BATM

Advanced Communications

Interim Report 2010

BATM Advanced Communications continues to lead the market in Metro Area Network Ethernet solutions.

BATM Medical is a leader in providing niche, cost effective diagnostics solutions to medical laboratories.

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www.BATM.com

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Revenues for the first half of 2010 fell by $13.7 million to $55.3 million. This was comprised of Telecoms division revenue of $35.7 million (2009: $55.9 million) and Medical division revenue of $19.6 million (2009: $13.1 million), an increase of 50%. The decrease in the Telecoms division was primarily due to a significant decline of revenues during the period from a major OEM channel, as compared to those in the equivalent period in 2009.

The gross profit margin has decreased from 43.5% in H1 2009 to 35.8% in line with the interim management statement released in May. The decrease is primarily due to the change in sales mix but has also been adversely affected by the substantial decrease in the Euro / US Dollar exchange rate. This has been slightly offset by an increase in the gross margin in the Medical division.

Sales and marketing expenses in the first half of 2010 were $7.2m (H1 2009: $6.7m) - an increase of 7% over the same period last year. The increase is mainly due to the expansion of our laboratory diagnostics offering. As a percentage of revenue, sales and marketing expenses were 13.0% (H1 2009: 9.7%).

General and administrative expenses in the first half of 2010 were $4.8m (H1 2009: $4.5m). These costs have similarly increased due to the expansion of our laboratory diagnostics offering. This increase has been slightly offset by consolidation of our operations in both the United States and Israel into centralized sites during the middle of the first half of 2010, and associated cost savings. As a percentage of revenue, general and administrative expenses were 8.6% (H1 2009: 6.6%).

Net R&D expense in the first half of 2010 was $6.5m (H1 2009: $5.8m), an increase of 12%. This increase is again primarily associated with the expansion of our laboratory diagnostics offering and expanded R&D department working on immunology diagnostic products.

The operating loss in the first half of 2010 was $1.4m (H1 2009: profit of $10.8m). The decrease is mainly as a result of the decrease in revenues and lower gross profit margins. Our surveillance operations generated a loss of $1 million in the first half of the year. In addition this loss is after increased operating expenses of $1 million associated with the expansion of our medical diagnostic offering and $0.8 million of non-recurring restructuring costs from the consolidation of US operations

EBITDA has decreased to $2.1 million from $14.2 million in H1 2009.

Net finance income in the first half of 2010 was $1.0m (H1 2009: $2.9m). The decrease is largely due to a decrease in income from foreign exchange gains and associated hedges on USD balances, from $2.2 million in 2009 to $0.6 million in 2010.

Tax expenses of $1.2 million includes $0.7 million tax on dividends of $8.1 million part of which were from profits from the approved enterprise scheme and therefore incur tax on distribution, and an exceptional tax expense in Italy.

Net loss after tax in the first half of 2010 amounted to $1.5m (H1 2009: profit of $12.9m), resulting in a basic loss per share of 0.21 cents (H1 2009: profit of 3.35 cents).

Our balance sheet remains strong with effective liquidity of $62.8m. This has decreased by $4.0m from $66.8m as at 31 December 2009. This decrease is primarily due to erosion of our Euro denominated cash by the strengthening of the US Dollar. Period end cash is comprised as follows: cash and deposits up to three months duration of $30.2m; short-term cash deposits up to one year of $29.6m; $3.0m is held in investments including $1.0m in triple A bank notes falling due at the end of 2010; and $2.0m in bonds that announced early repayment and were paid on 15 July 2010. As the dominant economic environment has been Euro denominated, the majority of the Company's liquid assets are held in this currency.

Business Review

Telecoms Division

This first half of the year has been marked by a significant decrease of revenues to a major OEM customer and an operating loss of $1 million generated by our surveillance business. As a result of the declining OEM market management has put an increased focus on the development of direct sales and alternative complimentary OEM channels. Management has also identified areas in which costs can be reduced in those parts of the division that have suffered.

In the first half of 2010 BATM released two niche packet backhaul products including both a cell site gateway and 10G multi-service aggregation switch. Orders were received for both products on release, and we expect demand to grow into next year. BATM intends to release its unique service management solution towards the end of the year. Several requests from major customers for pilots have been received and a few important customers were selected for field trials. The combination of these products gives service providers the ability to migrate cost effectively their wireless networks to 3G and 4G without having to replace their core networks. This new product suite, as well as planned future offerings, puts BATM in an excellent position to increase its direct sales to service providers under its Telco Systems brand in the coming years.

