

18 February 2013

BATM Advanced Communications Limited

Preliminary results for 2012

Achieved return to profitability and on track for delivering significant profit growth

BATM Advanced Communications Limited (“BATM” or the “Group”) (LSE: BVC; TASE: BATM), a leading provider of real-time technologies for the networked telecoms and medical laboratory equipment markets, announces its preliminary results for the year ended 31 December 2012.

Financial Summary

- ◆ Group revenues for the full year amounted to \$107.8m (2011: \$110.8m) despite an \$8.3m year-on-year reduction in the revenue contribution from Nokia Siemens Networks (“NSN”)
- ◆ Q4 2012 revenues grew 21.2% sequentially resulting in revenues in H2 2012 of \$54.6m, an increase of 2.6% over H1 2012
- ◆ Gross operating profit of \$1.2m (2011: \$1.5m)
- ◆ EBITDA of \$3.1m (2011: \$3.5m)
- ◆ Net profit for the year was \$0.7m (2011: \$3.7m loss)
- ◆ Basic earnings per share from continuing and discontinued operations of 0.18¢ (2011: 0.92¢ loss per share)
- ◆ As at 31 December 2012, the Group had cash and cash equivalents and financial assets of \$46.2m (30 June 2012: \$42.3m; 31 December 2011: \$46.9m)

Operational Summary

- ◆ Telecom division (54% of total sales):
 - Excluding the contribution from NSN, the Telecom division grew by 5% year-on-year
 - T-Metro 8000 and EdgeGenie launched successfully and contributed to the growth in revenues in Q4 2012
 - Generated revenues from new direct channel sales of Carrier Ethernet solutions in US, Latin America and Europe
 - Signed a new OEM agreement with a US company for the Group’s ATCA platform
 - CELARE, the Company’s network cyber security subsidiary, launched successfully in Israel and is performing well
- ◆ Medical division (46% of total sales):
 - Successfully launched new instruments for both the diagnostics and sterilization segments
 - Received CE (European) certifications for new reagents, mainly HIV and HCV
 - Several new reagents were submitted during the year for CE certification
 - Integrated Sterilizer and Shredder (“ISS”) waste solution gained market share and received certifications in several territories, including Russia
 - Signed an initial OEM agreement with one of the leading sterilization manufacturers to market one of the Group’s products in the US
 - Distribution of diagnostics equipment expanded into Bulgaria through cooperation with Abbott Laboratories

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

“Despite weak macro economic conditions throughout the year, we made steady progress. As expected, we saw acceleration in the fourth quarter that enabled us to return to profitability for the full year 2012. The transitional phase is complete and we are now well-positioned for growth.

“We have entered 2013 with a higher order book in both divisions. The Telecom division is benefiting from some capital re-investment by utilities and telecoms providers in its target markets, and the diagnostics and sterilization segments of the Medical division are expected to continue to grow, especially in the emerging markets, thereby reducing the division’s dependency on the distribution business. As a result, the Board feels confident of delivering revenue growth in 2013 with profits expected to be significantly higher than in 2012.”

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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 live conference call and webcast presentation to review the BATM Full Year Results 2012 at 9.30am GMT today. The presentation can be viewed by via the ‘Webcasts and Presentations’ page on the Investor Relations section of the Company’s website: www.batm.com. To participate in the Q&A, analysts and investors must also dial into the conference call on the following numbers:

International: +44 208 817 9301

UK freephone: 0800 634 5205

US freephone: 1 866 629 2704

A replay of the conference call will also be available. To access the replay, please dial 00353 14364267 or 0044 2077696425 and enter passcode 9985 421#.

Operational Review

In Q4 2012, the Group achieved sequential revenue growth over Q3 2012 of 21.2% to \$29.8m. Revenues in the Telecom division were 25.3% higher in Q4 than in Q3 2012 and revenues in the Medical division grew by 16.1% over Q3 2012.

Revenues for full year 2012 were \$107.8m, down 2.7% compared with 2011 (2011: \$110.8m). However, in H2 2012 sales grew by 2.6% sequentially to \$54.6m (H1 2012: \$53.2m). In 2012, the Telecom business contributed 54% of total sales and the Medical business accounted for 46% of total sales.

