The Printer's Choice | AVT.

Advanced Vision Technology (A.V.T.) Ltd.

2015 Annual Report January 1st - December 31st

Financial Highlights

US dollars in thousands, except share and per share amounts			
Year ended December 31,	**2015**	**2014**	**2013**
Revenues and Income			
Revenues	51,489	54,110	50,498
Gross profit	27,095	28,291	27,128
Gross margin in %	52.6%	52.3%	53.7%
Research and development expenses	8,057	7,655	7,287
Selling and marketing expenses	9,547	9,605	8,983
General and administration expenses	5,430	5,083	5,092
Operating income	4,061	5,948	5,766
Operating margin in %	7.9%	11.0%	11.4%
Net income	2,778	4,625	6,584
Cash Flows			
Cash flows provided by operating activities	228	5,229	8,625
Cash flows provided by (used in) investing activities	(1,832)	2,503	(7,898)
Cash flows used in financing activities	(5,779)	(5,062)	(1,023)
Balance sheet as of December 31,			
Cash and equivalents	17,690	26,216	26,630
Total assets	49,410	50,629	50,978
Total liabilities	19,175	17,711	17,875
Total shareholders' equity	30,235	32,918	33,103
Share			
Basic earnings per share in US dollars	0.46	0.77	1.16
Share price as of December 31,	10.05 Euro	9.10 Euro	7.8 Euro
Employees			
Employees as of December 31,	229	217	198

Dear Shareholder,

The past year was a challenging year for AVT. Although we were able to grow new order booking and unit sales, our results for the year were less than our expectations. New order booking in 2015 totaled USD 57.6 million representing an increase of 9% compared with order booking of USD 52.9 million in 2014. This growth was driven by the label and packaging segments, as well as good contribution from our new solutions and initiatives: Metal sheet and digital applications.

Revenues for 2015 totaled USD 51.5 million, 4.8% lower than the USD 54.1 million generated in 2014. In terms of 2014 exchange rate, revenues for 2015 would have been USD 55.1 million representing an increase of 2% over 2014. Euro based revenues in 2015 which were approximately 40% of the total revenues.

Gross margin in 2015 was 52.6% compared with 52.3%, in 2014. On a Non-GAAP basis, gross margin in 2015 was 53.1% vs. 52.69% in 2014. Operating income in 2015 totaled USD 4.1 million compared with operating income of USD 5.9 million in 2014. On a Non-GAAP basis, operating income in 2015 totaled USD 4.7 million vs. USD 6.5 million in 2014. Net income in 2015 was USD 2.8 million or a profit of USD 0.45 per share (diluted) compared with net income of USD 4.6 million or a profit of USD 0.76 per share (diluted) in 2014. On a Non-GAAP basis, net income in 2015 was USD 3.5 million or a profit of USD 0.58 per share (diluted) vs. net income of USD 5.1 million or a profit of USD 0.84 per share (diluted) in 2014.

This past year, we dedicated significant attention and resources to the implementation of our new growth engines and new strategies. Some of our bookings in 2015 already reflect these new initiatives, such as bookings for our digital solutions and for new software offerings sold on a subscription basis.

In June, we announced our strategic alliance with Erhart & Leimer (E+L), designed to broaden product portfolios and strengthen services for customers of both companies through solutions developed based on the two companies' combined experience and technological skills. As part of this agreement, AVT acquired E+L's automatic print inspection solutions and assumed responsibility for the development and management of these solutions for both companies' customers in the Label and Packaging applications, including the corrugated segment. Dr. Michael Proeller, E+L's CEO, was appointed Chairman of AVT's Advisory Board and serves as an observer on AVT's Board of Directors.

Following the announcement, AVT assumed responsibility for E+L's NYSCAN product, customer base, sales and support. In Label Expo Brussels September, we introduced the new Helios EL upgrade, designed to enable E+L customers to get the latest AVT workflow and software features by upgrading their systems. We also co-launched the new SMARTSCAN with E+L, an entry level missing label and gross defect detection solution to complement our portfolio. In the 4th quarter, we received our first orders for the above solutions.

