

07 September 2015

SimiGon Ltd

("SimiGon" or "the Company")

Interim Results for the six months ended 30 June 2015

Growth in net profit by 18% YoY to \$0.79 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 2015.

Financial Highlights

- Net profit increased by 18% to \$0.79 million (H1 2014: \$0.67 million)
- Revenues of \$3.46 million (H1 2014: \$4.37 million)
- Gross margin of 75% (H1 2014: 73%)
- Basic and diluted EPS of \$0.02 (H1 2014: \$0.01)
- Paid 2014 annual dividend in May 2015 and intends to maintain annual dividend payment

Operational Highlights

New major awards:

- Awarded a five year Contractor Logistics Support ("CLS") contract by the U.S. Air Force Air Education Training Command ("AETC") to support and maintain all of the T-6A training simulators used in the training of all Remote Piloted Aircraft ("RPA") students
- Signed an industrial offset contract to support leading Latin American training and simulation group Corporacion de Alta Tecnologia para la Defensa (Codaltec)

Delivering on long term contracts:

- Delivering contracted milestones on \$6.7 million agreement signed in June 2013
- 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 Devices

Post period-end event

- Awarded an additional contract valued at \$0.8 million from a leading provider in the small tactical Unmanned Aircraft Systems ("UAS") market in which SimiGon supplies the underlying training system technology for the UAS program

Ami Vizer, Chief Executive Officer of SimiGon, said: “Our strategy is progressing and I am pleased to report that SimiGon has delivered a profitable first half. SimiGon is expanding into new technologies, markets and services to transition into a leading contractor for major, long term simulation training programmes.

“SimiGon’s revenue visibility is solid, based on our long term contracts and backlog. We will continue to leverage our global footprint to build new partnerships, expand our customer base, and target larger programmes. SimiGon’s Board enters the second half with confidence of delivering continued year-on-year growth for 2015.”

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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. SimiGon recorded net profit of \$0.79 million as compared to \$0.67 million in H1 2014 and revenues of \$3.46 million in the first half of 2015 (H1 2014: \$4.37 million). Revenues declined from the first half of last year principally as a result of the Company’s revenue recognition policy with respect to its long term contracts and the Board expects to record correspondingly higher revenues for the second half of the year albeit with the associated costs associated with that revenue.

SimiGon continued to improve its position as a technology and services provider for large simulation training programs in the first half of 2015. The Company is a key supplier of training and simulation technologies for the world's largest military flight training programmes while achieving further growth into vertical markets such as military and civil aviation training.

SimiGon's ability to capture a share of the largest global simulation and training projects has enabled us to increase the strategic business scope and potential revenue. Among these initiatives is competing as a prime contractor for multiple government contracts in the defence sector. As a prime contractor, aside from larger contracts, by interfacing directly with the customer, the Company has another opportunity to build a long term relationship with the end user and advance its technological capabilities.

The Company continues to develop its partnership in the Chinese civil aviation market with multiple opportunities on the horizon for military and civilian pilot training services and it will continue to pursue this area more aggressively in the future.

SimiGon's market position as a preferred supplier for simulation and training technologies and solutions has been strengthened by our recent work. The Company continues to focus on developing further strategic programs that will assist its long term growth. SimiGon's growth strategy along with the revenue mix of new contracts and support contracts, provide the Company with the confidence that it is well positioned for immediate and long term growth and the tools are in place to build a larger business.

Operational Review

SimiGon is delivering on all of its major contracts, a key focus for the Company in the first half of 2015. The ability to successfully deliver sizable programmes has enhanced the Company's position as a provider of advanced simulation training solutions. In addition, the first half saw SimiGon expand its geographic footprint as it focused on the growing civil aviation market whilst also maintaining its existing customer base.

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.

SimiGon is delivering its training systems and meeting its contracted key milestones. The Company expects that its strong performance will put it in a good position to be selected for potential subsequent phases of the programme.

Expansion into civil aviation market

In June, SimiGon entered the Latin American civil aviation market by establishing a subsidiary incorporated in Colombia (the "Subsidiary").

SimiGon's move into the civil aviation market has been a long term strategic goal for the Company and with the fast growing Latin American aviation market, the Subsidiary provides an ideal platform for SimiGon to enter this attractive growth sector and region.

New contract wins

In May 2015 SimiGon was awarded a five year Contractor Logistics Support ("CLS") contract by the U.S. Air Force Air Education Training Command ("AETC") to support and maintain all of the T-6A training simulators used in the training of all Remote Piloted Aircraft ("RPA") students. The first year base value of the contract is \$0.33 million with a total contract value of \$1.66 million over an expected period of five years.

This contract builds on the successful delivery and performance of SimiGon provided systems as a prime contractor for the U.S. Air Force since September 2011. It strengthens the Company's position as a supplier of choice in the provision of simulation training solutions while, at the same time, demonstrating that SimiGon has the capability to develop and support the unmanned aircraft training sector which is a rapidly growing segment worldwide.

