28 August 2018

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

Interim results for six months ended 30 June 2018

BATM Advanced Communications Limited (LSE: BVC), a leading provider of real-time technologies for networking solutions and medical laboratory systems, announces its interim results for the six months ended 30 June 2018.

Financial Summary

- Group revenue increased 16.9% to $58.2m (H1 2017: $49.8m)
- Gross profit improved to $16.5m (H1 2017: $15.0m)
- Gross margin of 28.3% (H1 2017: 30.1%)
- Adjusted operating loss* significantly reduced to $0.6m (H1 2017: $1.4m loss)
- EBITDA of $0.5m (H1 2017: $0.3m negative EBITDA)
- Loss per share reduced to 0.35¢ (H1 2017: 0.66¢ loss per share)
- As at 30 June 2018, the Group had cash and financial assets of $23.3m (31 December 2017: $24.0m)

* See note 4

Operational Summary

Bio-Medical Division (51% of total revenue)

- Revenue increased by 3% to $29.6m (H1 2017: $28.6m)
- Blended gross margin was maintained at 25% (H1 2017: 25%)
- Diagnostics Unit
  - Finalised development of the new molecular biology diagnostics Adaltis product line, which was launched post period with first orders received
  - Over 50 units sold of new model ELISA analyser, Personal LAB, that was launched in December 2017
  - Achieved first sale of new highly-compact metabolism testing analyser, Metabo, at the end of the period
  - Commenced engineering the first units and panel cartridges of new unique rapid-results sample-to-answer molecular diagnostics system and reagents, which is being developed through the Ador joint venture, and several hospitals committed to receive the first units due in early 2019
- Eco-Med Unit
  - Delivered first mobile agri-waste treatment unit and customer commenced in-field testing
  - Progressed installation of the Group's large solution for treating agricultural waste at a bovine slaughterhouse, including work to optimise the process to operate at full capacity 16 hours a day
  - Delivered new ISS 500 system to first US client and further orders expected to be delivered in H2 2018
- Distribution Unit
  - Invested to expand activities and capabilities of its laboratories:
    - Commenced providing diagnostic tests at newly-built genetics laboratory, including pre-natal and cancer diagnostics, and expanded capabilities at analytical laboratory in Romania
    - Introduced new cancer diagnostics tests in Israel through Zer Laboratories
  - Strong revenue increase from new contract with the largest blood bank in Moldova for Roche diagnostic instruments and reagents, which are exclusively distributed by the Group

Networking and Cyber Division (49% of total revenue)

- Revenue increased by 36.5% to \$28.6m (H1 2017: \$21.0m)
- Blended gross margin of 32% (H1 2017: 37%)
- Networking Unit
    - Growth in the division due to increase in sales of ICT services and solutions:
        - Increase in revenue primarily due to delivery under the framework agreement awarded last year to provide ICT services and solutions to an agency of a government defence department
        - Initial sales and growing demand for the TM-8100, a next-generation, high-density, standalone 100GE services aggregation platform, that was launched in H2 2017
    - Substantial progress in implementing Software-Defined Networking ("SDN")/Network Function Virtualisation ("NFV") strategy:
        - Signed a strategic investment and joint development agreement, worth over \$3m, with Arm® to develop an NFV ecosystem
        - Conducted successful NFV proof-of-concept trials ("POCs") with various tier 1 and 2 customers worldwide, which are expected to translate to sales in H2 2018
        - Established a partnership with Lanner, a leading global supplier in network communication platforms, to provide the Group's NFVTime uCPE software on Lanner's white box appliances as a turnkey solution for telecom equipment manufacturers and service providers
- Cyber Unit
    - Awarded approximately \$7m by a government defence department, under two contracts, to supply enhanced cyber communication technology solutions

Commenting on the results, Dr Zvi Marom, Chief Executive Officer of BATM, said: "In the first half of 2018 we've seen sustained momentum in all our areas of activity, which is increasingly reflected in our numbers with growth in sales and positive EBITDA. But the real story is found in the underlying operational achievements of the period.

"In the Networking and Cyber division, we significantly progressed the development of our NFV ecosystem, which is designed to support an entirely virtualised network infrastructure – which is key for the implementation of 5G technologies and to run applications such as autonomous vehicles. Most importantly, we signed a strategic investment and joint development agreement with Arm that will greatly advance our NFV strategy and is also testimony to the strength of our offer. In our Cyber unit, we were awarded contracts worth \$7m by government defence departments for our unique solution that can monitor very large networks, up to the level of a state.