During the past year, we launched several key solutions targeted at our packaging and label customers, on top of the abovementioned E+L related solutions. At the Label Expo trade show, we launched the Helios S Turbo, our new flagship inspection and quality control system for the Label and Narrow-Web segment that was well accepted by the market and customers with several orders already received for this premium solution in the fourth quarter. We also introduced some of the above solutions into the Asian markets, during the Label Expo China show in Q4.

During the second quarter, we introduced the Offline Setup solution for Label inspection systems, designed to help customers create quality standardization across their production operations, and to maintain quality standards between different jobs and runs. We view this move as a first milestone in our cross-site workflow strategy, aimed to help converters set their quality standards. In the first half of the year, we introduced a new offline proofing product line, based on our alliance with Global Vision, and saw a good ramp up and commercial success.

The Digital printing area presents an exciting opportunity for AVT. We were chosen by another major OEM to support their next generation inkjet presses and received a significant order from this OEM for our JetIQ solution. This new OEM joins the previously announced partnership with Landa and Gallus-Heidelberg that all selected AVT as their partner for the Digital Inkjet control engine. With three signed partners and a number of additional candidates we are now well positioned to lead this inkjet quality management segment. As a result, we received substantial order bookings for our JetIQ solutions in the second half of the year. In the digital arena, we further continued to enhance our presence as we installed a second Apollo 30K system in the US, our new solution for Folding Cartons, on an HP Indigo 30000 press and multiple Apollo 20000 units on the HP Indigo 20000 press.

In the metal sheet arena, we saw growth in the Titan Inspection solution business, with some key new deals and installations in Europe and Asia Pacific. In the past year we announced and installed our first CoatScan sale, a new metal sheet coating solution, based on our Alliance with Quality by Vision. In the second quarter, AVT presented at the Cantech International Metal conference in China and showcased for the first time, the Titan, CoatScan and Mercury solution suite.

In 2015, we increased our alliance and co-developments with press vendors targeting the Label & Packaging segments, to offer Flexo automated press controls. During the year, we signed new Press control agreements, and announced our Press control solution for the Nilpeter and Bobst Firenze (Former Gidue) narrow-web and mid-web Flexo presses. We also continues to strengthen our cooperation with our Partners Comexi and PCMC in the wide-web applications.

I would like to take this opportunity and thank our shareholders for their continued support for the company.

Together with the great AVT team, I am committed to working on growth, profitability and increase of shareholder value.

Sincerely yours,

Jaron Lotan, President & CEO

Management’s Discussion and Analysis of Financial Condition and Results of Operations

We may from time to time make written or verbal forward-looking statements, in reports to shareholders, in press releases and investors’ webcasts. You may identify these forward-looking statements by use of words such as “strategy”, “expects”, “continues”, “plans”, “anticipates”, “believes”, “will”, “estimates”, ”intends”, “projects”, “goals”, “targets”, and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot assure you that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest or remain invested in Advanced Vision Technology (AVT) Ltd. securities. The forward-looking statements relate to, among other things: operating results; anticipated cash flow; gross margins; adequacy of resources to fund operations and our ability to maintain average selling prices despite the aggressive marketing and pricing strategies of our competitors.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements, the related notes and other financial information included elsewhere in this annual report.

Our Solutions

We have developed fully integrated solutions that include software applications and hardware components that can be deployed in a modular manner. This flexibility allows our customers to incorporate additional functions and capabilities as their business or operation require. On top, we created an OEM Alliance with two companies, through which we resell products that were developed by them and customized to fit our customers’ needs as per our definitions: Quality By Vision, Israel and Global Vision Canada.

Below are some key solutions from our portfolio:

Solution	Customer Need	Purpose
Jupiter	Packaging - on press Process Control	The industry standard solution for on-press automatic inspection. The Jupiter offers superior Process Control capabilities that reduces production cost and enhances product quality. The Jupiter can be equipped with added value modules such as press control, color management and barcode verification.
Apollo Turbo	Packaging - 100% Quality Assurance	Equipped with 100% LCCD technology, the Apollo offers Quality Assurance solution and can be integrated on press or on various post press stages such as Lamination, Doctoring or slitting rewinding.
Helios II / Helios S/ Helios S Turbo	Labels and narrow web printing inspection applications	Advanced 100% automatic inspection platform that support the specific label & narrow web application & workflows. Installed on press or on rewinder, the Helios series provides excellent Process Control & 100% Quality Assurance.
Argus Turbo / Argus E Turbo	Packaging - on press Process Control & Quality	A unique combination of Process Control & Quality Assurance. Argus series is the top of the line

