

19 September 2016

SimiGon Ltd

("SimiGon" or "the Company")

Interim Results for the six months ended 30 June 2016

Growth in net profit by 5% YoY to \$0.83 million and EPS of \$0.02

SimiGon Ltd, a global leader in providing simulation solutions, announces its interim results for the six months ended 30 June 2016.

Financial Highlights

- Net profit increased by 5% to \$0.83 million (H1 2015: \$0.79 million)
- Profit before tax increased by 2% to \$0.81 million (H1 2015: \$0.79 million)
- Revenues of \$3.29 million (H1 2015: \$3.46 million)
- Gross margin of 78% (H1 2015: 75%)
- Basic and diluted EPS of \$0.02 (H1 2015: \$0.02)
- Paid 2015 annual dividend of 0.6 cents per share in May 2016

Operational Highlights

New major awards:

- Awarded a five-and-a-half year contract worth \$7.9 million to deliver SIMbox based training solutions to a leading provider of training solutions for the civilian aviation industries in the Far East
- Received a Winning Notice from the Israeli Air Force for a \$2 million contract to provide F-16 maintenance trainers

Delivering on long term contracts:

- Meeting delivery millstones under the \$6.7 million contract signed in June 2013 although on a slower timetable than initially expected as a result of the client requesting SimiGon to provide a number of deliverables outside of the original contract scope
- Continuing long term contracts supporting the UK Military Flying Training System ("UKMFTS") program
- Continuing to meet project milestones for long term contract with Check-6, the Company's first major contract outside the aerospace and defence industry
- Continued support for Lockheed Martin's F-35 Lightning II Joint Strike Fighter training program (JSF)
- Continuing long-term contract to provide training simulations for a strategic European aircraft manufacturer; and
- Continued support for U.S. Air Force Air Education Training Command on its T-6 Modular training simulator devices used in the training of all Remote Piloted Aircraft students

Post period-end event

The release of SIMbox v.5.3 in September 2016 marks the next step of the Company's technology evolution, bringing more advanced capabilities to the training and simulation industry.

Ami Vizer, Chief Executive Officer of SimiGon, said: "Continuing to execute our growth strategy, I am pleased to report another period of increased profitability. SimiGon recorded net profit of \$0.83 million as compared to \$0.79 million in H1 2015 and revenues of \$3.29 million in the first half of 2016 (H1 2015: \$3.46 million). During the course of this first half of 2016, we have been awarded with new high value contracts and further established our position as a prime contractor providing a highly valued solution to our customers".

"Looking ahead, SimiGon will continue to leverage its position in the market and its global footprint to build new partnerships, expand its customer base, and target large contracts. The Company is continuing its transition into high value, long term license contracts in order to meet market requirements. Though it may lead to lower revenue from these contracts in the early years, it is expected to give SimiGon much better revenue and profits visibility in the long term. Having unique distributed training systems and proven technology applicable for multiple domains and devices together with a business model that allows creating partnerships and relationships with Blue Chip corporations, the Board enters the second half of 2016 with expectations to deliver growth over the long term".

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Overview

SimiGon is pleased to report another period of increased profitability as a result of recurring revenues from existing strategic partners and new business being won. SimiGon recorded net profit of \$0.83 million as compared to \$0.79 million in H1 2015 and revenues of \$3.29 million in the first half of 2016 as compared to \$3.46 million in the first half of 2015.

SimiGon had received two major awards in the first half of 2016; these awards have improved SimiGon's position as a technology and services provider for large simulation training programs. A long term supplier of training and simulation technologies for the world's largest military aviation training programmes, the Company is simultaneously focused on achieving growth into vertical markets such as civil aviation training, industrial skills training and soft skills training.

SimiGon's capture of a growing share of the global market for simulation and training projects is allowing the Company to expand project scope and increase potential revenues. Competing as a Prime Contractor, Supplier or Strategic Partner, the Company is focused on participating in more business opportunities to achieve growth and advance its technological capabilities.

SimiGon is working to be consistently positioned as a strategic player in programs that will assist its long term growth. SimiGon's revenue mix of new contracts and support contracts provides the Company with the confidence that it will succeed in achieving growth over the years.

Operational Review

SimiGon has continued to consolidate its position as the technology provider of choice for large simulation training programs and as a strategic supplier of training and simulation technologies for the worlds' largest military flight training programmes. SimiGon is dedicated to developing strategic, simulation-based training programs. This development is allowing expansion into vertical markets, including civil aviation training and industrial training, as well as boosting long term growth.

