

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

U.S. DOLLARS IN THOUSANDS

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Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

**AUDITORS' REPORT
To the Shareholders of**

Orbit Technologies Ltd.

We have audited the consolidated balance sheets of Orbit Technologies Ltd. ("the Company") as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015, 2014 and 2013 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 24, 2016, expressed an unqualified opinion on those statements.

The accompanying consolidated information, which are derived from the abovementioned financial statements, do not include disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the accompanying financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
24 March, 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,435	3,385
Sort-term deposits	18	18
Accounts receivable	11,129	9,649
Income taxes receivable	261	-
Other accounts receivable	769	989
Inventories	10,405	11,051
Amounts due for construction contracts	7,196	5,803
	<u>33,213</u>	<u>30,895</u>
NON-CURRENT ASSETS:		
Long-term prepaid receivables	39	40
Fixed assets	3,280	3,089
Intangible assets	7,649	8,319
Deferred taxes	768	798
	<u>11,736</u>	<u>12,246</u>
	<u><u>44,949</u></u>	<u><u>43,141</u></u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	18	416
Current maturities of Convertible Bonds	2,378	-
Trade payables	5,691	4,277
Income taxes payable	30	248
Other accounts payable	7,102	7,960
	<u>15,219</u>	<u>12,901</u>
NON-CURRENT LIABILITIES:		
Loans from banks	9	25
Employee benefit liability	250	340
Liability for Government grants	827	938
Convertible Bonds	9,512	11,714
Deferred taxes	60	-
Excess of losses over investment in jointly controlled entity	95	93
	<u>10,753</u>	<u>13,110</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	3,866	3,838
Paid-in capital	6,582	6,346
Retained earnings	8,120	6,860
Reserve for share-based payment	895	839
Proceeds from conversion option issuance of convertible Bonds (net of issue expenses)	50	50
Foreign currency translation adjustments	(163)	(94)
Reserve form hedges	(105)	(310)
Reserve for defined benefit plans	599	468
Treasury shares	(867)	(867)
	<u>18,977</u>	<u>17,130</u>
<u>Total equity</u>	<u>44,949</u>	<u>43,141</u>

The accompanying note is an integral part of the consolidated financial statements.

24 March, 2016	Z. Stein	E. Shabirow	A. Rozenstein
Date of approval of the financial statements	Chairman of the Board	CEO	CFO

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2015	2014	2013
U.S. dollars in thousands			
(except per share data)			
Revenues from sales and contracts performed	45,114	51,343	46,626
Cost of sales and contracts performed	<u>28,908</u>	<u>34,081</u>	<u>32,757</u>
Gross profit	16,206	17,262	13,869
Research and development costs	6,004	5,226	3,728
Selling and marketing expenses	4,409	5,366	5,426
General and administrative expenses	3,579	3,731	3,991
Other expenses, net	<u>(6)</u>	<u>-</u>	<u>90</u>
Operating income	2,220	2,939	634
Finance income	-	109	-
Finance expenses	1,290	1,528	1,264
Group's share of losses of jointly controlled entity	<u>(2)</u>	<u>(14)</u>	<u>(62)</u>
Profit (loss) before taxes on income	928	1,506	(692)
Tax benefit	<u>(332)</u>	<u>(24)</u>	<u>(104)</u>
Net profit (loss)	<u>1,260</u>	<u>1,530</u>	<u>(588)</u>
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic Profit (loss) per share	<u>0.136</u>	<u>0.167</u>	<u>(0.065)</u>
Diluted Profit (loss) per share	<u>0.134</u>	<u>0.163</u>	<u>(0.063)</u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2015	2014	2013
	U.S. dollars in thousands		
Net Profit (loss)	<u>1,260</u>	<u>1,530</u>	<u>(588)</u>
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	303	396	-
Profit (loss) from cash flow hedges	(98)	(706)	-
Actuarial profit (loss) from defined benefit plans	131	(167)	(11)
Foreign currency translation adjustments of foreign operation	<u>(69)</u>	<u>(70)</u>	<u>44</u>
Total other comprehensive income (loss)	<u>267</u>	<u>(547)</u>	<u>33</u>
Total comprehensive income (loss)	<u><u>1,527</u></u>	<u><u>983</u></u>	<u><u>(555)</u></u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment	Foreign currency translation adjustments	conversion option Receipts	Reserve for hedges	Reserve for defined benefit plans	Treasury shares	Total equity
	U.S. dollars in thousands									
Balance at January 1, 2013	3,801	6,139	5,918	624	(68)	-	-	646	(867)	16,193
Loss	-	-	(588)	-	-	-	-	-	-	(588)
Other comprehensive income (loss)	-	-	-	-	44	-	-	(11)	-	33
Total comprehensive income (loss)	-	-	(588)	-	44	-	-	(11)	-	(555)
Exercise of warrants into shares	31	127	-	(2)	-	-	-	-	-	156
Cost of share based-payment	-	-	-	130	-	-	-	-	-	130
Balance at December 31, 2013	3,832	6,314	5,330	704	(24)	-	-	635	(867)	15,924
Net income	-	-	1,530	-	-	-	-	-	-	1,530
Other comprehensive income (loss)	-	-	-	-	(70)	-	(310)	(167)	-	(547)
Total comprehensive income	-	-	1,530	-	(70)	-	(310)	(167)	-	983
Exercise of warrants into shares	6	31	-	-	-	-	-	-	-	37
Forfeiture of Options	-	1	-	(1)	-	-	-	-	-	-
Proceeds from conversion option of convertible debentures (net of issuance expenses)	-	-	-	-	-	50	-	-	-	50
Cost of share based-payment	-	-	-	136	-	-	-	-	-	136
Balance at December 31, 2014	3,838	6,346	6,860	839	(94)	50	(310)	468	(867)	17,130
Net income	-	-	1,260	-	-	-	-	-	-	1,260
Other comprehensive income (loss)	-	-	-	-	(69)	-	205	131	-	267
Total comprehensive income	-	-	1,260	-	(69)	-	205	131	-	1,527
Exercise of warrants into shares	28	231	-	(68)	-	-	-	-	-	191
Forfeiture of Options	-	5	-	(5)	-	-	-	-	-	-
Cost of share based-payment	-	-	-	129	-	-	-	-	-	129
Balance at December 31, 2015	3,866	6,582	8,120	895	(163)	50	(105)	599	(867)	18,977

