to the owners of the company increased to \$3.9m (2018: \$0.4m profit) resulting in a significant increase in basic earnings per share to 0.93¢ (2018: 0.09¢).

As at 31 December 2019, inventory was \$22.7m (30 June 2019: \$23.9m; 31 December 2018: \$22.9m). The decrease is due to the completion of delivery of certain large projects by the Eco-Med unit during the year, which had been commenced in the prior year, resulting in the unwinding of the inventory position. Trade and other receivables increased to \$42.8m (30 June 2019: \$36.4m; 31 December 2018: \$35.0m), which was mostly due to higher sales in the last quarter of the year.

Intangible assets and goodwill at 31 December 2019 was \$23.7m (30 June 2019: \$23.1m; 31 December 2018: \$22.6m). The slight increase is mostly due to a small acquisition of a software business during the year.

Property, plant and equipment and investment property was \$16.1m (30 June 2019: \$16.9m; 31 December 2018: \$16.1m).

The balance of trade and other payables was \$44.5m (30 June 2019: \$32.8m; 31 December 2018: \$33.4m). The increase is mostly due to achieving of better payment terms.

	H1 2019	H2 2019	FY 2019	FY 2018
<b>Revenue</b>	<b>\$56.2m</b>	<b>\$67.2m</b>	<b>\$123.4m</b>	<b>\$119.6m</b>
<b>Adj. blended gross margin</b>	<b>27.7%</b>	<b>26.8%</b>	<b>27.2%</b>	<b>29.2%</b>
<b>Adj. operating profit</b>	<b>\$1.6m</b>	<b>\$3.7m</b>	<b>\$5.3m</b>	<b>\$2.6m</b>

## CHIEF FINANCIAL OFFICER'S REVIEW *CONTINUED*

Cash generated from operating activities was \$7.2m for 2019 compared with \$2.6m for the prior year, which is mainly due to an improvement in working capital and \$2.1m resulting from the implementation of IFRS 16.

Our balance sheet remained strong with effective liquidity of \$44.8m at 31 December 2019 compared with \$16.9m at 30 June 2019 and \$24.4m at 31 December 2018. The increase in cash and cash equivalents relates to improvement in working capital and successfully raising approximately \$17.1m net from new and existing investors.

### Divisional Performance

Bio-Medical Division	FY 2019	FY 2018
Revenue	\$64.4m	\$62.1m
Adj. blended gross margin	23.8%	25.0%
Adj. operating profit/(loss)	\$0.1m	\$(1.1m)

Revenue for the Bio-Medical division increased by 3.7% to \$64.4m (2018: \$62.1m). On a constant currency basis, the Bio-Medical division revenue growth was 9.2%. Blended gross margin for the division was lower due to slightly higher costs in the Eco-Med unit as it delivered the first of its large-scale solutions. The Bio-Medical division generated an adjusted operating profit of \$0.1m for 2019 compared with a loss of \$1.1m in 2018, which was primarily due to a capital gain of \$3.2m from the part realisation of Ador compared with a capital gain of \$1.6m in 2018 from selling of intangible assets to a joint venture.

There was a slight increase in revenue for the full year compared with 2018, which reflects a softening in the first half being mitigated by a strong second half, with revenue in H2 2019 being 26.9% higher than H1 2019 and 14.2% above H2 2018. The growth in the second half was due to increased sales of ICT networking products and services and cyber solutions.

Networking & Cyber Division	FY 2019	FY 2018
Revenue	\$59.0m	\$57.5m
Adj. blended gross margin	30.9%	33.6%
Adj. operating profit	\$5.2m	\$3.6m

There was an immaterial impact on revenue in the Networking and Cyber division by currency fluctuations. The reduction in gross margin in the Networking and Cyber division reflects a slight decrease in year-on-year sales of carrier Ethernet products, resulting in an increased contribution to revenue from ICT services, which carry a lower gross margin.

### Listing on TASE

On 11 July 2019, we commenced trading on our Secondary Listing on the Tel Aviv Stock Exchange (TASE) under the symbol "BVC". Our Primary Listing remains on the Premium Listing Segment of the Official List of the FCA and our shares continue to trade on the Main Market of the London Stock Exchange. Shares are fully transferrable and fungible between the two markets. We did not issue any new shares in connection with the Secondary Listing.

**Moti Nagar**  
**Chief Financial Officer**  
**30 April 2020**



# CORPORATE STRATEGY

BATM is a leading provider of real-time technologies for networking solutions and bio-medical systems.

It operates through two divisions: the Bio-Medical division and the Networking & Cyber division. 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.

Ador, an associated company of BATM's Bio-Medical Division, is developing a unique diagnostics solution, combining molecular diagnostics and rapid tests within the same compact, mobile and easy-to-use machine (reader). The system uses microarray cartridges (panels) to enable the rapid sample-to-answer identification of a specific disease or infection. The Group believes this will allow medical practitioners to provide far quicker and more efficient treatment. The Group intends to target leading hospitals to demonstrate the strength of the solution and to utilise its extensive partner network for further marketing. In addition to the significant target market for the reader, the Group will be able to expand its target market segments through the development of panels for new disease areas. Ador is currently developing panels for meningitis, tropical infectious disease and hospital admitted infectious disease, and will then expand to others.

The division's other innovative solutions treat pathogenic and medical waste in laboratories and hospitals, and in pharmaceutical manufacturing plants and for agricultural

applications (in particular, for the safe treatment on site of poultry remains during the rendering process). These solutions are based on unique patented Integrated Sterilizer and Shredder ("ISS") technology that has been used and recommended by the WHO (World Health Organization).

The division is also a distributor of leading brands of other diagnostic equipment and medical supplies, particularly within Eastern Europe. This includes providing analytical and diagnostic tests of third parties, which helps to develop the market channels for BATM's own diagnostic solutions and relationship with tier 1 companies.

## **Networking & Cyber Division**

The Networking & Cyber Division is focused on becoming the leading provider of Network Function Virtualisation ("NFV"), Carrier Ethernet and MPLS access solutions, and cyber network monitoring.

In the Networking unit, the Group is servicing a wide need for 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, NFV and advanced access solutions. The Group intends to use its technological leadership to penetrate tier 1 operators and to develop solutions targeted at growth areas including 5G, MEC, IoT, Cloud and Enterprise.

In the Cyber unit, the Group is focused on providing network monitoring solutions and services to large area networks, principally those utilising 10/40/100GE. The primary target customers are government organisations in Europe and Asia-Pacific.

For Networking and Cyber, 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.

## CORPORATE STRATEGY *CONTINUED*

### 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 & 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:

	2019	2018	Change %
<b>Revenue</b>	<b>\$123.4m</b>	<b>\$119.6m</b>	<b>+3.2</b>
<b>Gross profit</b>	<b>\$33.1m</b>	<b>\$34.5m</b>	<b>-4.1</b>
<b>Gross margin</b>	<b>26.9%</b>	<b>28.8%</b>	<b>-6.6</b>
<b>Adjusted blended gross margin<sup>1</sup></b>	<b>27.2%</b>	<b>29.2%</b>	<b>-6.8</b>
<b>Cash and financial assets</b>	<b>\$44.8m</b>	<b>\$24.4m</b>	<b>+84</b>
<b>Adjusted operating profit<sup>1</sup></b>	<b>\$5.3m</b>	<b>\$2.6m</b>	<b>+104</b>
<b>EBITDA<sup>2</sup></b>	<b>\$9.8m</b>	<b>\$4.9m</b>	<b>+100</b>
<b>Earnings per share</b>	<b>0.93¢</b>	<b>0.09¢</b>	<b>+933</b>

1. Excluding amortisation of intangible assets.

2. 'EBITDA' is used interchangeably with 'adjusted EBITDA' throughout this report.

### Other alternative measures

The Group uses adjusted operating profit and EBITDA as key performance measures, which are calculated as per the following table:

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
GAAP operating profit	4,482	1,490
Amortisation of intangible assets	794	1,143
<b>Adjusted operating profit</b>	<b>5,276</b>	<b>2,633</b>
Depreciation	2,101	2,248
Depreciation of right-of-use assets	2,460	-
<b>EBITDA</b>	<b>9,837</b>	<b>4,881</b>

# 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.

The Group's diversified business activities include some, particularly within the Eco-Med and Distribution units, that 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.

The World Health Organization declared COVID-19 a global emergency on 30 January 2020 with a significant number of countries declaring lockdown measures. The length and extent of the economic disruption caused by the outbreak is highly uncertain and cannot be predicted. The Group's Bio-Medical division was awarded a significant contract as a result of the crisis, but there can be no assurances that this will be repeated. Accordingly, the financial impact on the Group cannot be estimated at this time.

# STAKEHOLDER ENGAGEMENT

BATM believes that regular engagement with its stakeholders is fundamental to developing and maintaining a sustainable business model. Understanding the views and focus areas of the Group's stakeholders helps to inform its decision-making processes and to drive progress towards realising the Group's mission. BATM's mission is to lead the provision of real-time technologies and solutions for the rapid detection, diagnosis and treatment of pathogens, genetic disease and cyber network threats and for network function virtualisation.

BATM has a wide range of stakeholders and looks to actively engage with each of them. The table below summarises the

key stakeholders and their areas of interest. It outlines how BATM engages with each group and includes highlights of the Group's engagement during 2019 and actions arising from these activities. Some of this engagement is carried out directly at Board level, while other engagement occurs during the course of running the business.

## Section 172(1) Statement

Section 172 of the Companies Act 2006 requires each director of the Company to act in the way he or she considers, in good faith, would most likely promote the success of the Company

Our stakeholders	Why they matter to us	How we engage
<b>Employees</b>	Our people are our greatest asset. In order to recruit and retain the best talent we must ensure that we are an employer of choice and that our employment policies are sensitive to our employees' priorities and requirements.	<ul style="list-style-type: none"> <li>• A dedicated Human Resources function comprising a network of human resources departments at subsidiary level each headed up by a VP-level executive who in turn reports to Head Office</li> <li>• Open and transparent communication with our workforce</li> <li>• Listening to our people and taking into account their feedback</li> <li>• Annual employee satisfaction surveys</li> <li>• Personal development reviews</li> <li>• Recognising and rewarding our people for their contribution as reflected in our Remuneration Policy and which includes a bonus scheme and an Employee Share Option Plan (ESOP) for more senior personnel</li> <li>• Encouraging share ownership at all levels</li> <li>• Code of Conduct for new employees</li> </ul>
<b>Customers</b>	Our customers rely on our technology, solutions and equipment in order to operate and continue to grow. We look to understand their evolving needs and requirements thereby enabling both BATM and our customers to share in the value creation.	<ul style="list-style-type: none"> <li>• Specific client relationship managers dedicated to key customers and to key regions</li> <li>• Annual customer surveys as part of the ISO Audit and focussed on all aspects of our customer relationships (including product quality, levels of customer service and price) and followed by an action plan to implement enhancements and improvements</li> <li>• Training programmes on our solutions and products for our customers</li> <li>• Working to understand the growth drivers in our customers' markets</li> <li>• Participation in major exhibitions</li> </ul>



for the benefit of its members as a whole. In this way Section 172 requires a director to have regard, amongst other matters, to the: likely consequences of any decisions in the long-term; interests of the Company's employees; need to foster the Company's business relationships with suppliers, customers and other material stakeholders; impact of the Company's operations on local communities and the environment; desirability of the Company maintaining a reputation for high standards of business conduct; and need to act fairly between members of the Company.

In discharging its Section 172 duties the Board has considered

the factors set out above and the views of key stakeholders. The Board acknowledges that some decisions will not necessarily result in a positive outcome for all of BATM's stakeholders. However, by considering the Group's purpose, mission, values and commitment to responsible business together with its strategic priorities and having a process in place for decision-making, the Board aims to ensure that its decisions are in the best interests of the business.

	What matters to them	2019 highlights & actions arising
	<ul style="list-style-type: none"> <li>• A shared commitment to our goals</li> <li>• A safe workplace with equality of opportunity and diversity, and which encourages wellbeing</li> <li>• Reaching their full potential from career development</li> </ul>	<ul style="list-style-type: none"> <li>• During 2019, the Board set up a new Corporate Social Responsibility and Environment committee to explore further opportunities for workforce engagement</li> <li>• Training programmes for employees in the Networking &amp; Cyber division focussed on skills development and the achievement of additional career-enhancing qualifications and which often supply in excess of two weeks training per year for individual employees</li> <li>• Training programmes for all employees on the prevention of sexual harassment</li> <li>• An annual employee event and ad hoc social events designed to engender team spirit</li> <li>• Regular senior management communication with employees on areas including Group strategy and progress</li> </ul>
	<ul style="list-style-type: none"> <li>• Product or system quality and reliability</li> <li>• Innovation</li> <li>• Our understanding of their growth drivers in order that BATM can better anticipate and meet their evolving requirements</li> <li>• Fair contractual terms</li> </ul>	<ul style="list-style-type: none"> <li>• In the Networking &amp; Cyber division, continued collaboration with, and collation of feedback from, customer groups enabled the development of new products, including a new ultra-high capacity (1.2 Tb) networking platform ready for 5G</li> <li>• In the Diagnostics business, customer feedback contributed to the evolution of product design and led to the subsequent manufacture of faster diagnostics machines</li> <li>• The Eco-Med business worked with customers to develop customised solutions for the insect protein food industry</li> </ul>

## STAKEHOLDER ENGAGEMENT *CONTINUED*

Our stakeholders	Why they matter to us	How we engage
<b>Communities</b>	<p>We strive to be a responsible corporate citizen within the local and wider communities in which we operate by behaving in a sustainable and socially-responsible manner and supporting local businesses and charities.</p>	<ul style="list-style-type: none"> <li>• BATM's research and development and testing products in the diagnosis of infectious diseases</li> <li>• BATM's solutions for the safe treatment of pathogenic waste</li> <li>• Local initiatives that support community and charitable organisations</li> <li>• Active encouragement of every employee to work to further charitable goals</li> <li>• Response mechanism to queries concerning the Group's operations or products</li> </ul>
<b>Suppliers</b>	<p>BATM's supply chain and, with it, the uninterrupted provision of high-quality, reliable and responsibly-sourced products and services are critical to the effective and continuous conduct of the Group's day-to-day business activities.</p> <p>It is also important that our suppliers are kept abreast of BATM's strategy and evolving requirements so that we can continue to deliver on our long-term strategy.</p>	<ul style="list-style-type: none"> <li>• Contractual terms and payment timings</li> <li>• BATM's strategy and development plans</li> <li>• Tender process details</li> <li>• Day-to-day dialogue and communications with the relevant staff</li> </ul>

	What matters to them	2019 highlights & actions arising
	<ul style="list-style-type: none"> <li>BATM should contribute to the social and economic welfare of the local and wider communities in which it operates</li> <li>BATM's activities should not cause nuisance, pollution or disruption</li> </ul>	<ul style="list-style-type: none"> <li>A key tenet of Group strategy is the research and development of solutions to counter the spread and improve diagnosis of infectious diseases</li> <li>BATM's management team regularly gives their time as expert advisors in the field of medical diagnostics</li> <li>Another key part of our strategy is the safe and effective treatment of pathogenic waste from food production or medical facilities</li> <li>Through its Green Labs subsidiary in Hungary, the Group produces environmental measuring systems including solutions for testing air pollution levels and in large manufacturing plants</li> <li>Involvement with local charitable organisations and hospitals that are designed to help bridge socio-economic divides</li> <li>The donation of used computers to a local school</li> <li>At least once a quarter, the Company arranges for the collection and subsequent distribution of baskets of both basic food products and toys to disadvantaged families</li> <li>The improvement of recycling procedures at the Group's facilities</li> <li>A continued programme of upgrades to energy and lighting systems in the Group's plants and offices to lower energy equivalents</li> </ul>
	<ul style="list-style-type: none"> <li>Product quality and reliability</li> <li>Ensuring that BATM's activities are supported by a reliable and effective supply chain</li> <li>Fair contractual payment terms and timings</li> </ul>	<ul style="list-style-type: none"> <li>Periodic assessment of, and ongoing discussions with, major manufacturing suppliers to ensure continued quality and competitive pricing</li> <li>Ongoing surveys in accordance with ISO quality assurance standards and certificate requirements</li> <li>Key suppliers are regularly considered as part of the ongoing assessment of business continuity risks</li> </ul>

## STAKEHOLDER ENGAGEMENT *CONTINUED*

Our stakeholders	Why they matter to us	How we engage
<b>Industry regulators</b>	<p>BATM is involved with the development of new products and services and regulatory authorisation for our products and services is a key research and development hurdle.</p> <p>The Group's operations are diverse and as a result BATM engages with a broad range of regulatory organisations.</p>	<ul style="list-style-type: none"> <li>• Regular dialogue and ongoing meetings with industry regulators to ensure they are aware of our progress and goals and that we are compliant at each stage of the process</li> <li>• Periodic audits by the regulators</li> <li>• The renewal of CE certifications (to demonstrate conformity with health, safety and environmental protection standards) for our products every 5 years</li> </ul>
<b>Joint ventures, strategic partnerships and minority interests</b>	<p>The Group has joint ventures and joint development agreements that provide significant opportunities for future growth. The maintenance of optimal working relationships with our partners remains critical to our success.</p> <p>Certain companies within the Group have minority interests and relationships with these non-controlling interests are often key to the continued success of the relevant projects.</p>	<ul style="list-style-type: none"> <li>• Regular dialogue and interaction with our partners in the form of, for example, weekly teleconferences and regular development team meetings</li> <li>• Establishment of development timelines and strategic goals</li> </ul>
<b>Current and potential shareholders</b>	<p>The Board has a fiduciary duty to promote the long-term sustainable success of the Group for its shareholders.</p> <p>Shareholders provide important feedback to the Board and management team.</p>	<ul style="list-style-type: none"> <li>• Investor sub-section of the corporate website</li> <li>• Results announcements and presentations</li> <li>• Regular Board-level dialogue and meetings with institutional shareholders</li> <li>• Non-executive Directors are available to meet with shareholders upon request</li> <li>• Analyst / investor site visits</li> <li>• Participation in capital markets seminars and conferences at which the CEO and Board members are often key speakers</li> <li>• AGM</li> <li>• Capital markets days</li> </ul>
<b>Media</b>	<p>Stakeholders require up-to-date, timely, complete and accurate information about the Group.</p>	<ul style="list-style-type: none"> <li>• Support by professional advisors</li> <li>• Regular and timely distribution of Group news and information via the Group's corporate website and news distribution services</li> </ul>



