Annual Report 2007

BATM
Advanced Communications

2007

Annual Report
Financial Statements

DIRECTORS AND ADVISERS

Directors

P. Sheldon	Chairman, Non-executive
Dr. Z. Marom	Chief executive
O. Bar-Ner	Finance director
K. Gavish	Non-executive
Dr. D. Kaznelson	Non-executive
A. Zochovitzky	Non-executive

Registered Office

P.O.B.3737
Kfar Netter 40593
Israel

Company Number

520042813 – Registered in Israel

Auditors

Brightman Almagor & Co.
a member firm of
Deloitte Touche Tohmatsu
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Israel

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Corporate Solicitors in Israel

Lipa Meir & Co.
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Israel

Corporate Solicitors in the UK

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London W1R 1DJ
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Bankers

Bank Hapoalim
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Israel

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TABLE OF CONTENT

Chairman's Statement

I am delighted to report on a year which, by any standard, has been an outstanding one for BATM. On every measure the Company has exceeded expectations and the groundwork that has been carefully laid over the last few years has been justified by an excellent performance in a demanding and challenging environment. The feedback that we have received from customers in terms of our products, service and delivery has been gratifyingly high, and I would like to congratulate our executive team and staff at all levels for their contribution.

I am also extremely pleased that our results and careful working capital management have enabled Board to recommend the payment of a final dividend of 1 US Cent per share.

Financial Performance

Turnover was $96.9m (2006: $73.5m) - an increase of 31.9%. Revenues for the second half of 2007 at $57.3m (H2 2006: $39.4m) showed accelerated growth throughout the period.

Gross profit margin was 46.9% (2006: 42.5%). The continued improvement in gross margin performance benefited from a product mix with a higher proportion of software content and value added services.

Selling, general and administrative expenses were $18.5m (2006: $14.5m) - an increase of 28%. As a percentage of revenue these costs were 19.0%, (2006: 19.7%).

Net R&D expense for the year amounted to $9.3m (2006: $8.8m) - an increase of 5.1%. This reflects our continued commitment to maintain our leading position in the carrier Ethernet access space. In addition, a growing part of our R&D efforts are currently funded by our business partners. As a result of these revenue generating arrangements, more than $2m of our R&D spend is included in cost of goods sold.

Operating profit, after amortization of intangible assets for the year, was $16.6m (2006: $7.3m) - an increase of $9.3m or 129%. Operating profit for the second half of 2007 was $11.8m (H2 2006: $3.9m), an increase of $7.9m or 202%.

Net financial income was $3.4m (2006: $2.3m), an increase due to higher cash balances.

The company had a tax benefit for the year of $135k (2006: tax expense $504k), as net taxes in Israel of approximately $1.5m were offset by $1.7m tax income in the US as a result of deferred tax asset in respect to tax losses carried forward recognized for the first time in 2007.

Net profit, after amortization of intangible assets and income tax, amounted to $20.1m (2006: $6.4m), resulting in basic earnings per share of 5.08 cents (2006: 1.66 cents) - an increase of 214% and 206% respectively.

Our balance sheet remains very strong and we ended the year with effective cash balances of $64.8m (2006: $50.4m). The increase in cash and cash equivalents compared to last year is a reflection of the significant positive cash generation of the business. Period end cash and cash equivalents comprised: cash and deposits up to three months duration of $35.8 million; short-term investments up to one year of $18.5 million; and long-term investments of more than one year of $10.5 million. We continue to exercise a conservative investment strategy, maintaining most balances in bank deposits.

Dividend

The Board is of the opinion that, in light of the Company's profitability, it should return to a policy of making dividend payments to shareholders. Accordingly, it has recommended, subject to shareholder consent, a final dividend for 2007 of 1 US cent per share. In making this decision the Board has carefully considered the likely future working capital requirements of the business and believes that the Company should have sufficient cash resources to meet these requirements, as well as retaining the ability to take advantage of appropriate investment opportunities as and when they might occur. The Board does not envisage recommending an interim dividend in the coming year.

Sales and Marketing

Our direct sales business have continued to be an important driver of our growth in tandem with our OEM channels. During the course of the year we signed new contracts with new customers. These contracts which increase our penetration of new markets will benefit the company in 2008 and beyond.

We have also targeted the cable industry as a strong source of potential new customers. Initial results have been good, mainly in the U.S, and we expect this area to grow substantially.

We remain in discussions with leading telecom vendors who are not yet customers, to offer them our latest generation of carrier Ethernet products. We are optimistic that we can continue to expand our existing relationships and develop more in 2008 and beyond.

We also continue to invest in the development of our direct channels and see increased demand for new Metro Ethernet and IP solutions with an emphasis on advanced management options.

Research and Development and New Products

During 2007 we continued to enhance our network management solution. This software allows us to tie several of our products together to provide a full carrier Ethernet access solution to our customers. To complement our capabilities in this area, we have increased our investment in this field and added significant expertise in this technology. This, we believe, will shorten our time to market and in conjunction with our BINOS software platform will provide a market leading solution.

We also continue to add features and capabilities to our BINOS software platform which are mainly service oriented. This robust operating system continues to be the foundation of our core technology. By making this platform more modular and operating systems independent, our opportunities to provide flexible solutions to our customers are significantly increased.

We have also added further resource and increased our focus on technology which will allow us to integrate legacy services into our Ethernet transport solutions. This technology, some of it already integrated into several of our products, will add another leadership edge to our engineering capabilities.

Investments

During 2007, as reported in the interim results, $310,000 was recorded as Impairment of Investments in relation to one small investment in Lynx Photonic Networks Inc which we have now completely written off. We also recorded a gain of $250,000 from the sale during 2007 of an investment that was written off in the prior year.

During the year the Company made two minor investments; 51% of A.M.S. 2000 Trading IMPEX S.R.L ("AMS") (Romania) and 100% of NSIcom Ltd.("NSI") (Israel). These acquisitions are fully described in *Note 31* of these accounts. The acquisitions extend the Company's product offering and have already started to make a modest contribution, which is expected to grow in the coming years.

Prospects

The world economy is entering an uncertain period. The current turmoil in the financial markets will almost certainly have an impact on economic activity and BATM will not be immune from its effect on our market segment. However, we are very confident of our positioning in the market and the steps that we have taken to continue to produce results that reflect our growing reputation for technological innovation and excellence. The current year has already started well with revenues and profits well ahead of our expectations and I look forward to another successful year in 2008.

Peter Sheldon
Chairman
29 April, 2008

Deloitte.

Brightman Almagor

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Independent Auditors' Report To the Shareholders of BATM Advanced Communications Ltd.

We have audited the accompanying consolidated balance sheets of BATM Advanced Communications Ltd. ("the Company") and its subsidiaries ("the Group") as at December 31, 2007 and 2006 and the related consolidated income statements, consolidated statements of changes in equity and consolidated cash flows statements of the Group for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management and Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel including those prescribed by the Auditors' Regulations (Mode of Performance) (Israel), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management and Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position the Group as at December 31, 2007 and 2006, and the consolidated results of operations, changes in equity and the cash flows of the Group for the years ended December 31, 2007 and 2006 in accordance with International Financial Reporting Standards.

