



27 September 2012

Interim Results for the six months ended 30 June 2012

Revenues increase 43% to \$3.47 million; Net Profit increased to \$0.18 million

SimiGon Ltd ("SimiGon" or the "Company"), a global leader in providing simulation solutions, announces its interim results for the six months ended 30 June 2012.

Financial Highlights

- Revenues increased by 43% to \$3.47 million (H1 2011: \$2.43 million), largely derived from new contracts won in 2011 with a strong revenue pipeline going into the second half and beyond
- Net profit increased to \$0.18 million (H1 2011: \$0.01 million)
- Positive cash flow from operations of \$2.4 million in the first half of 2012
- Cash and equivalent balances increased to a total of \$6.98 million as at 30 June 2012 (31 December 2011: \$4.74 million, 30 June 2011: \$4.42 million) with no bank debt remaining
- Gross margins of 70% (H1 2011: 83%), reflecting SimiGon's focus on acting as a prime contractor by providing complementary third party hardware and programs
- Basic and diluted EPS of \$0.004 (H1 2011: \$0.0003)

Operational Highlights

- Significant revenue contributions from new agreements announced in 2011:
 - Successfully implemented SIMbox based T-6A Modular Training Devices (MTD) for the U.S. Air Force Air Education Training Command (AETC)
 - Check-6 - successfully delivering on all project milestones for Check-6, the first major contract outside the aerospace and defence industry
- Signed agreement with TAISR Group LLC (TAISR) to deliver advanced training and simulation solutions to support critical skills training for the Joint Close Air Support (JCAS) and Intelligence, Surveillance and Reconnaissance (ISR) community
- Entered the fifth year of supporting Lockheed Martin's F-35 Lightning II Joint Strike Fighter ("JSF") training program, providing long term revenue visibility to the company
- Continues to meet project milestones for the UK Military Flying Training System ("UKMFTS"), a partnership of over four years
- Significant increase in revenue from its partnership with a leading provider in small tactical unmanned aircraft systems as the Company continued to deliver a complete Live, Virtual and Constructive training solution for the Unmanned Aerial Vehicle training program

Post Period-End Events

- In July, announced a second agreement with a major European customer to provide its Simulation Based Training ('SBT') systems forming the backbone of its new Academic Training Centre. The new contract is an expansion of a long-term partnership, now in its third year

- In August, SimiGon signed a substantial contract to provide a South American country's entire armed forces with its SIMbox training and simulation technology platform. SIMbox will be the baseline training technology used by its local partner, a newly formed government-owned company dedicated to the development of training and simulation systems

Ami Vizer, Chief Executive Officer of SimiGon, stated: "SimiGon has continued to show excellent progress in the first half of 2012, continuing the momentum from a transformational year in 2011. This is the result of the long-term strategy implemented by management back in 2008 to closely align itself with the largest simulation training programmes in the world.

"Successfully executing upon this strategy has allowed SimiGon to build a great foundation for growth, not least due to the strong increase in the Company's cash resources during this period. We have now established SimiGon as a market leader and company of choice for the world's largest simulation training programmes in the aerospace and defence industry, and have successfully expanded into other critical, highly skilled training sectors such as the oil and gas industry.

"Looking ahead, SimiGon continues to expand its customer base and our strategic partnerships are increasingly ramping up sales, providing excellent long term revenue visibility. We are increasing revenues and profitability, generating cash and have a strong order book in place. As a result, the Board expects year-on-year sales growth and looks forward to the future with confidence."

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Overview

SimiGon is pleased to report strong revenue growth and increased profitability in the first half of 2012, reflecting excellent progress with new contract wins, in particular, contracts such as AETC and Check-6 announced during the course of 2011, which have started to make significant contributions to revenue in 2012. Revenues increased by 43% to \$3.47 million (2011: \$2.43 million) with a \$0.18 million profit, up from \$0.01 million in H1 2011.

