

ORBIT TECHNOLOGIES LTD.**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****AS OF JUNE 30, 2016****UNAUDITED****U.S. DOLLARS IN THOUSANDS****INDEX**

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To:
Orbit Technologies Ltd.

We have reviewed the financial information of Orbit Technologies Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of June 30, 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel.

Based on our review, in our review report dated May 14, 2016, we stated that nothing came to our attention that caused us to believe that the abovementioned interim financial information was not prepared, in all material respects, in accordance with IAS 34.

The accompanying financial information, which is derived from the abovementioned financial information, is condensed financial information and does not include disclosures required by IAS 34. If the omitted disclosures were included in the accompanying financial information, 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 information is not designed for those who are not informed about such matters.

Tel-Aviv, Israel
31 August, 2016

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

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	2,617	3,006	3,435
Sort-term deposits	18	18	18
Accounts receivables	7,879	10,356	11,129
Income taxes receivable	-	-	261
Other accounts receivable	1,218	1,537	769
Inventories	10,354	10,367	10,405
Amounts due for construction contracts	4,793	9,688	7,196
	<u>26,879</u>	<u>34,972</u>	<u>33,213</u>
NON-CURRENT ASSETS:			
Long-term prepaid receivables	13	41	39
Fixed assets	3,422	3,128	3,280
Intangible assets	7,327	7,982	7,649
Income taxes receivable	276	-	-
Deferred taxes	618	798	768
	<u>11,656</u>	<u>11,949</u>	<u>11,736</u>
	<u><u>38,535</u></u>	<u><u>46,921</u></u>	<u><u>44,949</u></u>

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

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>U.S. dollars in thousands</u>		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	13	187	18
Current maturities of Convertible Bonds	2,377	2,360	2,378
Trade payables	2,772	8,047	5,691
Income taxes payable	45	185	30
Other accounts payable	7,052	6,503	7,102
	<u>12,259</u>	<u>17,282</u>	<u>15,219</u>
NON-CURRENT LIABILITIES:			
Loans from banks	-	17	9
Liability for Government grants	587	903	827
Employee benefit liability	270	389	250
Convertible Bonds	7,132	9,442	9,512
Deferred taxes	58	-	60
Financials liabilities	35	-	-
Excess of losses over investment in jointly controlled entity	95	95	95
	<u>8,177</u>	<u>10,846</u>	<u>10,753</u>
EQUITY:			
Share capital	3,878	3,862	3,866
Paid-in capital	6,690	6,558	6,582
Retained earnings	7,212	7,678	8,120
Reserve for share-based payment	40	50	50
Proceeds from conversion option issuance of convertible Bonds (net of issue expenses)	852	824	895
Foreign currency translation adjustments	51	301	(105)
Reserve form hedges	(356)	(81)	(163)
Reserve for defined benefit plans	599	468	599
Treasury shares	(867)	(867)	(867)
<u>Total equity</u>	<u>18,099</u>	<u>18,793</u>	<u>18,977</u>
	<u>38,535</u>	<u>46,921</u>	<u>44,949</u>

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

31 August, 2016			
Date of approval of the financial statements	Z. Stein Chairman of the Board	E. Livneh CEO	R. Darki Acting CFO

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands (except per share data)				
Revenues from sales and contracts performed	17,062	24,434	7,028	12,233	45,114
Cost of sales and contracts performed	11,385	15,651	4,634	7,877	28,908
Gross profit	5,677	8,783	2,394	4,356	16,206
Research and development costs	2,909	3,127	1,386	1,547	6,004
Selling and marketing expenses	2,244	2,236	939	1,138	4,409
General and administrative expenses	1,754	1,706	890	824	3,579
Other income, net	800	-	150	-	6
Operating profit (loss)	(430)	1,714	(671)	847	2,220
Finance income	301	-	163	-	-
Finance expenses	612	874	310	428	1,290
Group's share of profit (losses) of jointly controlled entity	-	-	-	-	(2)
Profit (loss) before taxes on income	(741)	840	(818)	419	928
Income tax expense (tax benefit)	167	22	161	10	(332)
Net profit (loss)	(908)	818	(979)	409	1,260
Net earnings per share attributable to equity holders of the Company (in U.S. dollars):					
Basic Profit (loss) per share	(0.098)	0.09	(0.105)	0.04	0.136
Diluted Profit (loss) per share	(0.096)	0.09	(0.103)	0.04	0.134

