

5 March 2018



BATM Advanced Communications Limited
("BATM" or the "Group")

Final 2017 Results

BATM Advanced Communications Limited (LSE: BVC), a leading provider of real-time technologies for networking solutions and medical laboratory systems, announces its final results for the year ended 31 December 2017.

Financial Summary

- Group revenue increased 18.5% to \$107.1m (2016: \$90.4m)
- Gross margin of 30.6% (2016: 31.4%)
- Adjusted operating profit* of \$5.6m (2016: \$0.9m)
- EBITDA of \$7.7m (2016: \$2.8m)
- Earnings per share of 0.06¢ (2016: 0.27¢ loss per share)
- As at 31 December 2017, the Group had cash and financial assets of \$24.0m (30 June 2017: \$22.4m; 31 December 2016: \$27.6m)

* See note 3

Operational Summary

- Milestone year for the Group with Networking and Cyber division capitalising on previous significant investment to achieve the first year-on-year increase in revenue since 2011 and Bio-Medical division continuing to demonstrate strong growth

Bio-Medical Division (54% of total revenue)

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

- Acquired Zer Laboratories Ltd, the largest private diagnostic laboratory in Israel for clinical tests, and commenced offering molecular diagnostics (genetics-based) diagnostics solutions in Israel with strong sales during the year
- Commenced operations at the two new diagnostic and analytic laboratories opened in Romania during 2016

Networking and Cyber Division (46% of total revenue)

- Sales growth with revenues increasing by 28.3% to \$49.4m (2016: \$38.5m) – first annual period of sales growth since 2011
- Blended gross margin was 36% (2016: 40%)
- Networking Unit
 - Growth in the division due to increase in sales of ICT services and solutions:
 - Gained 47 new client accounts, such as Google and TPx Communications, with a 27% year-on-year increase in systems shipped in North America
 - A Tier 1 cyber security customer launched new security systems, basing its networking capability on the Group's state-of-the-art 100 Gigabit Ethernet (100GE) card
 - Awarded a framework agreement valued at up to \$35.8m over five years to provide ICT services and solutions to an agency of a government defence department, with \$8.6m in orders received to date
 - Substantial progress in implementing Software-Defined Networking (“SDN”)/Network Function Virtualisation (“NFV”) strategy:
 - Established partnerships with a number of leading telecoms organisations, including NXP Semiconductors and Arm Holdings, with the respective partners offering joint solutions for network virtualisation
 - Only worldwide software vendor to provide NFV functionality to Arm architecture and all Intel platforms
 - Successful proof-of-concept trials (“POCs”) conducted worldwide
- Cyber Unit
 - Received expansion of a contract awarded last year by a government defence department, which is now worth \$5.2m
 - Conducted successful POC for cyber monitoring and detection systems for first European government customer and engaged in several other POCs in multiple countries
 - Post period end, awarded \$4m contract extension for cyber security solution by a government defence department

Commenting on the results, Dr Zvi Marom, Chief Executive Officer of BATM, said: “This was a turnaround year for BATM as the Networking and Cyber division achieved increased year-on-year revenue for the first time since 2011 on the back of a decade of development, testing and POCs with significant customers and establishing a healthy order book. The Bio-Medical division continued to demonstrate growth in product sales and we made a strong start in providing services while we continued to advance the development of disruptive patented technologies that will soon be introduced to the market.

“In 2017, we achieved the goals that we set for the year: gaining new customers and partners, securing new contracts, expanding into new territories and continuing to establish leading positions in our target markets. The strategies that we have implemented in both our divisions are coming to fruition as new products and technologies have completely replaced legacy products and are gaining traction in areas that we had previously identified as growth markets.

“Looking ahead, we entered 2018 in a stronger position than at the same time of the prior year with a higher order book across our Networking and Cyber and Bio-Medical divisions. We are confident that the growth momentum across both divisions will be maintained during 2018 and we therefore look forward to the future with continued optimism.”