The positive start to 2012 was a continuation of the transformational year for the Company in 2011, which was based on the long term strategy put into place by the management team in 2008. At that time the management team decided to position SimiGon with valuable partners and also expand into new markets outside the aerospace and defence industry to build a foundation for long term growth. The first half of 2012 saw the Company benefit from new purchase orders from long term partners as well as new revenue filtering through from the new customers secured in 2011.

As well as being the preferred supplier of training and simulation technologies for four of the world's largest military flight training programmes, including the JSF and UKMFTS, SimiGon's software is now being utilised in other sectors such as the oil and gas industry, which is a reflection of SimiGon's leading position in the market of PC-based training and simulation solutions.

Operational Review

In 2012, SimiGon has continued to secure new contracts, expand and diversify its customer base while benefitting from the gradual ramp up in sales from its long term partnerships.

Major contract win in the period

In May 2012, SimiGon signed a long term agreement with TAISR, to deliver advanced critical skills training and simulation solutions to support the JCAS and ISR community. SimiGon's solutions will help TAISR deliver improved mission success rates and the survival potential of those who operate in hostile environments. Revenue contribution from this contract is expected to begin in the second half of 2012.

Update on long term contracts

SimiGon's long term partnerships are all progressing well as sales continue to steadily increase and the new partnerships established in 2011, such as Check-6 and AETC, accelerate delivery of SimiGon licences.

SimiGon's agreement with Check-6, a deal worth \$5.6 million over five years, is the Company's first major contract outside the aerospace and defence industry and the first step in the Company's growth strategy to diversify its product offering and increase its addressable market. SimiGon has completed its project milestones ahead of schedule and gained excellent feedback from the client increasing the possibility of expanding the agreement further in the oil and gas industry. SimiGon has added the type of training and skill development required for survival by fighter pilots and astronauts, to oil and gas workers, preserving lives and protecting profits. Check-6 has worldwide operations and its clients include industry leaders such as Chevron, Diamond Offshore, BP, Hess and others.

This agreement has helped diversify SimiGon's customer base and leaves the Company less reliant on the defence sector.

The agreement with AETC for the delivery of SIMbox based T-6A Modular Training Devices (MTD) is progressing well and due to early successes exceeding expectations, AETC accelerated the timetable for

implantation of SimiGon licences. The SIMbox MTD simulators are used to train undergraduate, Remotely Piloted Aircraft (RPA) students for Pilot Instrument Qualification training.

With this agreement SimiGon moved up the supply chain to become a direct supplier to AETC which positions the Company for similar opportunities globally as the T-6A is also used as a basic trainer by the Canadian Forces, the Luftwaffe of Germany, the Greek Air Force, the Israeli Air Force, and others.

Now in its fifth year of supporting Lockheed Martin's F-35 Lightning II Joint Strike Fighter training program, SimiGon has seen an increase in demand as the JSF program progresses and enters its regular production and delivery phase. The JSF programme is expected to continue to be a significant contributor to revenue in 2012 and the Company expects sales to steadily grow in 2013 and 2014.

SimiGon continues to successfully meet project milestones for the UK Military Flying Training System. This three year partnership validates SimiGon's product capabilities allowing the company to showcase its product capabilities and increase probability of future sales.

Other projects are progressing smoothly with SimiGon delivering a complete Live, Virtual and Constructive training solution for Unmanned Aerial Vehicle training program for a leading provider in the small tactical unmanned aircraft systems.

Post Period-End Events

In July, SimiGon announced a second agreement with one of its major European customers to provide its Simulation Based Training systems forming the backbone of its new Academic Training Centre. This agreement follows on from an initial contract SimiGon signed with this customer in 2009, whereby SimiGon supplied SBT systems for the client's advanced aircraft pilot training system. This original agreement continues to progress well and it was due to this success that the customer looked to expand the relationship further. The new contract is for the initial phase of pilot training and for a different aircraft, expanding SimiGon's role and cementing the relationship even further.

In August, SimiGon signed a substantial contract to provide a South American country's armed forces with its SIMbox training and simulation technology platform. SIMbox will be the baseline training technology used by its local partner, a newly formed government-owned company dedicated to the development of training and simulation systems. This initial contract marks the first time a country's armed forces has determined that training systems that are to be deployed across the armed services will be based on SIMbox.

