



25 February 2014

BATM Advanced Communications Limited
(“BATM” or the “Group”)

Preliminary results for 2013

BATM Advanced Communications Limited (LSE: BVC; TASE: BATM), a leading provider of real-time technologies for the networked telecoms and medical laboratory equipment markets, announces its unaudited preliminary results for the year ended 31 December 2013.

Financial Summary

- Group revenues for the full year amounted to \$114.2m (2012: \$113.6m).
- Gross profit of \$39.6m (2012: \$39.0m).
- EBITDA of \$2.1m (2012: \$4.3m).
- Net loss for the year was \$4.5m (2012: \$0.7m profit) after an adjustment in the valuation of intangible assets relating to the acquisition of Vigilant in 2008.
- Basic loss per share from continuing and discontinued operations of 1.12¢ (2012: 0.18¢ earning per share).
- As at 31 December 2013, the Group had cash and cash equivalents and financial assets of \$40.8m (30 June 2013: \$44.5m; 31 December 2012: \$46.2m), following a previously announced investment of \$3.5m into the consortium to build fiber optic infrastructure network in Israel.

Operational Summary

- Medical division (47% of total sales):
 - Strong momentum in the second half of 2013, particularly in the fourth quarter, resulting in two of the division’s three businesses reaching profitability.
 - Significant milestone achieved in the sterilization business with delivery of the first FDA-approved units to customers in the US during the fourth quarter.
 - Diagnostics business secured an important OEM contract for its HIV kits, which commenced generating revenues in 2013.
 - Received certifications of diagnostic kits in several new geographies.
 - Diagnostics business also saw improved performance of its clinical chemistry instruments as a result of bundling them with reagents and selling them together.
 - Post period-end, secured an initial \$2.5m contract in Myanmar, expected to be delivered in H1 2014, for distribution and provision of sterilization and diagnostics products. Also signed cooperation agreement with Roche, one of the leading suppliers in this field, for this territory.
- Telecom division (53% of total sales):
 - Implemented a strategic change to focus on Tier 1 clients, SDN (Software Defined Networking) and NFV (Network Functions Virtualization) solutions using its T-Marc, T-Metro 8000 and Edge Genie platforms.

- Ariel Efrati, former senior vice president at Amdocs (NYSE: DOX), appointed as Managing Director.
- Orders received from major OEM to provide networking platform to its Tier 1 customers.
- Fiber optic project being rolled out together with Cisco Systems and Israeli Electric Company, with first client expected to be connected in H1 2014.
- Slight year-on-year decline in revenues reflecting slowdown in capital expenditure in North and South America and strength of Israeli shekel against US dollar.
- Completed sale of legacy business to a management led buy-out and re-integrated one product line back into the division's portfolio.

Dr Zvi Marom, Chief Executive Officer of BATM, said:

"The Group is making progress in both of its divisions, with the Medical division experiencing good growth and the Telecom division seeing early positive signs from the change of its strategy to focus on Tier 1 clients.

"Looking ahead, the momentum of the fourth quarter has continued into the new year, particularly in the Medical division. We expect the Medical division to achieve another year of solid organic growth with a greater number of products being delivered to more territories and increased cooperation with major industry players. In the Telecom division, we expect to start benefitting from sales to Tier 1 companies. We believe that the steps taken in 2013 will result in BATM delivering growth and improved results in 2014 compared with 2013."

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Conference call and Webcast presentation

Dr Zvi Marom, Chief Executive Officer, and Ofer Bar-Ner, Chief Financial Officer, will be hosting a conference call for analysts and investors at 9.00am GMT today. There will also be a live audio webcast of the conference call, which can be accessed via the investor section of the Group's website: www.batm.com

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An archive copy of the conference call and webcast will be made available after the event.

Operational Review

In Q4 2013, the Group achieved sequential revenue growth over Q3 2013 of 10.6% to \$30.1m. Revenues in the Medical division grew by 31.1% over Q3 2013, whilst revenues in the Telecom division were 5.2% lower in Q4 than in Q3 2013.