	What matters to them	2019 highlights & actions arising
	<ul style="list-style-type: none"> <li>• Open dialogue and communication channels</li> <li>• Compliance with relevant regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with authorised testing labs for the purposes of CE certification of our diagnostics and telecommunications products indicating conformity with health, safety and protection standards</li> <li>• Our Zer Laboratories subsidiary engaged with the Ministry of Health in Israel in order to obtain a special permit to open and operate a genetic testing lab</li> </ul>
	<ul style="list-style-type: none"> <li>• Funding requirements</li> <li>• Research and development progress</li> <li>• Delivering upon strategy</li> <li>• Open communication channels</li> </ul>	<ul style="list-style-type: none"> <li>• Further progress with Arm for the joint development of the NFV solution, with field trials expected to progress during 2020</li> <li>• A US\$14.5 million investment into Ador Diagnostics to fund the commercialisation of its molecular biology-based solutions</li> </ul>
	<ul style="list-style-type: none"> <li>• Financial performance, growth drivers, earnings potential, strategy and capital allocation</li> <li>• Share price performance</li> <li>• Governance and quality of leadership</li> <li>• Corporate responsibility performance</li> </ul>	<ul style="list-style-type: none"> <li>• A rolling programme of meetings, supplemented by ad hoc meetings, between analysts / institutional investors and the CEO / CFO throughout the year</li> <li>• Analyst and investor visit to medical diagnostics operations in Rome, Italy in December 2019</li> <li>• Board review of feedback provided after investor events and presentations</li> <li>• In July 2019 the Company commenced trading on the Tel Aviv Stock Exchange; this secondary listing provides a local trading platform for Israeli-based institutions, increases the accessibility of the Company shares, improves liquidity and gives an additional day of trading (Sunday) for the shares when the London Stock Exchange is closed for trading</li> </ul>
	<ul style="list-style-type: none"> <li>• Accurate and timely news and information about BATM's activities</li> <li>• Dedicated points of contact for further information and clarification</li> </ul>	<ul style="list-style-type: none"> <li>• Timely and regular news releases from the Group concerning all material aspects of its activities during the year</li> <li>• During 2019, BATM engaged a premium public relations firm in Israel to provide advice and support vis-à-vis the capital markets in Israel and the Tel Aviv Stock Exchange</li> <li>• The regular provision of Group updates in the form of investor videos via financial news portals</li> </ul>

# CONDUCTING BUSINESS RESPONSIBLY

## Approach

The Group's approach to corporate responsibility is governed by national and international business good practice, the applicable laws and regulations and the expectations of its material stakeholders. It is managed both at Group and operating company level through the setting of certain group-wide policies and codes, adherence to international management systems standards and the development and maintenance of local

procedures that are tailored to the specific activities of the operating companies.

## Key focus areas

The outlined policies, management systems and procedures address six key focus areas that comprise the Group's corporate responsibility impacts and opportunities. These are highlighted in the table below.

Environment & climate change	Occupational health & safety	Product quality & safety	Business conduct	Communities	Workforce
Greenhouse gas & atmospheric emissions	Occupational health	Reliability & product maintenance	Anti-bribery & corruption	Good neighbour commitment	Fair employment terms & conditions
Management of water resources	Accident & incident prevention	Product quality	Regulatory & legal compliance	Pro-active local community participation	Equal opportunities
Energy use	Provision of healthy workplaces	Product security & integrity	Stakeholder relations & transparency	Local stakeholder engagement	Workplace diversity
Re-use recycling & waste management	Workforce training & education	After-sales service	Fair terms & conditions for suppliers & customers	Employee volunteering	Approach to organised labour
Biodiversity management		Quality of raw materials	Data protection & information security		Employee training & development
Pollution prevention					

## Governance

Corporate responsibility is addressed at Board level through the responsibilities that have been allocated to the Audit Committee and the Corporate Social Responsibility and Environment Committee. The Audit Committee is responsible for addressing business conduct matters including maintaining whistleblowing policies and procedures and ensuring that complaints or concerns from employees in the Group with respect to wrongdoing are properly investigated and addressed. Further information is recorded below and on page 32.

The Corporate Social Responsibility and Environment Committee was formed in 2019 to formalise the Board's approach to the remaining key areas of focus and to develop the Company's alignment to the UK Corporate Governance

Code. Its responsibilities include monitoring the Company's performance in each area, reporting this information to the Board and making recommendations on how the Company's policies, systems and performance should be developed over time. Further information is recorded on page 33 to 34.

## Policy structure

The Company has put in place policies at Group and operating company level to ensure that its approach to corporate responsibility adheres to good practice and applicable laws and regulations. Highlights are recorded below:

- A Group Code of Conduct that governs employee share dealings, which outlines how these should be conducted

within the applicable laws and regulations.

- Operating company employment policies that ensure fair terms and conditions, promote equal opportunity, prevent discrimination and harassment, outlaw forced and child labour and promote volunteering, community involvement and regular communication and dialogue.
- Environmental and health and safety guidelines at individual operating companies.
- The promotion of responsible business behaviour including anti-bribery and corruption guidelines that have been distributed and communicated to all employees. These also emphasise the importance of ethical behaviour through fair dealings with suppliers and customers.

## Management systems

### Certifications

BATM holds a number of international management certifications. For example, the Company holds ISO 14001:2015 and ISO 9001:2015 certifications for the design and manufacturing of data communications products and ISO 13485:2016 for chemical chemistry. Other subsidiaries in the Group hold additional ISO certifications. These include ISO 13485:2016 in the Bio-Medical division and CE marked approval for the Group's IVD diagnostics tests. BATM's laboratory in Israel holds ISO 27001:2013 and 27799:2016 for operating medical testing laboratories.

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

### Whistleblowing procedure

Information about BATM's whistleblowing mechanism is regularly communicated to all employees. These processes include the requirement for its operating and contact details to be published on every bulletin board at all Company sites.

The procedure is managed by an independent administrator who is a partner at an Israeli professional services firm, Chaikin, Cohen and Rubin, based in Tel Aviv. The organisation has a reputation for professional excellence and is an independent auditor for several listed Israeli companies.

Employees are encouraged to approach the administrator by phone or email if they have concerns about possible wrongdoing including potential or actual breaches of applicable laws and regulations and fair business conduct. The approach can be anonymous, if the employee chooses. The Company has undertaken not to take subsequent disciplinary action against a complainant unless the report

was subsequently judged to have been made in bad faith or to be malicious.

On receipt, the details of the report are passed to the Company's Internal Auditor for immediate investigation. The Internal Auditor has the authority to question and interview any Company employee during the conduct of the investigation. The recommended outcome with other relevant recommendations and conclusions is recorded in a report that is sent to the Chairman of the Audit Committee. The Internal Auditor may also inform the complainant of the recommended outcome after seeing advice from the Company's General Counsel.

The Audit Committee will then decide on whether to action the report's recommendations or to undertake another course of action.

## Performance information

Performance across the business in the six key focus areas highlighted at the beginning of this Conducting Business Responsibly section is regularly monitored at both operating company and Group level. The Corporate Social Responsibility and Environment Committee aims to lead a process of internal and external reporting development over time as part of its responsibilities.

The Board and senior management team view the Group's performance in 2019 as satisfactory. Across the Group highlights included:

- No material environmental or health and safety (including fatality) incidents
- No incidents of material regulatory fines or penalties in relation to environmental or health and safety matters
- No instances of product withdrawals or revocations due to quality issues (except where products had reached the end of their natural lifespan in the marketplace)
- No instances of whistleblowing reports requiring further action
- No incidents of bribery, corruption or business interruptions as a result of regulatory activity

### Workforce

The Group prioritises training and development for its workforce. For example, the Networking & Cyber division has numerous training schemes that often supply in excess of two weeks training per year for individual employees. Another example is the Group's Distribution unit of the Bio-Medical division, which provides its employees with 4,000 hours a year of product training and skill development.

A significant proportion of the Group's operating companies

## CONDUCTING BUSINESS RESPONSIBLY *CONTINUED*

conduct annual employee satisfaction survey exercises and these have recorded consistently high results over the past few years.

The Group actively promotes equal opportunities within all of its businesses and aligns its approach to international human rights standards.

BATM strives to provide opportunities for women at all levels of the business and to increase the proportion of women working at senior levels over time. 65% of BATM's employees

were female at the end of 2019.

BATM also aims to provide employment for people drawn from a wide range of socio-economic backgrounds. For example, one of BATM's medical diagnostic testing subsidiaries in Israel has around 40% of its workforce drawn from religious and ethnic minorities (a significantly higher proportion than within the country's overall population).

### Case studies

#### **BATM agri-waste solutions provide poultry industry environmental and safety benefits**

The Group's expertise in the provision of agri-waste treatment solutions for the poultry industry has been increasingly recognised over the last year with the award of three significant contracts with clients based in the Philippines, Taiwan and the Middle East. The Group's technology enables its customers to conduct the safe treatment of poultry remains onsite without the use of hazardous materials, chemicals or the production of odours. Production outputs can include valuable proteins that can be applied in a variety of ways including as agricultural fertiliser. This is a growing area for BATM, which is creating a new multinational client base for the Group's Eco-Med unit.



#### **BATM produces COVID-19 diagnostics kits**

BATM's commitment to the development of medical technology to address urgent human medical issues was underlined in early 2020 by its contribution to combating the worldwide COVID-19 crisis.

BATM developed a kit for COVID-19, as part of its MOLgen molecular diagnostics line. The kits are being produced at the Group's Adaltis facility and shipping has commenced to medical facility customers based mainly in Europe. The kit has demonstrated excellent performance and provides test results in less than one hour.

In addition, BATM entered into a collaboration with Novamed, an Israeli life sciences company operating in the in-vitro rapid diagnostics market, for the joint development and marketing of a rapid testing kit for home use diagnosing of COVID-19. The new kit, which will allow people to test a sputum sample and receive the results within a few minutes, is under development and the parties anticipate that they will be available in the summer.





# 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 served as a Chairman & director of Delta Galil Industries, Milissron Shopping malls, Paz Oil Company, Teva Israel Pharmaceutical Industries, Bank Hapoalim and Israel Aircraft Industries. He has provided consultancy services in business strategy to the board and presidents of large companies. He served as Adjunct Professor at Tel Aviv University, Rikanaty Business School. Dr. Chitayat holds a Ph.D. in Business & Applied Economics from the University of Pennsylvania, Wharton School and a Master's in Business & Applied Economics from the Hebrew University, Jerusalem. Dr. Chitayat joined the Board of BATM in June 2010 and was appointed Chairman in January 2015. He was re-elected as Director and Chairman of the Board in December 2019.



**Zvi Marom**  
Founder & CEO

Dr. Zvi Marom founded BATM in 1992. A former first lieutenant in the Israeli Navy, he graduated with excellence in Electronics from the Naval Academy and with excellence from the Advanced Naval Command Course. He has a post-graduate degree in medicine from the Sackler – Gold Schlagger School of Medicine, Israel and an MSc in Industrial Electronics. Dr. Marom is on the boards of several national and international academic committees for computing and communications, and is the Chairman of the Board of the Israeli Hi-Tech & Innovation Industries Association of the Manufacturers' Association of Israel. He is currently a director of Shore Capital Group plc, a UK company listed in Bermuda, and receives remuneration for his services. Dr. Marom was re-elected as a Director of BATM in December 2019.



**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 primarily in the industrial, services and energy sectors. 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. He was re-elected as a Director of BATM in December 2019.

## DIRECTORS' BIOGRAPHIES *CONTINUED*



**Harel Locker**

**Non-executive Director & Senior Independent Director**

Harel Locker 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. Prior to this, he practiced law for almost 20 years, with wide experience in law and finance with first tier law firms in both Tel Aviv and New York. Mr. Locker is the Chairman of the Board of Israel Aerospace Industries Ltd, the leading Israeli corporation in the aerospace and defence industry. Mr. Locker was appointed to the Board of BATM in September 2016 and his first three-year term expired in September 2019. He was proposed for re-election by the Board for a second three-year term, in accordance with Israeli law, which was approved by shareholders in December 2019.



**Ari Shamiss**

**Non-executive Director**

Prof. Ari Shamiss is the CEO of Assuta Medical Centers, the largest private medical network in Israel, which consists of eight hospitals and medical centres with more than \$500m in annual revenue. He is a co-founder of Assuta Life Ventures (aLivE); is a board member of, and adviser to, numerous high-tech companies; and is involved in several global business projects in healthcare technology and infrastructure. Prof. Shamiss is certified in Internal Medicine, Hypertension and Healthcare Management and he is a Professor of Medicine and Vice Dean at Ben Gurion University School of Medicine in these disciplines, with more than 60 published scientific papers. Previously, he was a Director of Sheba General Hospital at Tel Hashomer for 10 years and was the Surgeon General for the Israel Air Force (Col. Ret.) and the Director of its Aeromedical Institute. Prof. Shamiss holds an MD from the Technion Institute and an MPA from Harvard University, and he graduated with excellence from the US Navy Aerospace Medical Institute. He was appointed to the Board of BATM in November 2018 for a three-year period as an external director in accordance with Israeli law.



**Varda Shalev**

**Non-executive Director**

Prof. Varda Shalev is a specialist in epidemiology, medical informatics and predictive analytics in community healthcare. She is a director of the Morris Kahn & Maccabi Institute for Health Research and Innovation and is an active primary care physician. She has pioneered the development of multiple disease registries to support chronic disease management, and has authored or co-authored over 200 publications in peer-reviewed medical journals. In addition, she is a faculty member at the Tel Aviv University School of Public Health, sits on the advisory board of several med-tech businesses and is a director of the Israel Advanced Technology Industries. She was appointed to the Board of BATM in November 2018 for a three-year period as an external director in accordance with Israeli law.

# DIRECTORS' REPORT

## Principal Activities

BATM is focused on the development, production and marketing of real-time technologies focusing on two main application areas: Networking & Cyber and Bio-Medical. Networking & Cyber includes products and services related to carrier ethernet, NFV and cyber network monitoring for large area networks. Bio-Medical includes medical diagnostic solutions, bio-waste treatment and sterilisation, and distribution of third party medical equipment and supplies. BATM has offices in North America, Israel and Europe.

## Financial Statements

The Directors present their report together with the audited financial statements for the year ended 31 December 2019. The results of the year are set out in the consolidated statement of profit or loss. After reporting a \$0.8 million amortisation of intangible assets for the year, BATM recorded a profit of \$3.3 million.

## Dividends

In light of the uncertainty surrounding COVID-19 and the necessity to preserve funds for, primarily, investment in the Group's development of its state-of-the-art Bio-Medical projects, the Board believes it is prudent not to declare a dividend for 2019. The Board will revisit its dividend policy once the global situation normalises and it has sufficient clarity of outlook, which could, depending on the financial position of the Group, include consideration of declaring an interim dividend for 2020.

## 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 22 together with this Directors' Report.

## Directors

The Directors who served for the year ended 31 December 2019 and are currently serving are as follows:

- Dr. Gideon Chitayat, Non-Executive Chairman
- Dr. Zvi Marom, Executive Director and Chief Executive Officer
- Moti Nagar, Executive Director and Chief Financial Officer
- Harel Locker, Non-Executive External Director and Senior Independent Director (SID)
- Prof. Ari Shamiss, Non-Executive External Director
- Prof. Varda Shalev, Non-Executive External Director

## 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 28 to 34 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 35 to 47.

## 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. Appointments to the Board are subject to a formal, rigorous and transparent procedure after the Company's Nomination Committee has considered each nominee and the Company gives full and transparent information and background to the shareholders on each candidate that it wishes to propose for election and/or re-election to the Board. 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. The Israeli Companies Law defines the procedures and conditions for re-election of external non-executive directors at the end of each three-year term, which are mandatory for the Company.

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

## DIRECTORS' REPORT *CONTINUED*

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, as well as the Chairman of the Board, Dr. Gideon Chitayat, were re-elected at the Annual General Meeting of 5 December 2019 until the following AGM and will be proposed for re-election at the Annual General Meeting of 2020. Their biographies appear on page 23 above. The term of Dr. Marom's management services contract will expire on 31 December 2020. The CFO's employment contract as well as the Chairman's engagement contract are for undefined terms and can be terminated by prior notice by either party. During the year under review there were no changes to the significant commitments of the Chairman.