Brightman Almagor & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Israel, 29 April, 2008

Consolidated Income Statements

	Note	Year ended December 31,	
		2007 $'000	2006 $'000
Revenue	5	96,952	73,472
Cost of revenues		(51,456)	(*)(42,233)
Gross profit		45,496	31,239
Sales and marketing expenses		12,353	10,402
General and administration expenses		6,119	4,063
Research and development expenses		9,275	(*)8,824
Other expenses		1,146	691
Total operating expenses		28,893	23,980
Operating profit		16,603	7,259
Investment revenue	9	2,667	1,906
Other gains	10	1,038	567
Finance costs	11	(286)	(201)
Impairment of Investments	19	(60)	(2,582)
Profit before tax		19,962	6,949
Tax	12	135	(504)
Profit for the year	7	**20,097**	**6,445**
Attributable to Equity holders of the: Parent		19,874	6,445
Minority interests		223	-
		20,097	**6,445**
Earnings per share (in cents)			
Basic	14	**5.08**	**1.66**
Diluted	14	**5.02**	**1.64**

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

(*) Restated to reflect a change in accounting policies regarding Government Grants, see Note 3

Consolidated Balance Sheets

	Note	December 31,	
		2007 $'000s	2006 $'000s
Non-current assets			
Goodwill	15	3,184	2,284
Other intangible assets	16	6,737	4,556
Property, plant and equipment	17	8,702	9,185
Investments in other companies	19	-	1,001
Held to maturity investments		10,501	3,432
Deferred tax assets	24	2,217	735
		31,341	21,193
Current assets			
Inventories	21	12,211	13,176
Investments	20	18,462	31,612
Trade and other receivables	22	26,216	16,360
Cash and cash equivalents		35,809	15,363
		92,698	76,511
Total assets		**124,039**	**97,704**
Current liabilities			
Short-term bank credit		90	-
Trade and other payables	25	22,266	(*)17,047
Current tax liabilities		280	199
Provisions	26	2,952	2,116
		25,588	19,362
Net current assets		**67,110**	**57,149**
Non-current liabilities			
Long-term payables	25	2,388	(*)4,188
Retirement benefit obligation	36	335	310
Long-term provisions	26	-	385
		2,723	4,883
Total liabilities		**28,311**	**24,245**
Net assets		**95,728**	**73,459**
Equity			
Share capital	27	1,186	1,180
Share premium account	28	400,646	399,068
Revaluation reserve	29	-	118
Translation reserve		(29)	-
Accumulated Deficit	30	(307,033)	(*)(326,907)
Equity attributable to equity holders of the:			
Parent		94,770	73,459
Minority interest		958	-
Total equity		**95,728**	**73,459**

The accompanying notes are an integral part of these financial statements.
(*) Restated to reflect a change in accounting policies regarding Government Grants, see Note 3

The financial statements were approved by the board of directors and authorised for issue on 29 April, 2008. They were signed on its behalf by:

Dr. Z. Marom **O. Bar-Ner**

	Share Capital	Share Premium account	Revaluation reserve	Translation reserve	Accumulated deficit	Parent	Minority Interest	Total
	$'000s							
Balance as at 1 January 2006	1,178	398,104	(219)	-	(*)(333,352)	65,711	-	65,711
Exercise of stock based options by employees	2	197				199	-	199
Grant of stock based options to employees		767				767	-	767
Increase in fair value of available for sale investments			158			158	-	158
Tax on items taken directly to equity			(40)			(40)	-	(40)
Released on disposal of available for sale investments			219			219	-	219
Net income for the year					(*)6,445	6,445	-	6,445
Balance as at 31 December 2006	**1,180**	**399,068**	**118**	**-**	**(*)(326,907)**	**73,459**	**-**	**73,459**
Exercise of stock based options by employees	6	662				668	-	668
Grant of stock based options to employees		916				916	-	916
Released on disposal of available for sale investments			(118)			(118)	-	(118)
Minority Interest acquired						-	735	735
Translation adjustment				(29)		(29)	-	(29)
Net income for the year					19,874	19,874	223	20,097
Balance as at 31 December 2007	**1,186**	**400,646**	**-**	**(29)**	**(307,033)**	**94,770**	**958**	**95,728**

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

(*) Restated to reflect a change in accounting policies regarding Government Grants, see Note 3

Consolidated Cash Flow Statements

	Note	Year ended December 31,	
		2007 $'000s	2006 $'000s
Net cash from operating activities	32	12,629	3,760
Investing activities			
Interest received		2,945	1,551
Dividends received from available for sale investments		15	16
Proceeds on disposal of held to maturity investments		1,904	3,000
Proceeds on disposal of available-for-sale investments		26,273	8,956
Proceeds on disposal of deposits		34,104	13,000
Proceeds on disposal of investment in companies		941	-
Purchases of property, plant and equipment		(1,012)	(1,279)
Purchases of held to maturity investments		(10,292)	-
Purchases of available for sale investments		(26,665)	(7,657)
Purchases of deposits		(18,387)	(24,625)
Investment in a company		-	(200)
Acquisition of subsidiaries	31	(2,440)	(1,933)
Net cash from (used in) investing activities		7,386	(9,171)
Financing activities			
Repayments of borrowings		(237)	(985)
Proceeds on issue of shares		668	199
Net cash from (used in) financing activities		431	(786)
Net increase (decrease) in cash and cash equivalents		20,446	(6,197)
Cash and cash equivalents at beginning of year		15,363	21,560
Cash and cash equivalents at end of year		**35,809**	**15,363**

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

Note 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 3737, Kfar Neter 40593, 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 local and wide area networks and premises management systems. The primary companies in the group are: BATM Ltd., which is the primary R&D operation in the group and responsible for all OEM relationships and Non-America revenues; Telco Systems is the Group's primary direct sales, customers support and services operation for Americas market.

These financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in Note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 3 (R)	Business Combinations
IFRS 8	Opertaing Segments
IAS 23 (R)	Borrowing Costs (March 2007)
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures when the relevant standards come into effect for periods commencing on or after 1 January 2008.

Note 2 - Significant Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Note 2 - Significant Accounting Policies (Cont.)

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. 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.

Goodwill

Goodwill arising from consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are 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 the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Note 2 - Significant Accounting Policies (Cont.)

Goodwill arising from acquisitions before the date of transition to IFRS has been retained at the previous Israeli GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts (see below).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Long-Term contracts

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. 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. 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 long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All of the Group's 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

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Note 2 - Significant Accounting Policies (Cont.)

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 functional currency of the Group, and 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 each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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 on the balance sheet date. 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 classified as equity and transferred to the Group's translation reserve. Such translation reserves, which were immaterial for all periods presented, are recognised as income or as expense in the period in which the operation is disposed.

Government grants

Government grants are assistance by 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.

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

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions. In a case where Government assistance takes the form of a forgivable loan, a liability is recognized in regards to this loan at fair value. It is the Group's policy to designate all such loans as financial instruments measured at fair value through profit and loss under IAS 39.

Operating profit

Operating profit is stated before investment revenues, other gains, finance cost and impairment of investments.

Note 2 - Significant Accounting Policies (Cont.)

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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.

Note 2 - Significant Accounting Policies (Cont.)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

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 balance sheet 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, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2%
Fixtures and equipment	10%
Motor Vehicles	15%
Computers and Manufacturing equipment	10-33%

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.

Note 2 - Significant Accounting Policies (Cont.)

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 the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, 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). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment 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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

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 determind on the "first-in–first-out".

Note 2 - Significant Accounting Policies (Cont.)

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 balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade 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.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

All the Group investments are classified as held to maturity or available for sale. The Group currently has no held for trading investments.

Note 2 - Significant Accounting Policies (Cont.)

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 and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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 payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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 balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. 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 shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes valuation model. 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.

Note 3 – change of accounting policies

Up to 2006 the Group had recognized all government assistance from the Office of the Chief Scientist ("OCS") towards research and development costs as income netted against related expenses over the periods necessary to match them with the related costs. Accordingly it had also recognized all associated repayments to the OCS as cost of revenues. This was inline with the prevailing practice in Israel in regards to OCS grants, and had been indicated as the preferred treatment by the Israeli Securities Commission under IFRS. During the later part of 2007 and early 2008, it became clear that an increasing number of Companies were recognizing such OCS assistance as forgivable loans and therefore recognizing a resulting liability at fair value. This will also be the treatment under the IASB annual improvements. In light of the change of market practice, the Company has opted to change its accounting policies to improve the comparability of its Financial Statements with market benchmarks.

