

ORBIT TECHNOLOGIES LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

U.S. DOLLARS IN THOUSANDS

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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, 2014 and 2013 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, 2014, 2013 and 2012 in accordance with generally accepted auditing standards in Israel.

Based on our audits and our report dated March 12, 2015, 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 12, 2015
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,385	3,197
Sort-term deposits	18	619
Accounts receivable	9,649	11,300
Other accounts receivable	989	619
Inventories	11,051	15,367
Amounts due for construction contracts	5,803	3,520
	<u>30,895</u>	<u>34,622</u>
NON-CURRENT ASSETS:		
Long-term prepaid receivables	40	49
Fixed assets	3,089	2,795
Intangible assets	8,319	6,791
Deferred taxes	798	731
	<u>12,246</u>	<u>10,366</u>
	<u><u>43,141</u></u>	<u><u>44,988</u></u>

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

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	416	9,325
Trade payables	4,277	7,200
Income taxes payable	248	285
Other accounts payable	7,960	10,755
	<u>12,901</u>	<u>27,565</u>
NON-CURRENT LIABILITIES:		
Loans from banks	25	447
Employee benefit liability	340	134
Liability for Government grants	938	839
Convertible Bonds	11,714	-
Excess of losses over investment in jointly controlled entity	93	79
	<u>13,110</u>	<u>1,499</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	3,838	3,832
Paid-in capital	6,346	6,314
Retained earnings	6,860	5,330
Reserve for share-based payment	839	704
Proceeds from conversion option issuance of convertible Bonds (net of issue expenses)	50	-
Foreign currency translation adjustments	(94)	(24)
Reserve form hedges	(310)	-
Reserve for defined benefit plans	468	635
Treasury shares	(867)	(867)
<u>Total equity</u>	<u>17,130</u>	<u>15,924</u>
	<u>43,141</u>	<u>44,988</u>


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

March 12, 2015

Date of approval of the
financial statements


Z. Stein

Chairman of the Board


O. Greenberger

CEO


A. Rozenstein

CFO

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
	(except per share data)		
Revenues from sales and contracts performed	51,343	46,626	41,198
Cost of sales and contracts performed	<u>34,081</u>	<u>32,757</u>	<u>28,658</u>
Gross profit	17,262	13,869	12,540
Research and development costs	5,226	3,728	4,205
Selling and marketing expenses	5,366	5,426	4,970
General and administrative expenses	3,731	3,991	3,765
Restructuring expenses	-	-	83
Other expenses, net	<u>-</u>	<u>90</u>	<u>74</u>
Operating income (loss)	2,939	634	(557)
Finance income	109	-	102
Finance expenses	1,528	1,264	633
Group's share of losses of jointly controlled entity	<u>(14)</u>	<u>(62)</u>	<u>(11)</u>
Profit (loss) before taxes on income	1,506	(692)	(1,099)
Tax benefit	<u>(24)</u>	<u>(104)</u>	<u>(312)</u>
Net profit (loss)	<u>1,530</u>	<u>(588)</u>	<u>(787)</u>
loss per share attributable to equity holders of the Company (in U.S. dollars):			
Basic and Diluted Profit (loss) per share	<u>0.17</u>	<u>(0.06)</u>	<u>(0.09)</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2014	2013	2012
	U.S. dollars in thousands		
Profit (loss)	1,530	(588)	(787)
Other comprehensive income (net of tax effect):			
Amounts transferred to the income statement for cash flow hedges	396	-	64
Profit (loss) from cash flow hedges	(706)	-	(14)
Actuarial profit (loss) from defined benefit plans	(167)	(11)	(107)
Foreign currency translation adjustments of foreign operation	(70)	44	40
Total other comprehensive income (loss)	(547)	33	(17)
Total comprehensive income (loss)	983	(555)	(804)