Revenues for full year 2013 were \$114.2m, an increase of 0.5% over 2012 (2012: \$113.6m). The Telecom division contributed 53% of total sales and the Medical division accounted for 47% of total 2013 sales. In addition, Group revenues grew by 1.1% sequentially in H2 2013 to \$57.4m (H1 2013: \$56.8m).

These results reflect the momentum and progress that the Group has achieved in the Medical division during 2013, especially in the second half of the year. They also validate the management's strategic decision to focus on Tier 1 operators and to appoint new leadership at the Telecom division.

Medical Division

	H1 2013	H2 2013	FY 2013	FY 2012
Revenues	\$25.6m	\$27.5m	\$53.1m	\$49.1m
Gross margin	23%	25%	24%	21%
Operating loss	\$1.4m	\$0.9m	\$2.3m	\$3.2m

The distribution business contributed approximately 59% of Medical division revenues in 2013, with improved trading during the second half of the year. The credit issues with certain major customers, as announced in June 2013, were largely resolved. In addition, the business expanded its presence to Myanmar, which, post period-end, resulted in an initial contract win of approximately \$2.5m, for both distribution and the provision of sterilization and diagnostics products, that the Group expects to deliver primarily in the first half of 2014. The Group also signed a contract of cooperation with Roche, one of the leading suppliers in this field, in Myanmar.

The sterilization business constituted 16.7% of the Medical division's revenues and, significantly, achieved operating profitability for the first time. The business continues to focus on the treatment of medical and biological waste, based on unique patented technology, and the expansion of its OEM relationships. During the fourth quarter, it achieved a significant milestone with the delivery of the first FDA-approved units to customers in the US. Overall, the number of medical waste units sold in 2013 increased by 70% over 2012. The Group intends to continue to expand the business' manufacturing capacity by moving into a significantly larger facility by the end of Q2 2014. Supported by a strong backlog in Q1 2014, the Group expects the sterilization business to maintain profitable growth.

The diagnostics business, which constituted 24.3% of Medical division revenues in 2013, achieved significant improvement in both revenues and reduced operating losses compared with 2012. The business maintained its strategy of increasing production of its own certified reagents and instruments, and progress was made in a number of key areas. The business secured an important OEM contract for its HIV kits, which commenced generating revenues in 2013. Several of its diagnostic kits received approval in a number of new geographies globally. In addition, revenues

increased from the sale of its clinical chemistry instruments as a result of bundling, and selling together, instruments and reagents. At the end of the year, the business signed a new joint venture, replacing its previous partner, in China to improve performance in this region. This joint venture, with a local manufacturer and distributor in the Shanghai area, is expected to begin to generate revenue from the end of H1 2014.

Telecom Division

	H1 2013	H2 2013	FY 2013	FY 2012
Revenues	\$31.1m	\$29.9m	\$61.1m	\$64.6m
Gross margin	46%	42%	44%	44%
Operating profit	\$1.5m	\$0.9m	\$2.4m	\$5.7m

The decline in revenues in the second half of the year was due to less-than-expected revenue from clients in the US and Latin America in the fourth quarter. The division, with much of its workforce in Israel, also suffered from a 7% appreciation of the Israeli shekel against the US dollar during 2013 compared with 2012.

As previously announced, in Q3 2013 the division introduced a new strategy to concentrate its efforts on Tier 1 and large customers in addition to supplying its existing customers. In order to implement this change, Ariel Efrati assumed the role of Managing Director of the Telecom division at the end of 2013. Mr. Efrati (aged 41), who previously managed one of the largest software divisions of Amdocs (NYSE: DOX), is expected to lead the transition to focus on SDN (Software Driven Networks), NFV (Network Functions Virtualization) and Tier 1 customers. The Group's T-Marc, T-Metro 8000 platforms and Edge Genie software provide solid foundations to launch its new offering into the SDN and NFV environment. In addition, the management believes that the adoption of new standards by telecom infrastructure operators offers a unique opportunity in this market from which it expects to benefit during 2014.