	Assurance	solution for high quality packaging applications. The new Argus/Argus E Turbo offers a unique, leading high resolution and high-speed 100% inspection with in image register and pressure setting / press control.
pRegister and iReg	Packaging	pRegister is an automatic register pre-setting and control module. The iReg module adds simplicity of click and drag to the register process and does not require any special targets to bring the press to registration.
Presco	Packaging	Automatic plate pressure pre-setting and control module
IΔEal	Packaging	In line color monitoring module for ΔE and ΔL*a*b-based color pre-setting guidance and run-time color management
SpectraLab	Packaging	The latest in absolute color measurement technology deployed for packaging and label applications. An inline color measurement solution that measures and reports spectral L*a*b* values.
WorkFlow Link II	Label & Packaging	The industry standard for end-to-end Quality Control solution, WFL II enables digital, automatic handling of defected material removal at the finishing stage, based on the AVT inspection information gathered along the production workflow
PrintFlow II product family	Data Management	PrintFlow II product family enables comprehensive management of print quality information. It includes: • PrintFlow II – an SQL database that collects online all Quality data • PrintFlow Central – enables multi-systems and multi-site data storage • PrintFlow Manager II – enables sophisticated reporting, statistics and QA management
ZeroSet	HP® web presses -Label & Packaging	An automation solution for HP ® digital web presses that are powered by an Esko® DFE (Digital Front End). AVT ZeroSet offers an automated inspection setup, job audit, print defect detection and process control.
Titan	Packaging/ Metal Decorated Boxes	AVT's 100% automatic inspection platform that supports the specific needs of metal sheet printers for metal boxes . Installed on metal sheet printing press and provides excellent Process and Quality assurance.
Mercury	Web and sheet-fed offset presses (Commercial, Newspaper, Packaging, Labels)	A remote ink control solution, that offers powerful HW & SW platforms, ease-of-use touch screens and a new Level of automation,
Clarios	Commercial and Newspaper printing/ Web Offset	Closed loop color control system that utilizes a spectrophotometer to measure colors on press. The Clarios system converts spectrophotometric data to

		industry standard ink density and L*a*b* information and then compares the measured value to pre-defined job targets or standards. The system will automatically make adjustments to the press ink keys so that quality standards are met. The system reduces production cost while improving print quality
SnapReg	Commercial printing/ Web Offset	State of the art automatic closed loop color-to-color register control designed for commercial presses. SnapReg is an add-one module to Clarios & Mercury platforms
CoatScan	Packaging/ Metal Decorated Boxes	Metal Sheet coating margin inspection as well as defect detection.
SolidProof / SoftProof / CloudProof	Label & Packaging Market	Offline Proofing solutions series.

Our products and services are primarily sold directly to end-users; a portion of product sales are sold through distributors and strategic partners. By December 31st, 2015 more than 4,000 AVT automatic inspection systems for packaging and labels are installed worldwide. As a premier supplier of color control solutions for offset printing, AVT has over 800 of its closed loop color control systems, and over 3,300 color management and reporting software and remote digital ink fountain control systems installed around the world. No distributor or end-user accounted for more than 10% of revenues in 2015 or 2014.

Overview

Advanced Vision Technology (AVT) Ltd. (the "**company**" or "**AVT**") was incorporated in Israel in October 1992 and introduced the prototype of its first product, the PrintVision/ 9000, in 1995. Commercial sales of PrintVision/ 9000 commenced in the second quarter of 1997.

We established Advanced Vision Technology Inc. ("**AVT Inc.**") in October 1996 to serve as our direct distribution channels in the Americas.

On June 19, 2002 we concluded the acquisition of the assets of Geiger Vision Systems GmbH (GVS) of Munich, Germany for a consideration of approximately 1 (one) million Euro. The acquisition of GVS assets (mostly intangible) was a strategic decision to facilitate the penetration into label inspection applications. The acquisition was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets acquired based on their respective fair values.