SimiGon has been delivering on all of its major contracts during the first half of 2016 and continued to increase its visibility of the market and of new opportunities available to it as a prime contractor and strategic partner. The Company continues to benefit from direct relationships with the end users and, as the business and our reputation grows, SimiGon will be in a stronger position to compete for and secure far larger contracts.

Delivery of major contract as prime contractor

SimiGon announced in June 2013 that it had signed a contract valued at \$6.7 million for a major training program. This was a milestone contract for the Company in terms of the geographic region, the contract value and the programme scope.

As noted on SimiGon's 2015 full year financial results, delivery under this contract has continued on a slower timetable than expected as a result of the client requesting SimiGon to provide a number of deliverables outside of the original contract scope. As part of SimiGon's drive to support all of its clients, SimiGon has been prepared to agree to these new demands and has been meeting the delivery milestones during the first half of 2016. The Company looks forward to meeting all remaining delivery milestones during the course of H2 2016.

The Company expects that its technology and performance will put it in a good position to be selected for potential subsequent phases of the programme.

Expansion into civil aviation market

In May 2016, SimiGon signed an exclusive five-and-a-half-year contract (the "Contract Period") to deliver SIMbox based training solutions to a leading provider of training solutions for the civilian aviation industries in the Far East (the "Contract"). Under the terms of the Contract, SimiGon will be paid \$7.9 million to license its SIMbox software over the Contract Period, with a minimum of \$1.4 million per year starting this year.

As indicated, this is another major contract outside of the defence industry and it will further expand the Company's growth strategy to diversify its product offering and increase its addressable market. The Contract underlines SimiGon's ability to penetrate a much larger market and can be a stepping stone to securing additional business in civilian aviation industry through similar opportunities.

New contract wins

SimiGon announced in June 2016 that it has received a Contract Winning Notice for a \$2 million contract from the Israeli Air Force ("IAF") to provide new F-16 maintenance trainers ("the Contract Winning Notice") to be delivered within a period of 18 months once the expected contract is signed.

By adding a new solution for virtual maintenance training to its product offering, SimiGon will be able to build upon its past performance to succeed in a growing market for aircraft technician virtual training. The same technology, training aids and methodology delivering advanced training for aircrew is now leveraged for maintenance staff training, saving organizations considerable time and money with a single training technology backbone. This comprehensive solution is already being marketed worldwide and will contribute to the Company's market share.

The expected contract with the IAF includes SimiGon's SIMbox software technology customized to train F-16 maintenance technicians in a virtual environment. Up to 60 trainees across two classes will be provided with personal training stations, allowing them to learn avionics and front line maintenance with a Virtual Instructor and a self-paced syllabus using high fidelity simulation. SIMbox is already used by several air forces to train their pilots in the most advanced programs and platforms and the same technology and concept will now also be used to train the aircrafts' maintenance teams.

The Contract Winning Notice underscores SimiGon's successful entry into the military fixed wing training market and further strengthens the Company's strategic market position which should lead to similar opportunities in the future.

Long term contracts

The Company's long term partnerships have blossomed into additional business opportunities and offer good revenue visibility. Many partnerships are expected to continue with additional purchases through 2016 and beyond.

SimiGon is now in its eighth year of providing support to Lockheed Martin's JSF training program and additional licenses and ongoing maintenance support agreements are part of the ongoing, long term partnership.

The Company is now in its seventh year of providing support to the UK Military Flying Training System. The Company continues to deliver under this long term contract, exceeding partner and customer expectations of SimiGon's technologies and their performance.

The long term recurring revenues from SimiGon's partnership with Check-6 Inc., one of the leading providers of training solutions to the energy and mining industries, have continued during 2016. Throughout this contract, SimiGon has successfully delivered SIMbox software and the Company is bullish on extending this partnership with Check 6 in the future.

The maintenance and support contract from the USAF for the SIMbox-based T-6A Modular Training Devices SimiGon delivered as part of a June 2011 contract demonstrates the long term

nature of the relationship with this strategic customer. This relationship is also expected to grow and positively impact future earnings.

SimiGon maintains its close relationship with a major existing European customer that it has been working with since 2009. SimiGon's technology is now being operated on a daily basis in 3 different training centers and is receiving high customer satisfaction reviews. SimiGon is confident that this relationship will continue and lead to additional orders in the future.

SimiGon has been providing successful solutions for Unmanned Aerial Systems (UAS) training for a leading provider in the small tactical unmanned aircraft systems. SimiGon's technology is used to support initial operator training in classrooms as well as advanced operational training. SimiGon will continue to work with this partner to increase its footprint in the growing UAS arena.