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
Profit (loss)	(908)	818	(979)	409	1,260
Other comprehensive income (loss) (net of tax effect):					
Amounts transferred to the income statement for cash flow hedges	157	397	(46)	54	303
Profit (loss) from cash flow hedges	(1)	214	(31)	495	(98)
Actuarial profit (loss) from defined benefit plans	-	-	-	-	131
Foreign currency translation adjustments of foreign operation	(193)	13	(135)	73	(69)
	(37)	624	(212)	622	267
Total comprehensive Profit (loss)	(945)	1,442	(1,191)	1,031	1,527

The accompanying note is an integral part of the interim 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
	Unaudited									
	U.S. dollars in thousands									
Balance at January 1, 2016 (audited)	3,866	6,582	8,120	895	(163)	50	(105)	599	(867)	18,977
loss	-	-	(908)	-	-	-	-	-	-	(908)
Other comprehensive income (loss)	-	-	-	-	(193)	-	156	-	-	(37)
Total comprehensive income (loss)	-	-	(908)	-	(193)	-	156	-	-	(945)
Exercise of warrants into shares	12	79	-	-	-	-	-	-	-	91
Forfeiture of Options	-	29	-	(19)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	(24)	-	-	-	-	-	(24)
Balance at June 30, 2016	<u>3,878</u>	<u>6,690</u>	<u>7,212</u>	<u>852</u>	<u>(356)</u>	<u>40</u>	<u>51</u>	<u>599</u>	<u>(867)</u>	<u>18,099</u>
	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
	Unaudited									
	U.S. dollars in thousands									
Balance at January 1, 2015 (audited)	3,838	6,346	6,860	839	(94)	50	(310)	468	(867)	17,130
Net income	-	-	818	-	-	-	-	-	-	818
Other comprehensive income	-	-	-	-	13	-	611	-	-	624
Total comprehensive income	-	-	818	-	13	-	611	-	-	1,442
Exercise of warrants into shares	24	212	-	(66)	-	-	-	-	-	170
Cost of share based-payment	-	-	-	51	-	-	-	-	-	51
Balance at June 30, 2015	<u>3,862</u>	<u>6,558</u>	<u>7,678</u>	<u>824</u>	<u>(81)</u>	<u>50</u>	<u>301</u>	<u>468</u>	<u>(867)</u>	<u>18,793</u>

The accompanying note is an integral part of the interim 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
	Unaudited									
U.S. dollars in thousands										
Balance at April 1, 2016	3,872	6,618	8,191	935	(221)	50	128	599	(867)	19,305
loss	-	-	(979)	-	-	-	-	-	-	(979)
Other comprehensive income (loss)	-	-	-	-	(135)	-	(77)	-	-	(212)
Total comprehensive income	-	-	(979)	-	(135)	-	(77)	-	-	(1,191)
Exercise of warrants into shares	6	48	-	-	-	-	-	-	-	54
Forfeiture of Options	-	24	-	(14)	-	(10)	-	-	-	-
Cost of share based-payment	-	-	-	(69)	-	-	-	-	-	(69)
Balance at June 30, 2016	<u>3,878</u>	<u>6,690</u>	<u>7,212</u>	<u>852</u>	<u>(356)</u>	<u>40</u>	<u>51</u>	<u>599</u>	<u>(867)</u>	<u>18,099</u>
	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
	Unaudited									
U.S. dollars in thousands										
Balance at April 1, 2015	3,858	6,496	7,269	845	(154)	50	(248)	468	(867)	17,717
Net income	-	-	409	-	-	-	-	-	-	409
Other comprehensive income	-	-	-	-	73	-	549	-	-	622
Total comprehensive income	-	-	409	-	73	-	549	-	-	1,031
Exercise of warrants into shares	4	62	-	(41)	-	-	-	-	-	25
Cost of share based-payment	-	-	-	20	-	-	-	-	-	20
Balance at June 30, 2015	<u>3,862</u>	<u>6,558</u>	<u>7,678</u>	<u>824</u>	<u>(81)</u>	<u>50</u>	<u>301</u>	<u>468</u>	<u>(867)</u>	<u>18,793</u>