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 13 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 and approve 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. (the Firm), Certified Public Accountants, a Firm in the Deloitte Global Network, serves as the Company's auditor. In accordance with the Firm's policies, based on the IESBA Code, the audit engagement partner must be rotated after no more than seven years of service in that role. The most recent audit partner rotation occurred in 2018.

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**  
**30 April 2020**

# 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. Specifically, during 2019 the Board took diligent measures to study and receive advice from its UK legal advisers on the new UK 2018 Corporate Governance Code (the "Code") in order to understand the new principles of good corporate governance under the Code and to organise itself towards implementation of those principles. The Board held a special session during 2019 on the new Code at which the Company's UK legal adviser (Mr. Avram Kelman of the Fladgate LLP law firm in London) participated. Mr. Kelman had distributed to all the directors an executive summary of the new principles under the new Code and gave an overview of this subject matter to the Board. There was general discussion and Mr. Kelman answered any questions addressed to him by members of the Board. 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. The Company, as a company with a Premium Listing and therefore subject to Listing Rule 9.8.6R, is subject to the provisions of the Code published by the Financial Reporting Council, a copy of which is available from the FRC's website at <https://www.frc.org.uk>.

This Corporate Governance Report outlines how the Company has applied the Main Principles set out in the Code as amended by the UK Financial Reporting Council in April 2018.

## Compliance with the UK Corporate Governance Code

Throughout the year ended 31 December 2019, and through to the date of approval of the financial statements, the Board considers that the Company has complied with the provisions set out in the Code with the exception of the matters referred to on page 29. Further explanation of how the Company has applied the principles and supporting provisions of the Code is set out below and in the Directors' Remuneration Report.

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 Israeli Companies Law sets forth the grounds for removing an external director from office as well as rules for re-election of the external directors and the Company believes that these provisions are compatible with the requirements of the Code.

The current independent Non-executive Directors which qualify as "external directors" under Israeli law are Mr. Harel Locker (who is also the Senior Independent Director), Prof. Ari Shamiss and Prof. Varda Shalev. Mr. Locker was re-elected for a second term of three years at the AGM of 5 December 2019 after his first term expired in September 2019. Profs. Shamiss and Shalev were appointed for a term of three years in November 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 Company continues to consider that the three external directors currently in office are independent in character and judgment and no circumstances or matters exist which would compromise such independence. In addition, the Company considers that through its maintaining a continual "mix" of experience, disciplines in business development, technology (especially in the bio-medical and diagnostics areas), entrepreneurship and risk management capabilities in the members of its Board, the Company has applied Principles A - E and K of the Code.

## 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.

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

*(continued on page 30)*

Provision	Exception and explanation
<b>5</b> Engagement with the workforce via a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director.	The Board has not implemented one of the prescribed methods, however, during the year, it established a CSR Committee with responsibility (among other matters) for workforce engagement. Further detail on how BATM engages with its workforce can be found in the 'Conducting Business Responsibly' section on pages 20 to 22. In addition, the Group has a VP Human Resources in each subsidiary, which is responsible for engaging with, and keeping the senior management informed of matters pertaining to, the workforce. Employees also have access to the internal auditor to make any complaint of wrongdoing via the whistleblowing procedure.
<b>14</b> The responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available.	The Group has not adopted a formal schedule of responsibilities for the roles of Chairman and CEO as the Israeli Companies Law, which applies to the Group, sets out and defines the responsibilities and duties of the directors and the CEO. Nonetheless, the Group intends to prepare a defined schedule of responsibilities for consideration and adoption by the Board in 2020.
<b>18</b> All directors should be subject to annual re-election.	In accordance with Israeli law, the Group is required 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. Mr. Harel Locker, Prof. Ari Shamiss and Prof. Varda Shalev are classified as external directors and cannot be subject to annual re-election. All other members of the Board (excluding the "external" non-executive directors) are subject to annual re-election.
<b>19</b> The chair should not remain in post beyond nine years from the date of their first appointment to the board.	As of June 2019, Dr. Gideon Chitayat, Chairman, has served on the Board for nine years – five of these as Chairman. Dr. Chitayat was appointed to the Board as Independent Non-Executive Director and the Board continues to consider him as independent in character and judgement, and there are no relationships or circumstances that could affect his judgement. His knowledge of the business and the understanding of its various components, which is built on his experience, combined with his independence of mind, enables a critical review of strategy and operations. In addition, his vast business experience, expertise and knowledge of directing large business organisations within Israel is a valuable resource for the Board and the Group as a whole. As a result, the Board believes that Dr. Chitayat remaining as Chairman is in the best of interests of the Group and of shareholders.
<b>21</b> A regular externally facilitated Board evaluation.	Currently in the Israeli corporate business environment there are no external "evaluators" that can provide such a service. The Group is considering methods for implementing this provision.
<b>34</b> The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board.	In accordance with Israeli law, the Board when approving the nomination of a new "external" non-executive director determines the remuneration to be paid within a set range set forth in the Regulations promulgated under the Israeli Companies Law (that is based on the size of the company and the professional qualifications or expertise of the nominee director).

## CORPORATE GOVERNANCE REPORT *CONTINUED*

### Board and committee activities in 2019 were as follows:

	Meetings	Attendance
Board of Directors	8*	All Directors attended 100% of the Board meetings during 2019 except for the absence of Mr. Harel Locker from one Board meeting, due to a last-minute trip overseas. (* This includes 1 teleconference Board meeting of 24/6/2019)
Audit Committee	5	All Audit Committee members attended 100% of meetings during 2019, except for the absence of Mr. Harel Locker from one meeting.
Remuneration Committee	1	All Remuneration Committee members attended the meeting during 2019.
Nomination Committee	–	

of senior management; major investments including mergers and acquisitions; risk management; corporate governance; engagement of professional advisers; 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 light of the Code coming into effect as of the 2019 financial year and in order to improve good corporate governance and practice, the Board adopted during 2019 a newly drafted Terms of Reference of the role and duties of the Board, in order to better comply with the principles of the Code.

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 32) 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 is not subject to EU audit regulations that relate to rotation of the external auditors. However, to facilitate auditor independence, the audit engagement partner must be rotated after no more than seven years of service in that role. The most recent audit partner rotation occurred in 2018.

In accordance with section B.5.1. of the 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 and an evaluation of the performance of each member of the Board. 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 without the Executive Directors being present at the meeting. The SID (Mr. Harel Locker) carried out a review of the Chairman's performance during the year under review after considering the views of the Executive Directors within the deliberations of the Remuneration Committee. In light of the recommendations of the Code to have an externally facilitated Board evaluation, the Company is considering methods for implementing this recommendation. Currently in the Israeli corporate business environment there are no external "evaluators" that can provide such a service.

The Board comprises six Directors, four of whom are Non-executive Directors, under the chairmanship of Dr. Gideon Chitayat. Under the Israeli Companies Law, the maximum tenure for external non-executive directors is nine years subject to stringent and transparent procedures for proposing their re-election at the Annual General Meeting at the end of each three year term. In this respect the Company believes that it complies with the Main Principles of the Code. 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 23 to 24. The interests of the Directors in the Company and their shareholdings are set out on page 45. All of 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 on 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.

The Directors may take independent professional advice at the Company's expense in furtherance of their duties.

With respect to succession of the Board members, it is the role of the Nomination Committee (see page 33) 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 2019, of the total workforce across the Group 65% of employees were female and 25% of the total executive management positions were held by females. In addition, the Group encourages employment for people drawn from a wide range of socioeconomic backgrounds. For example, one of its medical diagnostic testing subsidiaries in Israel has approximately 40% of its workforce drawn from religious and ethnic minorities (a significantly higher proportion than within the country's overall population).

### 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](http://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 2019, 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 – 21.98%
- Lombard Odier Investment Managers – 25.55%
- Legal & General Investment Management – 5.27%
- Herald Investment Management – 5.49%

### 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. In addition, during the year under review, the Board appointed a new Corporate Social Responsibility & Environment Committee ("CSR Committee") to better deal with social, environmental, health and safety practices, diversity and similar matters with

## CORPORATE GOVERNANCE REPORT *CONTINUED*

respect to the way the Company conducts itself, in order to meet the requirements of the Code. As of 31 December 2019, the composition of the aforementioned Committees are as detailed below.

### **Audit Committee**

**Members:** Mr. Harel Locker, Prof. Ari Shamiss and Prof. Varda Shalev

**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). Pursuant to section 117 (6) of the Israeli Companies Law, the Audit Committee is responsible to fix procedures and policy for whistleblowing and to oversee these procedures. In April 2017 the Audit Committee adopted a whistleblowing procedure and policy which applies to all employees in the Group. Under the policy, the internal auditor (which is an independent external service provider to the Company) was appointed as the Administrator of the policy authorized to receive and investigate complaints or concerns from employees in the Group with respect to wrongdoing. The policy established a "hot line" through which any employee can approach the Administrator directly and independently. During the year under review the Audit Committee received no reports from the Administrator on whistleblowing complaints from employees in the Group. The Audit Committee regularly reports to the Board which retains overall oversight on the proper workings of this procedure in the Group.

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 provide 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 as well as to the specific Terms of Reference adopted by the Board for this committee and takes account of the relevant provisions of the FCA's Disclosure Guidance and Transparency Rules and the Code. The Chairman of the Audit Committee maintains close contact with the Company on a regular basis.

### **Remuneration Committee**

**Members:** Prof. Ari Shamiss, Mr. Harel Locker and Prof. Varda Shalev

**Chairman:** Prof. Ari Shamiss

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. None of the Committee members have any personal financial interests or conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

None of the Directors play a part in any determination of their own remuneration.

The Committee has responsibility for making recommendations to the Board on the Company's policy on staff remuneration and for the determination, within agreed terms of reference,

of specific remuneration packages for the Chairman of the Company and each of the Executive Directors (including pension rights and any compensation payments).

The primary responsibilities of the Committee are to ensure:

1. That individual pay levels for Executive Directors should generally be in line with levels of pay for executives in similar companies with similar performance achievement and responsibilities.
2. That share option and bonus schemes should be set at a level that provides sufficient incentive to the executive to produce results that will reflect and exceed the Board's expectations, and be appropriately balanced alongside fixed-level and more immediate remuneration. Currently as explained below in the Directors' Remuneration Report, the vesting period for share options is over a three-year term. This period is very customary and recognised in Israeli industry and changing this to a longer vesting period, such as a five-year period, would adversely affect the Group's ability to compete in recruiting experienced and highly skilled managers and executives. This vesting period (as part of the Remuneration Policy) is brought for approval by an independent vote of the shareholders.
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.

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 35 to 47. The Company's current 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.

### Nomination Committee

**Members:** Dr. Gideon Chitayat, Prof. Varda Shalev and Prof. Ari Shamiss

**Chairman:** Prof. Varda Shalev

In addition to the Company's diversity policy for existing employees, 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 prepares a description of the role and capabilities required for a particular appointment while evaluating the balance of 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 on 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. As at 31 December 2019, there was one female 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 Nomination 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.

### CSR Committee

**Members:** Dr. Gideon Chitayat, Prof. Varda Shalev and Prof. Ari Shamiss

**Chairman:** Dr. Gideon Chitayat

During the year under review, the Board after studying the new principles set forth in the new Code deemed it appropriate to appoint this Committee and the Board adopted specific Terms of Reference for this Committee's role and duties. The primary role of the CSR Committee is to assist the Board in:

- Understanding the views of key shareholders in the Company;
- Understanding the Company's impact on community and environment; and
- Ensuring that the Board is aware of the processes used by the Company in engaging with its key shareholders.

The Duties of the Committee pursuant to its Terms of Reference are:

- To assess and monitor culture to ensure alignment with the Company's purposes, values and strategy;
- To be responsible for interaction and engagement with the workforce on behalf of the Board, as and when relevant, in order for the Board to comply with Provision 5 of the Code;
- To oversee and monitor and help generate a Company's health and safety systems and practices; and
- To help the Board understand the impact of the Company's operations on the community, environment, green-eco policies. The Committee is obligated to report periodically to the Board on the Committee's work and activities.

## Conflicts

Throughout 2019 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 2019, no conflicts arose that 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 2019 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 their 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. During the year under review, the internal auditor presented reports to the Audit Committee on the following subject matters: (a) employees' salary, recruitment procedures and assessment of the risks in one of the Company's main software house subsidiaries in Israel and (b) the insurance coverage and risk management of the BATM Group.

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

## REMUNERATION COMMITTEE REPORT

### Dear Shareholder

The Board is pleased to present the Remuneration Committee's Report for the year ended 31 December 2019.

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 late 2020. In preparing the Remuneration Policy for approval, the Company will, again, engage external experienced consultants in the area of executive remuneration

packages both in Israel and London to provide independent and objective advice to assist the Company in its endeavours. The Company will also consult with its largest shareholders in advance to ensure that shareholder views are taken into account. In addition, the policy will be prepared with due consideration for the factors set out in Provision 40 of the UK Corporate Governance Code (the "Code").

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 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.

The Reporting Regulations (International Auditing Reporting Standards) also require the auditors to report to the Company's members in the financial statements 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.

### 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 consists of three out of the four non-executive Directors and excludes the Chairman of the Board as is required under Israeli Company Law. None of the Committee members have any personal financial interests, conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business.

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

The Committee also receives advice from several sources, namely:

- The Chairman of the Board, who attends the Remuneration Committee meetings by invitation only, and the Company's Chief Financial Officer, who attends when specifically



## DIRECTORS' REMUNERATION REPORT *CONTINUED*

invited by the chairman of the Committee in order to provide relevant information to the Committee. No individual takes part in discussions relating to their own remuneration and benefits.

- As and when the Committee deems it necessary, the Committee consults with independent consultants on executive benefits.

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

- Prof. Ari Shamiss (Chairman)
- Prof. Varda Shalev
- Harel Locker

### Key Remuneration Activities During the Year

During the year under review, the Remuneration Committee met once and all members were in attendance. The Committee's main activities during the year included:

- Agreeing performance against targets for the 2018 annual bonus awards
- Setting targets for the 2019 annual bonus
- Considering shareholder feedback in respect of the 2019 AGM

The Group made tremendous progress during 2019, both in its financial performance and achieving a number of operational milestones that significantly advanced the execution on its strategy. Dr Zvi Marom, CEO, and Mr. Moti Nagar, CFO, were instrumental in achieving this success (as discussed further on pages 44 to 45), but it is also thanks to the efforts of the employee base as a whole and our ability to attract and retain the right staff. We continue to believe that our Remuneration Policy and practices are appropriate for incentivising and rewarding our employees and our Directors, and are in the best interests of the Group as a whole. In light of the shareholder feedback in respect of the 2019 AGM, we have endeavoured to provide greater disclosure and transparency in this annual report.

During the year, the Committee received advice from the

Chairman of the Board, who attended by invitation, and from the Company Secretary, who attends meetings as Secretary to the Committee.

### Stakeholder Views & Engagement

As noted above, the current Remuneration Policy was approved by shareholders in October 2017 and the next such approval is expected in late 2020. The Company intends to consult with its largest shareholders in advance of preparing the policy for approval this year to ensure that shareholder views are taken into account. While the Committee does not consult directly with employees on the director's Remuneration Policy, it does take into consideration salary increases and remuneration arrangements across the Group when determining payments for the Executive Directors.

I am pleased to report that, at the Company's AGM held on 5 December 2019, the shareholders approved (as detailed in the table below) the Remuneration Committee report for 2018, together with the auditor's reports on the auditable part of that report, and the award of an annual bonus to Mr. Moti Nagar, CFO, in relation to his performance in 2018 (which was put to shareholders for approval in accordance with Israeli law). As noted above, we have also taken shareholder response to the 2019 AGM into account in preparing this Directors' Remuneration Report.

On behalf of the Committee, I thank shareholders for their support and look forward to receiving further support at this year's Annual General Meeting.

**Prof. Ari Shamiss**  
**Remuneration Committee Chairman**  
**30 April 2020**

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the remuneration report	135,077,845	85	24,583,631	15	260,785,955	101,124,479
Approval of the CFO annual bonus	165,974,020	97	5,793,850	3	260,785,955	89,018,085

## REMUNERATION POLICY REPORT

The philosophy and principles of the Company's Remuneration Policy are detailed below (unaudited). This Remuneration Policy was brought for approval to the Annual General Meeting of the shareholders in October 2017 and was approved by a large majority at that meeting.

### Remuneration philosophy and objectives

The Company believes that the most effective Executive remuneration policy is one that is designed to reward achievement, to encourage a high degree of performance and that aligns Executives' interests with those of the Company and its shareholders while ensuring that the Company can maintain its ability to attract and retain for the long-term leading employees for key positions. The remuneration philosophy of the Company is to offer Executives remuneration that is comprised of a mix of fixed annual salary and variable performance-based bonuses and/or long-term equity incentives.

The Company has established the following main remuneration objectives for the Company's Executives:

- (1) Remuneration should be related to performance on both a short-term and long-term basis with a portion of a senior Executive's potential annual bonus and long-term equity-based remuneration conditional on achievement of pre-determined performance objectives.
- (2) The mix of the fixed and performance-based variable remuneration should serve to encourage senior Executives to remain with the Company. The Policy's components are designed to retain talented executives. A significant element of the Policy is therefore long-term equity-based incentive remuneration rewards that vest on a rolling basis over several years. As part of the retention objective, the Company believes that remuneration should include a meaningful share option component to further align the interests of the senior Executives with the interests of the shareholders.
- (3) Remuneration should be reasonable for the business of the Company, its location, industry and its long-term, multi-year approach to achieving sustainable growth.
- (4) Remuneration should be designed to encourage initiative innovation and appropriate levels of risk. It should be structured to discourage taking excessive short-term risk without constraining reasonable risk taking. Therefore a portion of the incentive variable remuneration should be linked to longer-term Company performance.