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 December 31, 2011	3,798	6,124	7,559	650	(108)	-	(50)	753	(867)	17,859
Loss	-	-	(787)	-	-	-	-	-	-	(787)
Other comprehensive income (loss)	-	-	-	-	40	-	50	(107)	-	(17)
Total comprehensive income (loss)	-	-	(787)	-	40	-	50	(107)	-	(804)
Exercise of warrants into shares	3	15	-	-	-	-	-	-	-	18
Dividend declared and paid	-	-	(854)	-	-	-	-	-	-	(854)
Cost of share based-payment	-	-	-	(26)	-	-	-	-	-	(26)
Balance at December 31, 2012	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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
U.S. dollars in thousands			
<u>Cash flows from operating activities:</u>			
Net income (loss)	1,530	(588)	(787)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	1,245	877	738
Share of losses of jointly controlled entity	14	62	11
Cost of share-based payment	136	130	(26)
Tax benefit	(24)	(104)	(312)
Interest expenses, net	882	628	539
Change in employee benefit assets, net	7	128	67
Adjustment to current accounts with foreign operation	(70)	109	(5)
	<u>2,190</u>	<u>1,830</u>	<u>1,012</u>
Changes in asset and liability items:			
Decrease in trade receivables	1,627	1,079	3,368
Decrease (increase) in amounts due for construction contracts	(2,283)	(491)	115
Decrease (increase) in other accounts receivable	(372)	485	(279)
Decrease in inventories	4,313	113	1,129
Increase (decrease) in trade payables	(2,914)	292	427
Increase (decrease) in other accounts payable	(3,112)	4,036	(125)
	<u>(2,741)</u>	<u>5,514</u>	<u>4,635</u>
Cash paid and received during the year for:			
Interest paid	(713)	(550)	(405)
Interest received	-	-	14
Taxes paid	(48)	(55)	(74)
Taxes received	-	8	140
	<u>(761)</u>	<u>(597)</u>	<u>(325)</u>
Net cash provided by operating activities	<u>218</u>	<u>6,159</u>	<u>4,535</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	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)	(2,257)
Purchase of fixed assets	(1,016)	(962)	(819)
Deposit to short-term deposits	(311)	(619)	-
Proceeds from short-term deposits	912	-	-
Net cash provided by investing activities	<u>(2,484)</u>	<u>(5,569)</u>	<u>(3,076)</u>
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	(8,492)	1,438	(1,005)
Dividend declared and paid to equity holders of the Company	-	-	(854)
Receipt of Government grants	208	327	394
Payments for Government grants	(163)	(77)	(73)
Issuance of convertible bonds (net of issuance expenses)	11,658	-	-
Receipt of loans from banks	-	78	1,500
Payments of loans from banks	(839)	(1,928)	(1,369)
Exercise of warrants into shares	37	158	18
Net cash provided by (used in) financing activities	<u>2,409</u>	<u>(4)</u>	<u>(1,389)</u>
Translation differences on balances of cash and cash equivalents	<u>45</u>	<u>(103)</u>	<u>(2)</u>
Increase in cash and cash equivalents	188	483	68
Cash and cash equivalents at the beginning of the year	<u>3,197</u>	<u>2,714</u>	<u>2,646</u>
Cash and cash equivalents at the end of the year	<u><u>3,385</u></u>	<u><u>3,197</u></u>	<u><u>2,714</u></u>
<u>Significant non-cash transaction:</u>			
Purchase of fixed assets on suppliers credit	<u>67</u>	<u>77</u>	<u>167</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,		
	2014	2013	2012
U.S. dollars in thousands			
Israel	8,820	10,845	9,827
Europe	18,068	13,257	12,243
America	12,046	17,908	13,257
East Asia	12,409	4,616	5,871
	<u>51,343</u>	<u>46,626</u>	<u>41,198</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,		
	2014	2013	2012
%			
Customer A	12	-	-
Customer B	7	23	17
Customer C	3	0.2	9
Customer D	8	4	7