The Group made an investment of \$3.5m into the consortium for the construction of a new nationwide fiber optic infrastructure network in Israel. The major partners in the consortium are Cisco Systems and the Israel Electric Company. The rollout of the network, including the connection of the first clients, is expected to start at the end of the first half of 2014.

Financial Review

Revenues in 2013 increased to \$114.2m (2012: \$113.6m). Telecom division revenues decreased by 5.4% to \$61.1m (2012: \$64.6m) whilst Medical division revenues increased by 8.2% to \$53.1m (2012: \$49.1m), with the latter being the result of organic growth.

The blended gross profit margin for the year was 34.7% (2012: 34.3%). The gross profit of the Telecom division remained unchanged at 44% whilst in the Medical division the gross profit increased from 21% to 24%.

Sales and marketing expenses were \$16.7m (2012: \$16.2m), representing 14.7% of revenue, compared with 14.2% in 2012. The majority of the increase was in the sterilization business of the Medical division.

General and administrative expenses were \$10.9m (2012: \$10.3m), representing 9.6% of revenue, compared with 9.1% in 2012. This increase of \$0.6m is mostly from Anda, the telecom business that was categorized as part of the legacy business that has been retained within the Telecom division, and the distribution business of the Medical division.

R&D investment in 2013 was \$11.8m (2012: \$10.0m). This increase of \$1.8m is from Anda and CELARE, the cyber business, in the Telecom division; the appreciation of the Israeli Shekel against the US dollar; and from the diagnostics operations.

Other operating expenses include amortization of intangible assets of \$3.0m, a decrease compared with \$3.5m in 2012, and separately a write-off of \$2.5m intangible assets arising from the Group's acquisition of Vigilant. Vigilant remains an important trading and operational division of BATM. Vigilant losses have been recognised by the tax authorities as part of the BATM balance sheet.

Net finance expenses was \$0.6m (2012: \$1.5m income), comprising \$0.4m of finance costs as well as a loss of \$0.5m on foreign exchange differences mostly related to appreciation of the Israeli shekel against the US dollar, which were partially offset by \$0.3m of interest income.

Net loss after tax attributable to equity holders of the Group amounted to \$4.5m (2012: profit of \$0.7m), resulting in a basic loss per share of 1.12¢ (2012: earnings of 0.18¢).

The Group's balance sheet remains strong with effective liquidity of \$40.8m, a decrease of \$3.7m compared with \$44.5m as at 30 June 2013 and a decrease of \$5.4m compared with \$46.2m as at 31 December 2012. The decrease in cash balances during the second half of 2013 is mainly due to the investment of \$3.5m in the consortium established in July 2013 to build a fibre optic network in Israel.

Period end cash balances of \$40.8m (2012: \$46.2m) is comprised as follows: cash and deposits up to three months duration of \$13.8m (2012: \$42.7m), and short term cash deposits of up to one year of \$27.0m (2012: \$3.5m).

Intangible assets and Goodwill decreased to \$18.2m (31 December 2012: \$22.8m) after the amortization of \$3.0m and impairment of intangible assets of \$2.5m described above.

Investment in available for sale investments carried at fair value relates mostly to the investment of \$3.5m in the construction of a new nationwide fiber network in Israel, and investment accounted for using the equity method of \$0.6m relates to the expansion of the distribution business of the Medical division in Myanmar.

Property, plant and equipment including investment property has remained unchanged since the end of 2012.

Total inventories increased from \$19.5m at the end of 2012 to \$23.1m at 31 December 2013.

Trade and other receivables increased to \$33.6m from \$29.4m at the end of 2012. Trade and other payables increased to \$29.8m from \$27.0m at the end of 2012. The majority of the increase is the

inventory, accounts receivables and payables of Anda which was part of the Legacy stock in 2012 and included in discontinued operations.