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The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Operational Review

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

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

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

Bio-Medical Division

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

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

Distribution

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

At the beginning of the year, the Group acquired the entire issued share capital of Zer Laboratories for a consideration of NIS 2.75m (c. £580,000) payable in cash. Zer Laboratories is the largest private diagnostic laboratory in Israel for clinical tests, mainly providing prenatal screening tests for Down's syndrome,

genetic tests and additional non-invasive prenatal tests (NIPT) performed during IVF and fertility treatments. During the year, BATM commenced providing these tests and achieved strong, better-than-expected sales. Towards the end of the year, new molecular biology tests, especially for cancer, were added in cooperation with leading US companies. These tests have received a very good initial response with first sales from several prominent oncologists.

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

Eco-Med

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

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

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

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

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

Diagnostics

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

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

In July 2017, the Group appointed Dr. David Perry MD as Chief Executive Officer of Adaltis, whose previous experience includes VP Global Clinical and Medical Affairs at Baxter Bioscience. The new role was created

within Adaltis as it begins to gear up to take advantage of the advances within its molecular biology business unit, as well as the growing in-vitro diagnostics field. In particular, BATM intends to use the Zer Laboratories acquisition – in addition to distributing diagnostic tests of Abbot and other third parties – for launching new, advanced diagnostic DNA-based tests and molecular biology solutions developed by Adaltis.

Networking and Cyber Division

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

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

ICT solutions and services

During the year, ICT services and solutions gained 47 new client accounts in North America, including blue-chip companies such as Google, TPx Communications, Union Wireless and Alpine Communications. As a result, the Group shipped 27% more systems in 2017 in the US compared with the prior year. In particular, a Tier 1 cyber security customer launched its new security systems that contain the Group's latest ATCA product 100GE card. The new ATCA 100GE is gaining increasing momentum and interest from various customers. In addition, the 100GE card is playing a key role in the new aggregation platform, T-Metro 8100 – a next-generation, high-density, standalone 100GE services aggregation platform that was released in H2 2017.

Also during the year, NGSoft, a high-end software development and design business and subsidiary within the Networking and Cyber division, was awarded a framework agreement, valued at up to \$35.8m over five years, to provide ICT services and solutions to an agency of a government defence department. The Group has received \$8.6m in orders under the agreement to date.

SDN/NFV solutions

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

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

Cyber

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

Post period end, the Group was awarded a significant contract to supply a cyber communication technology solution to a government defence department, which is worth approximately \$4m in 2018. This contract is the fourth such contract awarded to BATM by a national government and followed a successful deployment of the division's solution previously. BATM expects to commence delivery of the contract in Q2 2018 with completion by year-end, and anticipates receiving follow-on orders after the completion of this contract.

Financial Review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

**BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED INCOME STATEMENTS**

	Year ended 31 December	
	2 0 1 7	2 0 1 6
	US\$ in thousands	
Revenues	107,137	90,404
Cost of revenues	<u>74,402</u>	<u>62,048</u>
Gross profit	32,735	28,356
Operating expenses		
Sales and marketing expenses	14,987	14,307
General and administrative expenses	10,297	9,584
Research and development expenses	7,752	7,620
Other operating income	<u>(4,526)</u>	<u>(2,853)</u>
Total operating expenses	28,510	28,658
Operating profit (loss)	<u>4,225</u>	<u>(302)</u>
Finance income	331	291
Finance expenses	<u>(742)</u>	<u>(650)</u>
Profit (loss) before tax	3,814	(661)
Income tax expenses	<u>(2,364)</u>	<u>(774)</u>
Profit (loss) for the year before share of loss of a joint venture and associated companies	<u>1,450</u>	<u>(1,435)</u>
Share of loss of a joint venture and associated companies	<u>(1,574)</u>	<u>(810)</u>
Loss for the year	<u>(124)</u>	<u>(2,245)</u>
<u>Attributable to:</u>		
Owners of the Company	233	(1,070)
Non-controlling interests	<u>(357)</u>	<u>(1,175)</u>
Loss for the year	<u>(124)</u>	<u>(2,245)</u>
Profit (loss) per share (in cents):		
Basic and Diluted	<u>0.06</u>	<u>(0.27)</u>