"In the Bio-Medical division, we saw the benefits of our investment last year with the roll-out of several new advanced diagnostic tests and systems and biological waste treatment systems, which are being very well-received by the market. We made significant strides in the development of our unique molecular biology systems – which we believe offers significant upside. It was also pleasing to see the return of activity in China following a hiatus last year.

"As a result, we entered the second half of 2018 with a strong backlog of orders due to be delivered by year-end. In addition, we expect the momentum of activity across our divisions to increase throughout the year. Consequently, the Board remains confident of achieving sustained growth and delivering shareholder value."

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

Operational Review

The first half of 2018 was transformational for BATM. Growth in Group revenue was led by the Networking and Cyber division, with a significant increase in sales of ICT solutions and services as well as substantial progress being achieved in the execution of its SDN/NFV strategy – most notably with the signing of a strategic investment and joint development agreement with Arm. Sales in the Bio-Medical division increased more modestly, but, importantly, the division achieved a number of operational milestones with the launch and initial sales of a number of new systems and advancing the development of others.

As a result, total Group revenue increased by 16.9% to $58.2m (H1 2017: $49.8m), of which the Bio-Medical division accounted for 51% with the contribution from the Networking and Cyber division being 49%. The Group also significantly reduced its operating loss, which enabled it to generate positive EBITDA compared with a loss for the same period last year.

Bio-Medical Division

	H1 2018	H1 2017	H2 2017	FY 2017
Revenue	$29.6m	$28.6m	$28.8m	$57.4m
Blended gross margin	25%	25%	25%	25%
Adjusted operating profit (loss)	$(1.3m)	$(0.3m)	$(0.8m)	$(1.1m)

Revenue for the Bio-Medical division increased 3% to $29.6m (H1 2017: $28.6m) as strong growth in sales in the Distribution unit was offset by a reduction elsewhere, partly as a result of timing of revenue recognition. The increase in adjusted operating loss, despite the growth in revenue and stable margin, was largely due to investment in expanding the activities and capabilities of the Distribution unit.

Distribution

The Distribution unit accounted for 79% of the Bio-Medical division's revenue in H1 2018 compared with 69% in H1 2017, reflecting a significant increase in sales of 17.5%. This was due to strong growth in the distribution of diagnostic kits and services in Romania and Moldova and the introduction of the Group's new laboratory and distribution activity in Israel through Zer Laboratories, which was acquired last year.

A significant contributor to the unit's growth was delivery under a new contract with the largest blood bank in Moldova for the supply of Roche instruments and reagents. The Group provides these products under an exclusive distribution agreement with Roche.

During the period, the Group expanded the activities of the two new laboratories in Romania that commenced operation in 2017. The Group introduced new analytical tests at the laboratory in Timisoara and commenced the provision of diagnostic tests at the newly-built genetics laboratory in Bucharest through the acquisition of an Illumina machine to run Non-Invasive Prenatal Testing (NIPT) tests as well as offering cancer diagnostic tests.

In Israel, the Group's Zer Laboratories subsidiary introduced a new diagnostic test for prostate cancer, which has been well-received in the market. The Group also invested to expand the local laboratory capabilities with new equipment able to perform next-generation genetics tests for the Israeli market, with the initial screening tests with this new technology being performed post period in August 2018. In addition, the Group is integrating the NIPT and cancer diagnostics activities in Israel to enhance operational efficiency.

Eco-Med

The Eco-Med unit accounted for 9% of the Bio-Medical division's revenues in H1 2018 compared with 13% of revenues in H1 2017. The unit achieved an improvement in gross margin to 21.8% (H1 2017: 18.6%) as a result of sales of higher margin agri-waste solution projects.

During the period, the Group delivered its first mobile agri-waste treatment unit, which was purchased to enable the safe disposal of mass poultry affected by disease and illness, and the customer commenced in-field testing with positive initial results.

The Group progressed the installation of its large solution for treating agricultural waste at a bovine slaughterhouse, with delivery expected to be complete within the next two months. The Group has optimised the process to enable it to operate at full capacity for 16 hours a day.

The Group delivered its new ISS 500, with automated reloading system for treating medical waste in hospitals, to its first US client. This follows the shipment towards the end of last year of initial systems to customers in the Middle East and Europe. To date, the Group has received orders for 12 units, with the remainder expected to be delivered in H2 2018, and BATM continues to receive significant interest in this new product from international clients.