As announced in June 2015, SimiGon signed a new technical support agreement to provide Corporacion de Alta Tecnologia para la Defensa (Codaltec), a leading Colombian high technology corporation. Subsequent to the successful delivery and performance of SimiGon's systems and additional SimiGon software licenses purchases announced September 2014, SimiGon will deliver under this contract, additional technical support services, as part of an industrial offset agreement.

Codaltec was formed in August 2012 by the Colombian government to meet the defense sector's needs, including training and simulation. Being one of the largest and most successful groups utilizing SimiGon's SIMbox training and simulation software platform, Codaltec is considered a highly valued strategic partner for SimiGon.

Long term contracts

The Company has a growing portfolio of long term partnerships that continue to develop into further business and provide good revenue visibility. Many of these partnerships are expected to continue with additional purchases through 2015 and beyond.

The Company is now in its seventh year of supporting Lockheed Martin's JSF training program. Additional licenses and ongoing maintenance support agreements are part of the ongoing, long term partnership.

SimiGon is now in its sixth year supporting 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.

SimiGon's partnership with Check-6 Inc., one of the leading providers of training solutions to the energy and mining industries, is also blossoming into long term, recurring revenue. Throughout this contract, SimiGon has successfully executed against its agreed deliverables. As a result, the Company is expecting this partnership to be extended with additional agreements.

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. SimiGon expects this relationship to continue to evolve.

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 bases 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 continues to provide successful solutions for Unmanned Aerial Vehicle (UAV) training for a leading provider in the small tactical unmanned aircraft systems. Through SimiGon's ecosystem of partners worldwide, the Company's technology is used to support initial operator training in classrooms as well as advanced operational training. SimiGon continues to increase its footprint in the fast growing UAV market.

Financial Performance

For the reasons set out above revenues for the six months ended 30 June 2015 were \$3.46 million as compared to \$4.37 million for the six months ended 30 June 2014. Gross profit for the six months ended 30 June 2015 was \$2.59 million, as compared to \$3.21 million for the six months ended 30 June 2014. Accordingly, gross margins increase to 75% for the six months ended 30 June 2015 as compared to 73% for the six months ended 30 June 2014.

Net profit for the six months ended 30 June 2015 improved by 18% to \$0.79 million as compared to \$0.67 million for the six months ended 30 June 2014.

Total operating expenses for the six months ended 30 June 2015 decreased by 29% to \$1.8 million (H1 2014: \$2.53 million). Research and development expenses for the six months ended 30 June 2015 decrease by 35% to \$0.74 million as compared to \$1.13 million for the six months ended 30 June 2014, mainly due salary expenses. Marketing expenses for the six months ended 30 June 2015 decreased by 31% to \$0.57 million as compared to \$0.83 million for the six months ended 30 June 2014 mainly due salary expenses and consultants fees and general and administration expenses for the six months ended 30 June 2015 decrease by 15% to \$0.49 million as compared to \$0.58 million the six months ended 30 June 2014 mainly due to the collection of debts for which provisions for doubtful debts were recorded in prior period.

As a consequence of the factors above operating profit for the six months ended 30 June 2015 amounted to \$0.79 million, improving upon the performance for the six months ended 30 June 2014. This resulted in a net basic and diluted earnings per share of \$0.02 (H1 2014: Basic and diluted earnings per share of \$0.01).

Cash on the balance sheet reduced marginally as a result of the dividend payment and a significant increase in the receivables balance over the balance sheet date which is expected to be received during the second half of the year.

In light of the strong cash position and further to the Company's declared intention to pay an annual dividend announced under its full year financial results, a dividend of 0.6 cents per share, equating to approximately 22% of the Company's earnings per share was paid to shareholders on May 29, 2015.

Outlook

SimiGon continued to cement its position as a prime contractor for major, long term simulation training programmes during the period, expanded into new territories and diversified its offering. As a result of achieving the milestones set in its growth strategy, the Company continues to deliver growth in profitability.

SimiGon has strong future revenue visibility based on its long term contracts and forward order book. As a result, the Board enters the second half with confidence of delivering continued year-on year growth for the full year 2015.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2015	December 31, 2014
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	5,953	6,490
Short-term investments	1,945	2,952
Trade receivables, net	2,291	506
Other accounts receivable and prepaid expenses	51	51
	<u>10,240</u>	<u>9,999</u>
<u>Total</u> current assets		
NON-CURRENT ASSETS:		
Restricted cash	374	374
Long-term prepaid expenses	33	29
Property, plant and equipment	90	103
Intangible assets, net	1,148	1,173
	<u>1,645</u>	<u>1,679</u>
<u>Total</u> non-current assets		
<u>Total</u> assets	<u><u>11,885</u></u>	<u><u>11,678</u></u>