The effect that this change in accounting policies on the financial statements for 2006 and 2007 is set out below:

2006			
	Previous policy	Effect of change in policy	New policy
Cost of revenues	42,412	(179)	42,233
Research and development expenses	8,205	619	8,824
Profit for the year	6,885	(440)	6,445
Trade and other payables	16,748	299	17,047
Long-term payables	1,901	2,287	4,188
Accumulated deficit	(324,321)	(2,586)	(326,907)

2007			
	Previous policy	Effect of change in policy	New policy
Cost of revenues	51,744	(288)	51,456
Research and development expenses	8,886	389	9,275
Profit for the year	20,198	(101)	20,097
Trade and other payables	21,966	300	22,266
Long-term payables	-	2,388	2,388
Accumulated deficit	(304,345)	(2,688)	(307,033)

Note 4 - Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

- Judgements with respect the non-capitalization of development expenses.
- Judgements with respect to impairment of tangible and intangible assets.
- Judgements with respect to deferred tax on carry forward losses and other tax issues.
- Judgements with respect to future income streams from projects funded by OCS grants and the related loans.
- Judgements with respect to assumptions used for actuary calculations with respect to IAS 19.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the balance sheet 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 with respect to provisions (see Note 26).

Note 5 - Revenue

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

	Year ended December 31,	
	2007 **$'000s**	**2006** **$'000s**
Sales of goods	89,044	67,033
Services	7,687	6,269
Property rental income	221	170
	96,952	**73,472**

Note 6 - Business and Geographical Segments

Business segments

The Group has no distinct business segments.

Geographical segments

The principle operations of the Group are located in Israel, Americas, Europe and the Far East. Manufacturing is carried out primarily in Israel and in the USA. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services. All numbers are in thousands of US dollars (see table on page 19).

Note 6 - Business and Geographical Segments (Cont.)($'000s)

2007	Americas	Europe	Israel	Far East and Other	Non-Allocated	Total
Profit and Loss information						
Revenues	43,484	32,006	5,891	22,330	-	103,711
Inter-group elimination	(3,579)	(2,299)	(881)	-	-	(6,759)
Net revenue	39,905	29,707	5,010	22,330	-	96,952
Gross Profit	17,362	15,730	2,174	10,230	-	45,496
Capital expenditure[1]	303	2,500	2,736	-	-	5,539
Depreciation and amortization	1,660	112	1,064	-	-	2,836
Other non-cash expenses (income)	(146)	36	672	110	-	672
Balance sheet information						
Segment Assets	22,195	16,519	13,490	7,063	64,772	124,039
Segment Liabilities	9,652	4,177	14,124	358	-	28,311
Cashflow information	6,412	(340)	9,203	(2,646)	-	12,629

2006	Americas	Europe	Israel	Far East and Other	Non-Allocated	Total
Profit and Loss information						
Revenues	36,708	22,269	6,840	13,418	-	79,235
Inter-group elimination	(3,779)	(1,026)	(958)	-	-	(5,763)
Net revenues	32,929	21,243	5,882	13,418	-	73,472
Gross Profit	13,921	8,980	2,666	5,672	-	31,239
Capital expenditure[1]	6,828	19	875	-	-	7,722
Depreciation and amortization	1,230	9	1,050	-	-	2,289
Other non-cash expenses (income)	(235)	26	724	101	-	616
Balance sheet information						
Segment Assets	21,668	9,174	11,428	4,026	51,408	97,704
Segment Liabilities	11,811	557	11,541	336	-	24,245
Cashflow information	(1,727)	772	4,614	101	-	3,760

[1]Calculated on an accruals basis

Note 7 - Profit for the Year

Profit for the year has been arrived at after charging (crediting):

	Year ended December 31,	
	2007 $'000s	2006 $'000s
Net foreign exchange gains	(557)	(107)
Research and development costs	10,113	9,574
Government grants	(838)	(750)
Depreciation of property, plant and equipment	1,690	1,598
Amortisation of intangible assets included in operating expenses	1,146	691
Impairment of investments, net	60	2,582
Cost of inventories recognised as expense	46,148	38,277
Staff costs *(see Note 8)*	16,868	15,108
Auditors' remuneration for audit services *(see below)*	168	128

Amounts payable to Brightman Almagor & Co. by the Company and its subsidiaries' undertakings in respect of non-audit services in 2007 were $20,000 (2006: $20,000).

In addition, payables in respect of non-audit services to others than the Company's auditors, for tax and internal audit services in 2007, were $11,000 and $10,000, respectively (2006: $13,000 and $11,000, respectively)

Note 8 - Staff Costs

The average monthly number of employees in 2007 (including executive directors) was 244 (2006:213).

	Year ended December 31,	
	2007 $'000s	2006 $'000s
Their aggregate remuneration comprised:		
Wages and salaries	13,312	11,470
Social security costs	3,043	3,046
Other pension costs (see Note 36)	513	592
	16,868	**15,108**
Executive Directors' emoluments	**1,336**	**771**

Note 9 - Investment Revenue

	Year ended December 31, 2007 $'000s	Year ended December 31, 2006 $'000s
Profit on forward contracts	90	-
Interest on bonds	216	190
Interest on bank deposits	2,361	1,716
	2,667	**1,906**

Note 10 - Other Gains

	Year ended December 31, 2007 $'000s	Year ended December 31, 2006 $'000s
Profit on disposal of available-for-sale investments	378	485
Other gains (losses)	103	(25)
Net foreign exchange gains	557	107
	1,038	**567**

Note 11 - Finance Costs

	Year ended December 31, 2007 $'000s	Year ended December 31, 2006 $'000s
Interest on loans	**286**	**201**

Note 12 - Tax expense (benefit)

	Year ended December 31, 2007 $'000s	Year ended December 31, 2006 $'000s
Current tax	1,347	590
Deffered tax *(Note 24)*	(1,482)	(86)
	(135)	**504**

Note 12 - Tax expense (benefit) (Cont.)

Taxation under various laws:

Israel

The Company and its Israeli subsidiaries are assessed under the provisions of the Income Tax Law (Inflationary Adjustments), 1985, pursuant to which the results for tax purposes are measured in Israeli currency in real terms in accordance with changes in the Israeli CPI. The Company has applied to the tax authorities with a request to measure its results for tax purposes in US dollars, starting from 2007.

The Company and its subsidiaries are assessed for tax purposes on an unconsolidated basis.

The Company is an “industrial company” as defined in the Israeli Law for the Encouragement of Industry (Taxes) 1969, and, as such, is entitled to certain tax benefits, mainly increased depreciation rates, the right to claim public issuance expenses and the amortization of patents and other intangible property rights as a deduction for tax purposes.

The production facilities of the Company have been granted “approved enterprise” status for several separate programs under the Law for the Encouragement of Capital Investments, 1959, as amended. Under this law, income attributable to each of these programs (in a manner prescribed in such law and its regulations) is fully exempt from tax for eight to ten years.

Such period of benefits commences on the first year in which the enterprise generates taxable income (The expiry date of the period of benefits is limited to the earlier of twelve years from commencement of production or fourteen years from the date of the approval.) The period of benefits of the first program commenced in 1992 and ended in 2000.

One of the Israeli subsidiaries has also been granted an Approved Enterprise status for the construction of the Company’s plant at Yokneam, on terms similar to the above mentioned.

In the event of a distribution of a cash dividend out of tax-exempt income, as mentioned above, the Company (or the subsidiary who has also been granted with an Approved Enterprise status) will be liable to corporate tax at a rate of 10%-25% (depending on the percentage of foreign shareholders in the Company’s equity), in respect of the amount distributed. The Company and the subsidiary currently have no plans to distribute dividends from tax-exempt income.

The above tax benefits are conditioned upon fulfillment of the requirements stipulated by the aforementioned law and the regulations promulgated there under, as well as the criteria set forth in the certificates of approval. In the event of failure by the Company or the subsidiary to comply with these conditions, the tax benefits could be canceled, in whole or in part, and the Company or the subsidiary would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments.