Financial Review

Revenues for the six months ended 30 June 2012 were \$3.47 million as compared to \$2.43 million for the six months ended 30 June 2011, reflecting an increase of 43%. Gross margins were 70% (H1 2010: 83%), reflecting that the Company has become active as a prime contractor (that is, also reselling hardware and programs) on certain contracts. It is expected that the gross margins will increase in H2 2012 compared with the first half.

Gross profit for the six months ended 30 June 2012 was \$2.43 million, as compared to \$2.02 million for the six months ended 30 June 2011. Net profit for the six months ended 30 June 2012 improved by \$0.17 million to \$0.18 million (H1 2011: Net profit of \$0.01 million).

Total operating expenses for the six months ended 30 June 2012 increased by 13% to \$2.27 million (H1 2011: \$2.01 million), primarily due to an increase in research and development expenditure, which reflects

the investment made in new employees for this area which the Company considers important going forward. Marketing expenses for the six months ended 30 June 2012 increased by 7% to \$0.69 million as compared to \$0.65 million for the six months ended 30 June 2011 and general and administration expenses the six months ended 30 June 2012 increased by 3% to \$0.5 million as compared to \$0.48 million the six months ended 30 June.

Operating income for the six months ended 30 June 2012 amounted to \$0.17 million, significantly improving upon performance for the six months ended 30 June 2011.

The financial income for the six months ended 30 June 2012 increased to \$0.011 million as compared to \$0.007 million for the six months ended 30 June 2011 mainly due to the currency exchange rate and decrease in banks loan interest.

The net profit for the six months ended 30 June 2012 amounted to \$0.18 million as compared to \$0.01 million for the six months ended 30 June 2011. This resulted in net basic and diluted earnings per share for the six months ended 30 June 2012 of \$0.004 as compared to \$0.0003 basic and diluted earnings per share for the six months ended 30 June 2011.

SimiGon generated positive cash flow from operations of \$2.4 million during the six months ended 30 June 2012, leaving the Company with cash, cash equivalent and deposits of \$6.98 million at 30 June 2012 (30 June 2011: \$4.42 million), with a significant contribution made from the timely collection of outstanding trade debtors. The Company has fully repaid all of its bank debt outstanding as at 31 December 2011.

Outlook

The Company continues to grow and has a solid backlog for the second half, from contract wins last year and earlier in 2012. This, together with excellent revenue visibility from longer-term contracts, gives the Board confidence in the Company's prospects for the remainder of the year to 31 December 2012.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2012	December 31, 2011
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	6,430	4,231
Short-term bank deposits	554	508
Trade receivables	278	1,240
Other accounts receivable and prepaid expenses	77	410
	<u>7,339</u>	<u>6,389</u>
<u>Total</u> current assets		
NON-CURRENT ASSETS:		
Restricted deposit	23	-
Long-term prepaid expenses	22	23
Fixed assets, net	117	87
Intangible assets, net	1,299	1,324
	<u>1,461</u>	<u>1,434</u>
<u>Total</u> non-current assets		
<u>Total</u> assets	<u><u>8,800</u></u>	<u><u>7,823</u></u>

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2012	December 31, 2011
	Unaudited	Audited
	U.S. dollars in thousands	
EQUITY AND LIABILITIES		
CURRENT LIABILITIES:		
Current maturities of loan	-	188
Trade payables	128	174
Deferred revenues	1,144	113
Other accounts payable and accrued expenses	731	762
<u>Total current liabilities</u>	<u>2,003</u>	<u>1,237</u>
NON-CURRENT LIABILITIES:		
Employee benefit liabilities, net	127	108
Other non-current liabilities	741	746
<u>Total non-current liabilities</u>	<u>868</u>	<u>854</u>
<u>Total liabilities</u>	<u>2,871</u>	<u>2,091</u>
EQUITY:		
Share capital	106	105
Additional paid-in capital	16,016	15,997
Accumulated deficit	(10,193)	(10,370)
<u>Total equity</u>	<u>5,929</u>	<u>5,732</u>
<u>Total liabilities and equity</u>	<u>8,800</u>	<u>7,823</u>