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2015	December 31, 2014
	Unaudited	Audited
	U.S. dollars in thousands	
EQUITY AND LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	140	153
Deferred revenues	545	925
Other accounts payable and accrued expenses	846	909
	<u>1,531</u>	<u>1,987</u>
Total current liabilities	1,531	1,987
NON-CURRENT LIABILITIES:		
Employee benefit liabilities, net	187	178
Other non-current liabilities	729	729
	<u>916</u>	<u>907</u>
Total non-current liabilities	916	907
Total liabilities	2,447	2,894
EQUITY:		
Share capital	124	121
Additional paid-in capital	16,500	16,350
Accumulated deficit	(7,186)	(7,687)
	<u>9,438</u>	<u>8,784</u>
Total equity	9,438	8,784
Total liabilities and equity	11,885	11,678

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Year ended December 31,
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Revenues	3,459	4,367	8,316
Cost of revenues	873	1,161	1,989
Gross profit	2,586	3,206	6,327
Operating expenses:			
Research and development	735	1,127	2,381
Selling and marketing	574	826	1,458
General and administrative	491	579	1,181
Total operating expenses	1,800	2,532	5,020
Operating profit	786	674	1,307
Financial income	77	91	178
Financial expenses	(70)	(94)	127
Net income	793	671	1,358

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	June 30,		December 31,
	2015	2014	2014
	Unaudited		Audited
Net income	793	671	1,358
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) from defined benefit plan	8	(9)	6
<u>Total</u> comprehensive income	801	662	1,364
Basic and diluted earnings per share (in U.S. dollars)	<u>0.02</u>	<u>0.01</u>	<u>0.03</u>
Weighted average number of shares used in computing basic earnings per share (in thousands)	<u>50,368</u>	<u>48,036</u>	<u>48,854</u>
Weighted average number of shares used in computing diluted earnings per share (in thousands)	<u>51,027</u>	<u>48,598</u>	<u>49,085</u>

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 December 31, 2014	47,292,706	113	16,248	(8,782)	7,579
Net income	-	-	-	1,358	1,358
Other comprehensive income: Remeasurement gain from defined benefit plan	-	-	-	6	6
Total comprehensive income	-	-	-	1,364	1,364
Dividend distribution	-	-	-	(269)	(269)
Share-based compensation	-	-	90	-	90
Exercise of stock options	2,786,984	8	12	-	20
Balance as of December 31, 2014	50,079,690	121	16,350	(7,687)	8,784
Net income	-	-	-	793	793
Other comprehensive income: Remeasurement gain from defined benefit plan	-	-	-	8	8
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>

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, 2014	47,292,706	113	16,248	(8,782)	7,579
Net income	-	-	-	671	671
Other comprehensive income:					
Actuarial losses from defined benefit plan	-	-	-	(9)	(9)
Total comprehensive income				662	662
Dividend distribution	-	-	-	(269)	(269)
Share-based compensation	-	-	39	-	39
Exercise of stock options	2,209,429	8	2	-	10
Balance as of June 30, 2014 (unaudited)	<u>49,502,135</u>	<u>121</u>	<u>16,289</u>	<u>(8,389)</u>	<u>8,021</u>

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Net income	793	671	1,358
Adjustments to reconcile net to net cash provided by operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	42	49	101
Finance expense (income), net	(4)	-	-
Accrued interest on non-current liabilities	(8)	(4)	(9)
Share-based compensation	39	39	90
Change in employee benefit liabilities, net	17	15	6
Changes in operating assets and liabilities:			
Increase in trade receivables	(1,785)	(433)	(257)
Increase in other accounts receivable and prepaid expenses	-	(2)	28
Increase (decrease) in trade payables	(13)	(14)	10
Increase (decrease) in deferred revenues	(380)	917	(293)
Increase (decrease) in other accounts payable and accrued expenses	53	118	53
	<u>(2,039)</u>	<u>658</u>	<u>(271)</u>
Net cash provided by (used in) operating activities	<u>(1,246)</u>	<u>1,356</u>	<u>1,087</u>

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2015	2014	2014
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Proceeds from (increase in) short-term investments	1,011	-	(2,943)
Decrease (increase) in restricted cash	-	30	30
Decrease (increase) in short-term bank deposits	-	511	511
Increase in long-term deposits	(2)	(3)	-
Purchase of fixed assets	(4)	(19)	(39)
Net cash provided by (used in) investing activities	<u>1,005</u>	<u>519</u>	<u>(2,441)</u>
<u>Cash flows from financing activities:</u>			
Exercise of stock options	4	5	13
Dividend distribution	(300)	(269)	(269)
Net cash used in financing activities	<u>(296)</u>	<u>(264)</u>	<u>(256)</u>
Increase (decrease) in cash and cash equivalents	(537)	1,611	(1,610)
Cash and cash equivalents at beginning of period	<u>6,490</u>	<u>8,100</u>	<u>8,100</u>
Cash and cash equivalents at end of period	<u><u>5,953</u></u>	<u><u>9,711</u></u>	<u><u>6,490</u></u>
(a) <u>Supplemental disclosure of non-cash financing activities:</u>			
Receivable in respect of issuance of shares	<u>2</u>	<u>5</u>	<u>7</u>
Issuance of shares in respect of 2014 annual bonus to employees	<u>116</u>	<u>-</u>	<u>-</u>