Prior year comparatives have been re-presented to reflect the effect of discontinued operations on the Group's older time division multiplexing based products ("Legacy") business (please see note 3).

Current Trading and Prospects

The Group experienced a strong year-end, particularly in the Medical division. This trend has been sustained into 2014 and management expects it to continue throughout the year, with solid growth being achieved in the Medical division for 2014.

The sterilization business has moved beyond the proof-of-concept stage and is experiencing growing sales and interest globally. Major global bodies such as the WHO (World Health Organisation) and blue-chip companies are registering the technology as their technology of choice. The Group is focused on building larger and upgraded facilities to increase manufacturing capacity to satisfy demand, which is expected to result in higher revenues in 2014 compared with 2013.

The Group anticipates that the diagnostics business will deliver growth in 2014 as it enters into more OEM partnerships and penetrates new markets. In addition, it expects the business to achieve several new certifications of reagents in further regions, which will increase sales momentum.

The distribution business is also expected to grow as an increasing number of customers recognise its value proposition. The Group anticipates that the business will establish more alliances, with some of the largest firms in the field, similar to the contract that it has signed in Myanmar.

The Telecom division, which is undergoing a strategic shift, is receiving interest as well as initial sales from major industry players for its Software Driven Networking offering. The Group believes that this will continue to be the focus of the industry for the foreseeable future and it expects to benefit from this trend.

As a result, the Board is confident of delivering improved results in 2014 compared with 2013.

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December	
	2013	2012
	US\$ in thousands	
Revenues	114,155	113,640
Cost of revenues	<u>74,564</u>	<u>74,639</u>
Gross profit	<u>39,591</u>	<u>39,001</u>
Operating expenses		
Sales and marketing expenses	16,746	16,178
General and administrative expenses	10,919	10,301
Research and development expenses	11,830	10,045
Other operating expenses	<u>5,534</u>	<u>3,603</u>
Total operating expenses	<u>45,029</u>	<u>40,127</u>
Operating loss from continuing operations	(5,438)	(1,126)
Finance income	256	1,799
Finance expenses	<u>(865)</u>	<u>(311)</u>
Profit/(loss) before tax	(6,047)	362
Income tax benefits (tax expenses)	<u>314</u>	<u>(895)</u>
Loss for the year from continuing operations	(5,733)	(533)
Profit for the year from discontinued operations	<u>319</u>	<u>692</u>
Profit/(loss) for the year	<u>(5,414)</u>	<u>159</u>
<u>Attributable to:</u>		
Owners of the Company	(4,513)	713
Non-controlling interests	<u>(901)</u>	<u>(554)</u>
Profit/(loss) for the year	<u>(5,414)</u>	<u>159</u>
<u>Earnings/(loss) per share (In cents):</u>		
From continuing and discontinued operations		
Basic and Diluted	<u>(1.12)</u>	<u>0.18</u>
From continuing operations		
Basic and Diluted	<u>(1.20)</u>	<u>0.01</u>
From discontinued operations	<u>0.08</u>	<u>0.17</u>
Basic and Diluted		

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2 0 1 3	2 0 1 2
	US\$ in thousands	
Profit/(loss) for the year	(5,414)	159
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	<u>1,717</u>	<u>(444)</u>
Total Comprehensive loss of the year	<u>(3,697)</u>	<u>(285)</u>
Attributable to:		
Owners of the Company	(2,331)	535
Non-controlling interests	<u>(1,366)</u>	<u>(820)</u>
	<u>(3,697)</u>	<u>(285)</u>

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December

2 0 1 3

2 0 1 2

US\$ in thousands

Current assets

Cash and cash equivalents	13,812	42,686
Trade and other receivables	33,552	29,373
Financial assets	27,012	3,563
Inventories	23,118	19,509
	<u>97,494</u>	<u>95,131</u>