Diagnostics

The Diagnostics unit represented 12% of Bio-Medical division revenues in H1 2018 (H1 2017: 18%). During the period, the Group invested in re-organising the Diagnostics unit to enable an automated production process for systems and reagents. This process is expected to be completed around mid-2019.

By the end of the period, production began to ramp up, which the Group expects to continue throughout the second half of the year. In addition, the Group started to, again, receive orders from China following weakness in that geography in 2017.

During the first half of 2018 the Group sold over 50 units of its new two-plate ELISA analyser, Personal LAB, that was launched in December 2017 and which offers several new features compared with the previous model of the system. Towards the end of the period, the Group sold the first of its new highly-compact metabolism testing analyser, the Metabo.

The Group finalised the development of its new molecular biology diagnostics Adaltis product line, which was launched post period end. The new product line, which is designed to form part of an overall diagnostics process in medium to large laboratories, has been well-received and initial orders have been received for the reagents that have already been awarded CE certification.

Progress continued with the Group's Ador joint venture with the Gamida for Life Group, which has now commenced engineering the first units and panel cartridges. The solution, which is aimed at hospitals and smaller laboratories, is unique in its ability to produce immediate sample-to-answer diagnostics of infectious diseases, and has already been granted several patents in the US with more under submission. The Group has already received commitments from several hospitals to receive the first units and panels, which are expected to be shipped in 2019. The Group continues to believe that the opportunity for Ador is substantial.

Networking and Cyber Division

	H1 2018	H1 2017	H2 2017	FY 2017
Revenue	$28.6m	$21.0m	$28.4m	$49.4m
Blended gross margin	32%	37%	36%	36%
Adjusted operating profit (loss)	$1.9m	$(0.4m)	$1.3m	$0.9m

Revenue increased by $7.6m to $28.6m (H1 2017: $21.0m), which was largely due to growth in the ICT services and solutions businesses. The Group achieved significant improvement in adjusted operating profit for the Networking and Cyber division of $1.9m in H1 2018 (H1 2017: loss of $0.4m). Gross profit margin for the division was 32% (H1 2017: 37%), with the reduction due to the contribution to revenue from a large government contract that carried a lower gross margin.

ICT solutions and services

The key driver of the increase in revenue in the Networking and Cyber division was delivery under the framework agreement awarded last year, as announced on 4 September 2017, to provide ICT services and solutions to an agency of a government defence department. To date, the Group has received orders totalling $15.6m under this five-year agreement.

During the period, the Group commenced initial sales of its new aggregation platform, T-Metro 8100 – a next-generation, high-density, standalone 100GE services aggregation platform that was released in H2 2017. The Group gained 12 new customers in North America and continues to receive increasing demand for this new product.

SDN/NFV solutions

The Group made significant progress in advancing its SDN/NFV offer and achieved a key milestone by entering into a strategic investment and joint development agreement, valued at over $3m, with Arm, the industry's leading supplier of semiconductor IP. Under this agreement, the Group will develop a full ecosystem of Virtual Network Function (VNF) services that are optimised to run on Arm's architecture and to be used by Arm partners. The Group expects to recognise initial revenue under this agreement in the second half of 2018.

Post period, the Group achieved the first milestone under its agreement with Arm by entering into a non-exclusive partnership with FatPipe Networks ("FatPipe"), a leading provider of Software-Defined Wide-Area Networks (SD-WAN) and hybrid WANs, to provide a hardware/software agnostic solution offering real-time SD-WAN VNF services. This represents the first solution to be delivered under the Group's agreement with Arm.

The Group is the only worldwide software vendor to provide NFV functionality to Arm architecture and all Intel platforms. Its open and agile service delivery platform can meet the growing demand from telecoms operators and managed service providers for solutions that offer increased performance, flexibility and cost savings on their networks, regardless of their hardware or what they may choose to use. During the period, the Group conducted successful NFV proof-of-concept trials with various tier 1 and 2 customers worldwide, which it expects to translate to sales in H2 2018.

During the period, the Group also established a partnership with Lanner Electronics, Inc., a leading global supplier in network communication platforms, to provide the Group's NFVTime uCPE software on Lanner's white box appliances as turnkey solutions for telecom equipment manufacturers and service providers. This further expands the NFVTime ecosystem.