Financial Performance

For the reasons set out above revenues for the six months ended 30 June 2016 were \$3.29 million as compared to \$3.46 million for the six months ended 30 June 2015. Gross profit for the six months ended 30 June 2016 was \$2.58 million, as compared to \$2.59 million for the six months ended 30 June 2015. Accordingly, gross margin increased to 78% for the six months ended 30 June 2016 as compared to 75% for the six months ended 30 June 2015. Net profit before tax for the six months ended 30 June 2016 improved by 2% to \$0.81 million as compared to \$0.79 million for the six months ended 30 June 2015 and net profit for the six months ended 30 June 2016 increased by 5% to \$0.83 million as compared to \$0.79 million for the six months ended 30 June 2015.

Total operating expenses for the six months ended 30 June 2016 decreased by 1% to \$1.79 million as compared to \$1.8 million for the six months ended 30 June 2015. Research and development expenses for the six months ended 30 June 2016 increased by 8% to \$0.8 million as compared to \$0.74 million for the six months ended 30 June 2015, mainly due to an increase in salary expenses. Marketing expenses for the six months ended 30 June 2016 decreased by 13% to \$0.5 million as compared to \$0.57 million for the six months ended 30 June 2015 and general and administration expenses for the six months ended 30 June 2016 decrease by 2% to \$0.48 million as compared to \$0.49 million the six months ended 30 June 2015.

The Company has recorded net income tax of \$0.02 million for the six months ended 30 June 2016 mainly as a result of updating its deferred tax asset created in 2015 in relation to the expected utilization of carry forward losses against expected income in future years.

As a consequence of the factors above operating profit for the six months ended 30 June 2016 amounted to \$0.79 (H1 2015: 0.79 million) and net basic and diluted earnings per share of \$0.02 (H1 2015: Basic and diluted earnings per share \$0.02).

As at 30 June 2016 the Company had liquid cash of \$8.4 million as compared to \$7.4 million for the year ended 31 December 2015 and trade receivables of \$3.12 million as compared to \$3.72 million for the year ended 31 December 2015. \$0.64 million of the year end trade receivables balance has been collected since 30 June 2016.

In light of the strong cash position and further to the Company's declared intention to pay an annual dividend announced in the full year financial results for 2015, a dividend of 0.6 cents per share, equating to approximately 15% of the Company's earnings per share and to approximately 17.2% of the Company's net profit as of December 31, 2015 was paid to shareholders on 27 May 2016.

Outlook

Achieving its strategic milestones, SimiGon continues to deliver strong profitability. The Company's goal of being a prime contractor and technology provider for major, long term simulation training programmes is being executed and SimiGon continues to secure sizable new contracts while expanding its customer base.

To meet market requirements, SimiGon will continue its transition into high value, long term license contracts during 2016. Though it may lead to lower revenue from these contracts in the early years, in the long term, it is expected to provide the Company with much better visibility of revenue and profits.

The Board of Directors enters the second half with expectations to successfully deliver long term growth.

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	December 31, 2015
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	6,497	5,545
Short-term investments	1,902	1,867
Trade receivables	3,121	3,715
Other accounts receivable and prepaid expenses	74	59
	<u>11,594</u>	<u>11,186</u>
<u>Total</u> current assets	<u>11,594</u>	<u>11,186</u>
NON-CURRENT ASSETS:		
Restricted cash	374	374
Long-term prepaid expenses	38	12
Deferred tax	180	159
Property, plant and equipment	122	82
Intangible assets	1,097	1,122
	<u>1,811</u>	<u>1,749</u>
<u>Total</u> non-current assets	<u>1,811</u>	<u>1,749</u>
<u>Total</u> assets	<u><u>13,405</u></u>	<u><u>12,935</u></u>

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2016	December 31, 2015
	Unaudited	Audited
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	132	123
Deferred revenues	507	574
Other accounts payable and accrued expenses	727	875
<u>Total current liabilities</u>	<u>1,366</u>	<u>1,572</u>
NON-CURRENT LIABILITIES:		
Long term deferred revenues	126	-
Employee benefit liabilities, net	214	192
Other non-current liabilities	719	722
<u>Total non-current liabilities</u>	<u>1,059</u>	<u>914</u>
<u>Total liabilities</u>	<u>2,425</u>	<u>2,486</u>
EQUITY:		
Share capital	124	124
Additional paid-in capital	16,538	16,526
Accumulated deficit	(5,682)	(6,201)
<u>Total equity</u>	<u>10,980</u>	<u>10,449</u>
<u>Total liabilities and equity</u>	<u>13,405</u>	<u>12,935</u>

