The Network Professional's Choice

BATM

Telco Systems

Interim Results

2004

Directors and Advisers

Directors

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

Registered office

Kfar Neter, P.O.B.3737
Kfar Neter 40593.

Company Number

520042813

Auditors

Brightman Almagor & Co.
a member of
Deloitte Touche Tohmatsu
1 Azriely Center,
Tel-Aviv
Israel

Financial Advisers & Stock brokers

Dresdner Kleinwort Wasserstein
20 Fenchurch Street
London EC3P 3DB
UK
Shore Capital
Bond Street House
14, Clifford Street
London W1X 1RE
UK

Corporate Solicitors in Israel

Rami Lehavi and Co.
20 Hachashmal Street
Tel-Aviv
Israel

Corporate Solicitors in the UK

Fladgate Fielder
25 North Row
London W1R 1DJ
UK

Bankers

Bank Hapoalim
Belinson, 1 Denmark Street
Petach-Tikva
Israel

Registrars

Capita Registrars
The Registry
74 Beckenham Road
Beckenham
Kent
BR3 4TU
UK

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Chairman's Statement

Financial Performance

Turnover for the period was $19,461,000 (H1 2003: $17,872,000), an increase of 9% compared with last year. This increase can attributed to growth in both our IP switching business as well our Edglink product line.

Gross profit margin improved to 45.2% of turnover (H1 2003: 38.9%). This increase was primarily a result of change in product mix combined with improved gross profit from our EdgeLink and Access products as well as lower write down of inventory $ 40,000 (H1:2003 $344,000).

Selling, general and administrative expenses were again well controlled and totaled $6,581,000 (H1 2003: $7,011,000), reflecting a reduction of 6%. Ongoing spending controls have contributed to this reduction.

We have maintained a significant investment in Research and Development (R&D). Gross R&D in this period was $5,300,000 (H1 2003: $5,990,000) a decrease of 12%. After contributions from the Israeli Chief Scientist and from the European Community, net research and development expenditure was $4,960,000 (H1 2003: $5,757,000).

Pro forma operating loss, before goodwill amortization, amounted to $2,753,000 (H1 2003: loss $5,821,000), a 52.7% improvement. Operating loss after goodwill amortization was $7,702,000 (H1 2003: loss $10,770,000).

Financial income was $890,000 (H1 2003: $937,000). This decrease reflected a slightly lower level of cash and cash investments.

The resulting pro forma loss before tax, excluding the effect of the amortization of goodwill, was $1,850,000 (H1 2003: loss $4,899,000). Pro forma loss after taxes and minorities, excluding the effect of the amortization of goodwill, was $1, 969,000 (H1 2003: loss $4,937,000), resulting in a loss per share of 0.51 cents (H1 2003: 1.27 cents). Actual loss after taxes, including the effect of goodwill amortization, amounted to $6,918,000 (H1 2003: Loss $9,886,000), resulting in a loss per share of 1.78 cents (H1 2003: Loss 2.55 cents).

Our balance sheet remains strong with cash of $49.5m ($51.1m : 31.12.2003) at the period's end comprised as follows: Cash and deposits up to three months period $3.2 million, short-term deposits up to one year period $22.8 million and long-term deposit for three years period $23.5 million. The principal reason for the small reduction in our cash position is due to an investment of over $1m in new offices in Netanya, Israel. We continue to exercise a conservative investment strategy maintaining most balances in bank deposits.

Sales and Marketing

We have continued to focus on building relationships with several large customers who provide us with significant and stable business opportunities. In addition to our successful relationships with other OEMs, such as Nokia, in March of 2004, we announced a new relationship with a leading European telecom infrastructure supplier. We will continue to pursue this avenue of business by leveraging our investment in the development of new Ethernet platforms in the access market to forge similar relationships with other suppliers. These agreements enable BATM to gain customer access in partnership with some of the world's leading system integrators and infrastructure players.

We also continue to develop relationships with US Service providers. We believe that the migration to Voice Over IP and the adoption of fiber based transport to the home/ business provides a significant opportunity for us.

Our portfolio of IP based products is uniquely positioned in these emerging markets and provides an excellent base to expand our relationship with existing customers and penetrate new accounts.

In June of this year, we announced the appointment of Larry Asten as the President of Telco Systems, our wholly owned US subsidiary. Larry rejoined Telco Systems in May of 2003 as Vice President of Sales and Services after an absence of just over 10 years. Larry's experience includes senior executive positions in sales, service, marketing and engineering at ADC Telecom, Nortel, GTE as well as Telco's Vice President of Sales in the early nineties. Under Larry's leadership, Telco Systems was awarded the Verizon Supplier Excellence Award for "outstanding effort and achievement in demonstrating performance excellence." in April of this year.

Research and Development and New Products

We continue to expand our line of IP switches to address the market for Fiber To The Home / Business. Our existing products support delivery of 'triple-play' services (Voice, Video and Data) over active or passive Ethernet. Our new products will improve the quality and allow more services to be delivered over fiber. In addressing this market, we adopted the ATCA standard and already have seen promising feedback from several potential customers at the Supercomm 2004 trade show which was recently held in Chicago.

We continue to expand our transport solution with the introduction of SONET interfaces to our Edgelink HUB platform. This product, required by many major US telecom providers, will expand the deployment opportunities within the US.

We officially released our Access 211 to address the market for VOIP adapters in June of this year. This product has already been tested successfully by several service providers. We are currently trialling the Access 211 with 34 customers and hope to convert some of them to actual deployments as early as the second half of this year. We continue to invest in new platforms to address the need for VOIP support both in residential and small to medium size businesses.