Cyber

BATM continued to grow its cyber security business. The Group was awarded a significant contract to supply a cyber communication technology solution to a government defence department, which is worth approximately $4m in 2018. This contract followed a successful deployment of the division's solution previously. The Group has commenced the delivery of this contract, which is due to complete by year-end.

The Group also received a contract extension from this government, worth approximately $3m over 18 months, to expand the capability of a previously-delivered cyber communication technology solution by adding more features. The Group has commenced executing on this contract with completion expected during the second half of 2019. This is the fifth contract for a cyber communication technology solution that the Group has received from a national government. The Group anticipates receiving further follow-on orders after the completion of this contract.

Financial Review

Total Group revenue for the first half of 2018 increased by 16.9% to $58.2m (H1 2017: $49.8m) reflecting growth in both divisions: 3% increase in revenue in the Bio-Medical division, which contributed 51% of total sales, and 36.5% increase in the Networking and Cyber division, which contributed 49% of total sales. As mentioned above, the increase in revenue in the Networking and Cyber division was primarily due to growth in the Group's existing ICT services and solutions businesses as well as the Cyber unit. The Bio-Medical division growth was due to an increase in sales in the Distribution unit, which more than offset lower sales in the Diagnostics and Eco-Med units.

The blended gross profit margin for the first half was 28.3% (H1 2017: 30.1%). This decrease is mostly due to a reduction in the gross margin of the Networking and Cyber division as a result of the contribution to revenue from a large government contract that carries a lower margin.

Sales and marketing expenses were $7.8m (H1 2017: $7.2m), representing 13.4% of revenues compared with 14.5% in H1 2017. The increase is mainly due to the increase in sales.

General and administrative expenses were $5.7m (H1 2017: $5.2m) representing 9.7% of revenues compared with 10.5% in H1 2017. The increase is mainly due to an expansion in activity in the Networking and Cyber division and in the Distribution unit of the Bio-Medical division in Romania.

Research and development investment decreased to $3.8m (H1 2017: $4.0m), primarily as a result of a higher contribution from the Israeli Chief Scientist in terms of R&D grant funding.

Adjusted operating loss was significantly reduced to $0.6m (H1 2017: $1.4m loss), primarily due to the increased revenue.

EBITDA improved to positive $0.5m compared with negative EBITDA in H1 2017 of $0.3m.

Net finance expense was $0.05m (H1 2017: $0.2m). The decrease is mainly due to gains from financial instruments on foreign currency exchange transactions.

Net loss after tax attributable to equity holders of the parent was reduced to $1.4m (H1 2017: $2.6m loss), resulting in a basic loss per share of 0.35¢ (H1 2017: 0.66¢ loss).

The Group's balance sheet remains strong with effective liquidity of $23.3m at 30 June 2018 compared with $24.0m at 31 December 2017 and $22.4m at 30 June 2017. Period-end cash is comprised as follows: cash and deposits up to three months' duration of $17.4m and short-term cash deposits up to one year and held for trading bonds of $5.9m.

As at 30 June 2018, inventory was $22.9m (31 December 2017: $23.2m; 30 June 2017: $20.8m). Trade and other receivables were $36.3m (31 December 2017: $46.9m; 30 June 2017: $33.6m), with the decrease from the year end mostly due to the decrease in trade receivables from the selling of the building at the end of 2017. The increase compared with H1 2017 is mostly due to higher trade receivables in the Networking and Cyber division due to strong sales towards the end of the period.

Intangible assets and goodwill at 30 June 2018 was $23.4m (31 December 2017 $22.9m; 30 June 2017: $22.8m).

Property, plant and equipment and investment property was $16.7m (31 December 2017: $16.7m; 30 June 2017: $20.3m).

The balance of trade and other payables and tax liabilities was $33.7m (31 December 2017: $39.8m; 30 June 2017: $31.9m). The decrease is mostly due to a decrease in trade payables in the Networking and Cyber division as well as a decrease in government taxes due to tax on the capital gain and VAT from the selling of the Group's building.

Cash outflow from operations was $0.8m for H1 2018, compared with an outflow of $0.4m for the prior period, due to the increase in working capital in the period.

Post period, as announced on 8 August 2018, the Group and its consortium partners signed an agreement with Cellcom Israel Ltd to sell their stake in the project established for the construction of a new fibre optic network in Israel alongside the Israel Electric Corporation ("IBC"). BATM will receive NIS12m (c. $3.2m) for its 7.5% interest in IBC. The agreement is subject to the receipt of regulatory approval, which is expected to occur by the end of the first half of 2019. The Group will receive the proceeds from the sale upon the closing of the transaction.