On July 25, 2005 an amendment to the Israeli tax law was approved by the Israeli Parliament which reduces the tax rates imposed on Israeli companies to 31% for 2006; this amendment states that the corporate tax rate will be further reduced in subsequent tax years as follows: in 2007 29%, in 2008 27%, in 2009 26% and thereafter 25%.

Note 12 - Tax expense (benefit) (Cont.)

Taxation Under Inflationary Conditions

The Subsidiary reports for tax purposes in accordance with the provisions of the Income Tax Law (Adjustments Due to Inflation) - 1985, under which taxable income is measured in terms of NIS adjusted for changes in the Israeli Consumer Price Index. On February 26, 2008 the Israeli Parlament approved an act for the amendment of the Income Tax Ordinance (Adjustments Due to Inflation) – 1985, under which the law will be terminated on December 31, 2007.

The Company has received final tax assessments for the years up to and including the 2002 tax year. The subsidiaries have not been assessed for tax since their incorporation.

The United States of America

Since acquisition, Telco Systems has incurred losses for tax purposes. In addition, in accordance with U.S. tax law, Telco Systems made an election to amortize a substantial part of the excess cost paid by the Company in its acquisition over a period of 15 years. This has resulted in tax loss carry-forwards which may be expire before been utilized. Accordingly the future use of these benefits is uncertain. Other US subsidiaries are assessed for tax purposes on a consolidated basis with Telco Systems. No deferred tax asset has been recognised in respect of such losses. The total amount remaining to amortise for tax purposes is $160 Million and the amount of brought forward losses is $149 Million.

Other jurisdictions

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended December 31,	
	2007 $'000s	2006 $'000s
Profit before tax:	**19,962**	**6,949**
Tax at the Israeli corporation tax rate of 29% (2006: 31%)	5,789	2,154
Tax exempt income	(4,388)	(1,863)
Initial recognition of a deferred tax asset	(1,700)	-
Other differences	164	213
Tax expense (benefit) for the year	**(135)**	**504**

The effective tax rate for 2007 was -0.7% resulting mainly from the Company's benefits under the Approved Enterprise Program and deferred tax assets which were recorded for the first time in 2007.

Note 13 - Dividends

The board of BATM Advanced Communications Limited ("BATM" or "the Company") (LSE: BVC), announced its intention to recommend a dividend of 1 US Cent per share for the year ended 31 December 2007 in the Preliminary Results announcement on 21 February 2008, totaling approximately $4,000 thousands. The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 16 June 2008. If the payment of the dividend is approved it will be paid on 18 July 2008 to all eligible shareholders on the register as at 27 June 2008 (the Record date). The corresponding ex-dividend date will be 25 June 2007.

Note 14 - Earnings per Share

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

	Year ended December 31,	
	2007	2006
Earnings for the purposes of basic and diluted earnings per share ($'000s)	**19,874**	**6,445**
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	391,530,389	389,467,186
Effect of dilutive potential ordinary shares:		
Share options	4,616,560	5,274,077
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**396,146,949**	**394,741,263**

Note 15 - Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. At 31 December 2007 the goodwill of $3,184,000 was allocated to the acquisitions of: AMS on June 2007 $1,200,000 and Metrobility on June 2006 $1,984,000 (see Note 31).

The Group tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Note 16 - Other Intangible Assets

	Customer Relationships $'000s	Core Technology $'000s	Other $'000s	Total $'000s
Cost				
At 1 January 2006	1,311	-	-	1,311
Acquired on acquisition of a subsidiary	2,300	1,420	439	4,159
At 31 December 2006	3,611	1,420	439	5,470
Additions	-	-	-	-
Acquired on acquisition of subsidiaries	(*) 3,143	49	135	3,327
At 31 December 2007	6,754	1,469	574	8,797
Amortization				
At 1 January 2006	223	-	-	223
Charge for the year	544	101	46	691
At 31 December 2006	767	101	46	914
Charge for the year	815	203	128	1,146
At 31 December 2007	1,582	304	174	2,060
Carrying amount				
At 31 December 2007	**5,172**	**1,165**	**400**	**6,737**
At 31 December 2006	**2,844**	**1,319**	**393**	**4,556**

Other intangible assets are amortised over their estimated useful lives, which range from 1 to 10 years.

(*) As of the authorisation of these financial statements, the Purchase Price Allocation of NSI had not been completed. The allocation used for these financial statements represent managements best estimates.

Note 17 - Property, Plant and Equipment ($'000s)

	Land and buildings	Plant and equipment	Motor Vehicles	Furntiure and fittings	Leashold Improvements	Total
Cost						
At 1 January 2006	8,637	11,177	19	1,060	126	21,019
Additions	-	990	16	42	231	1,279
Acquisition of subsidiary	-	1,859	17	17	16	1,909
At 31 December 2006	8,637	14,026	52	1,119	373	24,207
Additions	50	662	-	110	190	1,012
Acquisition of subsidiary	-	526	-	100	-	626
Disposals	-	(9,059)	(22)	(176)	(91)	(9,348)
At 31 December 2007	8,687	6,155	30	1,153	472	16,497
Accumulated depreciation						
At 1 January 2006	2,010	8,911	9	683	110	11,723
Charge for the year	462	1,034	3	55	44	1,598
Acquisition of subsidiary	-	1,651	17	17	16	1,701
At 31 December 2006	2,472	11,596	29	755	170	15,022
Charge for the year	376	1,165	3	48	98	1,690
Acquisition of subsidiary	-	411	-	20	-	431
Eliminated on disposals	-	(9,059)	(22)	(176)	(91)	(9,348)
At 31 December 2007	2,848	4,113	10	647	177	7,795
Carrying amount						
At 31 December 2007	**5,839**	**2,042**	**20**	**506**	**295**	**8,702**
At 31 December 2006	**6,165**	**2,430**	**23**	**364**	**203**	**9,185**

Note 18 - Subsidiaries

A list of the direct and indirect investments in subsidiaries, including the name, country of incorporation, percent of ownership interest is presented below.

Name of subsidiary	Country of incorporation	Ownership interest	Date of acquisition
Telco Systems Inc.	United States of America	100%	April 2000
Integral Access Inc.	United States of America	100%	July 2005
Critical Telecom Inc.	Canada	100%	September 2006
Metrobility Optical Systems Inc.	United States of America	100%	June 2006
A.M.S. 2000	Romania	51%	June 2007
NSIcom Ltd	Israel	100%	October 2007
Telco Asia Pacific Limited*	Singapore	100%	March 2006
Netwiz	Israel	100%	January 1999
B.T.T.*	Israel	100%	March 1999
B.A.T.M. land*	Israel	100%	December 1994
BAT-NET*	Israel	100%	January 1996
B.A.T.M. Germany*	Germany	100%	June 1998
B.A.T.M. England*	United Kingdom	100%	April 1994
B.A.T.M. France*	France	100%	May 2000
B.A.T.M. Iberia*	Iberia	100%	September 2003

* Incorporated by the Company

Note 19 - Investment in Other Companies

	December 31,	
	2007 $'000s	2006 $'000s
Netstar Technology Corporation (Lantech) (1)	-	700
Lynx Photonic Networks Inc. (2)	-	301
	-	**1,001**

(1) Following negotiations in late 2006, The Company agreed, at the beginning of 2007, to sell its holdings in Lantech, a Taiwanese manufacturer of Ethernet switches, with consideration for our holding to $700,000. As a result, the Company recognised the loss of $2,387,000 in its 2006 income statement under Impairment of Investments.

(2) In 2007 $310,000 was recorded as Impairment of Investments in relation to the investment in Lynx Photonic Networks Inc which we have now completely written off. We also recorded a gain of $250,000 from the sale during 2007 of an investment that was written off in the prior year.

Note 20 - Investments

Investments presented as current assets include interest-bearing deposits of $14,365,000 at 31 December 2007 (2006: $30,589,000).