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	1,260	1,530	(588)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	1,374	1,245	877
Capital Gain from sale of fixed assets	(3)	-	-
Share of losses of jointly controlled entity	2	14	62
Cost of share-based payment	129	136	130
Tax benefit	(332)	(24)	(104)
Interest expenses, net	1,092	882	628
Change in employee benefit assets, net	40	7	128
Adjustment to current accounts with foreign operation	(26)	(70)	109
	<u>2,276</u>	<u>2,190</u>	<u>1,830</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(1,503)	1,627	1,079
increase in amounts due for construction contracts	(1,393)	(2,283)	(491)
Decrease (increase) in other accounts receivable	221	(372)	485
Decrease in inventories	646	4,313	113
Increase (decrease) in trade payables	1,322	(2,914)	292
Increase (decrease) in other accounts payable	(742)	(3,112)	4,036
	<u>(1,449)</u>	<u>(2,741)</u>	<u>5,514</u>
Cash paid and received during the year for:			
Interest paid	(889)	(713)	(550)
Taxes paid	(59)	(48)	(55)
Taxes received	-	-	8
	<u>(948)</u>	<u>(761)</u>	<u>(597)</u>
Net cash provided by operating activities	<u>1,139</u>	<u>218</u>	<u>6,159</u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of intangible assets and capitalization of research and development costs	-	(2,069)	(3,988)
Purchase of fixed assets	(806)	(1,016)	(962)
Deposit to short-term deposits	-	(311)	(619)
Proceeds from short-term deposits	-	912	-
Net cash provided by investing activities	<u>(806)</u>	<u>(2,484)</u>	<u>(5,569)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	-	(8,492)	1,438
Receipt of Government grants	-	208	327
Payments for Government grants	(82)	(163)	(77)
Issuance of convertible bonds (net of issuance expenses)	-	11,658	-
Receipt of loans from banks	-	-	78
Payments of loans from banks	(414)	(839)	(1,928)
Exercise of warrants into shares	191	37	158
Net cash provided by (used in) financing activities	<u>(305)</u>	<u>2,409</u>	<u>(4)</u>
Translation differences on balances of cash and cash equivalents	<u>22</u>	<u>45</u>	<u>(103)</u>
Increase in cash and cash equivalents	50	188	483
Cash and cash equivalents at the beginning of the year	<u>3,385</u>	<u>3,197</u>	<u>2,714</u>
Cash and cash equivalents at the end of the year	<u><u>3,435</u></u>	<u><u>3,385</u></u>	<u><u>3,197</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>92</u>	<u>67</u>	<u>77</u>

The accompanying note is an integral part of the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS AND GEOGRAPHICAL SEGMENTS

a. Operating segments:

The operating segments are identified on the basis of information that is regularly reviewed by the Company's CEO which has been identified as the strategic steering committee to make strategic decisions in the Company (chief operating decision maker, "CODM").

The CODM decided that there is one internally reportable operation segments-development, marketing and manufacturing of superior performance communication equipment solutions.

b. Secondary reporting on geographical segments:

The geographical segments are presented based on the location of customers:

	Year ended December 31, 2015		
	2015	2014	2013
	U.S. dollars in thousands		
Israel	12,144	8,820	10,845
Europe	12,431	18,068	13,257
America	10,627	12,046	17,908
East Asia	9,912	12,409	4,616
	<u>45,114</u>	<u>51,343</u>	<u>46,626</u>

c. Major customers:

Revenues from major customers each of whom amount to 10% or more of total revenues (in percentages):

	Year ended December 31, 2015		
	2015	2014	2013
	%		
Customer A	2	12	-
Customer B	16	7	23