Outlook

The Group entered the second half of 2018 with a higher order book compared with the equivalent period last year, providing it with the platform to deliver the expected growth. Both divisions are receiving increasing demand for their newly-launched products and solutions as well as significant interest in those soon-to-be launched that are undergoing development.

In particular, in the Bio-Medical division, the Group anticipates increased revenue in the second half of the year in the Eco-Med unit from the delivery of the new ISS 500 and its agri-waste treatment solutions. There is growing momentum in orders in the Diagnostics unit, primarily due to recovery in China and an increase in newer markets such as the US. The Distribution unit is also expected to continue to deliver steady growth.

In the Networking and Cyber division, the Group is excited about the strong momentum being experienced across its business units in multiple geographies. The Group anticipates receiving initial revenue under its agreement with Arm in the second half of 2018 and expects to sign up new customers in the Cyber unit.

As a result, the Group is confident of achieving year-on-year growth for full year 2018, in line with market expectations. The Group also looks forward to receiving the proceeds from the sale of its stake in IBC upon the closing of the transaction, as noted above. Consequently, the Board remains confident in the outlook for the Group and in delivering shareholder value.

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED INCOME STATEMENTS

	Six months ended 30 June	
	2018	2017
	US$ in thousands	
	Unaudited	Unaudited
Revenue	58,200	49,825
Cost of revenue	41,702	34,846
Gross profit	16,498	14,979
Operating expenses		
Sales and marketing expenses	7,810	7,210
General and administrative expenses	5,662	5,240
Research and development expenses	3,835	3,966
Other operating expenses	450	622
Total operating expenses	17,757	17,038
Operating loss	(1,259)	(2,059)
Finance income	468	293
Finance expenses	(516)	(494)
Loss before tax	(1,307)	(2,260)
Income tax (expenses)	(433)	(75)
Loss for the period before share of a loss of a joint venture and associated companies	**(1,740)**	**(2,335)**
Share of a loss of joint venture and associated companies	(172)	(597)
Loss for the period	**(1,912)**	**(2,932)**
Attributable to:		
Owners of the Company	**(1,431)**	**(2,645)**
Non-controlling interests	**(481)**	**(287)**
Loss for the period	**(1,912)**	**(2,932)**

Profit (loss) per share (In cents):

From continuing and discontinued operations Basic and Diluted	(0.35)	(0.66)
From continuing operations Basic and Diluted	(0.35)	(0.66)

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

	Six months ended 30 June	
	2 0 1 8	2 0 17
	US$ in thousands	
	Unaudited	Unaudited
Loss for the period	(1,912)	(2,932)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(1,655)	3,193
Total Comprehensive income (loss) of the Period	**(3,567)**	**261**
Attributable to:		
Owners of the Company	(3,258)	1,133
Non-controlling interests	(309)	(872)
	(3,567)	**261**

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June 2018	30 June 2017	31 December 2017
		US$ in thousands	
	Unaudited	Unaudited	Audited
Current assets			
Cash and cash equivalents	17,375	13,168	18,182
Trade and other receivables	36,250	33,627	46,916
Financial assets	5,891	9,237	5,782
Inventories	22,855	20,804	23,238
	82,371	76,836	94,118
Non-current assets			
Property, plant and equipment	14,664	16,447	14,720
Investment property	2,062	3,846	1,951
Goodwill	16,531	16,928	16,817
Other intangible assets	6,866	5,862	6,127
Investment and loans to Joint venture and associate	1,419	1,082	953
Financial Assets carried at fair value	1,060	576	576
Deferred tax asset	2,469	3,683	2,909
	45,071	48,424	44,053
Total assets	**127,442**	**125,260**	**138,171**
Current liabilities			
Short-term bank credit	2,651	3,126	5,324
Trade and other payables	33,578	31,767	37,607
Tax liabilities	122	181	2,232
	36,351	35,074	45,163
Non-current liabilities			
Long-term bank credit	3,737	3,047	910
Long-term liabilities	4,134	4,455	5,261
Deferred tax liabilities	241	880	336
Retirement benefit obligation	709	599	682
	8,821	8,981	7,189
Total liabilities	**45,172**	**44,055**	**52,352**
Equity			
Share capital	1,216	1,216	1,216
Share premium account	407,706	407,598	407,688
Foreign currency translation reserve and other reserves	(17,384)	(17,292)	(15,557)
Accumulated deficit	(305,002)	(306,455)	(303,571)
Equity attributable to equity holders of the:			
Owners of the Company	86,536	85,067	89,776
Non-controlling interest	(4,266)	(3,862)	(3,957)
Total equity	**82,270**	**81,205**	**85,819**
Total equity and liabilities	**127,442**	**125,260**	**138,171**