During H1 2010 we consolidated operations both in the United States and Israel into two new offices purchased in the second half of 2009, capitalizing on unique opportunities in the real estate market. This move will reduce the operational overheads in both locations and cost savings will be realised in the second half of this year. In addition we have taken steps to reduce the cost base of parts of the division associated with weaker product lines. These cost savings should reduce operating expenses by approximately $1 million per annum. Our surveillance operations generated an operational loss of $1 million and changes to personnel and the business model have been made in order to bring the business into operational balance by the end of 2010.

As part of the strategic progress described above, BATM attained important achievements in the first half of the year. As reported earlier in the year a licensing agreement was signed with a major chip manufacturer and our relationship with a relatively new tier two OEM customer has shown very positive signs. These developments are expected to yield revenues of several million US dollars from 2011 onwards. Management believes that despite the difficulties that have faced the Telecom Division due to the decline in its major OEM business there are good prospects of a return to growth.

Chairman's Statement

Medical Division

During the first half of 2010 the Medical Division has made exceptional progress. Revenues have grown by 50% compared with the same period in 2009, of which approximately half was organic growth, and the gross margins are steadily increasing. Gross margins in the division are expected to approach the mid-twenty percent later this year and will continue to rise as marketing of reagents with the machines ramps up towards the end of this year. The growth has been driven by new sales channels in all of our small-mid laboratory businesses both in the sterilization and diagnostics offerings. Channels have been developed in BRIC countries as well as in the Middle East and Europe. BATM has put great emphasis on emerging markets and believes that it can further enhance its position in these markets this year.

The Medical division has unveiled a highly innovative new product in our sterilization line that offers an extremely cost effective medical waste disposal solution to medical centres. BATM expects to register several patents on this IP and a backlog of orders for this product has already been generated for 2011. The Research and Development department of the diagnostic line are currently developing solutions that are designed to increase the speed and cost effectiveness of clinical chemistry tests.

In the second half of the year we will continue to consolidate our Medical businesses which we believe will lead to modest cost savings and increased sales synergies.

Prospects

Despite the disappointing start to the year, due almost exclusively to the low orders from our major OEM customer, from April onwards we have begun to see positive signs in our business. We have signed two licensing agreements with new customers, including an agreement reported in April 2010 with a leading semi-conductor manufacturer, to license some of our mobile backhaul technology. Backlog orders have been received for our new Metro devices and deliveries will start in H2. Revenues from the licensing will begin in mid 2011 and are initially expected to be in the region of several US$ million. There have also been strong orders in the Medical division at the start of H2.

We expect to see the upwards trend continue in the second half of 2010. Management is encouraged by the positive signs in the business at the end of H1 and beginning of H2. The sales mix to date is expected to continue and management expects that revenues for the full year will reach in the region of $120 million and that profitability in the second half of the year, as previously reported in the Interim Management Statement, will be in line with that of the second half of 2009.

Peter Sheldon
Chairman

31 August 2010

Consolidated Income Statements

	Six months ended 30 June	
	2010	2009
	US$ in thousands	
Revenues	55,285	68,995
Cost of revenues	35,487	39,012
Gross profit	19,798	29,983
Operating expenses		
Sales and marketing expenses	7,212	6,716
General and administrative expenses	4,781	4,524
Research and development expenses	6,522	5,842
Other operating expenses	2,656	2,080
Total operating expenses	21,171	19,162
Operating (loss) profit	(1,373)	10,821
Investment revenue	818	806
Gains (losses) on financial instruments	(1,122)	1,057
Foreign exchange differences	1,711	1,158
Finance costs	(372)	(160)
Profit (loss) before tax	(338)	13,682
Tax	(1,194)	(800)
Profit (loss) for the period	**(1,532)**	**12,882**
Attributable to:		
Owners of the Company	**(867)**	**13,451**
Non-controlling interests	**(665)**	**(569)**
Income (loss) for the period	**(1,532)**	**12,882**
Earnings (loss) per share (in cents) basic	**(0.21)**	**3.35**
Earnings (loss) per share (in cents) diluted	**(0.21)**	**3.34**

Consolidated Statements Of Comprehensive Income

	Six months ended 30 June 30	
	2010	2009
	US$ in thousands	
Profit (loss) for the period	(1,532)	12,882
Exchange differences on translating foreign operations	(10,994)	1,352
Total Comprehensive Income (loss) of the Period	**(12,526)**	**14,234**
Attributable to:		
Owners of the Company	**(12,144)**	**14,610**
Non-controlling interest	**(382)**	**(376)**
	(12,526)	**14,234**