These results demonstrate a business in transition as the Group's Telecom division returned to growth following the curtailment of its legacy products and NSN business while the Medical division also achieved higher revenues, which is expected to continue as it gains more certifications and through increased sales of reagents in 2013. BATM is now focused on providing real-time technologies to the networked telecoms markets and the global medical laboratory markets.

Telecom Division

Revenues grew sequentially from H1 2012 to H2 2012 by 9.2% (2011: decline of 8.4%). In 2012, there was an \$8.3m decline in the revenue contribution from NSN compared with 2011. Overall revenues in the Telecom division were \$5.7m (8.8%) lower than the same period last year at \$58.7m (2011: \$64.4m), due to the decline in the contribution from NSN, which was partially offset by a 4.9% growth in the IP business.

Telecom division operating profit, excluding amortization of intangible assets, for 2012 was \$4.4m (2011: \$4.9m). Gross profit margin improved from 42% in H2 2011 to 43% in both H1 and H2 of 2012.

In the fourth quarter, the Telecom division received its first orders and recorded revenues from two significant new products: the T-Metro 8000 and EdgeGenie, which were launched during the year. The T-Metro 8000 is a carrier cloud gateway aggregation platform and the EdgeGenie system offers a complete solution for planning, managing, monitoring and maintaining Ethernet services. This is in-line with the strategy of the Telecom division to offer a complete solution for Carrier Ethernet Access.

The increased focus on direct sales channels resulted in a number of new contracts being signed this year in the US, Latin America and Europe for the Group's Carrier Ethernet solution, including its MPLS offerings and EdgeGenie software. In addition, the Telecom division secured a new significant US-based client, which is one of the leaders in the Deep Packet Inspection field, for its ATCA blades.

The Telecom division also participated in a major bid in Israel for the construction of a nationwide fibre network where the Group will provide the Carrier Ethernet Access solutions to businesses. The Group expects to receive final confirmation in the first half of 2013.

As announced previously, in the first half of the year the Group established a new subsidiary, CELARE, focusing on networks security. This was in response to growing demand for products and services to protect networks against cyber-attacks. Following the award of a contract in this field in

Israel, BATM has recently begun to deploy its unique solution. Based on early customer acceptance, the Group expects this area to grow significantly in the coming years.

During the first half of the year, the Group completed the restructuring of its Telecom division by separating the legacy Telecom business (the “Legacy business”) that is expected to be sold during 2013.

Medical Division

In 2012, revenues in the Medical division were 6% higher than the prior year at \$49.1m (2011: \$46.3m), while operating margins remained at minus 7%. Operating loss in the Medical division narrowed to \$3.2m in 2012 compared with an operating loss of \$3.4m in 2011. The gross profit margin remained broadly flat at 21.4%. The Group expects gross margin to increase in 2013 together with the growth in revenues. Revenues in H2 2012 were lower than in H1 2012, which was primarily due to the distribution business and a drop in revenues in the sterilization business as one customer postponed its contract into 2013 (which is being delivered in Q1 2013).

The distribution segment contributed approximately 63% of Medical division revenues in 2012. During the year, the distribution business increased its footprint into Bulgaria following a contract to represent Abbott Laboratories, one of the top three vendors in this field in this territory.

The sterilization business constituted 16% of the Medical division’s revenues. During the year, the Medical division received certification for the sale of the Integrated Sterilizer and Shredder (“ISS”) in several countries including Russia. It experienced growing interest and orders for the medical waste solution from distributors of sterilizers in Russia, South America and the Middle East. The Group intends to continue to develop the waste solution as it has become the best selling product of the sterilization segment.

As reported earlier in the year, the Medical division made progress in its strategy to enter the US market by commencing the process of certifying one of its products in that territory through signing an OEM agreement with a leading sterilization manufacturer. The certification process is expected to conclude during the first half of 2013, and the Group will then start directly certifying additional products, including the ISS.

The Medical division also expanded its line of waste solutions with a smaller product that was introduced during the Medica show in November 2012. The Group has already received initial orders for this product, which it expects to increase when the product becomes available in the second half of 2013.