Non-current assets

Property, plant and equipment	20,860	21,177
Investment property	3,802	3,830
Goodwill	12,096	11,494
Other intangible assets	6,089	11,324
Available for sale investments carried at fair value	3,585	-
Investment accounted for using the equity method	598	-
Deferred tax asset	5,483	5,095
	<u>52,513</u>	<u>52,920</u>

Disposal group classified as held for sale	-	4,618
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Total assets

150,007

152,669

Current liabilities

Short-term bank credit	2,658	4,047
Trade and other payables	29,761	27,048
Provisions	<u>2,826</u>	<u>2,590</u>
	<u>35,245</u>	<u>33,685</u>

Non-current liabilities

Long-term liabilities	5,690	5,326
Deferred tax liabilities	1,339	1,488
Retirement benefit obligation	<u>1,028</u>	<u>956</u>
	<u>8,057</u>	<u>7,770</u>

Liabilities directly associated with disposal group classified as held for sale

-

973

Total liabilities

43,302

42,428

Equity

Share capital	1,216	1,215
Share premium account	407,300	407,140
Reserves	(11,813)	(13,995)
Accumulated deficit	<u>(289,888)</u>	<u>(285,375)</u>

Equity attributable to:

Owners of the Company	106,815	108,985
Non-controlling interest	<u>(110)</u>	<u>1,256</u>

Total equity

106,705

110,241

Total equity and liabilities

150,007

152,669

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2013

	Share Capital	Share Premium Account	Translation reserve	Other reserve	Accumulated Deficit	Attributable to owners of the Parent	Non- Controlling Interests	Total equity
	US\$ in thousands							
As at 1 January 2013	1,215	407,140	(13,660)	(335)	(285,375)	108,985	1,256	110,241
Exercise of share based options by employees	1	36				37	-	37
Recognition of share-based payments		124				124	-	124
Loss for the year			-	-	(4,513)	(4,513)	(901)	(5,414)
Other comprehensive income for the year			<u>2,182</u>	<u>-</u>	<u>-</u>	<u>2,182</u>	<u>(465)</u>	<u>1,717</u>
Total comprehensive income for the year			2,182	-	(4,513)	(2,331)	(1,366)	(3,697)
As at 31 December 2013	<u>1,216</u>	<u>407,300</u>	<u>(11,478)</u>	<u>(335)</u>	<u>(289,888)</u>	<u>106,815</u>	<u>(110)</u>	<u>106,705</u>

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (cont.)

Year ended 31 December 2012

	Share Capital	Share Premium Account	Translation reserve	Other reserve	Accumulated Deficit	Attributable to owners of the Parent	Non- Controlling Interests	Total equity
	US\$ in thousands							
As at 1 January 2012	1,215	406,892	(13,482)	409	(286,088)	108,946	1,332	110,278
Exercise of share based options by employees	-	12				12	-	12
Recognition of share-based payments		236				236	-	236
Purchase of non- controlling interest			-	(744)		(744)	744	-
Income for the year			-	-	713	713	(554)	159
Other comprehensive loss for the year			(178)	-	-	(178)	(266)	(444)
Total comprehensive loss for the year			(178)	-	713	535	(820)	(285)
As at 31 December 2012	<u>1,215</u>	<u>407,140</u>	<u>(13,660)</u>	<u>(335)</u>	<u>(285,375)</u>	<u>108,985</u>	<u>1,256</u>	<u>110,241</u>