Note 21 - Inventories

	December 31,	
	2007 $'000s	2006 $'000s
Raw materials	5,836	6,762
Work-in-progress	142	809
Finished goods	6,233	5,605
	12,211	**13,176**

Note 22 - Other Financial Assets

Trade and other receivables

	December 31,	
	2007 $'000s	2006 $'000s
Amount receivable for the sale of goods	23,626	14,763
Participation in research and development:		
Government of Israel	464	459
VAT	544	214
Tax authorities	32	22
Prepaid expenses and other debtors	1,550	902
	26,216	**16,360**

The average credit period taken on sales of goods is 45 days. No interest is charged on the receivables. An allowance has been made at 31 December 2007 for estimated irrecoverable amounts from the sale of goods of $516,000 (2006: $389,000). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's credit risk is primarily attributable to its trade and receivables. The amounts presented in the balance sheet 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.

Note 23 - Derivative Financial Instruments

At the balance sheet date, the company doesn't have outstanding forward foreign exchange contracts.

Amount of $90 thousands have been transferred to the income statement in respect of contracts matured during 2007.

Note 24 - Deferred Tax Assets

The following are the major deferred tax assets recognised by the Group and movements thereon during the current and prior reporting period *(see also Note 12)*.

	Deferred development costs $'000s	Depreciation differences $'000s	Retirement benefit obligations $'000s	Losses carried forward $'000s	Total $'000s
At 1 January 2006	79	291	279	-	649
Credit to income	24	32	30	-	86
At 31 December 2006	103	323	309	-	735
Credit (charge) to income	21	(13)	(226)	1,700	1,482
At 31 December 2007	**124**	**310**	**83**	**1,700**	**2,217**

Note 25 - Other Financial Liabilities

Trade and other payables

	December 31,	
	2007 $'000s	2006 $'000s
Trade creditors	12,299	8,967
Salary accruals	2,924	2,015
Related parties	408	371
VAT	44	6
Other creditors and accruals	4,777	3,039
Liability in regard an acquisition of a subsidiary (Metrobility) (1)	1,814	2,649
	22,266	**17,047**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

(1) The liability of $1,814,000, bears annual interest of 5%, maturity date June 2008.

Note 25 - Other Financial Liabilities (Cont.)

Long-term payables

	December 31,	
	2007 $'000s	2006 $'000s
Forgivable debt to the office of the chief scientist	2,388	2,287
Liability in regard an acquisition of Metrobility	-	1,901
	2,388	**4,188**

Note 26 - Provisions

	Warranty provision $'000s	Contingent consideration resulting from the acquisition of subsidiary $'000s	Tax $'000s	Total $'000s
At 31 December 2006	1,035	866	600	2,501
Additional provision in the year	-	-	1,200	1,200
Utilisation of provision	108	-	-	108
Payment during the year	-	(377)	(480)	(857)
At 31 December 2007	**1,143**	**489**	**1,320**	**2,952**
Included in current liabilities				2,952
Included in non-current liabilities				-
				2,952

The warranty provision represents management's best estimate of the Group's liability under warranties granted on the Group's products, based mainly on past experience.

Note 27 - Share Capital

Ordinary shares of NIS 0.01 each (number of shares)		
	2007	2006
Authorised:	**1,000,000,000**	**1,000,000,000**
Issued and fully paid:	**392,322,169**	**389,677,837**

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

Note 28 - Share Premium Account

	Share premium $'000s
Balance at 1 January 2006	398,104
Premium arising on issue of equity shares	197
Stock options granted to employees	767
Balance at 31 December 2006	399,068
Premium arising on issue of equity shares	662
Stock options granted to employees	916
Balance at 31 December 2007	**400,646**

Note 29 - Revaluation Reserve

	Revaluation reserve $'000s
Balance at 1 January 2006	(219)
Increase in fair value of available-for-sale investments	158
Tax on items taken directly to equity	(40)
Released on disposal of available-for-sale investments	219
Balance at 31 December 2006	118
Released on disposal of available-for-sale investments	(118)
Balance at 31 December 2007	**-**

Note 30 - Accumulated Deficit

	Accumulated deficit $'000s
Balance at 1 January 2006	(333,352)
Net profit for the year	6,445
Balance at 31 December 2006	(326,907)
Net profit for the year	19,874
Balance at 31 December 2007	**(307,033)**

Note 31 - Acquisition of Subsidiaries

On 1 June 2007, the Group acquired 51% of the issued share capital of A.M.S. 2000 Trading IMPEX S.R.L ("AMS") for a consideration of $3,002,000. AMS is engaged in the importation, marketing, sale and servicing of a wide variety of diagnostic kits and supplies and other medical equipment. This transaction has been accounted for by the purchase method of accounting.

AMS	Book value $'000s	Fair value adjustments $'000s	Fair value $'000s
Net assets acquired			
Property, plant and equipment	261	(68)	193
Inventories	1,188	(53)	1,135
Trade and other receivables	864	297	1,161
Cash and cash equivalents	64	-	64
Trade and other payables	(1,608)	449	(1,159)
Short-term Bank credit	(88)	-	(88)
Minority Interest	-	(735)	(735)
	681	**(110)**	571
Other Intangible Assets			1,231
Goodwill			1,200
Total consideration			**3,002**
Satisfied by:			
Cash			2,504
Consideration recorded as liability			498
			3,002
Net cash outflow arising on acquisition			
Cash consideration			3,002
Cash and cash equivalents acquired			(64)
			2,938

AMS contributed $3,623,000 revenue and $560,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2007.

If the acquisition of AMS had been completed on the first day of the 2007 financial year, Group revenues for that year would have been $98,584,000 and Group profit would have been $20,465,000.

Note 31 - Acquisition of Subsidiaries (Cont.)

On 1 October 2007, the Group acquired 100% of the issued share capital of NSIcom Ltd. ("NSI") for a consideration of NIS7,500,000 recorded as a loan.The company provides a wide range of advanced developing and testing services to telecom manufacturers, carriers and other enterprises. This transaction has been accounted for by the purchase method of accounting.

NSI	$'000s
Net asset acquired	
Property, plant and equipment	2
Trade and other receivables	386
Trade and other payables	(2,245)
Bank loan	(239)
	(2,096)
Other Intangible Assets	2,096
Total consideration	-
Less- consideration recorded as liability	-
Total cash consideration	-

NSI contributed $948,000 revenue and $193,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2007.

If the acquisition of NSI had been completed on the first day of the 2007 financial year, Group revenues for that year would have been $98,104,000 and Group profit would have been $20,313,000.

Note 31 - Acquisition of Subsidiaries (Cont.)

On 29 June 2006, the Group acquired 100% of the issued share capital of Metrobility Optical Systems Inc. ("Metrobility") for a consideration of $6,100,000. Metrobility is a manufacturer of intelligent demarcation equipment that enables optical Ethernet services in metropolitan area networks. This transaction has been accounted for by the purchase method of accounting.

Metrobility	Book value $'000s	Fair value adjustments $'000s	Fair value $'000s
Net assets acquired			
Property, plant and equipment	208	(44)	164
Inventories	1,715	(517)	1,198
Trade and other receivables	1,451	32	1,483
Cash and cash equivalents	149	-	149
Trade and other payables	(1,139)	(721)	(1,860)
Bank loans	(985)	-	(985)
Provisions	(70)	(187)	(257)
	1,329	**(1,437)**	(108)
Other Intangible Assets			4,120
Goodwill			2,284
Total consideration			**6,296**
Satisfied by:			
Cash			1,863
Directly attributable costs			260
Consideration recorded as liability			4,173
			6,296
Net cash outflow arising on acquisition			
Cash consideration			6,296
Cash and cash equivalents acquired			(149)
			6,147

Metrobility contributed $5,900,000 revenue and $300,000 to the Group's profit before tax for the period between the date of acquisition and 31 December 2006.