Consolidated Statements Of Financial Position

	30 June 2010	30 June 2009	31 December 2009
		US$ in thousands	
	Unaudited	Unaudited	Audited
Non-current assets			
Goodwill	11,060	12,345	11,345
Other intangible assets	20,546	26,794	23,323
Property, plant and equipment	22,106	12,956	21,911
Held to maturity investments	-	5,871	4,347
Deferred tax assets	4,678	2,065	4,848
	58,390	60,031	65,774
Current assets			
Inventories	19,792	17,392	22,040
Investments	32,622	35,093	34,332
Trade and other receivables	25,920	36,985	31,171
Cash and cash equivalents	30,173	28,117	28,095
	108,507	117,587	115,638
Total assets	**166,897**	**177,618**	**181,412**
Current liabilities			
Short-term bank credit	5,875	6,477	6,139
Trade and other payables	28,969	32,023	21,624
Provisions	3,806	2,818	3,505
	38,650	41,318	31,268
Net current assets	69,857	76,269	84,370
Non-current liabilities			
Long-term liabilities	12,755	7,546	14,219
Retirement benefit obligation	793	983	875
	13,548	8,529	15,094
Total liabilities	**52,198**	**49,847**	**46,362**
Net assets	**114,699**	**127,771**	**135,050**
Equity			
Share capital	1,214	1,212	1,214
Share premium account	406,263	405,465	405,961
Foreign currency translation reserve and other reserves	(14,673)	(5,115)	(3,229)
Accumulated Deficit	(279,802)	(277,874)	(270,808)
Equity attributable to:			
Owners of the Company	113,002	123,688	133,138
Non-controlling interest	1,697	4,083	1,912
Total equity	**114,699**	**127,771**	**135,050**

Consolidated Statements Of Changes In Equity

Six month ended on 30 June 2010

	Share capital	Share Premium account	Translation reserve	Other reserves	Accumlated Deficit	Attributable to owners of the parent	Non-controlling interest	Total equity
				US $ in thousands				
As at 1 January 2010	1,214	405,961	(4,015)	786	(270,808)	133,138	1,912	135,050
Exercise of share based options by employees	-	83	-	-	-	83	-	83
Recognition of share-based payments	-	219	-	-	-	219	-	219
Purchase of non- controlling interest	-	-	-	(167)	-	(167)	167	-
Proposed Dividend	-	-	-	-	(8,127)	(8,127)	-	(8,127)
Comprehensive loss for the period	-	-	(11,277)	-	(867)	(12,144)	(382)	(12,526)
As at 30 June 2010 (unaudited)	**1,214**	**406,263**	**(15,292)**	**619**	**(279,802)**	**113,002**	**1,697**	**114,699**

Consolidated Statements Of Changes In Equity (cont.)

Six month ended on 30 June 2009

	Share capital	Share Premium account	Translation reserve	Other reserves	Accumlated Deficit	Attributable to owners of the parent	Non-controlling interest	Total equity
					US $ in thousands			
As at 1 January 2009	1,210	404,928	(6,060)	-	(286,764)	113,314	4,459	117,773
Exercise of share based options by employees	2	139	-	-	-	141	-	141
Recognition of share-based payments	-	398	-	-	-	398	-	398
Purchase of non- controlling interest	-	-	-	(214)	-	(214)	-	(214)
Proposed Dividend	-	-	-	-	(4,561)	(4,561)	-	(4,561)
Comprehensive income for the period	-	-	1,159	-	13,451	14,610	(376)	14,234
As at 30 June 2009 (unaudited)	**1,212**	**405,465**	**(4,901)**	**(214)**	**(277,874)**	**123,688**	**4,083**	**127,771**