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year ended 31 December</u>	
	2 0 1 3	2 0 1 2
	US\$ in thousands	
Net cash from operating activities (Appendix A)	634	3,206
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Investing activities		
Interest received	89	324
Proceeds on disposal of property, plant and equipment	111	134
Proceeds on disposal of financial assets carried at fair value through profit and loss	442	9,769
Proceeds on disposal of deposits	6,142	38,128
Purchases of property, plant and equipment	(1,680)	(1,375)
Purchases of financial assets carried at fair value through profit and loss	(6,341)	(6,775)
Purchases of deposits	(23,582)	(20,384)
Investment in Available for sale investments carried at fair value	(3,548)	-
Investment accounted for using the equity method	(598)	-
Net Cash outflow on acquisition of business combinations	(38)	(605)
Net cash from (used in) investing activities	(29,003)	19,216
	-----	-----
Financing activities		
Increase (decrease) in short-term bank credit	62	(179)
Bank loan repayment	(2,190)	(2,554)
Bank loan received	1,323	-
Proceeds on issue of shares	37	12
Net cash used in financing activities	(768)	(2,721)
	-----	-----
Increase (decrease) in cash and cash equivalents	(29,137)	19,701
Cash and cash equivalents at the beginning of the year	42,686	23,012
Effects of exchange rate changes on the balance of cash held in foreign currencies	263	(27)
Cash and cash equivalents at the end of the year	<u>13,812</u>	<u>42,686</u>

BATM ADVANCED COMMUNICATIONS LTD.
APPENDICES TO UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

APPENDIX A

**RECONCILIATION OF OPERATING LOSS FOR THE YEAR TO NET CASH
FROM OPERATING ACTIVITIES**

	<u>Year ended 31 December</u>	
	2 0 1 3	2 0 1 2
	US\$ in thousands	
Operating loss from continuing and discontinued operations	(5,119)	(434)
Adjustments for:		
Amortization of intangible assets	3,040	3,494
Impairment of intangible assets	2,494	-
Depreciation of property, plant and equipment	2,031	1,928
Expenses recognised in respect of equity settled share based payments	124	236
Increase (decrease) in retirement benefit obligation	72	(45)
Decrease in provisions	(75)	(392)
Operating cash flow before movements in working capital	2,567	4,787
Increase in inventory	(2,341)	(32)
Increase in trade and other receivables	(844)	(1,475)
Increase in trade and other payables	2,920	291
Cash generated by operations	2,302	3,571
Income taxes paid	(1,419)	(365)
Income taxes received	148	323
Interest paid	(397)	(323)
Net cash from operating activities	<u>634</u>	<u>3,206</u>

BATM ADVANCED COMMUNICATIONS LTD
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

The full results for the year ended 31 December 2013 with comparative 2012 information will be presented in the full Annual Report, prepared in accordance with International Financial Reporting Standards ("IFRS"). 2012 comparatives have been restated for the discontinued operation discussed in note 3.

Note 2 – Profit/(loss) per share

Profit/(loss) per share is based on the weighted average number of shares in issue for the year of 403,039,724 (2012: 402,920,465). The number used for the calculation of the diluted profit per share for the year (which includes the effect of dilutive stock option plans) is 403,039,724 shares (2012: 402,975,824).

Note 3 – Disposal group classified as held for sale

During June 2012, the Group entered into an agreement to dispose of its time division multiplexing (TDM) based products ("Legacy") business (excluding one product line that was reintegrated into the Group's portfolio – and that was previously a part of the disposal group that was classified as held for sale), which formed part of the Group's Telecom business. This disposal, which was completed during the six month period ended 30 June 2013, is consistent with the Group's long-term policy to focus on growing the Carrier Ethernet portfolio.

Profit for the year from discontinued operations:

	<u>Year ended 31 December</u>	
	2 0 1 3	2 0 1 2
	US\$ in thousands	
Revenues	1,889	4,157
Expenses	<u>(1,570)</u>	<u>(3,465)</u>
Profit for the year	<u>319</u>	<u>692</u>

Cash flows from discontinued operations:

	<u>Year ended 31 December</u>	
	2 0 1 3	2 0 1 2
	US\$ in thousands	
Net cash inflows from operating activities	1,075	2,005
Net cash inflows from investing activities	-	-
Net cash outflows from financing activities	<u>-</u>	<u>-</u>
Net cash inflows	<u>1,075</u>	<u>2,005</u>

Earnings per share (in cents):

	<u>Year ended 31 December</u>	
	2 0 1 3	2 0 1 2
Basic and Diluted	<u>0.08</u>	<u>0.17</u>