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Six months ended 30 June 2018

	Share Capital	Share Premium Account	Translation reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the Parent	Non-Controlling Interests	Total equity
				US$ in thousands				
As at 1 January 2018	1,216	407,688	(15,045)	(512)	(303,571)	89,776	(3,957)	85,819
Recognition of share-based payments		18				18		18
Loss for the period					(1,431)	(1,431)	(481)	(1,912)
Comprehensive income (loss) for the period			(1,827)		-	(1,827)	172	(1,655)
Total comprehensive income (loss) for the period			**(1,827)**		**(1,431)**	**(3,258)**	**(309)**	**(3,567)**
As at 30 June 2018 (unaudited)	**1,216**	**407,706**	**(16,872)**	**(512)**	**(305,002)**	**86,536**	**(4,266)**	**82,270**

Six months ended 30 June 2017

	Share Capital	Share Premium Account	Translation reserve	Other Reserve	Accumulated Deficit	Attributable to owners of the Parent	Non-Controlling Interests	Total equity
				US$ in thousands				
As at 1 January 2017	1,216	407,544	(20,558)	(512)	(303,810)	83,880	(2,990)	80,890
Recognition of share-based payments		54				54		54
Loss for the period					(2,645)	(2,645)	(287)	(2,932)
Comprehensive income (loss) for the period			3,778		-	3,778	(585)	3,193
Total comprehensive income (loss) for the period			**3,778**		**(2,645)**	**1,133**	**(872)**	**261**
As at 30 June 2017 (unaudited)	**1,216**	**407,598**	**(16,780)**	**(512)**	**(306,455)**	**85,067**	**(3,862)**	**81,205**

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2018	2017
	US$ in thousands	
	Unaudited	Unaudited
Net cash used in operating activities (Appendix A)	(1,302)	(919)
Investing activities		
Interest received	96	88
Proceeds on disposal of property, plant and equipment	6,499	45
Tax paid on disposal of property, plant and equipment	(1,913)	-
Proceeds on disposal of deposits	2,171	1,152
Proceeds on disposal of financial assets carried at fair value through profit and loss	260	3,000
Purchases of property, plant and equipment	(1,368)	(2,174)
Increase of other intangible assets	(959)	(663)
Purchases of financial assets carried at fair value through profit and loss	(140)	(2,452)
Purchases of deposits	(2,426)	(5,351)
Increase in financial assets carried at fair value	(321)	-
Investment in joint venture	(638)	(834)
Acquisition of subsidiaries (Appendix B)	(633)	(1,361)
Net cash from (used in) investing activities	**628**	**(8,550)**
Financing activities		
Bank loan repayment	(4,938)	(4,816)
Bank loan received	5,019	5,138
Net cash from financing activities	**81**	**322**
Decrease in cash and cash equivalents	(593)	(9,147)
Cash and cash equivalents at the beginning of the period	18,182	22,015
Effects of exchange rate changes on the balance of cash held in foreign currencies	(214)	300
Cash and cash equivalents at the end of the period	**17,375**	**13,168**

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

APPENDIX A

RECONCILIATION OF OPERATING LOSS FOR THE PERIOD TO NET CASH USED IN OPERATING ACTIVITIES

	Six months ended 30 June	
	2 0 1 8	**2 0 1 7**
	US$ in thousands	
	Unaudited	**Unaudited**
Operating loss from continuing operations	**(1,259)**	**(2,059)**
Adjustments for:		
Amortisation of intangible assets	638	644
Depreciation of property, plant and equipment and investment property	1,093	1,112
Capital gain of property, plant and equipment	(18)	(32)
Revaluation of investment	(165)	-
Stock options granted to employees	18	54
Increase in retirement benefit obligation	53	123
Increase (decrease) in provisions	(14)	2
Operating cash flow before movements in working capital	**346**	**(156)**
Decrease (increase) in inventory	401	(258)
Decrease (increase) in receivables	4,001	(5,143)
Increase (decrease) in payables	(4,813)	3,442
Effects of exchange rate changes on the balance sheet	(782)	1,720
Cash used in operations	**(847)**	**(395)**
Income taxes paid	(217)	(268)
Income taxes received	-	1
Interest paid	(238)	(257)
Net cash used in operating activities	**(1,302)**	**(919)**