- (5) The Policy should ensure transparency and accountability and encourage a high-performing culture in the Company.

### The Remuneration Committee and its duties

The BATM Remuneration Committee (the "Committee") was established by the Board of Directors of the Company and operates in accordance with the functions set forth in the Israeli Companies Law. This is a separate independent Committee comprised of three external independent directors who are appointed by the shareholders' meeting.

The Committee's responsibilities and duties are:

- (1) Recommending for approval to the Board the framework or broad policy for the remuneration of the Company's Chairman of the Board, CEO, Executive Directors and other senior management and officers.
- (2) Recommending appropriate remuneration packages and service contracts of the senior executives, and reviewing the ongoing appropriateness and relevance of the Remuneration Policy.
- (3) Recommending and determining the goals for all performance-related remuneration offered by the Company and approving the total annual payments made under such schemes.
- (4) Reviewing the design of all long-term incentive schemes, such as options and equity awards and recommending these for approval by the Board and, if and when required by law, by the shareholders.

The Committee's terms of reference are available on the Company's website and are available in hard copy on request from the Company Secretary.

### Remuneration Principles

The remuneration of senior executives and officers of the Company shall consist of all, or part, of the following:

- (i) **fixed remuneration – salary** (including pensions and fixed social benefits on a level consistent with peer companies and only if these are mandatory or commonly accepted in the relevant employment market) that is commensurate with the individual executive's skills, experience, education, qualifications and responsibilities. The fixed annual 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. The Remuneration Committee will ensure that the underlying principles, which form the basis for

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

determining executives' salaries are consistent with those on which salary decisions for the rest of the workforce in the Company are taken. In addition, before making a recommendation the Committee takes into account the general salary increase for the broader employee population when conducting the salary review for the senior executives. The Committee also takes into account the ratio between the total remuneration of the applicable director and/or senior executive and the salary of all other employees in the Company, especially the ratio between the total remuneration and the median and average salary of all such other employees in the Company - this analysis and ratio will be calculated on a per Division basis and on a per country basis so as to ensure that the comparison is made on the same underlying parameters; and

(ii) **variable remuneration**, which can comprise a mix of:

- Annual bonuses; and
- Long Term (equity-based) Incentives (hereinafter – "LTIs") (share options only).

The Board of Directors determines the ceilings for payment of the fixed remuneration and variable remuneration, so that they are reasonable and appropriate. The targeted ratio between the fixed salary remuneration and the variable elements of remuneration that the Company may offer executives shall be as per the table below.

The annual salary for the Chairman, CEO and senior executives shall not exceed the following maximum thresholds:

(a) Non-Executive Chairman: \$120,000\*

(b) CEO: \$520,000

(c) Other senior executives: \$300,000

\* This amount is based on a 30% part time position of the Chairman

The total remuneration of senior executives and directors

is reviewed annually, taking into account the above considerations and focusing on the relevant person's contribution and performance as well as the performance of the Company and its financial status.

In addition to the above, at each such review the Remuneration Committee may, at its discretion, approve immaterial changes to all or part of the remuneration package of a senior executive or officer of up to three salaries (including the amount of the fixed benefits payable on such salaries) as a reward for his/her special contribution to the Company in the previous year. With respect to an immaterial change in the remuneration of the CEO that is recommended by the Remuneration Committee, such recommendation will also require the approval of the Board of Directors of the Company. All instances in which the Remuneration Committee has used its discretionary powers to award such a bonus (as, for example, to reward an executive for his/her special efforts in closing a merger or acquisition for the Company) will be fully disclosed by the Company in the relevant annual report.

### Measurement criteria for awards of annual Bonus

The level of the cash payment bonus paid to any executive director, senior executive or officer (excluding non-executive independent directors), will be established to link rewards with the Company's annual business goals, based on quantifiable measurements and targets set out at the start of the financial year by the Remuneration Committee. The criteria on which the annual bonus is based shall be calculated, as follows:

- (i) **Consolidated / Division financial measures:** adjusted EBIDTA, measured against the targets of the annual budget as approved by the Board of Directors for the relevant year; and

	Non-Executive Chairman	CEO	Senior Executives
Annual Salary or the equivalent thereof	100%	100%	100%
Other fixed benefits *	30%-40%	30%-40%	30%-40%
Annual Bonus**	None	up to 75%	up to 50%
LTIs (per vesting annum)	None	up to 125%	up to 100%

The percentages above reflect ratios compared with the annual fixed salary and are the maximum rewards that the Company may pay to the relevant executives.

The amount of LTIs will be calculated on a linear basis over the period of vesting.

\* "Other fixed benefits" are comprised of mandatory pension scheme required by Israeli labour laws and regulations (6.5% from base salary), and may also include Further Education Funds, use of company car, use of mobile phone and newspaper, all as commonly given in Israel in peer companies. The Company only pays pension on the executives' basic salary (and not on the variable remuneration).

\*\* Non-Executive Independent Directors are not eligible for annual bonuses.

(ii) **Personal & operational performance measures:**

The criteria shall be determined individually when such personal criteria are set. A list of personal qualitative goals will be determined by the Remuneration Committee on a case-by-case basis.

The weight of the corporate / division financial measures and personal operational performance measures for considering a bonus award, shall be as follows:

	CEO	CFO	Division Heads
Consolidated financial measures:	75%-100%	60%-80%	20%-40%
Division financial measures:	–	–	40%-60%
Personal & operational performance: (non-financial performance criteria)	up to 25%	20%-40%	up to 20%

The financial measures are based on defined quantitative criteria, whereas the personal and operational measures are based on qualitative criteria. If less than 70% of the financial measures has been achieved, then no part from the Consolidated/Division financial annual bonus may be paid; if however between 70% - 100% of the financial measures have been achieved, then the relevant executive or senior officer will be eligible to receive a pro rata portion of the Consolidated/Division financial annual bonus as determined by the Remuneration Committee. Annual bonuses may be withheld in whole or in part if the business has suffered an exceptional negative event, even if some specific targets have been met. The Remuneration Committee has overall discretion to ensure that a payment that is inappropriate in all the Company's circumstances is not made.

The maximum aggregate bonus shall be as set forth in the above table, per executive level.

If there was a mistake in calculation of the annual bonus by the Company, or if the Company restates any of the financial data that was used in calculating the bonus (other than a restatement required due to changes in financial reporting standards), then the applicable bonus shall be recalculated using such restated data (the "Restated Bonus"). The balance between the original bonus and the Restated Bonus, if any, (the "Balance") will be repaid to the Company, or paid to the executive (as the case may be) by deducting or adding such Balance from the first amounts payable to such senior executive as a bonus immediately after the completion of the restatement. To the extent that no bonus will be payable to such senior executive in that year, then the Balance shall

be deducted from the bonus payable in the next year and so forth up to three years. Notwithstanding the above, if the senior executive's employment relationship with the Company terminates before the Balance is fully repaid to the Company, then the Balance shall be deducted from all amounts due and payable to such senior executive in connection with such termination of employment and if there is still an unpaid balance to the Company, then such unpaid balance shall

be repaid pursuant to the terms determined by the Board of Directors.

In the event of termination of employment of an executive during the calendar year (except under circumstances justifying the non-payment of Severance Pay pursuant to Israeli labour law and precedent of the Labour Courts), the amount of the bonus shall be calculated and adjusted for the entire year in accordance with the provisions of this Policy and thereafter shall be prorated in accordance with the actual days of employment of the executive by the Company during the applicable year and paid to the eligible executive in full together with the first salary that will be paid following the approval by the Board of Directors of the financial statements for such applicable year.

### Long-Term Incentives

The Company's long-term Incentive package for the CEO and other senior executives are designed to support the Company's strategy by incentivising the delivery of growth, increase in profitability, superior shareholder returns and sustained financial performance. Long-term incentives may be granted by the Board of Directors through the issue of options under the Company's Employee Share Option Plan ("ESOP"). The Company believes that this mechanism is the preferred long-term incentive package, as the Company already has in place ESOPs that have been approved by the relevant Tax Authorities in Israel and this kind of LTI scheme is more commonly used and understood by high-level executives in the Israeli market. The Group does not issue share awards under its LTI scheme.



## DIRECTORS' REMUNERATION REPORT *CONTINUED*

Any award of long-term incentives by the Remuneration Committee and the Board of Directors will be made in order to reward the senior executives for future performance and building additional value for the shareholders (thus increasing the price of the share) and to foster a long-term relationship between the executive and the Company.

- (1) The vesting of any LTIs (options) granted by the Board to a senior executive shall be over time in order to retain the senior executive in the Company and to incentivise the executive to increase the value of the Company.
- (2) Any LTI (options) granted by the Company to a senior executive will vest over a three-year period\* as follows: 12 months after the Board approval – 0%; 24 months after the Board Approval – 50%; and 36 months after the Board Approval – 50%, provided that the senior executive remains an employee or in the service of the Company on each date of exercising the LTIs. If the Company terminates the employment or services contract of an executive who was awarded options within the first half of the year from the Board approval, the eligible executive shall not be entitled to exercise the options granted, unless the termination by the Company was unjustified; if the Company terminates the employment or services contract of an executive who was awarded options within the second half of the year from the Board approval, the Board of Directors will determine whether to allow the eligible executive to exercise the amount of options which vested immediately prior to the termination date. Any executive that resigns from his/her position in the Company shall forfeit his/her right to exercise any non-vested LTIs.
- (3) In exceptional circumstances and/or cases of a restatement of any of the Company's financial statements, the Remuneration Committee has the discretion to reduce future rewards of LTIs to the relevant senior executive. All grant of options hereunder shall also be subject to the following:
  - Options shall not be exercisable more than ten years after the date of the grant.
  - The price ("exercise price") at which options may be granted shall be a fixed price and not be under the average market price in the month preceding the date of the Board approval.
  - The options may include provisions for acceleration of vesting in certain events, such as mergers, a consolidation, a sale of all or substantially all of the Company's consolidated assets, or sale of all or

substantially all of the issued shares of the Company, all as stipulated in the Company's relevant employee share option plan.

- Subject to the receipt of all the required approvals, the exercise of the options may be made by a cashless mechanism and the exercise price may be adjusted for dividend distribution.
- (4) The Company's long-term incentive schemes, as applicable to directors and senior executives, provides that commitments to issue BATM shares must not exceed (in aggregate across all schemes) 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period.
  - (5) The maximum levels of variable remuneration and benefits that the Company may grant to the CEO and other senior executives in the Company are as set forth above in the table on page 38.

\* The vesting period for share options is over a three-year term, which is what is customary and recognised in Israeli industry and changing this to a longer vesting period would adversely affect the Group's ability to compete in recruiting experienced and highly skilled managers and executives. This vesting period (as part of the Remuneration Policy) is brought for approval by an independent vote of the shareholders.

### CEO Service Agreement

Following is a brief summary of the main terms & conditions of the CEO's Service Contract, which was approved by shareholders in June 2018, between the Company and the service management company owned by the CEO, Dr. Zvi Marom (Nostradamus or the "Service Management Company"):

**Remuneration ("Service Fee")** – base salary of approximately \$382,000 (precise reported amount dependent on currency) plus all relevant social benefits and taxes on this amount.

**Annual Bonus:** shall be payable by BATM to the Service Management company for each of the above three years, in the event that the BATM Group achieves the adjusted EBITDA for each year which is set in the annual budget (work plan) approved by the Board at the beginning of that year (hereinafter – the "Base adjusted EBITDA") and subject to the following:

- (a) The adjusted EBITDA for the relevant year is more than \$4.3 million.
- (b) For each increase in the actual adjusted EBITDA for the relevant year of 10% as compared with the Base adjusted EBITDA, the Service Management Company shall be entitled to a bonus of 1 month's Service Fee up to a ceiling



of nine monthly Service Fees (should the actual adjusted EBITDA for the relevant year be 90% or more of the Base adjusted EBITDA). Two out of the nine monthly Service Fees, if payable, will be based on personal performance criteria of the CEO as reviewed by the Board.

### Long Term Incentives:

The CEO was granted, in June 2018, four million options to purchase BATM ordinary shares. The options are exercisable at a price of 26.95 pence per share, being the average price of the Company's share on the FTSE in the month preceding the shareholders' approval of this transaction. Half of the options will vest at the end of 24 months from the grant date and the other half at the end of 36 months from the grant date, provided that Dr. Marom remains in his position at the Company as of the date of each vesting and that the Group has achieved a gross profit of at least \$33 million for the previous calendar year in which the vesting date falls.

### Remuneration to Non-executive independent Directors ("NEDs")

As an Israeli publicly listed company, BATM's Board must include at all times, at least two external (public) independent non-executive directors that fulfill the mandatory requirements and hold the qualifications laid down in the Israeli Companies Law. Such directors may receive cash remuneration that includes an annual fixed fee and a per-meeting participation fee as well as equity-based compensation, all as prescribed in the Israeli Companies Regulations ((Rules Regarding Compensation and Expense Reimbursement of External Directors) 2000 (the "Compensation Regulations")), as an incentive for their contribution and efforts for the Company. In addition, the Company may reimburse said directors for their reasonable expenses incurred in connection with attending meetings of the Board of Directors and of any Committees of the Board, all in accordance with the Compensation Regulations. The Company's remuneration policy with respect to NEDS is that it offers each of them the relevant scale of annual fixed fee and "per-meeting" participation fee specified in the Compensation Regulations that apply to the Company.

NEDs are not eligible to participate in the variable remuneration plans offered by the Company to its executives and officers.

NEDs are also not entitled to notice periods of termination as their position under the Israeli Companies Law is set for a defined term of three years following their appointment by the shareholders' meeting. Their office may only be terminated for cause in special circumstances by the Company's

shareholders' meeting or by the competent court at the request of a director or shareholder.

### Link to strategy

The Board believes that the Remuneration Policy and practices of BATM support the strategy by enabling the Group to recruit and retain Executive Directors and senior managers of the calibre to deliver its strategy. The criteria set for the annual bonus are also designed to support the achievement of the Group's strategic objectives while LTIPs incentivise the delivery of long-term financial return through the implementation of sustainable strategic growth. The Chairman's fee supports the recruitment and retention of a director of a calibre to lead an effective board and contribute to the Group's long-term success. (Please see above regarding NED fees.)

### External appointments for executive directors of the Company

The Company does not prohibit its executive directors from being appointed as non-executive directors in other companies, provided that such appointment will not create a conflict of interest between his/her position in the Company and his external appointment. In each such instances, the Company's executive director may retain the remuneration paid to him/her by the other company. The Company provides a full disclosure on each such instance in its Remuneration Report contained in the Company's Annual Report.

### Retirement and termination of employment or services arrangements

As part of the incentives under this Remuneration Policy, the Company is permitted to approve retirement benefits and termination arrangements in its employment and services contracts in order to attract and retain highly skilled professional executive officers. The retirement and termination arrangements may include one or more of the following, as may be approved by the Remuneration Committee and the Board (unless the termination is in circumstances that negate the payment of severance pay pursuant to applicable law):

- Advance Notice of Termination: (i) shall not exceed up to six monthly base salaries for the CEO; and (ii) shall not exceed up to four monthly base salaries for other senior executives (provided, however, that any current employment or services contracts in effect with senior executives which contain an Advance Notice of more than six months shall continue in effect until the relevant contract expires).
- Adjusted Payments: A senior executive may be entitled to adjustment payments as follows: (i) up to a maximum

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

of six months for the CEO; and (ii) up to a maximum of four months for other senior executives, provided that any overlap between the Advance Notice period during which the senior executive is not working will be accounted for the purpose of calculating the total adjustment payment and deducted therefrom. The adjustment payments will be based on the employment term of each senior executive with the Company.

The level of adjusted payments to be offered to specific executives will be discussed by the Remuneration Committee that will provide its recommendations to the Board, after considering the following:

- The executive is committed to work in the Company for at least two years.
- Throughout his/her term of employment he/she has made a significant contribution to advancing the Company's business.
- The executive is not leaving the Company under circumstances justifying the non-payment of severance pay (as recognised under Israeli labour law and precedent) and upon termination of employment he/she will sign on a release in favour of the Company against all claims.
- The recommendation of the CEO (or the Chairman in the case of the termination of employment of the CEO) as to the level of severance payment.
- The Company's performance throughout the period of his/ her employment by the Company.
- If the Executive resigns from the Company during the calendar year for which he would have been entitled to an annual bonus, the Remuneration Committee has the discretion to decide whether and to what extent that executive should be eligible to receive the bonus (whether in part, in full, or not at all).

### Recruitment policy

The Remuneration Committee will take into consideration a number of factors, including the current pay for other executive directors, external market forces, skills and current level of pay at previous employer in determining the pay on recruitment.

In terms of additional benefits, the Committee will offer a package that is set in line with this Remuneration Policy and the mandatory pension scheme levels in the Israeli market.

Annual bonus and LTIs will be set in line with this Remuneration Policy.

Buy-Out awards: where an individual forfeits outstanding

variable opportunities or contractual rights at a previous employer as a result of his/her recruitment by the Company, the Committee may offer compensatory payments or buy-out awards, dependent on the individual circumstances of recruitment, determined on a case-by-case basis. Where appropriate, the Committee may choose to apply performance conditions to any of these awards.