If the acquisition of Metrobility had been completed on the first day of the 2006 financial year, Group revenues for that year would have been $78,800,000 and Group profit would have been $6,100,000.

Note 31 - Acquisition of Subsidiaries (Cont.)

On September 2006 the Group acquired the net assets of Critical Telecom Corporation Inc., a Canadian corporation, for a cash consideration of $70,000. The transaction has been accounted for by the purchase method of accounting.

Critical Telecom	$'000s
Net asset acquired	
Property, plant and equipment	44
Inventories	100
Trade and other receivables	81
Trade and other payables	(84)
	141
Other Intangible Assets	39
Total consideration	180
Less- consideration recorded as liability	(110)
Total cash consideration	**70**

Note 32 - Note to the Cash Flow Statement

	Year ended December 31	
	2007 $'000s	2006 $'000s
Operating profit from continuing operations	16,603	7,259
Adjustments for:		
Depreciation of property, plant and equipment	1,690	1,598
Stock options granted to employees	916	767
Amortisation of intangible assets	1,146	691
Increase in retirement benefit obligation	25	24
Decrease in provisions	(269)	(175)
Operating cash flows before movements in working capital	20,111	10,164
Decrease (increase) in inventories	2,100	(1,433)
Increase in receivables	(8,308)	(4,007)
Decrease in payables	(483)	(744)
Cash generated by operations	13,420	3,980
Income taxes paid	(505)	(19)
Interest paid	(286)	(201)
Net cash from operating activities	**12,629**	**3,760**

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Note 33 - Contingent Liabilities

Stamp duties

There is a potential exposure totalling approximately $2,000,000, relating to stamp duties connected with some placements made by the Company in the past. According to the advice of the Company's legal advisors, and in contrast to the position of the Companies' Registrar, an obligation to pay stamp duties arises only when a stamped document exists, and since the placements were not accompanied by a stamped issuance report, such obligation does not exist.

The Company has not provided for such an amount in its financial statements.

Note 34 - Operating Lease Arrangements

The Group as lessee

	Year ended December 31	
	2007 $'000s	**2006 $'000s**
Minimum lease payments under operating leases recognised in income for the year	**970**	**849**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	December 31,	
	2007 $'000s	**2006 $'000s**
Within one year	976	778
In the second to fifth years inclusive	1,906	2,572
After five years	-	26
	2,882	**3,376**

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 6 years and rentals are fixed for an average of 6 years.

The Group as lessor

Property rental income earned during 2007 was $221,000 (2006: $170,000). The property held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	December 31,	
	2007 $'000s	**2006 $'000s**
Within one year	72	139
In the second year	-	61
	72	**200**

Note 35 - 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 exercisables at a price equal to the average quoted market price of the Company's shares less 10% on the date of grant.

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

	2007		2006	
	Number of share options	Weighted average exercise price (in GBP)	Number of share options	Weighted average exercise price (in GBP)
Outstanding at beginning of period	15,786,920	0.5664	13,390,124	0.7321
Granted during the period	1,636,541	0.2904	3,715,098	0.2684
Forfeited during the period	(336,547)	1.0254	(661,582)	2.6240
Exercise during the period	(2,644,332)	0.1274	(656,720)	0.1364
Outstanding at the end of the period	**14,442,582**	**0.6047**	**15,786,920**	**0.5664**
Exercisable at the end of the period	**8,737,204**	**0.8415**	**8,581,770**	**0.8639**

The weighted average share price at the date of exercise for share options exercised during 2007 was 0.31 Great British Pounds ("GBP"). The options outstanding at 31 December 2007 had a weighted average exercise price of 0.6047 GBP, and a weighted average remaining contractual life of 6.66 years. In 2007, options were granted on February 20, May 24 and June 12. The aggregate of the estimated fair values of the options granted on those dates is $1,013,000. In 2006, options were granted on March1, June 7, June 14, August 30, September 10 and December 22. The aggregate of the estimated fair values of the options granted on those dates is $1,937,000.

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

	2007 $'000s	2006 $'000s
Weighted average share price	0.32	0.30
Weighted average exercise price	0.13	0.14
Expected volatility	35-99	56-99
Expected life	7	7
Risk-free rate	4.5%	4.5%
Expected dividends	-	-

Note 35 - Share-Based Payments (Cont.)

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 1 year. 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 $916,000 and $767,000 related to equity-settled share-based payment transactions in 2007 and 2006, respectively.

Note 36 - Retirement Benefit Obligation

Defined contribution schemes

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.

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

Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its subsidiaries in Israel. This scheme provides severance pay provision as required by israeli law. No other post-retirement benefits are provided. The schemes are funded schemes.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 4 February 2008 by Edi Comisarenco, FILAA on behalf of Immunities Ltd., a member of the Institute of Actuaries. 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 main assumptions used in the actuarial calculation were:

1. Discount rate of 3.6% in 2007 (2006: 3.6% to 4.09%)
2. Expected rate of salary increases of 5.0%. Based on terms of the plans, the fair value of the defined benefit assets approximates it surrender value.

The Liability recognised in the balance sheet at 31 December 2007 was $335,000
(2006: $310,000).

Note 37 - Related Party Transactions

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 49 to 50.

	2007 $'000s	2006 $'000s
Short-term employee benefits	1,855	705
Post-employment benefits	17	13
Other long-term benefits	25	22
Termination benefits	27	28
Share-based payment	262	243
	2,186	**1,011**

Note 38 – Financial Instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of profits.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27 to 30 respectively.

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 recommendations of the management, 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 2 to the financial statements.

Note 38 – Financial Instruments (Cont.)

(c) Categories of financial instruments

	2007 $'000s	2006 $'000s
Financial assets		
Cash and cash equivalents	35,809	15,363
Held for trading	2,587	-
Held-to-maturity investments	12,007	3,432
Deposits and receivables	40,585	46,949
Available-for-sale financial assets	-	1,023
Financial liabilities		
Held for trading	22,636	19,147
Designated	2,388	2,287

(d) Loans and receivables designated as at 'fair value through profit or loss'

	2007 $'000s	2006 $'000s
Carrying amount of deposits and receivables designated as at 'fair value through profit or loss'	41,101	47,338
Cumulative changes in fair value attributable to changes in credit risk	516	389
Changes in fair value attributable to changes in credit risk recognised during the period	127	(45)

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the company's and the Group's maximum exposure to credit risk for such loans and receivables

(e) 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 derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written 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.

Note 38 – Financial Instruments (Cont.)

(f) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer to section g) and interest rates (refer to section h). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export of telecommunications equipment to the United States;

At a Group level market risk exposures are measured using value-at-risk (VaR), supplemented by sensitivity analysis, and stress scenario analysis. At a company level market risks are managed through sensitivity analyses and stress scenario analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(g) 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 carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2007 $'000s	2006 $'000s	2007 $'000s	2006 $'000s
New Israeli Shekel	4,329	6,910	3,515	3,552
Euro	486	304	12,228	1,039
Other	2,714	13	4,921	32

Foreign currency sensitivity

The Group is mainly exposed to Euro, NIS and GBP

The following table details the Group's sensitivity to a 5 per cent change in US$ against the respective foreign currencies. The 5 per cent 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 analyses 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 US$ strengthens against the respective currency.

Note 38 – Financial Instruments (Cont.)

Profit or loss

	2007 $'000	2006 $'000
NIS Impact	(58)	(206)
Euro Impact	493	12
GBP Impact	154	-

This is mainly attributable to the exposure outstanding USD receivables and payables at year end in the Group.

The following tables detail the fair value of financial assets and financial liabilities that are not carried at fair value in the financial statements:

	Carrying amount $'000	Fair value $'000
2007		
Consolidated		
Financial assets:		
Held-to-maturity	12,007	11,626

	Carrying amount $'000	Fair value $'000
2006		
Consolidated		
Financial assets:		
Held-to-maturity	3,432	3,421

Financial Statements

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal Activities and Review of the Business

BATM's main activities are the research and development, production and marketing of data and telecommunication products in the field of local and wide area networks. The operations of the business are reviewed in full in the Chairman's Statement on pages 1-2.