AVT (Germany) GmbH was established in June 2002 to absorb the assets and operations of GVS and became our selling arm in the German speaking countries in Europe. As of January 1, 2006 AVT (Germany) GmbH commenced serving as our direct distribution channel for Europe. AVT EMEA (Belgium) CVBA was established in July 2007 consolidating and controlling our European customer support operations.

On October 1, 2007, as part of our strategy of diversifying into new growth areas for process control technologies, AVT Inc., a wholly-owned subsidiary of AVT Ltd., acquired all of the outstanding shares of Graphics Microsystems Inc. (GMI) and certain related intellectual property assets for approximately $33.5 million in cash (including transaction expenses of $0.5 million). GMI was a privately held US corporation, supplying Closed Loop Color control (CLC) systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide.

Through this acquisition AVT expanded its offerings to commercial and newspaper printing.

GMI's products are sold to leading commercial, semi-commercial, newspaper and specialty printers in the heatset and coldset web printing as well as to printing press OEMs worldwide. In addition, GMI also supplies the industry with press controls such as closed loop color-to-color register and ribbon/cutoff control systems.

By purchasing GMI, we strategically expanded our offerings to the printing industry both in terms of applications and process and color control solutions offered to the traditional customer base of both AVT and GMI. The factors that contributed to the purchase price that resulted in recognition of goodwill included synergies, the benefits of increased volume and strategic positioning value.

In July, 2015, AVT and Erhardt + Leimer GmbH **("E+L")** signed a purchase agreement **("the agreement")** and a cooperation agreement regarding a strategic alliance for the printing and converting industries. E+L is a leader in web guiding, web viewing and web tension control. This agreement broadens the product portfolios and strengthen services for customers of AVT and E+L, through solutions based on the two companies' combined experience and technological skills.

Our future revenues and operating results may fluctuate on a quarterly basis and on an annual basis due to a combination of factors, including but not limited to: variations in the timing of orders and deliveries of our products; variations in payment terms; variations in the size of orders and their internal product mix by our customers; new product introductions by the Company and its competitors; market acceptance of new products; the expansion and effectiveness of our distribution network; variations in capital spending budgets of print shops; foreign currency exchange rates; and general economic conditions and economic conditions specific to the printing industry.

Exchange rate exposure affects our results as we have both sales and costs in many currencies other than the US Dollar (mainly in Euro). In 2015 the European currency decreased in value relative to the US Dollar by approximately 10.4%. In Israel, during 2015, the New Israel Shekel ("NIS") increase in value relative to the US Dollar by 0.3%.

Off-Balance Sheet Transactions

We have not engaged in nor been a party to off-balance sheet transactions.

- **Manufacturing**

Our manufacturing activities for systems consist primarily of the manufacturing, assembly and testing of components and subassemblies that are acquired from third party vendors and subcontractors and then integrated by us into a finished system.

We manufacture our packaging and label inspection products in our facility in Hod Hasharon, Israel. Our commercial printing products as well as our Closed Loop Color Control solutions and absolute color measurement solutions for packaging and labels are manufactured in our facility in Texas, USA. Our products are built in accordance with industry standard infrastructure and are PC compatible. The hardware elements in our packaging and label inspection products are based primarily on standard commercial off-the-shelf components. The hardware elements for our commercial printing as well as absolute color measurement solutions for packaging and label inspection are manufactured mainly in the Texas facility. All products utilize proprietary in-house developed circuit boards and algorithms as well as image acquisition and image analysis techniques and software.

Some of the components we use have a single approved manufacturer while others have two or more options for purchasing. In addition, for some of the components and subassemblies we maintain an inventory to limit the potential for interruption. We also work directly with some of the more significant manufacturers of our components. Although certain of the components and subassemblies we use in our existing products are purchased from a limited number of suppliers, we believe that we can obtain alternative sources of supply in the event that such suppliers are unable to meet our requirements in a timely manner.