### ANNUAL REPORT ON REMUNERATION

In determining the remuneration to its Non-executive Directors (who, other than the Chairman, as regarded as "external directors" under Israeli law), the Group is required to comply with Israeli law that formulates the kind and amounts of remuneration and expenses that an Israeli public company may pay to its non-executive directors. The applicable Israeli statute is the Israeli Companies Regulations (Rules Regarding Compensation and Expense Reimbursement of External Directors) 2000 (the "Compensation Regulations"), which prescribes the level of remuneration that a publicly listed company may pay to its external directors. Cash remuneration payable to the external director is comprised of two fees: (i) an annual fixed fee; and (ii) a per-meeting participation fee. The figures set forth in the Compensation Regulations for these elements are based on the size of the company calculated by the shareholders' equity of the relevant listed company as recorded in its last audited financial statements. BATM is in the highest level of company under these Compensation Regulations and accordingly the amounts payable to the three external directors currently in office (who are considered as directors holding expertise qualifications under the Compensation Regulations) for 2019 were as follows:

- An annual fixed fee of NIS 147,095 (c. £32,260).
- A per meeting participation fee of NIS 5,655 per meeting attended by the external director (c. £1,240).
- For any teleconference meeting that the external director participates in – 60% of the above fee.
- For signing on a Written Resolution of a board meeting, without a physical meeting having been held - 50% of the above fee.

The Company complies fully with the Compensation Regulations and does not pay any additional amounts to the three non-executive directors. The Compensation Regulations do not apply to the Chairman who is not considered an "external director" in terms of Israeli Law but is considered an independent director and his remuneration is set out below.

### Audited information

The table of Directors' remuneration is set out below.

**Table A – Emoluments of the Directors with comparatives**

2019	Salary \$'000	Social Benefits \$'000	Pension Benefits \$'000	Performance Bonus \$'000	2019 Total \$'000
<b>Executive Directors</b>					
Zvi Marom, CEO <sup>(1)</sup>	503	–	–	150 <sup>(*)</sup>	653
Moti Nagar, CFO <sup>(2)</sup>	253	21	13	120 <sup>(**)</sup>	407
<b>Non-executive Directors</b>					
Gideon Chitayat	56	–	–	–	56
Harel Locker	53	–	–	–	53
Ari Shamiss	57	–	–	–	57
Varda Shalev	57	–	–	–	57

2018	Salary \$'000	Social Benefits \$'000	Pension Benefits \$'000	Performance Bonus \$'000	2018 Total \$'000
<b>Executive Directors</b>					
Zvi Marom, CEO <sup>(1)</sup>	516	–	–	96	612
Moti Nagar, CFO <sup>(2)</sup>	244	24	11	80	359
<b>Non-executive Directors</b>					
Gideon Chitayat	56	–	–	–	56
Harel Locker	43	–	–	–	43
Ari Shamiss <sup>(3)</sup>	6	–	–	–	6
Varda Shalev <sup>(3)</sup>	4	–	–	–	4
Orna Pollack <sup>(4)</sup>	33	–	–	–	33
Avigdor Shafferman <sup>(4)</sup>	10	–	–	–	10

<sup>(1)</sup> The CEO, Dr. Zvi Marom, receives payment via a Service Agreement, which includes a basic annual salary and associated social and pension benefits according to his employment agreement. His service fee in 2018 and 2019 was the same, which comprised an annual base salary of approximately \$382,000 (2018: \$382,000) and social and pension benefits of approximately \$120,000 (2018: \$120,000), with the variation in the exact amounts when presented in reporting currency (US\$) being based on currency exchange.

<sup>(2)</sup> The CFO salary is paid in New Israeli Shekels: the difference in the reported salary (in US\$) between 2018 and 2019 is due to currency fluctuation – the underlying salary remained the same.

<sup>(3)</sup> Prof. Shamiss and Prof. Shalev joined as directors effective 28 November 2018 so the amounts appearing in the table are pro rata for the one month and two days they were in office during 2018.

<sup>(4)</sup> Dr. Shafferman and Mrs. Pollack's terms of office as external directors expired in February and September 2018 respectively.

<sup>(\*)</sup> The bonus criteria for the CEO was approved by the shareholders at the EGM held on 6 June 2018 and the award of his bonus for 2019 received approval by the Board of Directors on 27 February 2020.

<sup>(\*\*)</sup> The CFO bonus for 2019 is subject to approval by shareholders at the next AGM.

As at 31 December 2019, the total liability for payment related to wages for the Executive Directors was \$51,000 (31 December 2018: \$48,000), which was paid in January 2020 (2018 liability was paid in January 2019).

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

### 2019 annual bonus

The maximum annual bonus for Dr. Zvi Marom and Mr. Moti Nagar for 2019 was 75% of annual service fee and 50% of annual salary respectively. The annual bonus is based on a mix of quantitative financial criteria and qualitative personal and operational criteria as described below.

#### Dr. Zvi Marom, CEO

Financial criteria (75%-100% of total bonus)

	2019 EBITDA target	% of this part of the bonus payable on achieving that target	2019 actual EBITDA
<b>Target</b>	\$4.3m	11.11%	\$9.8m
<b>Maximum</b>	\$8.2m	100%	

Personal criteria (up to 25% of total bonus)

Target	Delivery
Strategic advancement of both divisions	<ul style="list-style-type: none"> <li>Key strategic milestone achieved in the Bio-Medical division with the signing of a conditional investment agreement for up to \$30m into Ador to advance the development of its molecular diagnostics solution</li> <li>Successful completion of delivery under NFV partnership with Arm and entered joint proof-of-concepts with tier 1 operators</li> </ul>

The CEO, Dr. Marom, met the financial and personal criteria set for him for 2019, entitling him to the maximum bonus award. The Remuneration Committee exercised its discretion in awarding Dr. Marom a bonus of \$150,000 (i.e. below the maximum) in consideration for the business' current focus on re-investing to advance the commercialisation of its new products. This decision was supported by Dr. Marom.

#### Mr. Moti Nagar, CFO

Financial criteria (60%-80% of total bonus)

	2019 target	% of this part of the bonus payable on achieving that target	2019 actual
<b>EBITDA</b>	\$4.3m	50%	\$9.8m
<b>Cash from operating activities</b>	>\$2.6m	50%	\$7.2m

Personal criteria (20%-40% of total bonus)

Target	Delivery
Investment Agreement for Ador	<ul style="list-style-type: none"> <li>Led negotiations for signing of a conditional investment agreement for up to \$30m, with first instalment of \$14.5m received into Ador during 2019</li> </ul>
Fundraising for the Company	<ul style="list-style-type: none"> <li>Successful fundraising of £14.1m gross in June 2019</li> </ul>

Target	Delivery
Secondary listing on Tel Aviv Stock Exchange (TASE), including gaining a significant institutional Israeli shareholder	<ul style="list-style-type: none"> <li>Listed on TASE in July 2019 and became a constituent of the TA-125, TA-90, TA-SME150, TA-Rimon, TA Global BlueTech, TA-Technology, TA Tech – Elite and TA-AllShare indices in September 2019</li> <li>A tier 1 Israeli institutional investor, became a significant shareholder in BATM</li> </ul>
Sale of the Company's rights in IBC	<ul style="list-style-type: none"> <li>Negotiated sale of the Company's rights in IBC to Cellcom, generating a capital gain of \$3.4m</li> </ul>

The CFO, Mr. Nagar, met the financial and personal criteria set for him for 2019, entitling him to the maximum bonus award. The Remuneration Committee exercised its discretion in awarding Mr. Nagar a bonus of \$120,000 (i.e. below the maximum) in consideration for the business' current focus on re-investing to advance the commercialisation of its new products. This decision was supported by Mr. Nagar. In accordance with Israeli law, Mr. Nagar's bonus remains subject to shareholder approval.

### Share options

No options were granted during the year to the Directors. During 2019, the CFO sold 3,000,000 shares which were exercised from options. The total proceeds for the Company from this transactions was GBP 381 thousand.

Details of Executive Director options held, granted, vested, exercised or lapsed during the year are as follows:

	As at 1 Jan 19	Granted	Vested	Exercised	Lapsed	As at 31 Dec 19	Exercise price <sup>(*)</sup>	Expiry date
Zvi Marom	4,000,000	-	-	-	-	4,000,000	0.2695	5 June 2028
Moti Nagar	3,906,200	-	-	3,000,000	-	906,200	0.1269	4 May 2025

(\*) The exercise price per share calculated by average price of the Company's shares on the FTSE during the month preceding the Board approval of the option grant.

### Directors' shareholdings

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 2019 and 2018 were as follows:

	2019 Ordinary Shares	2018 Ordinary Shares
<b>Executive Directors</b>		
Zvi Marom	96,794,500	96,694,500
Moti Nagar	—	—
<b>Non-executive Directors</b>		
Gideon Chitayat	3,159,000	3,000,000
Harel Locker	—	—
Ari Shamiss	—	—
Varda Shalev	—	—
Orna Pollack	—	—
Avigdor Shafferman	—	—



## DIRECTORS' REMUNERATION REPORT *CONTINUED*

### Implementation of the Remuneration Policy in 2020

#### Salaries

Dr. Marom's service fee (which includes salary, pension and benefits), will not be changed in 2020. This includes a salary of approximately \$382,000. Mr. Nagar's base salary of approximately \$253,000 will not be changed in 2020. Any variations in the reported amount will be due to the currency fluctuations.

#### Pension and benefits

As above, Dr. Marom's service fee in 2020 is unchanged, which includes pension and benefits of approximately \$120,000. Mr. Nagar's pension is determined by Israeli law, with the amount currently unchanged from 2019.

#### Annual bonus

The maximum annual bonus for 2020 will continue to be capped at 75% of annual service fee for Dr. Marom and 50% of annual salary for Mr. Nagar. The weighting will continue as up to 100% of bonus being based on financial criteria for Dr. Marom and 60%-80% of bonus being based on financial criteria for Mr. Nagar with 20%-40% based on personal criteria.

The bonus targets are deemed to be commercially sensitive and have not been disclosed prospectively. The performance targets set and actual performance against those targets will be provided on a retrospective basis in next year's Directors' Remuneration Report.

#### Non-Executive Director fees

The fees for the Chairman are currently unchanged in 2020. In accordance with Israeli law, the remuneration to be paid to "external" Non-Executive Directors is within a set range set forth in the Regulations promulgated under the Israeli Companies Law (that is based on the size of the company and the professional qualifications or expertise of the nominee director). As at the date of this report, the fees are unchanged in 2020 and remain as disclosed on page 42.

### Information not subject to Audit

#### Percentage change in pay

The table below shows the percentage change between 2018 and 2019 in the value of salary, benefits and annual bonus (on an actual currency basis) for the Directors compared with the average full-time employee of the Company.

	Salary	Benefits	Performance Bonus
<b>Executive Directors</b>			
Zvi Marom	0%	0%	56%
Moti Nagar	0%	0%	50%*
<b>Non-executive Directors</b>			
Gideon Chitayat	0%	—	—
Harel Locker <sup>(1)</sup>	23%	—	—
Ari Shamiss <sup>(2)</sup>	850%	—	—
Varda Shalev <sup>(2)</sup>	1,325%	—	—
<b>Employees</b>			
Average FTE	9%	10%	13%

(1) Mr. Locker participated in more meetings during 2019

(2) Prof. Shamiss and Prof. Shalev joined as directors effective 28 November 2018 and so only received payment for the one month and two days they were in office during 2018 compared with the full year in 2019.

(\*) The CFO bonus for 2019 is subject to approval by shareholders at the next AGM.

### Relative importance of spend on pay

The table below shows overall spend on employee pay across the Group compared with distributions to shareholders.

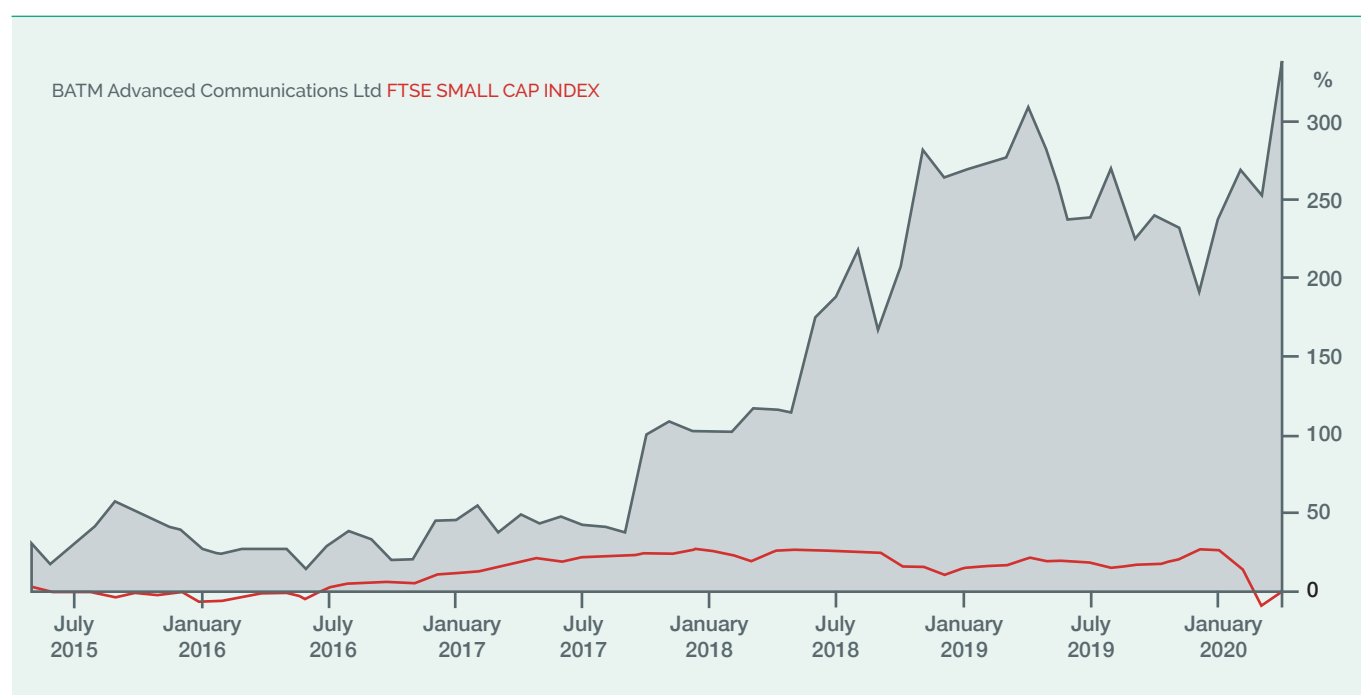
	2019 (\$m)	2018 (\$m)	% change
Employee remuneration costs	33.7	33.5	0.4
Distribution to shareholders	–	–	–

### Notice periods

No employee has a notice period of more than 12 months. The notice period for the Directors (excluding “external” directors) is up to six months. The external Non-Executive Directors are not entitled to notice periods as their position under the Israeli Companies Law is set for a defined term of three years following their appointment by the shareholders’ meeting. Their office may only be terminated for cause in special circumstances by the Company’s shareholders’ meeting or by the competent court at the request of a director or shareholder.

### Total shareholder return

The following graph shows BATM's share price performance on the London Stock Exchange over the last five years compared with the FTSE SmallCap Index, which has been chosen because it includes companies of a broadly comparable size to BATM. The Group has not declared a dividend over the last five financial years. Under Israeli law, a company may only declare a dividend if it has generated accrued profit over the previous two years, provided that there is no concern that the distribution will prevent the company from meeting its current and future undertakings when they become due. In light of the uncertainty surrounding COVID-19 and the necessity to preserve funds for, primarily investment in the development of the Group's state-of-the-art Bio-Medical projects, the Board believes it is prudent not to declare a dividend for 2019 at this time. The Board will revisit its dividend policy when the global situation normalises and it has sufficient clarity of outlook, which could include, depending on the financial position of the Group, consideration of declaring an interim dividend for 2020.







# BATM

## Consolidated Financial Statements

for the year ended 31 December 2019





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

**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 55 to 110, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

#### Tel Aviv - Main Office

1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 | Tel: +972 (3) 608 5555 | [info@deloitte.co.il](mailto:info@deloitte.co.il)

##### Jerusalem

3 Kiryat Ha'Mada  
Har Hotzvim Tower  
Jerusalem, 914510  
D. BOX 45396

Tel: +972 (2) 501 8888  
Fax: +972 (2) 537 4173  
[info-jer@deloitte.co.il](mailto:info-jer@deloitte.co.il)

##### Haifa

5 Ma'aleh Hashichrur  
P.O.B. 5648  
Haifa, 3105502

Tel: +972 (4) 860 7333  
Fax: +972 (4) 867 2528  
[info-haifa@deloitte.co.il](mailto:info-haifa@deloitte.co.il)

##### Beer Sheva

Ha'Energia St. 77, Building 1  
Gav-Yam Negev, Advanced  
Technologies Park  
Beer Sheva, 8470912

Tel: +972 (8) 690 9500  
Fax: +972 (8) 690 9600  
[info-beersheva@deloitte.co.il](mailto:info-beersheva@deloitte.co.il)

##### Eilat

The City Center  
P.O.B. 583  
Eilat, 8810402

Tel: +972 (8) 637 5676  
Fax: +972 (8) 637 1628  
[info-eilat@deloitte.co.il](mailto:info-eilat@deloitte.co.il)

##### Nazareth

9 Marj Ibn Amer St.  
Nazareth, 16100

Tel: +972 (73) 399 4455  
Fax: +972 (73) 399 4455  
[info-nazareth@deloitte.co.il](mailto:info-nazareth@deloitte.co.il)



## KEY AUDIT MATTER

***Impairment of goodwill and other intangible assets***

As detailed in Notes 23 and 24, as at 31 December 2019, the Group had goodwill and other intangible assets of \$23,745 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.

## HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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:

- 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 our internal valuation specialists when applicable to assess the appropriateness of management's estimations applied in the discount rates used in the value in use calculations.
- Challenging management assumptions applied and inputs in the respective models by comparing it to historical information, market researches when available, contractual arrangements and approved budgets; search for available contradictory information.
- Performing stress analysis on key estimates.
- Performing discussions, when applicable, with key management about new significant clients and markets penetration, new significant contracts and bids, certification status of new products.

***Findings***

We found the models and assumptions applied in the goodwill impairment assessments to be appropriate. We considered the disclosure of the goodwill and other intangible assets to be appropriate for purposes of the consolidated financial statements.

***Construction contracts***

Where the outcome of a construction contract can be estimated reliably, revenues are recognized over time by the Group in reference to the contract's stage of completion at the date of the consolidated statements of financial position. This is mainly measured by the proportion of the contract costs incurred for work performed to date divided by the estimated total contract costs. The management consider the input method as an appropriate measure of the progress towards complete satisfaction of these performance obligations.

Total revenues and expenses recognized for the year ended 31 December 2019, amounted to \$14,682 thousand and \$13,135 thousand, respectively.

Estimating the Stage of Completion demands significant judgement by the management to determine the exact percentage of project completion. This estimation 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.

- Examination of the Stage of Completion ("SOC") used by developing an independent estimation on contracts that are using time spent or cost as a basis for the completion stage.
- Performing post balance sheet examination procedures.
- Examination of the reasonability of the estimated costs to complete used for the determination of the stage of completion.
- Comparing the completion percentage arrived to previous periods when applicable.
- Assessment of management's ability to provide accurate estimations by comparing management's estimates to actual results for a sample of completed projects.

***Findings***

The results of our testing were satisfactory and we found the judgements used in determining the estimation to be appropriate.

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

### 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 Efrat Binshtok.

**Brightman Almagor Zohar and Co., Efrat Binshtok**  
**Certified Public Accountants**  
**A Firm in the Deloitte Global Network**  
**1 Azrieli Center, Tel Aviv**  
**Israel**

**30 April 2020**





## Consolidated Statements of Profit or Loss

for the year ended 31 December

	Note	2019 US\$'000	2018 US\$'000
<b>Revenues</b>	5, 6	123,396	119,561
Cost of revenues	7	90,251	85,097
<b>Gross profit</b>		33,145	34,464
<b>Operating expenses</b>			
Sales and marketing expenses	8	16,307	15,635
General and administrative expenses	9	11,753	11,226
Research and development expenses	10	6,772	7,116
Other operating income	12	(6,169)	(1,003)
<b>Total operating expenses</b>		28,663	32,974
<b>Operating profit</b>		4,482	1,490
Finance income	13	1,612	653
Finance expenses	14	(1,316)	(935)
<b>Profit before tax</b>		4,778	1,208
Income tax expense	15	(475)	(623)
<b>Profit for the year before share of loss of a joint venture and associated companies</b>		<b>4,303</b>	<b>585</b>
Share of loss of a joint venture and associated companies		(1,033)	(908)
<b>Profit (loss) for the year</b>		<b>3,270</b>	<b>(323)</b>
<b>Attributable to:</b>			
Owners of the Company		<b>3,917</b>	<b>358</b>
Non-controlling interests		<b>(647)</b>	<b>(681)</b>
<b>Profit (loss) for the year</b>		<b>3,270</b>	<b>(323)</b>
<b>Profit per share (in cents) basic</b>	16	<b>0.93</b>	<b>0.09</b>
<b>Profit per share (in cents) diluted</b>	16	<b>0.92</b>	<b>0.09</b>

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

# Consolidated Statements of Comprehensive Income (Loss)

for the year ended 31 December

	2019 US\$'000	2018 US\$'000
Profit (loss) for the year	3,270	(323)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	398	(2,546)
	3,668	(2,869)
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Re-measurement of defined benefit obligation	(44)	(51)
Total comprehensive income (loss) for the year	3,624	(2,920)
<b>Attributable to:</b>		
Owners of the Company	3,664	(2,509)
Non-controlling interests	(40)	(411)
	<b>3,624</b>	<b>(2,920)</b>

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

## Consolidated Statements of Financial Position

for the year ended 31 December

	Note	2019 US\$'000	2018 US\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		40,584	20,811
Trade and other receivables	18	42,784	35,010
Financial assets	17	4,254	3,577
Inventories	19	22,672	22,860
		110,294	82,258
<b>Non-current assets</b>			
Property, plant and equipment	20	14,203	14,076
Investment property	21	1,899	2,004
Right of-use assets	22	9,945	–
Goodwill	23	16,804	16,343
Other intangible assets	24	6,941	6,278
Investment in joint venture and associates	12	9,497	4,210
Investments carried at fair value	29	1,013	1,060
Deferred tax assets	26	3,234	2,655
		63,536	46,626
<b>Total assets</b>		<b>173,830</b>	<b>128,884</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Short-term bank credit	27	5,915	5,369
Trade and other payables	27	44,459	33,413
Current maturities of lease liabilities	27	2,070	–
Tax liabilities		313	173
		52,757	38,955
<b>Non-current liabilities</b>			
Long-term bank credit	27	762	486
Long-term liabilities	27	6,215	5,631
Long-term lease liabilities	27	8,339	–
Deferred tax liabilities	26	626	228
Retirement benefit obligation	34	715	576
		16,657	6,921
<b>Total liabilities</b>		<b>69,414</b>	<b>45,876</b>
<b>Equity</b>			
Share capital	28	1,320	1,217
Share premium account		425,477	407,796
Reserves		(18,582)	(18,373)
Accumulated deficit		(299,391)	(303,264)
<b>Equity attributable to the:</b>			
Owners of the Company		108,824	87,376
Non-controlling interests		(4,408)	(4,368)
<b>Total equity</b>		<b>104,416</b>	<b>83,008</b>
<b>Total equity and liabilities</b>		<b>173,830</b>	<b>128,884</b>

The financial statements were approved by the board of directors and authorised on 30 April 2020. 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 2019 and 2018

	Share Capital	Share Premium Account	Translation Reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the company	Non-Controlling Interests	Total Equity
	US\$ in thousands							
<b>Balance as at 1 January 2018</b>	1,216	407,688	(15,045)	(512)	(303,571)	89,776	(3,957)	85,819
Profit (loss) for the year	–	–	–	–	358	358	(681)	(323)
Re-measurement of defined benefit obligation	–	–	–	–	(51)	(51)	–	(51)
Exchange differences on translating foreign operations	–	–	(2,816)	–	–	(2,816)	270	(2,546)
<b>Total comprehensive loss for the year</b>	–	–	<b>(2,816)</b>	–	<b>307</b>	<b>(2,509)</b>	<b>(411)</b>	<b>(2,920)</b>
Exercise of share-based options by employees	1	50	–	–	–	51	–	51
Recognition of share-based payments	–	58	–	–	–	58	–	58
<b>Balance as at 1 January 2019</b>	1,217	407,796	(17,861)	(512)	(303,264)	87,376	(4,368)	83,008
Profit (loss) for the year	–	–	–	–	3,917	3,917	(647)	3,270
Re-measurement of defined benefit obligation	–	–	–	–	(44)	(44)	–	(44)
Exchange differences on translating foreign operations	–	–	(209)	–	–	(209)	607	398
<b>Total comprehensive income (loss) for the year</b>	–	–	<b>(209)</b>	–	<b>3,873</b>	<b>3,664</b>	<b>(40)</b>	<b>3,624</b>
Issue of share capital	93	16,981	–	–	–	17,074	–	17,074
Exercise of share-based options by employees	10	595	–	–	–	605	–	605
Recognition of share-based payments	–	105	–	–	–	105	–	105
<b>Balance as at 31 December 2019</b>	<b>1,320</b>	<b>425,477</b>	<b>(18,070)</b>	<b>(512)</b>	<b>(299,391)</b>	<b>108,824</b>	<b>(4,408)</b>	<b>104,416</b>

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



## Consolidated Statements of Cash Flow

for the year ended 31 December

	Note	2019 US\$'000	2018 US\$'000
<b>Net cash from operating activities</b>	30	<b>7,166</b>	<b>2,607</b>
<b>Investing activities</b>			
Interest received		205	219
Proceeds on disposal of property, plant and equipment		113	6,507
Tax paid on disposal of property, plant and equipment		(19)	(1,913)
Proceeds on disposal of deposits		3,234	4,579
Proceeds on disposal of financial assets carried at fair value through profit and loss		–	2,391
Proceeds on sale of investment		3,430	–
Loans repay (granted)		–	133
Purchases of property, plant and equipment		(686)	(1,692)
Increase of other intangible assets		(1,523)	(1,894)
Purchases of financial assets carried at fair value through profit and loss		(760)	(840)
Increase in financial assets carried at fair value		–	(321)
Purchases of deposits		(3,112)	(4,004)
Investment in joint venture		(1,952)	(1,616)
Investment in associated company		(575)	(80)
Acquisition of subsidiaries	31	(937)	(633)
<b>Net cash from (used in) investing activities</b>		<b>(2,582)</b>	<b>836</b>
<b>Financing activities</b>			
Lease payment	22	(2,361)	–
Bank loan repayment	27	(9,922)	(9,956)
Bank loan received	27	10,086	9,596
Proceed on issue of share capital, net		17,074	–
Proceed on exercise of shares		605	51
<b>Net cash from (used in) financing activities</b>		<b>15,482</b>	<b>(309)</b>
<b>Net increase in cash and cash equivalents</b>		<b>20,066</b>	<b>3,134</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>20,811</b>	<b>18,182</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(293)	(505)
<b>Cash and cash equivalents at the end of the year</b>		<b>40,584</b>	<b>20,811</b>

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

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

## 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 Adoption of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and amended IFRS standards that are effective for the current year

In the current year, the Group has applied a number of new and amended 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 2019.

#### IFRS 16 Leases

##### Impact of initial application of IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has chosen the modified retrospectively application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group did not restate comparative information.

##### Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

##### Impact on Lessee Accounting

###### Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

### **Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

### **Financial impact of initial application of IFRS 16**

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 3.12%.

As at 31 December 2018, the Group has non-cancellable operating lease commitments, mainly lease of real estates, of approximately \$13.7 million.

The opening balance indicates that \$0.3 million of these arrangements relate to short-term leases.

The opening balance indicates that \$13.4 million of these arrangements relate to leases other than short-term leases, and hence the Group will recognise a right-of-use asset of \$11.8 million and a corresponding lease liability of \$11.8 million in respect of all these leases.

There is also an impact to the income statement, resulting in an increase to operating profit through the operating lease expense being removed and replaced with a smaller depreciation charge. This impact resulted in increase in operating profit. There is an interest expense under the new accounting, that was not have occurred under IAS 17, which resulted in decrease in the profit before tax. There is not an impact to total cash flows; however there is an increase in cash flows from operating activities, and a corresponding decrease in cash flows from financing activities.

### **IFRIC 23 – Uncertainty over Income Tax Treatments**

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

- If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The application of IFRIC 23 has had no significant impact on the Group's consolidated financial statements.

## 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:

Amendments to IFRS 3	Definition of a business <sup>1</sup>
Amendments to IAS 1 and IAS 8	Definition of material <sup>1</sup>
<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.	

### Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

### Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.



## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 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 IFRS 16, 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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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 36 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.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 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 identified assets acquired and the liabilities assumed are recognised at their fair value, except that:

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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. Goodwill is not amortised but is reviewed for impairment at least annually. 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

The Group recognises revenue from the following major sources:

- Sale of goods - Communication products, Bio-Medical products such as laboratory diagnostics and sterilisation Eco-Med products
- 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
- Construction contracts

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

### ***Sale of goods***

For sales of goods, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods.



## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

### **Rendering of services**

The Group provides a service of installation of various software products for specialised business operations.

Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these installation services based on the stage of completion of the contract. The management have assessed that the stage of completion determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these performance obligations under IFRS 15.

### **Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised over time 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. The management consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15. 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.

### **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).

## **Leases**

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

### **Policies applicable from 1 January 2019**

#### **The Group as a lessee**

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

## ***The Group as lessor***

The Group enters into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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.

## ***Policies applicable prior to 1 January 2019***

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.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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 amortised cost according to IFRS 9.

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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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

## Employee benefits

### **Retirement benefit costs and termination benefits**

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

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

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

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

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

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

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

### **Short-term and other long-term employee benefits**

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

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

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

## Share-based payments arrangements

### **Share-based payment transactions of the Company**

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



## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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.

## 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.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method between 10%-33%.

### 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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 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 and investments

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.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### **Classification of financial assets**

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The majority of financial assets are measured subsequently at fair value through profit or loss (FVTPL).

### **Amortised cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.



## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

### ***Debt instruments classified as at FVTOCI***

The debt instruments held by the Group are classified as at FVTOCI. The debt instruments are initially measured at fair value plus transaction costs.

Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

### ***Equity instruments designated as at FVTOCI***

On initial recognition, the Group may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is 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 evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## **Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 36.

## **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

## **Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses on trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

## **Derecognition of financial assets**

The Group derecognises a financial asset only 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 entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

## **Financial liabilities and equity instruments**

### **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### **Equity instruments**

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

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## **Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

## **Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (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 acquired principally for the purpose of repurchasing 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in 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 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 IFRS 9 permits the entire combined contract to be designated as at FVTPL.

## **Foreign exchange gains and losses**

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments.

## **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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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.

## 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 \$23.7 million (2018: \$22.6 million), see note 23 and note 24.

#### ***Judgments with respect to deferred tax assets***

For the purposes of measuring 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 IFRS 15 revenue from contracts with customers, 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 contract costs incurred to total estimated contract 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 2019 amounted to \$14,682 thousand and \$13,135 thousand, respectively.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 5 Revenues

The Group derives its revenue from contracts with customers for the transfer of goods at a point in time and services and Construction Contracts over time in the following major product lines.

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

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Sales of goods	74,387	77,794
Services	34,327	28,181
Construction Contracts	14,682	13,586
	<b>123,396</b>	<b>119,561</b>

### 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, such as Network Function Virtualisation (“NFV”) 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.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Adjusted operating profit is the measure reported to the Group Chief executive for the purpose of assessment of the segment performance.

#### A. Segment revenues and segment results

*Year ended 31 December 2019*

	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Revenues	58,960	64,436	–	123,396
Adjusted operating profit (*)	5,144	132	–	5,276
Reconciliation – Other operating expenses				(794)
Operating profit				4,482
Net finance income				296
Profit before tax				4,778



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## Year ended 31 December 2018

	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Revenues	57,451	62,104	6	119,561
Adjusted operating profit (loss)(*)	3,579	(1,114)	168	2,633
Reconciliation - Other operating expenses				(1,143)
Operating profit				1,490
Net finance expense				(282)
Profit before tax				1,208

(\*) Excluding amortisation of intangible assets see note 24, including other operating income see note 12

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 2019

	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Assets	88,799	83,132	1,899	173,830
Liabilities	35,540	33,874	–	69,414
Depreciation and amortisation (*)	2,563	2,706	86	5,355
Additions to non-current assets	1,579	1,421	–	3,000

### As at 31 December 2018

	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Assets	56,846	70,034	2,004	128,884
Liabilities	19,808	26,068	–	45,876
Depreciation and amortisation (*)	1,317	2,074	–	3,391
Additions to non-current assets	1,160	2,603	–	3,763

(\*) See also note 30

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 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	2019 \$'000s	2018 \$'000s
Networking and cyber products	21,507	24,405
Software services	37,452	33,052
Distribution of medical products	52,378	50,129
Diagnostic products	5,535	6,589
Eco-Med products	6,524	5,386
	<b>123,396</b>	<b>119,561</b>

### D. Revenue from major product lines

*Year ended 31 December 2019*

Revenues	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Sales of goods	18,167	56,220	–	74,387
Services	29,045	5,282	–	34,327
Construction Contracts	11,748	2,934	–	14,682
	<b>58,960</b>	<b>64,436</b>	<b>–</b>	<b>123,396</b>

*Year ended 31 December 2018*

Revenues	Networking and Cyber \$'000s	Bio-Medical \$'000s	Unallocated \$'000s	Total \$'000s
Sales of goods	20,898	56,896	–	77,794
Services	23,770	4,405	6	28,181
Construction Contracts	12,783	803	–	13,586
	<b>57,451</b>	<b>62,104</b>	<b>6</b>	<b>119,561</b>

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## E. 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	
	2019	2018	2019	2018
Area A	59,595	58,748	29,802	21,714
Area B	53,035	49,043	24,511	16,035
Area C	10,766	11,770	4,976	5,162
Total	<b>123,396</b>	<b>119,561</b>	<b>59,289</b>	<b>42,911</b>

## 7 Cost of revenues

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Direct costs- Components and subcontractors	69,852	65,057
Changes in inventory	(703)	(713)
Salaries and related benefits	16,565	16,261
Overhead and depreciation	3,055	2,896
Other expenses	1,482	1,596
	<b>90,251</b>	<b>85,097</b>

## 8 Sales and marketing expenses

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Salaries and related benefits	9,484	9,078
Commissions	1,084	1,025
Outside services	586	478
Advertising and sales promotion	1,096	949
Overhead and depreciation	2,036	2,205
Travelling and other expenses	2,021	1,900
	<b>16,307</b>	<b>15,635</b>

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 9 General and administrative expenses

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Salaries and related benefits	4,722	4,515
Professional services(*)	3,340	3,416
Overhead and depreciation	1,289	1,294
Other expenses	2,402	2,001
	<b>11,753</b>	<b>11,226</b>
(*) Including		
Auditors' remuneration for audit services	<b>295</b>	<b>288</b>

Amounts payable to Deloitte by the Company and its subsidiaries' undertakings in respect of non-audit services in 2019 were \$20,000 (2018: \$3,000). In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2019, were \$8,000 and \$23,000, respectively (2018: \$8,000 and \$8,000, respectively).