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended 31 December	
	2 0 1 7	2 0 1 6
	US\$ in thousands	
Loss for the year	(124)	(2,245)
Items that may be reclassified subsequently to profit or loss :		
Exchange differences on translating foreign operations	<u>4,903</u>	<u>(362)</u>
	4,779	(362)
Items that will not be reclassified subsequently to profit or loss :		
Re-measurement of defined benefit obligation	<u>6</u>	<u>211</u>
Total Comprehensive income (loss) for the year	<u>4,785</u>	<u>(2,396)</u>
Attributable to:		
Owners of the Company	5,752	(1,364)
Non-controlling interests	<u>(967)</u>	<u>(1,032)</u>
	<u>4,785</u>	<u>(2,396)</u>

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2017

	Share Capital	Share Premium Account	Translation reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the Parent	Non- Controlling Interests	Total equity
US\$ in thousands								
Balance as at 1 January 2017	1,216	407,544	(20,558)	(512)	(303,810)	83,880	(2,990)	80,890
Loss for the year					233	233	(357)	(124)
Re-measurement of defined benefit obligation	-	-	-	-	6	6	-	6
Exchange differences on translating foreign operations	-	-	<u>5,513</u>	-	-	<u>5,513</u>	<u>(610)</u>	<u>4,903</u>
Total comprehensive income for the year	-	-	5,513	-	239	5,752	(967)	4,785
Exercise of share based options by employees	-	35	-	-	-	35	-	35
Recognition of share- based payments	-	<u>109</u>	-	-	-	<u>109</u>	-	<u>109</u>
Balance as at 31 December 2017	<u>1,216</u>	<u>407,688</u>	<u>(15,045)</u>	<u>(512)</u>	<u>(303,571)</u>	<u>89,776</u>	<u>(3,957)</u>	<u>85,819</u>

Year ended 31 December 2016

	Share Capital	Share Premium Account	Translation reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the Parent	Non- Controlling Interests	Total equity
US\$ in thousands								
Balance as at 1 January 2016	1,216	407,436	(20,053)	(335)	(306,314)	81,950	(1,458)	80,492
Loss for the year	-	-	-	-	(1,070)	(1,070)	(1,175)	(2,245)
Re-measurement of defined benefit obligation	-	-	-	-	211	211	-	211
Exchange differences on translating foreign operations	-	-	<u>(505)</u>	-	-	<u>(505)</u>	<u>143</u>	<u>(362)</u>
Total comprehensive loss for the year	-	-	(505)	-	(859)	(1,364)	(1,032)	(2,396)
Recognition of share- based payments	-	108	-	-	-	108	-	108
Disposal of partial interest in subsidiary	-	-	-	<u>(177)</u>	<u>3,363</u>	<u>3,186</u>	<u>(500)</u>	<u>2,686</u>
Balance as at 31 December 2016	<u>1,216</u>	<u>407,544</u>	<u>(20,558)</u>	<u>(512)</u>	<u>(303,810)</u>	<u>83,880</u>	<u>(2,990)</u>	<u>80,890</u>

**BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year ended 31 December	
	2 0 1 7	2 0 1 6
	US\$ in thousands	
Net cash from operating activities (Appendix A)	<u>56</u>	<u>915</u>
Investing activities		
Interest received	132	95
Proceeds on disposal of property, plant and equipment	3,229	9,126
Tax paid on disposal of property, plant and equipment	-	(674)
Proceeds on disposal of deposits	4,503	1,801
Proceeds on disposal of financial assets carried at fair value through profit and loss	3,260	525
Proceeds on disposal of held to maturity investment	-	3,229
Loans granted	(322)	-
Purchases of property, plant and equipment	(3,260)	(3,748)
Increase of other intangible assets	(996)	(2,272)
Purchases of financial assets carried at fair value through profit and loss	(2,452)	(3,095)
Investment in deposits	(5,503)	(1,302)
Investment in joint venture	(1,339)	-
Investment in associated company	(343)	-
Acquisition of subsidiaries (Appendix B)	<u>(1,378)</u>	<u>(1,864)</u>
Net cash from (used in) investing activities	<u>(4,469)</u>	<u>1,821</u>
Financing activities		
Increase in short-term bank credit	28	-
Bank loan repayment	(5,257)	(4,810)
Bank loan received	5,327	4,211
Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control	-	2,928
Proceed on exercise of shares	<u>35</u>	-
Net cash from financing activities	<u>133</u>	<u>2,329</u>
Increase (decrease) in cash and cash equivalents	(4,280)	5,065
Cash and cash equivalents at the beginning of the year	22,015	17,042
Effects of exchange rate changes on the balance of cash held in foreign currencies	<u>447</u>	<u>(92)</u>
Cash and cash equivalents at the end of the year	<u>18,182</u>	<u>22,015</u>

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

APPENDIX A

RECONCILIATION OF OPERATING PROFIT (LOSS) FOR THE YEAR TO NET CASH FROM OPERATING ACTIVITIES

	Year ended 31 December	
	2017	2016
	US\$ in thousands	
Operating profit (loss) from operations	4,225	(302)
Adjustments for:		
Amortization of intangible assets	1,349	1,157
Depreciation of property, plant and equipment and investment property	2,132	1,965
Capital gain of property, plant and equipment and other	(5,455)	(3,929)
Stock option granted to employees	109	108
Increase (decrease) in retirement benefit obligation	59	(232)
Decrease in provisions	<u>(15)</u>	<u>(20)</u>
Operating cash flow before movements in working capital	2,404	(1,253)
Decrease (increase) in inventory	(2,629)	2,348
Decrease (increase) in receivables	(11,234)	2,795
Increase (decrease) in payables	10,552	(2,035)
Effects of exchange rate changes on the balance sheet	<u>1,934</u>	<u>(419)</u>
Cash from operations	1,027	1,436
Income taxes paid	(512)	(153)
Income taxes received	1	4
Interest paid	<u>(460)</u>	<u>(372)</u>
Net cash from operating activities	<u>56</u>	<u>915</u>

APPENDIX B

ACQUISITION OF SUBSIDIARIES

	Year ended 31 December	
	2017	2016
	US\$ in thousands	
Net assets acquired		
Property, plant and equipment	78	239
Net working capital	109	(270)
Cash	-	49
Retirement benefit obligation	<u>(107)</u>	-
	80	18
Deferred tax	(126)	-
Goodwill	898	3,526
Other Intangible assets	586	269
Onerous contracts	<u>(169)</u>	-
Total consideration	<u>1,269</u>	<u>3,813</u>
Satisfied by:		
Cash	804	1,913
Consideration recorded as a contingent liability	465	-
Consideration recorded as a liability	-	<u>1,900</u>
	<u>1,269</u>	<u>3,813</u>
Net cash outflow arising on acquisition		
Cash consideration	804	1,913
Cash and cash equivalents acquired	-	<u>(49)</u>
	<u>804</u>	<u>1,864</u>

BATM ADVANCED COMMUNICATIONS LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

The preliminary results for the year ended 31 December 2017 and the comparative 2016 information will be presented in the full Annual Report in accordance with International Financial Reporting Standards (“IFRS”).

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 403,173,012 (2016: 403,150,820). 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 404,633,217 shares (2016: 403,150,820).

Note 3 - Other alternative measures

	Year ended 31 December	
	2017	2016
	US\$ in thousands	
Operating profit (loss)	4,225	(302)
Amortisation of Intangible assets	<u>1,349</u>	<u>1,157</u>
Other alternative Operating profit	<u>5,574</u>	<u>855</u>

Note 4 - Segments

Year ended 31 December 2017

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

Year ended 31 December 2016

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

(*) See note 3