Results and Dividends

The results of the year are set out in the consolidated profit and loss account. After providing $1,206,000 amortization of intangible assets for the year and a write down of one of the Company's investments, we recorded a profit of $19,874,000.

Following the satisfactory results for the year the board of BATM has announced its intention to recommend a dividend of 1 US Cent per share for the year ended 31 December 2007. The dividend will be proposed for approval by shareholders at the Company's Annual General Meeting which will be held on 16 June 2008. If the payment of the dividend is approved it will be paid on 18 July 2008 to all eligible shareholders on the register as at 27 June 2008 (the Record date). The corresponding ex-dividend date will be 25 June 2007.

Directors

The following served as directors during the year.

Peter Sheldon FCA, (66), non-executive Chairman, is a Chartered Accountant and International Business Consultant. He is a former finance director of Hambros Bank and has held positions as Chairman and Director of a number of UK publicly quoted and private companies. His quoted company appointments have included UDS Group; World of Leather; Stirling Group and Geo Interactive Media (now Emblaze). He is currently a director of the British Israel Chamber of Commerce and heavily involved in the charitable sector in a voluntary capacity. He has been a member of the Board of BATM since 1998 and became Chairman in October 1999.

Dr. Dan Kaznelson, M.D., D.M.D. (66), Senior non-executive, is a Physician, a former Lecturer at The Tel-Aviv University, a self-educated Database Systems Analyst and Programmer, and a reserve Colonel in the Israel Defense Forces. He has held positions as Chairman and Director of a number of private and publicly quoted companies. He has been a member of the Board of BATM since 1996 and is at present Chairman of the Audit and Remuneration Committees.

Dr. Zvi Marom (53), Chief Executive Officer, founded BATM in 1992. He holds degrees in Engineering and Medicine. Prior to establishing BATM, he was the head of the Electronic faculty of the Israeli Open University and senior consultant to several industrial and academic institutions. He graduated in excellence from the naval academy and served in combat command posts. He was awarded the Techmark "Technology Man of the Year" award from the London Stock Exchange in 2000. He is currently a director of Shore Capital, a UK company.

Directors (Cont.)

Ofer Bar-Ner (43), Chief Financial Officer, joined BATM in 1999. From 1996 he was Chief Financial Officer of Silver Arrow LP, a subsidiary of Elbit Systems and EL-OP, and between 1989 and 1993 he was group manager in the finance Department of Elbit. He graduated in Industrial Engineering and Management from the Technion in Haifa and has an MBA and MA in accounting from Northeastern University in Boston, MA. He is currently an External director of Vigilant Technology Ltd., an Israeli company.

Ariella Zochovitzky (51), CPA, non-executive, is the general manager & partner of C.I.G. Capital Investments Group Ltd. She is currently a director of a number of public and private companies in Israel including Pension Funds at New Makefet, Inspire Investments Ltd., Elco Holdings Ltd and Gazit Inc. She has been a member of the Board of BATM since September 2004.

Koti Gavish (64), non-executive, is the Chief Executive Officer of Eihut Capital Market Ltd. He is currently a director of a number of public and private companies in Israel including Ratio Oil Exploration Ltd., Superior Cables Ltd., Spark Enterprise Ltd. and the Provident Funds of Bank Mercantil Discount Ltd. He has been a member of the Board of BATM since September 2004.

Compliance

The Board supports the principles of corporate governance outlined in the Combined Code on Corporate Governance (Code). This statement describes the manner in which the company has applied the principles set out in Section 1 of the code.

The directors consider that throughout the financial year the company has complied with the requirements of Section 1 of the Code, with the exception of A.1.2 in relation to matters specifically reserved for board decision, and A.1.4 in relation to the company secretary. In addition, as outlined below, the company's responsibilities under Israeli company legislation is such that it is obliged to appoint two independent directors who cannot serve for more than two three year terms each. In those circumstances it believes that it is essential to maintain a number of directors who may serve for more than the ten year period recommended under the code in order to provide continuous experience and knowledge. Accordingly in respect of Dr. Kaznelson, who has served for 12 years, the company is not in compliance with the Code.

The Board

In compliance with Israeli company legislation the Board meets at least four times a year in formal session. There is not a formal schedule of matters specifically reserved to the Board for decision, as set out in A.1.2 of the Code, however, provisions in the Israeli company legislation set out the responsibilities and duties of and areas of decision for the Board. These provisions have been fully complied with.

The Board comprises six directors, four of whom are non-executive directors, under the chairmanship of Peter Sheldon. The Chief Executive is Dr. Zvi Marom. The senior non-executive director is Dr. Dan Kaznelson. 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 43 & 44. Dr. Zvi Marom, Dr. Dan Kaznelson, Peter Sheldon and Ofer Bar-Ner hold shares in the company and their share holdings are set out on page 49. All the non-executive directors are independent of management and not involved in any business or other relationship, which could materially interfere with the exercise of their independent judgment. In Israel, due the relatively low level of remuneration of independent directors it is customary to offer such appointees share options and Mrs. Zochovitsky, Mr. Gavish and Dr. Kaznelson have previously been granted options. It is not the Board's intention to offer further options to these individuals. The executive directors and the Chairman are totally satisfied that under the circumstances in which the options were granted, the independence of these directors has in any way been compromised.

The induction of newly elected directors into office is the responsibility of the senior independent director (presently Dr. Dan Kaznelson). The new directors receive a memorandum on the responsibilities and liabilities of directors as well as presentations of all activities of the company by senior members of management and a guided tour of the company's premises. No such induction activities took place during the year under review.

All directors are invited to visit the company premises and its manufacturing facilities. Each month every director receives a detailed operating report on the performance of the company in the month and cumulatively including a Balance Sheet. A fuller report on the trading and quarterly results of the company are 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 Board (Cont.)

Under Israeli law it is not a mandatory requirement for a company to have a secretary and the company does not therefore have a formally appointed secretary. However, Mr. Arthur Moher, who is also one of the company's legal advisers, provides the company with all the functions of company secretary and all the directors have access to Mr. Moher's services. The directors are therefore of the opinion that the spirit of A.1.4 of the Code has been complied with.

The directors may take independent professional advice at the company's expense in furtherance of their duties. Independent outside counsel is present at every Board meeting and Board committee meetings.

Relations with Shareholders

The company's management holds frequent meetings with institutional shareholders and specifically after the publication of its interim and final financial statements. The Board also supports the use of the annual general meeting to communicate with private investors.

Nominations Committee

The Board has a nominations committee which is chaired by Peter Sheldon. Individuals nominated as directors are elected by the shareholders in general meeting. Executive and non-executive directors are elected by the shareholder's General Meeting for a term of one year. 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 a further term of three years. The re-appointment of a director must be approved by the shareholders in general meeting. No nominations of directors were made during the year under review.

The Board has a Remuneration Committee, which is chaired by Dr. Dan Kaznelson. Information of the company's policy regarding the setting of directors remuneration together with details of the service contracts of the executive directors and the remuneration of directors is set out in the Remuneration Report on page 48 & 49.

Accountability and Audit

Auditors

Brightman Almagor & Co., a member firm of Deloitte Touche Tohmatsu, has expressed its willingness to continue in office and a resolution to re-appoint the firm will be proposed at the annual general meeting.

Audit Committee

The company has an Audit Committee, which consists of three out of the four non-executive directors, Dr. Dan Kaznelson (chairman), Mrs. Ariella Zochovitzky and Mr. Koti Gavish

The Audit Committee meets a minimum of twice a year and the internal and external auditors also attend the meetings. The Audit Committee adheres to the functions and requirements prescribed to it by the Israeli Companies Act and Israeli law. The Chairman of the Audit Committee maintains close contact with the company on a weekly basis.