In the diagnostics segment, which constituted 21% of Medical division revenues, the focus remained on developing smaller, more mobile products for the developing countries such as Brazil, China, India, Russia and Mexico. These countries have smaller laboratories that are dispersed in different localities and hence require the solutions provided by the Group’s diagnostics business. As reported previously, the diagnostics business received CE (European) certification for its Detect HIV 4th generation (AIDS 4th generation) and HCV (Hepatitis C) Screening Kits. These certifications are important milestones as the business continues to execute its strategy to develop and sell reagents for its testing instruments. Several new reagents were also submitted during the year for CE certification. As a result, the business is now closer to completing the first stage of its strategy to achieve certifications and registrations of available products in the Company’s Adaltis portfolio. Significant progress was made with the Company’s closed system, Eclectica, where

BATM provides both the instrument and its related reagents. The Group shipped 95 units in 2012 compared with 22 units for the whole of 2011.

Financial Review

Revenues in 2012 decreased by \$3.0m to \$107.8m (2011: \$110.8m). Telecom division revenues decreased by 8.9% to \$58.7m (2011: \$64.4m) whilst Medical division revenues increased by 6% to \$49.1m (2011: \$46.3m), with the latter being the result of organic growth.

The blended gross profit margin for the year was 33.3% (2011: 35.5%), which was 0.4% higher than the gross profit margin in the second half of 2011.

Sales and marketing expenses were \$15.6m (2011: \$15.8m), representing 14.5% of revenue, compared with 14.3% in 2011.

General and administrative expenses were \$9.8m (2011: \$9.9m), representing 9.1% of revenue, compared with 9.0% in 2011.

R&D investment in 2012 was \$9.3m (2011: \$12.1m). This decrease of \$2.8m was primarily due to a \$0.8m contribution from the Israeli Chief Scientist (no contribution in 2011) and the restructuring of the Telecom business at the beginning of 2012.

Net finance income was \$1.5m (2011: \$0.8m loss), comprising \$0.4m of interest income as well as \$1.4m of mostly forward contracts gains on converting Euro deposits to US dollars and loan restructuring, which were partially offset by \$0.3m of finance costs.

Net profit after tax attributable to equity holders of the Group amounted to \$0.7m (2011: loss of \$3.7m), resulting in a basic earnings per share of 0.18¢ (2011: loss of 0.92¢).

The Group's balance sheet remains strong with effective liquidity of \$46.2m, an increase of \$3.9m compared with \$42.3m as at 30 June 2012 and a decrease of \$0.7m compared with \$46.9m as at 31 December 2011. The increase in cash balances during the second half of 2012 is mainly due to a decrease in working capital (\$1.9m), and the net profit accrued during this period. Period end cash is comprised as follows: cash and deposits up to three months duration of \$42.7m, and short term cash deposits up to one year of \$3.5m.

Intangible assets and Goodwill decreased to \$22.8m (31 December 2011: \$26.2m). The decrease is due to the amortization of intangible assets.

Property, plant and equipment including investment property has remained unchanged since the end of 2011.

Total inventories decreased from \$24.3m at the end of 2011 to \$19.5m at 31 December 2012. The majority of the decrease is the Legacy stock, which is now part of the discontinued operations.

Trade and other receivables increased to \$29.4m from \$27.5m at the end of 2011.

Trade and other payables decreased to \$27.0m from \$27.4m at the end of 2011.

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 Telecom division is benefiting from some capital re-investment by utilities and telecoms providers in its target markets, and the diagnostics and sterilization segments of the Medical division are expected to continue to grow thereby reducing the division's dependency on the distribution business. As a result, the Board feels confident of delivering revenue growth in 2013 with profits expected to be significantly higher than in 2012.

