

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

U.S. DOLLARS IN THOUSANDS

INDEX

	<u>Page</u>
Auditors' Letter	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7
Consolidated Statements of Cash Flows	8 - 9
Notes to Financial Statements	10



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, 2016 and 2015 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, 2016, 2015 and 2014 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 29, 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
March 29, 2017

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,917	3,435
Sort-term deposits	18	18
Accounts receivable	6,124	11,129
Income taxes receivable	-	261
Other accounts receivable	621	769
Inventories	9,606	10,405
Amounts due for construction contracts	5,606	7,196
	<u>25,892</u>	<u>33,213</u>
NON-CURRENT ASSETS:		
Long-term prepaid receivables	14	39
Fixed assets	3,467	3,280
Intangible assets	7,000	7,649
Deferred taxes	637	768
	<u>11,118</u>	<u>11,736</u>
	<u><u>37,010</u></u>	<u><u>44,949</u></u>

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	2,016	18
Current maturities of Convertible Bonds	2,396	2,378
Trade payables	2,954	5,691
Income taxes payable	33	30
Other accounts payable	7,327	7,102
	<u>14,726</u>	<u>15,219</u>
NON-CURRENT LIABILITIES:		
Loans from banks	-	9
Employee benefit liability	522	250
Liability for Government grants	311	827
Convertible Bonds	7,187	9,512
Financials liabilities	24	
Deferred taxes	40	60
Excess of losses over investment in jointly controlled entity	95	95
	<u>8,179</u>	<u>10,753</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	3,896	3,866
Paid-in capital	7,100	6,582
Retained earnings	3,207	8,120
Reserve for share-based payment	665	895
Proceeds from conversion option issuance of convertible Bonds (net of issue expenses)	40	50
Foreign currency translation adjustments	(523)	(163)
Reserve form hedges	8	(105)
Reserve for defined benefit plans	579	599
Treasury shares	(867)	(867)
	<u>14,105</u>	<u>18,977</u>
Total equity	<u>37,010</u>	<u>44,949</u>

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

March 29, 2017			
Date of approval of the financial statements	Z. Stein Chairman of the Board	E. Livneh CEO	M. Dudek CFO

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands (except per share data)		
Revenues from sales and contracts performed	29,856	45,114	51,343
Cost of sales and contracts performed	20,708	28,908	34,081
Gross profit	9,148	16,206	17,262
Research and development costs	5,730	6,004	5,226
Selling and marketing expenses	4,681	4,409	5,366
General and administrative expenses	3,305	3,579	3,731
Other income, net	737	6	-
Operating income	(3,831)	2,220	2,939
Finance income	516	-	109
Finance expenses	1,159	1,290	1,528
Group's share of losses of jointly controlled entity	-	(2)	(14)
Profit (loss) before taxes on income	(4,474)	928	1,506
Tax expenses (tax benefit)	439	(332)	(24)
Net profit (loss)	<u>(4,913)</u>	<u>1,260</u>	<u>1,530</u>
Net profit (loss) per share attributable to equity holders of the Company (in U.S. dollars):			
Basic Profit (loss) per share	<u>(0.526)</u>	<u>0.136</u>	<u>0.167</u>
Diluted Profit (loss) per share	<u>(0.526)</u>	<u>0.134</u>	<u>0.163</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2016	2015	2014
	U.S. dollars in thousands		
Net Profit (loss)	<u>(4,913)</u>	<u>1,260</u>	<u>1,530</u>
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	57	303	396
Profit (loss) from cash flow hedges	56	(98)	(706)
Actuarial profit (loss) from defined benefit plans	(20)	131	(167)
Foreign currency translation adjustments of foreign operation	<u>(360)</u>	<u>(69)</u>	<u>(70)</u>
Total other comprehensive income (loss)	<u>(267)</u>	<u>267</u>	<u>(547)</u>
Total comprehensive income (loss)	<u><u>(5,180)</u></u>	<u><u>1,527</u></u>	<u><u>983</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, 2014	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
Net income	-	-	(4,913)	-	-	-	-	-	-	(4,913)
Other comprehensive income (loss)	-	-	-	-	(360)	-	113	(20)	-	(267)
Total comprehensive income	-	-	(4,913)	-	(360)	-	113	(20)	-	(5,180)
Exercise of warrants into shares	30	294	-	(67)	-	-	-	-	-	257
Forfeiture of Options	-	224	-	(214)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	51	-	-	-	-	-	51
Balance at December 31, 2016	3,896	7,100	3,207	665	(523)	40	8	579	(867)	14,105

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
U.S. dollars in thousands			
<u>Cash flows from operating activities:</u>			
Net income (loss)	(4,913)	1,260	1,530
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	1,319	1,374	1,245
Capital Gain from sale of fixed assets	-	(3)	-
Share of losses of jointly controlled entity	-	2	14
Cost of share-based payment	51	129	136
Tax benefit	439	(332)	(24)
Interest expenses, net	674	1,092	882
Change in employee benefit assets, net	41	40	7
Adjustment to current accounts with foreign operation	(60)	(26)	(70)
	<u>2,464</u>	<u>2,276</u>	<u>2,190</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	5,005	(1,503)	1,627
increase in amounts due for construction contracts	1,590	(1,393)	(2,283)
Decrease (increase) in other accounts receivable	172	221	(372)
Decrease in inventories	843	646	4,313
Increase (decrease) in trade payables	(2,808)	1,322	(2,914)
Increase (decrease) in other accounts payable	(39)	(742)	(3,112)
	<u>4,763</u>	<u>(1,449)</u>	<u>(2,741)</u>
Cash paid and received during the year for:			
Interest paid	(781)	(889)	(713)
Taxes paid	(64)	(59)	(48)
	<u>(845)</u>	<u>(948)</u>	<u>(761)</u>
Net cash provided by operating activities	<u>1,469</u>	<u>1,139</u>	<u>218</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	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)
Purchase of fixed assets	(791)	(806)	(1,016)
Deposit to short-term deposits	-	-	(311)
Proceeds from short-term deposits	-	-	912
Net cash provided by investing activities	<u>(791)</u>	<u>(806)</u>	<u>(2,484)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	2,016	-	(8,492)
Receipt of Government grants	28	-	208
Payments for Government grants	(62)	(82)	(163)
Issuance of convertible bonds (net of issuance expenses)	-	-	11,658
Payments of convertible bonds (net of issuance expenses)	(2,462)	-	-
Payments of loans from banks	(27)	(414)	(839)
Exercise of warrants into shares	257	191	37
Net cash provided by (used in) financing activities	<u>(250)</u>	<u>(305)</u>	<u>2,409</u>
Translation differences on balances of cash and cash equivalents	<u>54</u>	<u>22</u>	<u>45</u>
Increase in cash and cash equivalents	482	50	188
Cash and cash equivalents at the beginning of the year	<u>3,435</u>	<u>3,385</u>	<u>3,197</u>
Cash and cash equivalents at the end of the year	<u><u>3,917</u></u>	<u><u>3,435</u></u>	<u><u>3,385</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>73</u>	<u>92</u>	<u>67</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,		
	2016	2015	2014
U.S. dollars in thousands			
Israel	7,693	12,181	8,820
Europe	7,236	12,632	18,068
America	8,699	10,827	12,046
East Asia	6,228	9,474	12,409
	<u>29,856</u>	<u>45,114</u>	<u>51,343</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,		
	2016	2015	2014
%			
Customer A	13	9	3
Customer B	12	16	7
Customer C	12	2	3