The "Market Abuse Directive"

The Board of Directors has established a committee to supervise the implementation of the guidelines laid down in the "Market Abuse Directive".

Accountability and Audit (Cont.)

The company complies of with these guidelines, including inter alia, the maintaining of “insider lists” of all individuals with access to inside information of the company.

Internal Control

The Board of directors has overall responsibility for ensuring that the company maintains adequate systems of internal control. To this end, in accordance with Israeli Company Law, the company retains the services of an independent internal auditor. The internal auditor reports to the Audit Committee, and is responsible for ensuring that the company is run according to good corporate practice.

Risk management is currently reviewed on an ongoing basis by the Board as a whole.

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 Board of the company is furnished with detailed financial information on a monthly basis.

Statement of Directors’ Responsibilities

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Company law requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and the Group, and of the profit and loss of the Group for the period. In preparing these financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgments and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Environmental Policy

The Directors recognize the importance of the Group adhering to clear environmental objectives.

Its environmental policy is to:

- meet the statutory requirements placed on it;
- adopt good environmental practice in respect of premises, product development and manufacturing, and consumption of resources;
- aim to recycle as much of its waste products as it is economically practicable to do.

The Company is implementing the recommendations of ROHS (The Restriction of Hazardous Substances in Electrical and Electronic Equipment (ROHS) Directive (2002/95/EC), and as from the year 2008, all its products will be fully ROHS certified.

During the course of 2008 the company believes it will be fully ISO 14000 certified.

Remuneration Committee and Remuneration Report

Remuneration policy is laid down by the board and monitored through the company's remuneration committee. The committee consists of three out of the four non-executive directors and excludes the chairman as is required under Israeli Company Law. As presently constituted, the committee consists of Dr. Dan Kaznelson, Mrs. Ariella Zochovitzky and Mr. Koti Gavish. Dr. Dan Kaznelson serves as chairman. The committee is responsible for recommendation to the board of remuneration strategy and policy of the company for determining the short and long-term pay structures for the executive directors. In principle this policy is to ensure that levels of pay are established which meet four criteria:

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.
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.

With the exception of the "public 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 AGM, if proposed for re-election.

In accordance with Israeli company law, the Board recommends and the general meeting of the Company is asked to approve, the remuneration of the executive and non-executive directors of the company, after it has been first approved by the company's Remuneration Committee.

The remuneration of the executive and non-executive directors of the company for the year ended 31 December 2007 was as follows:

Executive Directors in 2007

Dr. Zvi Marom – CEO – is employed under a service contract from 1 July 2005, which is renewable annually. From July 2007 his basic salary was increased to $240,000 and he receives social benefits as are normally granted by employers in Israel. An annual profit share bonus, based on the rate of increase in net profit of each year, is also payable, the terms having been approved at the Company's AGM on 26, July 2007. Following the exceptional performance in 2007 in respect of which Dr. Marom played a major part a bonus of $853,000 has been accrued in respect of this plan. A bonus of $275,000, which was accrued in respect of 2006 and approved at the 2007 AGM was paid in 2007.

Ofer Bar-Ner – CFO – is employed under a service contract from September 2002. The Remuneration Committee has recommended a new contract for Mr. Bar Ner details of which are set out in the Notice of Annual General Meeting and which the members will be asked to approve at the AGM. During 2007 Mr. Bar Ner earned a basic salary of $135,000 and usual social benefits. In 2006, a loan of $50,000 was approved at the Company's AGM and the loan became a non-refundable bonus to Mr. Bar-Ner on January 1, 2008. On June 12, 2007 the Board approved to grant Ofer Bar-Ner 330,000 options to purchase BATM shares at an exercise price equal to the market price of the BATM share on the date of approval by the Board less 10%. Such options may be exercised by Mr. Bar-Ner within a three year period commencing as of December 31, 2008 provided that Mr. Bar-Ner remains in his position as CFO with the company until December 31, 2008.

Executive Directors in 2007 (Cont.)

	2007 Salary and Benefits	2006 Salary and Benefits
Dr. Zvi Marom	1,218	639
Ofer Bar-Ner	181	154

Non-executive Directors in 2007

The non-executive directors are appointed at each AGM for a period of one year. The Chairman is remunerated at a fixed rate of GBP 25,000 per annum.

Dr. Dan Kaznelson is paid $9,000 per annum and $1,500 per meeting respectively. In addition, as disclosed and approved at the Company's 2007 AGM, Dr. Dan Kaznelson received a package of 600,000 share options divided into three annual lots of 200,000 share options. Each lot of share options vests on December 31st of each calendar year commencing as of 31 December 2007, provided that the grantee is an acting director in the company on the vesting date and the grantee may exercise the options at any time within 3 years from the vesting date. The exercise price is the market price on the Board approval date, February 20, 2007, less 10%.

Mrs. Ariella Zochovitzky and Mr. Koti Gavish, the Public external Directors, were remunerated in accordance with Israeli Company Law provisions for such appointees. In addition,for the first three year term of their service they received a remuneration package of 200,000 share options each per annum, as approved by the Annual General Meeting at the time of their election as directors.They were reappointed in 2007 for a second period of 3 years with the renumeration in accordance with Israeli company law provisions.

The fees for Mr. Sheldon and Dr.Kaznelson, which are fixed by the Board of the company (the director concerned playing no part in the determination of the pay) are established by reference to fees paid by other companies of similar size and complexity and reflecting the amount of time that the non-executive directors are expected to devote to the company's activities during the year.

	2007 Fees	2006 Fees
Peter Sheldon	47	38
Dr. Dan Kaznelson	15	23
Ariella Zochovitzky	20	10
Koti Gavish	20	10

Directors' Interest in Shares

The directors of the company are listed below together with their beneficial interests in the shares of the company at the beginning and end of the financial year.

	0.01 NIS Ordinary Shares fully paid 2007	0.01 NIS Ordinary Shares fully paid 2006
Dr. Zvi Marom	92,750,900	92,750,900
Dr. Dan Kaznelson	146,300	146,300
Peter Sheldon	450,000	300,000
Ofer Bar-Ner	158,600	158,600

Directors' Options (Accumulated)

	Number of options 2007	Number of options 2006
Dr. Zvi Marom (1)	2,700,000	2,700,000
Ofer Bar-Ner (2)	1,663,333	1,333,333
Dr. Dan Kaznelson (3)	600,000	-
Ariella Zochovitzky (4)	300,000	600,000
Koti Gavish (5)	400,000	600,000

(1) The grant is of:

a: 400,000 options exercisable into 100,000 ordinary shares of the company per year commencing on July 1, 2000 and on July 1, of every subsequent year. Each option vests and is exercisable 24 months from the date of each grant, at a price equal to the then current market price less ten per cent.

b: 300,000 options granted at an exercise price of £0.20 per share these options will vest at a rate of 100,000 options annually on July 1st of each year commencing from July 1, 2004.

c: 2,000,000 options granted as follows: one million at an exercise price of £0.1625 per share these options will vest over 3 years commencing from December 31, 2005.

The additional one million are performance linked incentive provided that the annual net profit of the company has increased by at least 15% as compared with the previous year and that the company has made a net profit in the relevant financial year, the exercise price is £0.1625 per share and will vest over 3 years commencing from December 31, 2005.

(2) The grant is of:

a: 333,333 options vested fully on January 1, 2004 at exercise price of £0.2648.

b: 1,000,000 options granted at an exercise price of £0.24 per share these options will vest over 3 years commencing from February 1, 2006.

c: 330,000 options granted at an exercise price of £0.279 These options may be exercised within a three year period commencing from December 31, 2008.

(3) Exercise price of £0.315 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2007.

(4) Exercise price of £0.1621 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2004.

(5) Exercise price of £0.154 per share. These options will vest at a rate of 200,000 options annually on December 31 of each year commencing from December 31, 2004.

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