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December	
	2 0 1 2	2 0 1 1(*)
	US\$ in thousands	
Revenues	107,774	110,762
Cost of revenues	<u>71,857</u>	<u>71,450</u>
Gross profit	<u>35,917</u>	<u>39,312</u>
Operating expenses		
Sales and marketing expenses	15,620	15,825
General and administrative expenses	9,848	9,934
Research and development expenses	9,290	12,074
Other operating expenses	<u>3,603</u>	<u>3,524</u>
Total operating expenses	<u>38,361</u>	<u>41,357</u>
Operating loss from continuing operations	(2,444)	(2,045)
Finance income	1,799	1,126
Finance expenses	<u>(311)</u>	<u>(1,928)</u>
Loss before tax	(956)	(2,847)
Income tax expenses	<u>(895)</u>	<u>(885)</u>
Loss for the year from continuing operations	(1,851)	(3,732)
Profit/(loss) for the year from discontinued operations	<u>2,010</u>	<u>(1,235)</u>
Profit/(loss) for the year	<u>159</u>	<u>(4,967)</u>
<u>Attributable to:</u>		
Owners of the Company	713	(3,720)
Non-controlling interests	<u>(554)</u>	<u>(1,247)</u>
Profit/(loss) for the year	<u>159</u>	<u>(4,967)</u>
<u>Earnings/(loss) per share (In cents):</u>		
From continuing and discontinued operations		
Basic and Diluted	<u>0.18</u>	<u>(0.92)</u>
From continuing operations		
Basic and Diluted	<u>(0.32)</u>	<u>(0.62)</u>

(*) Represented in accordance with IFRS 5

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2 0 1 2	2 0 1 1
	US\$ in thousands	
Profit/(loss) for the year	159	(4,967)
Exchange differences on translating foreign operations	<u>(444)</u>	<u>(1,621)</u>
Total Comprehensive loss of the year	<u>(285)</u>	<u>(6,588)</u>
Attributable to:		
Owners of the Company	535	(6,287)
Non-controlling interests	<u>(820)</u>	<u>(301)</u>
	<u>(285)</u>	<u>(6,588)</u>

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2 0 1 2	2 0 1 1
	US\$ in thousands	
Current assets		
Cash and cash equivalents	42,686	23,012
Trade and other receivables	29,373	27,529
Financial assets	3,563	23,883
Inventories	19,509	24,297
	<u>95,131</u>	<u>98,721</u>
Non-current assets		
Property, plant and equipment	21,177	25,153
Investment property	3,830	-
Goodwill	11,494	11,616
Other intangible assets	11,324	14,539
Deferred tax asset	5,095	5,525
	<u>52,920</u>	<u>56,833</u>
Disposal group classified as held for sale	4,618	-
Total assets	<u>152,669</u>	<u>155,554</u>
Current liabilities		
Short-term bank credit	4,047	6,770
Trade and other payables	27,048	27,441
Provisions	<u>2,590</u>	<u>2,507</u>
	<u>33,685</u>	<u>36,718</u>
Net current assets	<u>61,446</u>	<u>62,003</u>
Non-current liabilities		
Long-term liabilities	5,326	6,019
Deferred tax liabilities	1,488	1,538
Retirement benefit obligation	<u>956</u>	<u>1,001</u>
	<u>7,770</u>	<u>8,558</u>
Liabilities directly associated with disposal group classified as held for sale	973	-
Total liabilities	<u>42,428</u>	<u>45,276</u>
Net assets	<u>110,241</u>	<u>110,278</u>
Equity		
Share capital	1,215	1,215
Share premium account	407,140	406,892
Foreign currency translation reserve and other reserves	(13,995)	(13,073)
Accumulated deficit	<u>(285,375)</u>	<u>(286,088)</u>
Equity attributable to equity holders of the:		
Owners of the Company	108,985	108,946
Non-controlling interest	<u>1,256</u>	<u>1,332</u>
Total equity	<u>110,241</u>	<u>110,278</u>

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

Year ended 31 December 2012

	Share Capital	Share Premium Account	Foreign currency 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	-
Comprehensive income 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 STATEMENTS OF CHANGES IN EQUITY (cont.)

Year ended 31 December 2011

	Share Capital	Share Premium Account	Foreign currency translation reserve	Other reserve	Accumulated Deficit	Attributable to owners of the Parent	Non- Controlling Interests	Total equity
	US\$ in thousands							
As at 1 January 2011	1,215	406,504	(10,026)	1,228	(277,236)	121,685	1,065	122,750
Exercise of share based options by employees	-	62				62	-	62
Recognition of share-based payments		326				326	-	326
Purchase of non-controlling interest			(889)	(819)		(1,708)	568	(1,140)
Dividend					(5,132)	(5,132)	-	(5,132)
Comprehensive loss for the year			(2,567)		(3,720)	(6,287)	(301)	(6,588)
As at 31 December 2011	<u>1,215</u>	<u>406,892</u>	<u>(13,482)</u>	<u>409</u>	<u>(286,088)</u>	<u>108,946</u>	<u>1,332</u>	<u>110,278</u>