APPENDIX B

ACQUISITION OF SUBSIDIARY - Zer Laboratories

	2017
	US$ in thousands
	Unaudited
Net assets acquired	
Property, plant and equipment	78
Net working capital	109
Retirement benefit obligation	(107)
	80
Deferred tax	**(126)**
Other intangible assets	**586**
Onerous contracts	**(169)**
Goodwill	898
Total consideration	**1,269**
Satisfied by:	
Cash	804
Consideration recorded as a contingent liability	465
	1,269
Net cash outflow arising on acquisition	
Cash consideration	804
Cash and cash equivalents acquired	-
	804

Note 1 – Basis of preparation

The interim consolidated financial statements of the Company have been prepared in conformity with International Accounting Standard No. 34 "interim financial reporting" (hereafter "IAS 34").

In preparing these interim consolidated financial statements, the Group implemented accounting policies, presentation principles and calculation methods identical to those implemented in preparation of its consolidated financial statements as of 31 December 2017 and for the period ended on that date. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRSs.

Note 2 – Application of new International Financial Reporting Standards (IFRSs)

The Group has applied IFRS 9 and IFRS 15 for the first time in the current year but there is no significant impact.

IFRS 9 Financial Instruments

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Note 3 – Profit/(loss) per share

Profit/(loss) per share is based on the weighted average number of shares in issue for the period of 403,300,820 (H1 2017: 403,150,820). The number used for the calculation of the diluted profit per share for the period (which includes the effect of dilutive stock option plans) is 403,300,820 shares (H1 2017: 403,150,820).

Note 4 – Alternative performance measures

	Six months ended 30 June	
	2018 Unaudited	2017 Unaudited
Operating loss	(1,259)	(2,059)
Amortisation of intangible assets	638	644
Adjusted operating loss	**(621)**	**(1,415)**

Note 5 – Segments

Business Segment

Six months ended 30 June 2018

	Networking and Cyber	Bio-Medical	Unallocated	Total
		US$ in thousands		
Revenue	28,645	29,549	6	**58,200**
Segment profit/(loss)	1,867	(1,349)	(1,139)	**(621)**
Reconciliation - other operating expenses				**(638)**
Net finance cost				**(48)**
Loss before tax				**(1,307)**

Note 5 – Segments (cont.)

Six months ended 30 June 2017

	Networking and Cyber	Bio-Medical	Unallocated	Total
		US$ in thousands		
Revenue	20,987	28,643	195	**49,825**
Segment profit/(loss)	(369)	(296)	(772)	**(1,437)**
Reconciliation - other operating expenses				**(622)**
Net finance cost				**(201)**
Loss before tax				**(2,260)**

Note 6 – Revenue from major products and services

The following is an analysis of the Group's revenue from operations from its major products and services according to IFRS 15:

	Six months ended 30 June	
	2018 Unaudited	2017 Unaudited
Telecommunication products	12,861	11,096
Software services	15,791	10,086
Distribution of medical products	23,226	19,771
Clinical chemistry diagnostic products	3,538	5,105
Sterilisation products	2,784	3,767
	58,200	49,825

Note 7 – Financial instruments

The amortised cost of the financial instruments of the Group is not considered to be materially different from the fair value.

When first applying IFRS 9 effective from 1 January 2018, it allows an entity to revoke its previous designation of a financial asset as measured at fair value through profit or loss under the guidance of IAS 39. Such revocation shall be made based on the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

For Government grants liability, the Company chose to revoke the previous designation of fair value through profit and loss. Under the implementation of IFRS 9, the Government grants liability is classified and measured at amortised cost. The reclassification was applied retrospectively and did not materially changed the liability balance.

Note 8 – Post balance sheet events

The Group and its consortium partners signed an agreement with Cellcom Israel Ltd to sell IBC holdings. BATM will receive NIS12m (c. $3.2m) for its 7.5% interest in IBC. The Agreement is subject to the receipt of regulatory approval, which is expected to occur by the end of the first half of 2019. The Group will receive the proceeds from the sale upon the closing of the transaction.