### 10 Research and development expenses

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Salaries and related benefits	2,916	3,693
Components and subcontractors	3,089	2,535
Overhead and depreciation	1,082	1,067
Other expenses	533	708
Government grants	(848)	(887)
	<b>6,772</b>	<b>7,116</b>

### 11 Staff costs

The average monthly number of employees in 2019 (including executive directors) was 1,138 (2018: 1,054).

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Their aggregate remuneration comprised:		
Wages and salaries	28,227	27,575
Social security costs	4,153	4,742
Other pension costs	1,307	1,230
	<b>33,687</b>	<b>33,547</b>

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 12 Other operating expenses (income)

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Gain on reduce of holdings in associated company <sup>(1)</sup>	(3,161)	–
Gain on sale of investment <sup>(2)</sup>	(3,380)	–
Amortisation of intangible assets	372	744
Capital gain on sale of tangible and intangible assets <sup>(3)</sup>	–	(1,582)
Revaluation of investment	–	(165)
	<b>(6,169)</b>	<b>(1,003)</b>

<sup>(1)</sup> On 4 April 2019, the Group signed an agreement for an investment of up to \$30m to provide additional funds for the commercialisation of NATlab. The majority of this investment – up to \$25m – is to be provided by leading medical investors from the US and Puma Brandenburg Investments Ltd. The investment is being made in two tranches into a new company that owns 100% of Ador. An initial \$14.5m was funded in April 2019 and a further \$15.5m is expected by the end of 2020, subject to certain milestones being achieved. Following the initial investment, the new company has a valuation of \$45m and BATM has an ownership interest of 38.2%.

<sup>(2)</sup> On 31 July 2019 the group and its consortium partners having signed an agreement with Cellcom Israel Ltd to sell all the rights of the group in IBC Holdings. BATM has received NIS12m (\$3.4m) for its rights in IBC.

<sup>(3)</sup> In 2018 a capital gain from selling of intangible assets to a joint venture is included.

## 13 Finance income

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Interest on bank deposits	200	131
Gain on derivative financial instruments	–	444
Gain on marketable securities	113	–
Foreign exchange differences, net	564	–
Other interest income	735	78
	<b>1,612</b>	<b>653</b>



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 14 Finance expense

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Loss on derivative financial instruments	(245)	–
Foreign exchange differences, net	–	(315)
Interest on loans and bank fees	(802)	(537)
Loss on marketable securities	–	(47)
Interest on lease liabilities	(269)	–
Other	–	(36)
	<b>(1,316)</b>	<b>(935)</b>

## 15 Income (expense) tax benefits

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Current tax	(652)	(519)
Tax on previous years	(19)	(9)
Deferred tax (note 26)	196	(95)
	<b>(475)</b>	<b>(623)</b>

### Taxation under various laws:

#### Israel

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

- a. The corporate income tax rate for the years 2018 and 2019 is 23%
- b. Encouragement of Capital Investments Law:
  - a. The corporate tax rate for each company with a Preferred Enterprise for the years 2018 and 2019 is 7.5%.
  - b. Including additional tax tracks for Preferred Technological Enterprise (tax rate of 7.5% in Area “A” and 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 entitle (tax rates of 5% in Area “A” or 8% in the Area “Other”).

The Company has a Preferred Enterprise status in area A and its Israeli subsidiaries are being 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 were limitations for utilisation of these losses in the future. Legally Vigilant was merged into the Company during 2014 and no longer exists.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The Company and its Israeli subsidiaries have tax loss carry-forwards of \$96.9 million of which \$94.1 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 tax assessments for the years up to and including the 2014 tax year are considered as final.

## *The United States of America*

Telco Systems 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 expire before having been utilised. Accordingly, the future use of part of this benefit is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. Deferred tax assets of \$1.5 million have been recognised in respect of such losses. The amount of carry-forward losses is \$278.5 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 federal corporate taxes, including a permanent reduction of the corporate tax rate from 35% to 21% effective 1 January 2018. The reduction in the federal corporate tax rate required 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. In addition, based on the Act only 80 percent of taxable income created from 1 January 2018 may be used to offset future income.

## *Other jurisdictions*

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Group has tax loss carry-forwards of \$27.4 million in European subsidiaries of which \$20.0 million the Group did not recognise deferred tax assets in respect of such losses. \$5.8 million tax loss carry-forwards out of the \$20 million above according to the tax law in the territory these losses related to will be expired during the years 2020-2025. The corporate income tax rate in Moldova is 12% and in Italy is 24%.

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	
	2019 \$'000s	2018 \$'000s
Profit before tax:	<b>4,778</b>	<b>1,208</b>
Tax expense at the Israeli corporate income tax rate of 23%	1,099	278
Reduced income tax rate	152	(191)
Tax losses which no deferred tax assets have been recognised	40	616
Tax losses utilised in current period which no deferred tax assets have been recognised in prior periods	(869)	–
Initial recognition of deferred tax assets	(196)	(102)
Tax on previous years	19	9
Other differences	230	13
<b>Tax expenses for the year</b>	<b>475</b>	<b>623</b>

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 16 Earnings per share

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

	Year ended 31 December	
	2019	2018
Earnings for the purposes of basic and diluted earnings per share (\$'000s) attributable to Owners of the Company	3,917	358
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	421,141,507	403,353,149
Effect of dilutive potential ordinary shares:		
Share options	3,955,104	2,896,875
Weighted average number of ordinary shares for the purposes of diluted earnings per share	425,096,611	406,250,024

The number of Share Options that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the year is 450,000 (2018: 82,304).

### 17 Financial assets

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Interest-bearing deposits	2,964	1,580
Financial assets at FVTPL	1,290	1,997
	4,254	3,577

The average interest rate of deposits is 1.99% and 3.11% in 2019 and 2018 respectively.

### 18 Trade and other receivables

	31 December	
	2019 \$'000s	2018 \$'000s
<b>Trade and other receivables</b>		
Trade receivable account	29,218	21,871
Participation in research and development: Government of Israel	1,094	1,177
VAT authorities	845	637
Tax authorities	336	582
Construction contracts*	4,909	5,486
Prepaid expenses	4,892	3,827
Other debtors	1,490	1,430
	42,784	35,010

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

Construction contracts	31 December	
	2019 \$'000s	2018 \$'000s
<b>Composition:</b>		
Cumulative costs incurred due to works construction contracts	11,617	14,051
In addition – Recognised profits	3,992	3,462
Less accounts submitted to project customers	(10,700)	(12,027)
	<b>4,909</b>	<b>5,486</b>

The average credit period taken on sales of goods is 66 days (2018: 76 days). No interest is charged on the receivables. An allowance has been made at 31 December 2019 for estimated irrecoverable amounts from the sale of goods of \$2,396 thousand, (2018: \$2,154 thousand) including general allowance according to IFRS 9. 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 2019, trade receivable account includes amounts of \$7.3 million, which maturity date has expired (including a receivable in the amount of \$1.6 million that is overdue for more than a year), but the Group, based on past experience and on the credit quality of the debtors, and since most of the debts have been collected until the date of the annual report release, has not made an allowance for doubtful debts since the Company expects that those debts are to be collectible.

### Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade 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	
	2019 \$'000s	2018 \$'000s
Raw materials	4,544	5,435
Work-in-progress	2,917	2,612
Finished goods	15,211	14,813
	<b>22,672</b>	<b>22,860</b>

During 2019, \$0.3 million of slow moving inventory was impaired, and expensed to the Profit and Loss account (2018: \$0.2 million).

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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

	Land and buildings(*)	Plant and equipment	Motor vehicles	Furniture and fittings	Leasehold improvements	Total
<b>Cost</b>						
At 1 January 2018	8,925	15,766	1,936	4,204	2,591	33,422
Additions	–	1,421	238	103	58	1,820
Disposals	(236)	(603)	(211)	(9)	(122)	(1,181)
Effect of translation adjustment	(169)	(241)	(29)	(65)	(40)	(544)
At 31 December 2018	8,520	16,343	1,934	4,233	2,487	33,517
Additions	10	860	82	81	23	1,056
Disposals	(20)	(268)	(102)	(247)	–	(637)
Effect of translation adjustment	27	53	6	14	8	108
Acquisition of subsidiaries	1,198	100	62	100	19	1,479
At 31 December 2019	9,735	17,088	1,982	4,181	2,537	35,523
<b>Accumulated depreciation</b>						
At 1 January 2018	1,778	11,171	881	3,841	1,031	18,702
Depreciation expense	292	1,008	251	163	150	1,864
Disposals	(59)	(474)	(161)	(1)	(122)	(817)
Effect of translation adjustment	(44)	(174)	(14)	(60)	(16)	(308)
At 31 December 2018	1,967	11,531	957	3,943	1,043	19,441
Depreciation expense	354	744	344	188	231	1,861
Disposals	(1)	(108)	(66)	(218)	–	(393)
Effect of translation adjustment	19	112	9	38	10	188
Acquisition of subsidiaries	53	73	41	56	–	223
At 31 December 2019	2,392	12,352	1,285	4,007	1,284	21,320
<b>Carrying amount</b>						
<b>At 31 December 2019</b>	<b>7,343</b>	<b>4,736</b>	<b>697</b>	<b>174</b>	<b>1,253</b>	<b>14,203</b>
<b>At 31 December 2018</b>	<b>6,553</b>	<b>4,812</b>	<b>977</b>	<b>290</b>	<b>1,444</b>	<b>14,076</b>

(\*) see note 21



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 21 Investment property

	2019 \$'000s	2018 \$'000s
At 1 January	2,004	1,951
Addition to investment property	–	177
Depreciation expense	(86)	(88)
Exchange rate differences	(19)	(36)
At 31 December	<b>1,899</b>	<b>2,004</b>

– The useful lives used; between 27-33 years.

### Amounts recognised in the consolidated statements of profit or loss

	31 December	
	2019 \$'000s	2018 \$'000s
Rental income from investment property	206	200
Operating expenses related to income from investment property	(201)	(197)
Operating expenses related to investment property which produced no income	(11)	(4)

### 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 2019 are as follows:

	31 December 2019		31 December 2018	
	At amortised cost \$'000s	Fair value level 3 \$'000s	At amortised cost \$'000s	Fair value level 3 \$'000s
USA	1,156	1,547	1,214	1,482
Italy	743	1,227	790	1,251

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 \$1,178 per square metre for the property in Italy and an average price of \$125 per square foot for the property in USA.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 22 Leases (Group as a lessee)

#### Right-of-use assets

	Buildings	Motor vehicles	Total
<b>Cost</b>			
At 1 January 2019	10,778	1,004	11,782
Additions	94	187	281
Disposals	–	(71)	(71)
Effect of translation adjustment	337	43	380
At 31 December 2019	<b>11,209</b>	<b>1,163</b>	<b>12,372</b>

	Buildings	Motor vehicles	Total
<b>Accumulated depreciation</b>			
At 1 January 2019	–	–	–
Charge for the year	1,923	537	2,460
Disposals	–	(43)	(43)
Effect of translation adjustment	7	3	10
At 31 December 2019	<b>1,930</b>	<b>497</b>	<b>2,427</b>
<b>Carrying amount</b>			
At 31 December 2019	<b>9,279</b>	<b>666</b>	<b>9,945</b>

The Group leases several assets including buildings and motor vehicles. The average lease term of buildings and motor vehicles from the implementation date, 1 January 2019, is 7.7 and 2.5 years, accordingly.

The maturity analysis of lease liabilities is presented in note 27.

#### Amounts recognised in profit and loss

	2019 \$'000s
Depreciation expense on right-of-use assets	2,460
Interest expense on lease liabilities	269
Expense relating to short-term leases	279

At 31 December 2019, the Group is committed to \$0.2 million for short-term leases.

The total cash outflow for leases amount to \$2,361 thousand.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 23 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 \$9,819 thousand (2018: \$9,791 thousand) has been divided into 5 CGUs: Eco-Med, Diagnostic, Distribution, Distributor and provider of genetics tests and Analytical instruments distribution. The goodwill regarding Networking and Cyber segment at the amount of \$6,985 thousand (2018: \$6,552 thousand) has been divided into 2 CGUs: Telecommunications and Software services.

The goodwill is allocated to the following CGUs:

Eco-Med: \$2,550 thousand (2018: \$2,550 thousand)

Diagnostic: \$1,577 thousand (2018: \$1,598 thousand)

Distribution: \$1,146 thousand (2018: \$1,173 thousand)

Distributor and provider of genetics tests: \$966 thousand (2018: \$890 thousand)

Analytical instruments distribution: \$3,580 thousand (2018: \$3,580 thousand)

Telecommunications: \$1,984 thousand (2018: \$1,984 thousand)

Software services: \$5,001 thousand (2018: \$4,568 thousand)

The recoverable amounts of the CGUs are determined from value in use calculations except of the Diagnostic CGU. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Pre-tax discount rates of between 8.8% - 15.1% have been used. 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 revenue growth rates of 36% for year 1 and 10% for years 2-5, and then 1% thereafter, for the Telecommunications CGU and 7% for year 1 and 5% for years 2-5, and then 1% thereafter, for the Software services CGU and 34% for year 1 and 10% for years 2-5, and then 1% thereafter for the Eco-Med CGU and 13% for year 1 and 10% for years 2-5, and then 1% thereafter for the Distribution CGU and 42% for year 1 and 15% for years 2-5, and then 1% thereafter for the Distributor and provider of genetics tests CGU and 6% for year 1 and 9% for years 2-5, and then 1% thereafter for the Analytical instruments distribution CGU.

The average fixed expenses have been assumed to grow at 13%, 5%, 5%, 4%, 4% for years 1-5 respectively, and then 2% thereafter in the Telecommunications and Software services CGU and (5)%, 5%, 5%, 5%, 5% for years 1-5 respectively, and then have been assumed to remain constant thereafter for Eco-Med, Distribution, Distributor and provider of genetics tests and Analytical instruments distribution CGUs. The average variable expenses (directly linked to sales) have been assumed to grow at 13%, 4%, 6%, 6%, 6% for years 1-5 respectively, and then 1% thereafter for the Telecommunications and Software services CGUs, and 10%, 8%, 10%, 10%, 10% for years 1-5 respectively, and then 1% thereafter for the Eco-Med, Distribution, Distributor and provider of genetics tests and Analytical instruments distribution CGUs. The rates used above reflect historical rates achieved and expected levels for 2020 but then are adjusted for subsequent years.

The recoverable amount of the diagnostics unit is determined based on the conditional agreement and according to it no impairment was required (see also note 12(1)).

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### Sensitivity of the recoverable amount to changes in the key assumptions

The recoverable amount of the Eco-Med activity is higher than the carrying amount in the amount of \$3.6 million. Reduction of 6% growth rate taken into account in calculating the value in use of the activity will result in a decrease of \$3.4 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 \$3.3 million recoverable amount of the activity and no goodwill impairment will be recorded.

	2019 \$'000s	2018 \$'000s
Balance at 1 January	16,343	16,817
Additions in the year (*)	58	–
Disposal in the year	(10)	–
Foreign exchange difference	413	(474)
Balance at 31 December	<b>16,804</b>	<b>16,343</b>

(\*) see note 31.

## 24 Other intangible assets

	Customer Relationships and Backlog \$'000s	Technology \$'000s	Other \$'000s	Total \$'000s
<b>Cost</b>				
At 1 January 2018	16,502	14,694	3,056	34,252
Classification from other receivables in 2017	–	524	–	524
Additions (*)	–	984	–	984
Effect of translation adjustments	(491)	(285)	(117)	(893)
At 31 December 2018	16,011	15,917	2,939	34,867
Additions (*)	522	1,083	–	1,605
Disposals	(263)	–	–	(263)
Effect of translation adjustments	150	180	(245)	85
At 31 December 2019	<b>16,420</b>	<b>17,180</b>	<b>2,694</b>	<b>36,294</b>

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 24 Other intangible assets *(continued)*

Accumulated amortisation				
At 1 January 2018	16,098	9,714	2,313	28,125
Effect of translation adjustments	(496)	(123)	(60)	(679)
Amortisation expense	177	890	76	1,143
At 31 December 2018	15,779	10,481	2,329	28,589
Effect of translation adjustments	52	250	(200)	102
Amortisation expense	119	571	104	794
Disposals	(132)	–	–	(132)
At 31 December 2019	<b>15,818</b>	<b>11,302</b>	<b>2,233</b>	<b>29,353</b>
Carrying amount				
At 31 December 2019	<b>602</b>	<b>5,878</b>	<b>461</b>	<b>6,941</b>
At 31 December 2018	<b>232</b>	<b>5,436</b>	<b>610</b>	<b>6,278</b>

<sup>(\*)</sup> Includes capitalised development costs (NFV and diagnostics) according to IAS 38.