BATM ADVANCED COMMUNICATIONS LTD.
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year ended 31 December</u>	
	2 0 1 2	2 0 1 1
	US\$ in thousands	
Net cash from operating activities (Appendix A)	3,206	3,138
	-----	-----
Investing activities		
Interest received	324	887
Proceeds on disposal of property, plant and equipment	134	134
Proceeds on disposal of financial assets carried at fair value through profit and loss	9,769	6,515
Proceeds on disposal of deposits	38,128	46,150
Purchases of property, plant and equipment	(1,375)	(1,672)
Purchases of financial assets carried at fair value through profit and loss	(6,775)	-
Purchases of deposits	(20,384)	(41,647)
Net Cash outflow on acquisition of business combinations	(605)	(3,418)
Net cash from investing activities	19,216	6,949
	-----	-----
Financing activities		
Dividends paid to owners of the Company	-	(5,132)
Tax on dividend	-	(694)
Increase in short-term bank credit	(179)	366
Bank loan repayment	(2,554)	(2,717)
Purchase of non-controlling interest	-	(767)
Proceeds on issue of shares	12	62
Net cash used in financing activities	(2,721)	(8,882)
	-----	-----
Increase in cash and cash equivalents	19,701	1,205
Cash and cash equivalents at the beginning of the year	23,012	22,087
Effects of exchange rate changes on the balance of cash held in foreign currencies	(27)	(280)
Cash and cash equivalents at the end of the year	<u>42,686</u>	<u>23,012</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 2	2 0 1 1
	US\$ in thousands	
Operating loss from continuing operations	(434)	(3,280)
Adjustments for:		
Amortization of intangible assets	3,494	3,743
Impairment of intangible assets and goodwill	-	2,972
Depreciation of property, plant and equipment	1,928	2,055
Share based payments	236	326
Increase (decrease) in retirement benefit obligation	(45)	117
Decrease in provisions	<u>(392)</u>	<u>(312)</u>
Operating cash flow before movements in working capital	4,787	5,621
Increase in inventory	(32)	(4,337)
Decrease (increase) in receivables	(1,475)	3,720
Increase (decrease) in payables	<u>291</u>	<u>(723)</u>
Cash generated by operations	3,571	4,281
Income taxes paid	(365)	(626)
Income taxes received	323	-
Interest paid	<u>(323)</u>	<u>(517)</u>
Net cash from operating activities	<u>3,206</u>	<u>3,138</u>

BATM ADVANCED COMMUNICATIONS LTD
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

The preliminary results for the year ended 31 December 2012 and the comparative 2011 information will be presented in the full Annual report in accordance with International Financial Reporting Standards ("IFRS"). 2011 comparatives have been represented 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 402,920,465 (2011: 402,872,861). 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 402,975,824 shares (2011: 402,872,861).

Note 3 – Disposal group classified as held for sale

During June 2012, the Group entered into a MOU agreement to dispose of its older time division multiplexing (TDM) based products ("Legacy") business, which formed part of the Group's Telecom operations. This event, which will complete until 30 June 2013, is consistent with the Group's long-term policy to focus on growing the Carrier Ethernet portfolio.

Profit (loss) for the year from discontinued operations:

	<u>Year ended 31 December</u>	
	2 0 1 2	2 0 1 1
	US\$ in thousands	
Revenues	10,022	16,872
Expenses	8,012	18,107
Profit (loss) for the year	<u>2,010</u>	<u>(1,235)</u>

Cash flows from discontinued operations

	<u>Year ended 31 December</u>	
	2 0 1 2	2 0 1 1
	US\$ in thousands	
Net cash inflows from operating activities	1,692	2,000
Net cash inflows from investing activities	-	-
Net cash outflows from financing activities	<u>-</u>	<u>-</u>
Net cash inflows	<u>1,692</u>	<u>2,000</u>

Earnings (loss) per share (In cents):

	<u>Year ended 31 December</u>	
	2 0 1 2	2 0 1 1
Basic and Diluted	<u>0.50</u>	<u>(0.30)</u>