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Year ended December 31,
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues	3,473	2,426	5,484
Cost of revenues	1,040	410	826
Gross profit	2,433	2,016	4,658
Operating expenses:			
Research and development	1,078	884	1,675
Selling and marketing	694	649	1,696
General and administrative	495	479	975
Total operating expenses	2,267	2,012	4,346
Operating income	166	4	312
Financial income	79	128	305
Finance cost	(68)	(121)	(267)
Net profit	177	11	350
Basic and diluted earnings per share in U.S. dollars	0.004	0.0003	0.01
Weighted average number of shares used in computing Basic earnings per share in thousands	43,812	41,642	42,867
Weighted average number of shares used in computing diluted earnings per share in thousands	44,098	41,707	42,932

INTERIM 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, 2011 (audited)	41,642,283	98	15,644	(10,720)	5,022
Total comprehensive income	-	-	-	350	350
Issuance of shares	2,444,984	7	-	-	7
Share-based compensation	-	-	353	-	353
Exercise of stock options	47,502	*) -	-	-	*) -
Balance as of December 31, 2011(audited)	44,134,769	105	15,997	(10,370)	5,732
Total comprehensive income	-	-	-	177	177
Issuance of shares	2,175,565	1	-	-	1
Share-based compensation	-	-	19	-	19
Balance as of June 30, 2012 (unaudited)	<u>46,310,334</u>	<u>106</u>	<u>16,016</u>	<u>(10,193)</u>	<u>5,929</u>

	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, 2011 (audited)	41,642,283	98	15,644	(10,720)	5,022
Total comprehensive income	-	-	-	11	11
Share-based compensation	-	-	39	-	39
Balance as of June 30, 2011 (unaudited)	<u>41,642,283</u>	<u>98</u>	<u>15,683</u>	<u>(10,709)</u>	<u>5,072</u>

*) Represents an amount lower than \$ 1,000.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income	177	11	350
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortisation	40	48	85
Finance cost	1	8	16
Share-based compensation	19	39	353
Accrued interest on non-current liabilities	(3)	41	(124)
Change in employee benefit liabilities, net	19	17	(14)
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	962	1,834	2,137
Decrease (increase) in other accounts receivable and prepaid expenses	228	20	(222)
Increase (decrease) in trade payables	(46)	(92)	(31)
Increase (decrease) in deferred revenues	1,031	67	(296)
Increase (decrease) in other accounts payable and accrued expenses	(31)	(63)	72
	<u>2,220</u>	<u>1,919</u>	<u>1,976</u>
Interest paid	(1)	(15)	(24)
Interest received	*) -	6	9
	<u>(1)</u>	<u>(9)</u>	<u>(15)</u>
Net cash provided by (used in) operating activities	<u>2,396</u>	<u>1,921</u>	<u>2,311</u>
<u>Cash flows from investing activities:</u>			
Increase in restricted cash	(23)	-	-
Increase in Short-term bank deposits	(46)	-	-
Purchase of fixed assets	(45)	(15)	(37)
Net cash used in investing activities	<u>(114)</u>	<u>(15)</u>	<u>(37)</u>

*) Represents an amount lower than \$ 1,000.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from financing activities:</u>			
Exercise of stock options	-	-	*) -
Repayment of bank loan	(188)	(188)	(563)
Proceeds from government fund	105	82	410
Net cash provided by (used in) financing activities	(83)	(106)	(153)
Increase (decrease) in cash and cash equivalents	2,199	1,800	2,121
Cash and cash equivalents at beginning of period	4,231	2,110	2,110
Cash and cash equivalents at end of period	<u>6,430</u>	<u>3,910</u>	<u>4,231</u>
(a) <u>Supplemental disclosure of non-cash financing activities:</u>			
Other Account Receivables Issuance of shares	<u>6</u>	<u>-</u>	<u>6</u>

*) Represents an amount lower than \$ 1,000.