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: 3 to 11 years

Other: mainly 10 years

## 25 Subsidiaries

A list of the significant direct and indirect investments in subsidiaries, including the country of incorporation, and percent of ownership interest as at 31 December 2019 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	Sterilisation	Hungary	75%	February 2008
Entity E	Distribution	Moldova	51%	July 2008
Entity F	Diagnostics	Italy	100%	February 2009
Entity G	Diagnostics	Italy	100%	November 2009
Entity H	Cyber	Israel	67%	April 2012
Entity I	Distribution	Hungary	100%	January 2016
Entity J	Distribution	Israel	100%	January 2017



## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 26 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 2018	27	3,299	(417)	2,909
Credit (charge) to income	8	(621)	451	(162)
Effect of translation adjustments	(3)	(87)	(2)	(92)
At 31 December 2018	32	2,591	32	2,655
Credit (charge) to income	3	562	1	566
Effect of translation adjustments	1	15	(3)	13
At 31 December 2019	<b>36</b>	<b>3,168</b>	<b>30</b>	<b>3,234</b>

(\*) Including goodwill and other temporary differences

The Company incurred current tax losses 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. 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. The Company expects that taxable profits will be available, as a result of an increasing demand, new products and expansion to new markets.

#### Deferred tax liabilities

	Losses carried forward \$'000s	Intangible assets \$'000s	Tangible assets and other \$'000s	Total \$'000s
At 1 January 2018	–	276	60	336
Credit to income	(346)	(133)	412	(67)
Effect of translation adjustments	–	(12)	(29)	(41)
At 31 December 2018	(346)	131	443	228
Credit to income	364	(40)	46	370
Effect of translation adjustments	(18)	7	39	28
At 31 December 2019	<b>–</b>	<b>98</b>	<b>528</b>	<b>626</b>

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 2019 \$19,258 thousand (31 December 2018: \$16,484 thousand).

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 27 Financial liabilities and other

### Trade and other payables

	31 December	
	2019 \$'000s	2018 \$'000s
Trade creditors	20,450	13,720
Salary accruals	6,774	6,693
VAT and other tax	2,342	1,488
Liability to the office of the chief scientist	335	498
Liability on acquisition of a subsidiary *	434	633
Provision	360	133
Other creditors and accruals **	13,764	10,248
	<b>44,459</b>	<b>33,413</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 64 days (2018: 77 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

\* See also note 31

\*\* Including a liability to a related party, amounts to \$122 thousand that was repaid at the beginning of 2020.

### Long-term bank credit

	31 December	
	2019 \$'000s	2018 \$'000s
Long-term bank credit	762	486
	<b>762</b>	<b>486</b>

### Long-term liabilities

	31 December	
	2019 \$'000s	2018 \$'000s
Liability to the office of the chief scientist <sup>(1)</sup>	3,330	3,136
Liability on acquisition of a subsidiary	8	94
Government institutions and other	2,877	2,401
	<b>6,215</b>	<b>5,631</b>

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

Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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

2019	Open balance \$'000s	Cash flow from finance activities \$'000s	Business combination \$'000s	Foreign exchange differences \$'000s	Close balance \$'000s
Short term	5,369	517	134	(105)	5,915
Long term	486	(353)	635	(6)	762
	<b>5,855</b>	<b>164</b>	<b>769</b>	<b>(111)</b>	<b>6,677</b>

2018	Open balance \$'000s	Cash flow from finance activities \$'000s	Business combination \$'000s	Foreign exchange differences \$'000s	Close balance \$'000s
Short term	5,324	44	–	1	5,369
Long term	910	(404)	–	(20)	486
	<b>6,234</b>	<b>(360)</b>	<b>–</b>	<b>(19)</b>	<b>5,855</b>

**Lease liabilities**

	31/12/2019
	\$'000s
Analysed as:	
Non-current	8,339
Current	2,070
	<b>10,409</b>

**Disclosure required by IFRS 16**

	31/12/2019
	\$'000s
Maturity analysis	
Year 2020	2,070
Year 2021	1,519
Year 2022	1,276
Year 2023	1,144
Year 2024	991
Onwards*	3,409
	<b>10,409</b>

\* Include options

All lease obligations are denominated in currency contracts.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## Disclosure required by IAS 17

	Minimum lease payments
	31/12/2018
Amounts payable under operating leases:	\$'000s
Within one year	2,387
In the second to fifth years inclusive	3,998
After five years	132
	<b>6,517</b>

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.

All lease obligations are denominated in currency contracts.

## 28 Share capital

	Ordinary shares of NIS 0.01 each (number of shares)	
	2019	2018
Authorised:	<b>1,000,000,000</b>	<b>1,000,000,000</b>
Issued and fully paid:	<b>440,279,074</b>	<b>403,600,820</b>

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

The Company has raised, in aggregate, net proceeds of US\$17.1 million at a price of 42.5 pence per New Ordinary Share. Pursuant to the Fundraise, a total of 33,283,254 New Ordinary Shares were issued, representing 7.6 per cent of the Company's enlarged share capital. The Issue Price represents a discount of 5.6 per cent to the mid-market closing price of the Company's Ordinary Shares on the London Stock Exchange on 24 June 2019.

### Listing on TASE

On 11 July 2019, the Group's shares commenced trading on its Secondary Listing on the Tel Aviv Stock Exchange under the symbol "BVC". The Group maintains its Primary Listing on the Premium Listing Segment of the Official List of the FCA and its shares continue to trade on the Main Market of the London Stock Exchange. Shares are fully transferrable and fungible between the two markets. BATM has not issued any new shares in connection with the Secondary Listing.

During the year 3,395,000 options were exercised by three employees and a Director (see also note 33), during 2018 300,000 options were exercised by two employees.

## 29 Investments

### Investments and loan carried at FVTPL

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 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.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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.

As of 1 January 2018, the date of initial application of IFRS 9, the Company's management decides to designate all its investments in IBC, which constitutes an investment in a capital instrument, as a FVTPL.

In August 2018, Cellcom Israel Ltd ("Cellcom"), a leading telecommunications group, has entered a memorandum of understanding (the "Agreement") with the members of IBC, to acquire the consortium's stake in IBC.

In July 2019 the Company signed an agreement with Cellcom to acquire its rights in IBC in amount of NIS12m (c. \$3.4m).

### 30 Note to the cash flow statement

	Year ended 31 December	
	2019 \$'000s	2018 \$'000s
Operating profit from operations	4,482	1,490
Adjustments for:		
Amortisation of intangible assets	794	1,143
Depreciation of property, plant and equipment and investment property	4,561	2,248
Capital loss (gain) of property, plant and equipment and other*	31	(1,585)
Revaluation of investment	–	(165)
Gain on sale of investment	(3,380)	–
Capital gain on reduce of holdings in associated company	(3,161)	–
Stock options granted to employees	105	58
Increase (decrease) in retirement benefit obligation	121	(153)
Increase (decrease) in provisions	298	(47)
Decrease in inventory	1,387	353
Decrease (increase) in receivables	(7,896)	4,824
Increase (decrease) in payables	11,361	(3,579)
Effects of exchange rate changes on the balance sheet	(264)	(990)
Income taxes paid	(410)	(419)
Income taxes received	10	2
Interest paid	(873)	(573)
Net cash from operating activities	<b>7,166</b>	<b>2,607</b>

\* Included in other operating expenses



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 31 Business combinations

During the year, the Group acquired 51% of Remedium for a consideration of \$0.3 million.

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

### REMEDIUM

2019 US\$ in thousands	
<b>Net assets acquired</b>	
Property, plant and equipment	1,257
Net working capital	607
Short-term bank credit	(134)
Long term liabilities	(635)
	<b>1,095</b>
Non-controlling interest	(543)
Gain from bargain purchase	(248)
<b>Total consideration</b>	<b>304</b>
<b>Satisfied by:</b>	
Cash	304
Consideration recorded as a contingent liability	–
	<b>304</b>
<b>Net cash outflow arising on acquisition</b>	
Cash consideration	316
Cash and cash equivalents acquired	(12)
	<b>304</b>

Remedium contributed \$1,939 thousand revenue and loss of \$217 thousand to the Group's profit before tax for the period between the date of acquisition and 31 December 2019.

At the end of 2018 - The group acquired the major assets of mass alert platform company, the company estimates that the total consideration will be up to \$614k subject to certain milestones being achieved, of which \$208 thousand already paid during 2019 and \$434 thousand recorded as a conditional liability which will be paid within one to two years subject to the progress of milestones being achieved. The Company has completed the purchase price allocation to the assets, liabilities and contingent liabilities.

### GREEN LAB

In January 2016 the Group acquired 100% of the issued share capital of Green Lab for a consideration of \$3,813 thousand payable in cash of \$1,913 thousand on acquisition and \$1,900 thousand over a three-year period - \$633 thousand at the beginning of each year starting on January 2017. During the year, the Company paid the last portion of the liability. 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 the most prominent operators in the industry.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

### 32 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.

### 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:

	2019		2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price (in GBP)
Outstanding at beginning of year	8,906,598	0.2035	6,320,303	0.1985
Granted during the year	450,000	0.4487	4,000,000	0.2695
Forfeited during the year	(386,203)	0.2313	(1,113,705)	0.4197
Exercise during the year	(3,395,000)	0.1378	(300,000)	0.1817
Outstanding at the end of the year	<b>5,575,395</b>	<b>0.2613</b>	<b>8,906,598</b>	<b>0.2035</b>
Exercisable at the end of the year	<b>1,125,395</b>	<b>0.1575</b>	<b>4,806,595</b>	<b>0.1495</b>

The options outstanding at 31 December 2019 had a weighted average exercise price of 0.2613 GBP, and a weighted average remaining contractual life of 7.87 years. 450,000 options were granted on 23 May, 15 August and 28 November. The aggregate of the estimated fair values of the options granted on this date according to the Black-Scholes model is \$76,000. In 2018, options were granted on 6 June. The aggregate of the estimated fair values of the options granted on this date is \$223,000.

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

	2019	2018
Weighted average share price (GBP)	0.28	0.26
Weighted average exercise price (GBP)	0.29	0.26
Expected volatility	27-36	32-90
Expected life	3-5	3-5
Risk-free rate	0.9%	1.1%
Expected dividends	0%	0%

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The inputs into the Black-Scholes model for the options granted in 2019 are as follows:

	2019
Weighted average share price (GBP)	0.45
Weighted average exercise price (GBP)	0.45
Expected volatility	27-36
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 \$105,000 and \$58,000 related to equity-settled share-based payment transactions in 2019 and 2018, respectively.

## 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: \$1,056 thousand in the year 2019 (2018: \$979 thousand).

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

### Defined benefit plans

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

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

In Italy each employee is entitled to have a severance payment as soon as he ends the employment under one of the conditions specified below 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.

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 26 January 2020 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:

	2019	2018
Discount rate(s)	3.72%	2.97%
Expected rate(s) of salary increase	1-4%	1-4%
Expected inflation rate	1.36%	1.57%
Employee turnover rate	8%	8%

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

### **Service cost:**

	2019 \$'000s	2018 \$'000s
Current service cost	216	173
Net interest expenses	27	19
Components of defined benefit costs recognised in profit or loss	<b>243</b>	<b>192</b>

### **Re-measurement on the net defined benefit liability:**

	2019 \$'000s	2018 \$'000s
Return on plan assets (excluding amounts included in net interest expense)	(30)	127
Actuarial gains and losses arising from changes in financial assumptions	64	(12)
Actuarial gains and losses arising from other	8	(64)
Components of defined benefit costs recognised in other comprehensive	<b>42</b>	<b>51</b>

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:

	2019 \$'000s	2018 \$'000s
Present value of funded defined benefit obligation	2,445	2,152
Fair value of plan assets	(1,730)	(1,576)
Net liability	<b>715</b>	<b>576</b>

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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

	2019 \$'000s	2018 \$'000s
Opening defined benefit obligation	2,152	2,652
Current service cost	216	173
Interest cost	69	58
Remeasurement (gains)/losses arising from changes in financial assumptions	91	(82)
Benefits paid	(229)	(388)
Exchange rate differences	146	(261)
Closing defined benefit obligation	<b>2,445</b>	<b>2,152</b>

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

	2019 \$'000s	2018 \$'000s
Opening fair value of plan assets	1,576	1,970
Interest income	42	39
Remeasurements gains/(losses) return on plan assets (excluding amounts included in net interest expense)	49	(136)
Contributions from the employer	75	108
Benefits paid	(146)	(268)
Exchange rate differences	134	(137)
Closing fair value of plan assets	<b>1,730</b>	<b>1,576</b>

## 35 Related party transactions

### Remuneration of key management personnel

	2019 \$'000s	2018 \$'000s
Short- and long-term employee benefits	1,630	1,521
Shared-based payment	93	46
	<b>1,723</b>	<b>1,567</b>

### Transactions with associated companies

During the year the company provided various services to an associated company in amount of \$124 thousands.



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 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

	2019 \$'000s
<b>Financial assets</b>	
Cash and cash equivalents*	40,584
Fair value through profit or loss	4,758
Fair value through OCI	509
Receivables	41,532
<b>Financial liabilities</b>	
At amortised cost	51,766
Fair value through profit or loss	8

	2018 \$'000s
<b>Financial assets</b>	
Cash and cash equivalents*	20,811
Fair value through profit or loss	4,128
Fair value through OCI	509
Receivables	32,049
<b>Financial liabilities</b>	
At amortised cost	40,150
Fair value through profit or loss	727

\*cash and cash equivalents comprises \$11.5 million deposits up to three months and \$29.1 million cash (2018: \$4.0 million deposits up to three months and \$16.8 million cash).

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

The majority of the assets included in fair value through profit or loss section 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	
	2019 \$'000s	2018 \$'000s	2019 \$'000s	2018 \$'000s
New Israeli Shekel	10,014	9,860	23,475	15,860
Euro	18,512	16,815	9,213	8,912
MDL	2,784	2,588	4,157	4,409
GBP	263	222	10,914	89
Other	7,725	2,921	5,164	5,980

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## **Foreign currency sensitivity**

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

The following table details the Group's sensitivity to a 10 percent change in US\$ against the respective foreign currencies in 2019 (2018: 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**

	2019 \$'000s	2018 \$'000s
NIS Impact	620	196
Euro Impact	(164)	(175)
GBP Impact	1,081	5

## **Equity**

	2019 \$'000s	2018 \$'000s
NIS Impact	726	404
Euro Impact	(766)	(615)
MDL Impact	137	182
GBP Impact	(16)	(19)
Other currencies Impact	(256)	306

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 four financial instruments which resulted in \$245 thousand recorded as finance expenses (2018: three financial instruments which resulted in \$444 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 below (refer to section h). 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.

# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## Financial liabilities

	Weighted average effective interest rate	0-3 months	3 months to 1 year	1-5 years	Total
	%	\$'000s	\$'000s	\$'000s	\$'000s
<b>31 December 2019</b>					
Non-interest bearing	–	41,424	388	6,482	48,294
Bank loans interest bearing (*)	3.64	1,070	5,038	569	6,677
Lease liabilities	3.12	518	1,552	8,339	10,409
		43,012	6,978	15,390	65,380
<b>31 December 2018</b>					
Non-interest bearing	–	30,660	577	5,959	37,196
Bank loans interest bearing (*)	2.75	2,259	3,028	486	5,773
		32,919	3,605	6,445	42,969

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

The future bank loan interest to be paid is \$234 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).

## Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

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

Fair value through profit or loss	31 December	
	2019 \$'000s	2018 \$'000s
Opening balance	3,634	3,514
Losses (Gains) in profit or loss(*)	(433)	502
Received	803	124
Paid	(339)	(506)
Closing balance	<b>3,665</b>	<b>3,634</b>

(\*) Mainly in R&D

The liability was measured using the discounted cash flow (DCF) method. The discount rate used to measure the liability is 15.99%. If the discount rate decreased by 1% the liability will increase by \$132 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 Investments carried at fair value - IBC**

	31 December	
	2019 \$'000s	2018 \$'000s
Opening balance	47	51
Translation differences	3	(4)
Proceed on sale of investment	(3,430)	–
Gain on sale of investment	3,380	–
Closing balance	<b>–</b>	<b>47</b>

## **37 Non-cash transactions**

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 was paid in 2016, \$0.6m was paid in 2017, \$0.6m was paid in 2018 and the remaining \$0.7m was paid in 2019.



# Notes to the Consolidated Financial Statements *(continued)*

for the year ended 31 December 2019

## 38 Post balance sheet events

In early 2020, the existence of SARS-CoV-2 (COVID-19) was confirmed which has since spread across a significant number of countries, leading to disruption to businesses and economic activity, which has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Bio-Medical division has continued to perform well. In particular, in April 2020, the Group was awarded a €29 million order from a European government to deliver 1,000 ventilators (see details below). The Networking & Cyber division was minimally impacted in the first quarter of 2020 and, whilst it has subsequently experienced some temporary postponements in certain projects, which the Group prudently anticipates could result in some lost revenue in this division, it is too early in the current financial year to determine whether there will be any material impact on the Networking & Cyber division. Given the inherent uncertainties surrounding the length and economic severity of the pandemic, it is not practicable at this time to determine the exact impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

As noted, in April 2020 the Group received a €29 million (c. \$31 million) order for the delivery of 1,000 critical care mechanical ventilators to a European government. The Group has received an upfront fee of €7.25 million and expects the balance to be paid on completion of delivery in the third quarter of 2020. Production is commencing immediately at the Group's Celitron subsidiary in Hungary.





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