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Year ended December 31,
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues	3,285	3,459	6,935
Cost of revenues	707	873	1,534
Gross profit	2,578	2,586	5,401
Operating expenses:			
Research and development	803	735	1,472
Selling and marketing	500	574	1,245
General and administrative	483	491	1,048
Total operating expenses	1,786	1,800	3,765
Operating profit	792	786	1,636
Financial income	92	77	74
Financial expenses	(74)	(70)	(82)
Income before income taxes	810	793	1,628
Income tax benefit	21	-	154
Net income	831	793	1,782

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
	(except per share data)		
Net income	831	793	1,782
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) from defined benefit plan	(6)	8	4
<u>Total</u> comprehensive income	825	801	1,786
Basic and diluted earnings per share (in U.S. dollars)	0.02	0.02	0.04
Weighted average number of shares used in computing basic earnings per share (in thousands)	50,993	50,368	50,683
Weighted average number of shares used in computing diluted earnings per share (in thousands)	51,421	51,027	50,818

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
	U.S. dollars in thousands (except share amounts)				
Balance as of January 1, 2015 (audited)	50,079,690	121	16,350	(7,687)	8,784
Total comprehensive income	-	-	-	1,786	1,786
Dividend distribution	-	-	-	(300)	(300)
Share-based compensation	-	-	65	-	65
Share issuance	285,000	1	107	-	108
Exercise of stock options	628,464	2	4	-	6
Balance as of December 31, 2015 (audited)	50,993,154	124	16,526	(6,201)	10,449
Total comprehensive income	-	-	-	825	825
Dividend distribution	-	-	-	(306)	(306)
Share-based compensation	-	-	12	-	12
Balance as of June 30, 2016 (unaudited)	<u>50,993,154</u>	<u>124</u>	<u>16,538</u>	<u>(5,682)</u>	<u>10,980</u>

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number of shares	Share capital	Additional paid-in capital	Accumulated deficit	Total equity
	U.S. dollars in thousands (except share amounts)				
Balance as of January 1, 2015 (audited)	50,079,690	121	16,350	(7,687)	8,784
Total comprehensive income	-	-	-	801	801
Dividend distribution	-	-	-	(300)	(300)
Share-based compensation	-	-	39	-	39
Issuance of shares	285,000	1	107	-	108
Exercise of stock options	628,464	2	4	-	6
Balance as of June 30, 2015 (unaudited)	<u>50,993,154</u>	<u>124</u>	<u>16,500</u>	<u>(7,186)</u>	<u>9,438</u>

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income	831	793	1,782
Adjustments to reconcile net to net cash provided by (used in) operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	30	42	88
Increase in deferred tax benefit	(21)	-	(159)
Financial income , net	(51)	(12)	(34)
Share-based compensation	12	39	65
Change in employee benefit liabilities, net	16	17	19
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	594	(1,785)	(3,209)
Decrease (increase) in other accounts receivable and prepaid expenses	(6)	-	11
Increase (decrease) in trade payables	9	(13)	(30)
Increase (decrease) in deferred revenues	59	(380)	(351)
Increase (decrease) in other accounts payable and accrued expenses	(166)	53	99
	476	(2,039)	(3,501)
Net cash provided by (used in) operating activities	1,307	(1,246)	(1,719)

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2016	2015	2015
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Proceeds from short-term investments	-	1,011	1,086
Increase in long-term deposits	(26)	(2)	(2)
Purchase of fixed assets	(45)	(4)	(16)
Net cash provided by (used in) investing activities	(71)	1,005	1,068
<u>Cash flows from financing activities:</u>			
Proceeds from share issuance	-	-	1
Exercise of stock options	-	4	5
Dividend distribution	(306)	(300)	(300)
Receipt of refundable grants	22	-	-
Net cash used in financing activities	(284)	(296)	(294)
Increase (decrease) in cash and cash equivalents	952	(537)	(945)
Cash and cash equivalents at beginning of period	5,545	6,490	6,490
Cash and cash equivalents at end of period	6,497	5,953	5,545
(a) <u>Supplemental disclosure of significant non-cash transactions:</u>			
Receivable in respect of issuance of shares	-	2	2
Issuance of shares in respect of 2014 annual bonus to employees	-	116	108