- **Service and Support**

We have focused on building a strong service and support organization for all our systems and have focused on assisting the various regions in which we operate to be as self-sufficient as possible. We maintain a staff of highly skilled customer service engineers at our headquarters in Israel as well as in Texas, that offers support to our customers and distributors. These service engineers, as well as additional service engineers located in our subsidiaries in Europe in the Americas and in Asia-Pacific, provide first class field services and support worldwide. We install, service and provide training to customers on all our products. Installation of a typical system can usually be completed at the customer's site, either by us or by third parties, within a very short time after delivery and with a minimum amount of site preparation by the customer. Generally, our customer support engineer installs and checks the system. As part of the installation procedure, we provide system documentation and basic training in maintenance and application.

We maintain regular training and installation support sessions for our service engineers and distributors. Our systems are generally sold with a warranty for repairs of hardware and software defects and malfunctions. The usual term of such warranty is one year after installation. In addition, for a fee, we offer customers service and maintenance contracts commencing after the expiration of the warranty period. Software, whether contained in optional features or forming an integral part of the functioning capacity of the system, is licensed. Software updates are typically included in the service fee.

- **Research & Development**

We believe that the development of new products and the enhancement of existing products are essential to our future success. Therefore, we intend to continue to devote substantial resources to research and new product development, and to continuously improve our systems and design processes in order to reduce the cost of our products. Our research and development efforts have been financed through our internal funds. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position.

- **Selling and Marketing**

We market our products for automatic inspection of printed materials and press control, Closed Loop Color control (CLC), color management and reporting software and provide customer support directly and through our wholly-owned subsidiaries in the United States and Europe and indirectly through our representative office in China as well as through a network of dealers and representatives in Asia-Pacific.

Approximately 41 people are engaged in the Company's worldwide selling and marketing efforts, which include participation in various trade shows and conventions, publications and trade press, demonstrations performed in Company facilities and daily contact with customers by sales personnel.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). While all the accounting policies impact the financial statements, certain policies may be viewed to be critical. These policies are those that are both most important to the understanding of our financial condition and results of operations and require our management's most difficult, subjective and complex judgment and estimates. Actual results could differ from those estimates.
For any given individual estimate or assumption made by us there may be alternative estimates or assumptions which are also reasonable. We believe that, given the facts and circumstances at the time of making the relevant judgments, estimates or assumptions, applying any such other reasonable judgment may cause a material effect on our consolidated results of operations, financial position or liquidity as presented in the consolidated financial statements.

Management believes that the significant accounting policies which affect its more significant judgments and estimates used in the preparation of the consolidated financial statements are the most critical to aid in fully understanding and evaluating our reported results include the following:

- Revenue Recognition
- Inventory Valuation
- Impairment of Long-Lived Assets and Goodwill
- Taxes on Income
- Stock-Based Compensation
- Impact of Inflation and Exchange risk

Revenue recognition. We derive revenues from two sources: primarily from product revenues, which include hardware and software; and service revenues, which are comprised mainly of income from hardware and software maintenance contracts; time and material charges; consulting, installation and training fees and sales of spare parts. Revenues related to the sale of our products are generally recognized when persuasive evidence of an agreement exists; the product has been delivered; the sale price is fixed and determinable; no further obligations exist; and collection is probable. If a payment is conditioned on the installation of the product, the revenue recognition of the conditioned amount will be deferred, until the payment is due.

Installation and training are not considered essential to the automatic inspection product capabilities since they do not require specialized skills and can be performed by other vendors.

In the normal course of business, we do not provide a right of return to our customers. Sales agreements with specific acceptance terms are not recognized until the customer has confirmed in writing that the product or service has been accepted.

Revenues from maintenance and professional services are recognized ratably over the contract period, or as services are performed.

When transactions involve multiple elements, revenues are allocated to the elements based on the fair value of each element in the arrangement. The best evidence of fair value is the price of a deliverable when it is regularly sold on a standalone basis. Fair value is limited to (a) the price charged for a deliverable when it is sold separately, or (b) for a deliverable not yet being sold separately, the price established by management having the relevant authority.

Inventory Valuation. At each balance sheet date, we evaluate our inventory balance for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product line and projection of future demand. In addition, we write off inventories that are considered obsolete. Remaining inventory balances are adjusted to the lower of cost or market value. If future demand or market conditions are less favorable than our projections, additional inventory write-off may be required and would be reflected in cost of sales in the period the revision is made.