Consolidated Cash Flows Statements

	Six months ended 30 June	
	2010	2009
	US $ in thousands	
	Unaudited	Unaudited
Net cash from operating activities (Apendix A)	7,208	15,943
Investing activities		
Interest received	570	736
Proceeds on disposal of held to maturity investments	1,183	1,050
Proceeds on disposal of financial assets carried at fair value through profit and loss	13,108	18,095
Proceeds on disposal of deposits	21,805	10,000
Purchases of property, plant and equipment	(1,881)	(2,407)
Purchases of financial assets carried at fair value through profit and loss	(16,672)	(14,991)
Purchases of deposits	(19,328)	(27,953)
Investment in other business combinations	(959)	(4,440)
Acquisition of subsidiaries (Apendix B)	-	183
Net cash used in investing activities	(2,174)	(19,727)
Financing activities		
Increase (decrease) in short-term bank credit	(1,779)	191
Bank loan received	1,500	-
Bank loan repayment	(462)	-
Proceeds on issue of shares	83	141
Net cash from (used in) financing activities	(658)	332
Increase (Decrease) in cash and cash equivalents	4,376	(3,452)
Cash and cash equivalents at the beginning of the period	28,095	30,737
Effects of exchange rate changes on the balance of cash held in foreign currencies	(2,298)	832
Cash and cash equivalents at the end of the perioud	**30,173**	**28,117**

Apendices to Consolidated Cash Flows Statements

Appendix A

Reconciliation of operating profit (loss) for period to net cash from operating activities.

	Six months ended 30 June	
	2010	2009
	US $ in thousands	
	Unaudited	Unaudited
Operating (loss) profit from continuing operations	**(1,373)**	**10,821**
Adjustments for:		
Amortization of intangible assets	1,890	2,080
Depreciation of property, plant and equipment	1,299	1,309
Stock options granted to employees	219	398
Increase (Decrease)in retirement benefit obligation	(82)	62
Increase (Decrease) in provisions	14	(13)
Operating cash flows before movements in working capital	**1,967**	**14,657**
Decrease in inventory	1,906	3,953
Decrease (Increase) in receivables	4,112	(7,844)
Increase (Decrease) in payables	(236)	5,446
Cash generated by operations	**7,749**	**16,212**
Income taxes paid	(169)	(109)
Interest paid	(372)	(160)
Net cash from operating activities	**7,208**	**15,943**

Apendices to Consolidated Cash Flows Statements

Appendix B

Acquistion of subsidiaries.

	Six months ended 30 June
	2009
	US $ in thousands
	Unaudited
Net assets acquired	
Property, plant and equipment	1,359
Inventory	205
Trade and other receivables	446
Trade and other payables	(2,374)
Short-term bank credit	(2,641)
Long-term payables	(3,149)
	(6,154)
Intangible assets	5,971
Total Consideration	**(183)**

Notes To The Consolidated Financial Statements

Note 1 – General

The unaudited results for the six months ended 30th June 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) set out in the Annual Report and Financial Statements for the year ended 31 December 2009. The unaudited results for the six months ended 30th June 2009 were prepared on the same basis.
During the period the following standards came into effect:
Improvements to IFRSs 2009 Improvements to IFRSs 2009

Note 2 – Profit (loss) per share

Profit (loss) per share is based on the weighted average number of shares in issue for the period of 402,393,379 (H1 2009: 401,171,587). The number used for the calculation of the diluted profit per share for H1 2010 (which includes the effect of dilutive stock option plans) is 403,894,193 shares (H1 2009: 402,239,043.

Note 3 – Acquisition of Subsidiaries

During June 2010 the Group acquired the trade and assets of an Israeli Telecoms software services provider called Balora Ltd ("Balora") for a consideration of $0.8 million.

As of the authorization of these financial statements, the Purchase Price Allocation ("PPA") of Balora had not been completed. The allocation used for these financial statements represent management best estimates.

Note 4 – Segments

Business Segment

	Six months ended 30 June 2010		
	Telecommunications	BATM Medical	Total
	US $ in thousands		
Revenues	35,648	19,637	**55,285**
Operating profit (loss)*	1,775	(492)	**1,283**

* Excluding other operating expenses

	Six months ended 30 June 2009		
	Telecommunications	BATM Medical	Total
	US $ in thousands		
Revenues	55,915	13,080	**68,995**
Operating profit (loss)*	13,158	(257)	**12,901**

* Excluding other operating expenses

Notes To The Consolidated Financial Statements

Note 5– Events during the period

During the period there was a significant decrease in revenues from a major OEM customer.

Note 6– Events after the balance sheet date

Dividend

A dividend of GBP 1.35 per share, totalling GBP 5,408 thousand ($8,127 thousand), was declared on 8 February 2010 and paid on 26 July 2010.

Statement Of Director's Responsibilities

The Directors confirm that to the best of their knowledge this condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the six months ended 30 June 2010 and their impact on the condensed interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- Material related party transactions in the six months ended 30 June 2010 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the board by
Peter Sheldon
Chairman
31 August 2010

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