Investment

At the end of July, we completed the sale of our 49.9% holding in Eldor Computers Limited to Taldor Group. In exchange for our holdings in Eldor we received 430,000 shares in Taldor, a publicly traded company on the Tel-Aviv Stock exchange. These shares represent 4.1% of the outstanding shares of Taldor. We expect to record approximately $400,000 of capital gain in the second half of this year.

Prospects

Current signs suggest that our improved trading performance will continue into the second half of 2004.

Peter Sheldon
Chairman
10 September 2004

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended June 30, 2004	Six months ended June 30, 2003
	$US'000 Unaudited	$US'000 Unaudited
Turnover	19,461	17,872
Cost of sales	10,673	10,925
Gross profit	8,788	6,947
Operating expenses		
Research and development costs	5,300	5,990
Less – participation	340	233
Research and development costs, net	4,960	5,757
Selling, general and administrative expenses	6,581	7,011
Amortization of Goodwill	4,949	4,949
Total operating expenses	16,490	17,717
Operating loss	(7,702)	(10,770)
Financial income, net	890	937
Other income (expenses), net	13	(15)
Loss before Group's share in loss of associated company	(6,799)	(9,848)
Group's share in loss of associated company	(119)	(38)
Loss for the period	(6,918)	(9,886)
Loss per share (in cents)	(1.78)	(2.55)

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED BALANCE SHEET

	As at 30th June 2004	As at 30th June 2003
	$US'000 Unaudited	$US'000 Unaudited
Fixed assets		
Tangible assets	10,790	10,526
Goodwill, net	7,424	17,322
Total fixed assets	18,214	27,848
Current assets		
Inventory	5,832	11,343
Debtors	7,853	5,810
Short-term investments	22,764	3,753
Cash and cash equivalents	3,185	14,808
	39,634	35,714
Creditors: amounts falling due within one year	8,923	10,831
Net current assets	30,711	24,883
Long-term investments		
Investment in associated company	1,145	1,470
Investment in other companies	3,688	3,688
Long-term deposit	23,563	36,627
	28,396	41,785
Total assets less current liabilities	77,321	94,516
Non-current liabilities		
Severance pay fund, net of provision	(373)	(324)
Net assets	76,948	94,192
Capital and reserves		
Share capital	1,177	1,177
Additional paid-in capital	397,550	397,541
Foreign currency translation adjustment	16	16
Retained loss	(321,795)	(304,542)
Shareholders' funds	76,948	94,192

BATM ADVANCED COMMUNICATIONS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30, 2004 $US'000 Unaudited	Six months ended June 30, 2003 $US'000 Unaudited
Net cash outflow from operating activities	(1,121)	(515)
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Investing activities		
Repayment of loan to associated company	77	--
Acquisition of fixed tangible assets	(1,285)	(374)
Proceeds from sale of fixed tangible assets	-	23
Proceeds from short-term bank deposits	2,240	29
Proceeds from (investment in) marketable securities, net	(54)	2
Net cash inflow (outflow) from investing activities	978	(320)
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Financing activities		
Exercise of options by employees	10	124
Net cash inflow from financing activities	10	124
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Decrease in cash and cash equivalents	(133)	(711)
Cash and cash equivalents at the beginning of the period	3,318	15,519
Cash and cash equivalents at the end of the period	3,185	14,808

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

RECONCILIATION OF LOSS FOR THE PERIOD TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
	$US'000 UNAUDITED	$US'000 UNAUDITED
Loss for the period	(6,918)	(9,886)
Company's share in loss of associated company	119	38
Amortization of goodwill	4,949	4,949
Depreciation and amortization	723	968
Increase (decrease) in severance pay fund, net of provision	14	(6)
Decrease in Inventory	1,851	2,103
Decrease in debtors	470	2,915
Decrease in creditors	(1,623)	(807)
Loss (gain) from marketable securities	51	(72)
Interest incurred on investments	(755)	(679)
Interest incurred on loan for affiliate	(2)	(55)
Loss on disposal of fixed assets	-	17
Net cash outflow from operating activities	(1,121)	(515)

BATM ADVANCED COMMUNICATIONS LTD
NOTES TO THE FINANCIAL STATEMENTS

Note 1 – General

The unaudited results for the six months ended 30th June 2004 have been prepared in accordance with generally accepted accounting principles set out in the Annual Report and Accounts for the year ended 31st December 2003. The unaudited results for the six months ended 30th June 2003 were prepared on the same basis.

Note 2 - Loss per share

Loss per share is based on the weighted average number of shares in issue for the period of 388,471,534 (2003 H1: 387,879,206).

Note 3 - Reconciliation of movements in shareholders' funds

	Share capital US$'000	Additional paid-in capital US$'000	Foreign currency translation adjustment US$'000	Retained loss US$'000	Total US$'000
As at January 1, 2004	1,177	397,540	16	(314,877)	83,856
Exercise of options by Employees	-	10			10
Loss for the period				(6,918)	(6,918)
As at June 30, 2004 (unaudited)	1,177	397,550	16	(321,795)	76,948

Note 3 – Material difference between Israeli and UK GAAP

The material difference between Israel and UK GAAP, as applicable to the Group's financial statements, is the accounting treatment with regard to employees share option schemes. Israeli GAAP does not require any reflection in the financial statements for the difference, if any, at the date of the award, between the fair value of the share and the exercise price of the option. Under UK GAAP (UITF 17) such a difference is charged to the profit and loss account, basically over the vesting period of the options. Had the company applied such UK GAAP, the loss and the loss per share, for the six months ended June 30, 2004 would have increased by $352 thousands and $0.09 per share, respectively and for the six months ended June 30, 2003 the loss and the loss per share would have increased by $674 thousands and $0.17 per share, respectively.