The accompanying note is an integral part of the interim 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
Audited										
U.S. dollars in thousands										
Balance at January 1, 2015	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	<u>3,866</u>	<u>6,582</u>	<u>8,120</u>	<u>895</u>	<u>(163)</u>	<u>50</u>	<u>(105)</u>	<u>599</u>	<u>(867)</u>	<u>18,977</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from operating activities:</u>					
Net income	(908)	818	(979)	409	1,260
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Depreciation and amortization	653	687	327	355	1,374
Capital Gain from sale of fixed assets	-	-	-	-	(3)
Share of losses of jointly controlled entity	-	-	-	-	2
Cost of share-based payment	(24)	51	(69)	20	129
Income tax expense (tax benefit)	167	22	161	10	(332)
Interest expenses, net	371	413	304	36	1,092
Change in employee benefit liability, net	20	49	4	36	40
Adjustment to current accounts with foreign operation	(44)	37	12	(10)	(26)
	1,143	1,259	739	447	2,276
Changes in operating asset and liability items:					
Decrease (increase) in trade receivables	3,249	(702)	3,317	(886)	(1,503)
Decrease (increase) in amounts due for construction contracts	2,403	(3,885)	2,981	(1,334)	(1,393)
Decrease (increase) in other accounts receivable	(424)	(545)	640	(111)	221
Decrease (increase) in inventories	52	684	(360)	77	646
Increase (decrease) in trade payables	(3,046)	3,750	(3,138)	2,014	1,322
Decrease in other accounts payable	(142)	(971)	(964)	(910)	(742)
	2,092	(1,669)	2,476	(1,150)	(1,449)
Cash paid and received during the period for:					
Interest paid	(451)	(235)	(415)	(229)	(889)
Taxes paid	(24)	(86)	(21)	(15)	(59)
	(475)	(321)	(436)	(244)	(948)
Net cash provided by (used in) operating activities	1,852	87	1,800	(538)	1,139

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2016	2015	2016	2015	2015
	Unaudited				Audited
	U.S. dollars in thousands				
<u>Cash flows from investing activities:</u>					
Purchase of fixed assets	(298)	(368)	(195)	(209)	(806)
Net cash used in investing activities	(298)	(368)	(195)	(209)	(806)
<u>Cash flows from financing activities:</u>					
Short-term bank credit, net	13	-	13	-	-
Payments for Government grants	(57)	-	(57)	-	(82)
Receipt of Government grants	28	-	28	-	-
Payments of loans from banks	(27)	(237)	-	(169)	(414)
Payments of convertible bonds (net of issuance expenses)	(2,462)	-	(2,462)	-	-
Exercise of warrants into shares	91	170	54	25	191
Net cash provided by (used in) financing activities	(2,414)	(67)	(2,424)	(144)	(305)
Translation differences on balances of cash and cash equivalents	42	(31)	(12)	24	22
Increase (decrease) in cash and cash equivalents	(818)	(379)	(831)	(867)	50
Cash and cash equivalents at the beginning of the period	3,435	3,385	3,448	3,873	3,385
Cash and cash equivalents at the end of the period	2,617	3,006	2,617	3,006	3,435
<u>Significant non-cash transaction:</u>					
Purchase of fixed assets on suppliers credit	127	90	127	90	92

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

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2016 and for the six and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2015 and for the year then ended and accompanying notes ("annual financial statements").

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