Impairment of Long-Lived Assets, other intangible assets and Goodwill. Our long-lived assets include property and equipment, goodwill and other intangible assets. In assessing potential impairment of the long-lived assets, we consider the projected contribution of that asset, to our results of operations and other pertinent information. We will record an asset impairment charge when there are indicators that the asset has experienced a decline in value that is other than temporary. No impairment charge has arisen as a result of the impairment evaluations performed in 2015, 2014 and 2013.

In assessing the recoverability of our property and equipment, goodwill and other intangible assets, we must make assumptions regarding the estimated future cash flow and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets.

ASC 350, "Intangible – Goodwill and other", requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting units' goodwill over the implied fair value of that goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flow, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flow will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. We allocate goodwill to reporting units based on the reporting unit expected benefit from the acquisition. We evaluate our reporting units on an annual basis and, if required, reassign goodwill using a relative fair value allocation approach.

We will perform an impairment test should circumstances indicate that an impairment loss may exist. The outcome of such testing may lead to the recognition of additional impairments. During 2015, 2014 and 2013 no indicators for such impairment existed.

As of December 31, 2015, the carrying value of our long-lived asset was $3,622 thousand including Technology & Patents, Customer Relationships, Trademarks/Trade names and Goodwill related to the agreement with E+L and to GMI acquisition.

ASC 360, “Property, Plant and Equipment”, requires us to assess the impairment of long-lived assets, tangible and intangible, other than goodwill, on a periodic basis, when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flow to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flow.

Taxes on Income. Taxes on income are calculated based on our assumptions as to our entitlement to various benefits under the Law for the Encouragement of Capital Investments, 1959. Our entitlement to such benefits is conditional upon our compliance with the terms and conditions prescribed in this law.

We record income taxes using the asset and liability approach. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and net operating loss and tax credit carry forwards. Our financial statements contain tax assets which have arisen as temporary differences between book and tax accounting. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have considered future taxable income, prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance.

We evaluate all of these factors to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination was made.

Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes in the valuation allowance, changes in state or foreign tax laws, future expansion into geographic areas with varying country, state and local income tax rates, deductibility of certain costs and expenses by jurisdiction and as a result of acquisitions, divestitures and reorganizations.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of ASC 718. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based awards, which includes estimates of stock price volatility, forfeiture rates, dividend yield and expected terms, requires judgment that could materially impact our operating results.

Impact of Inflation and Exchange risk. Our Consolidated Financial Statements are prepared in US Dollars. Most of our revenues are made outside Israel in US Dollars. Sales in the United States and other regions except for the European Union are typically denominated in US Dollars, sales in Europe are primarily in Euro, US Dollars or Pound Sterling. Furthermore, a portion of our costs are incurred in US Dollars with the remainder primarily incurred in New Israel Shekel (“Shekel” or “NIS”) and Euro. Since the US Dollar is the primary currency in the economic environment in which the Company operates, the US Dollar is its functional currency and accordingly, monetary accounts maintained in currencies other than the US Dollar are re-measured using the foreign exchange rate at the balance sheet date and transaction gains and losses from re-measurements are reflected in the statement of operations as financial income or expenses, as appropriate.

The Euro has devaluated significantly since Q4'14 through the end of 2015. The devaluations during this period had a significant impact on our results. The following table summarizes the annual rate of devaluation of the Euro against the US Dollar

	Year Ended December 31,		
	2015	2014	2013
Annual Revaluation (devaluation)	(10.4)%	(11.8)%	4.5%
Average Revaluation (devaluation)	(16.5)%	0.0%	3.5%
EUR/US Dollar exchange rate at end of the year	1.09	1.21	1.38
EUR/US Dollar average exchange rate	1.11	1.33	1.33

The NIS revalued in relation to the US Dollar and other major currencies during 2013, devalued in relation to the US Dollar during 2014 and remained almost flat in 2015. Such devaluations and revaluations in any particular fiscal period are never completely synchronized with the rate of inflation. The following table summarizes the annual rate of devaluation and revaluation of the NIS against the US Dollar and the gap between these and the rate of inflation in Israel

	Year Ended December 31,		
	2015	2014	2013
Inflation	(1.0)%	(0.2)%	1.8%
Revaluation (devaluation)	(0.3)%	(12.0)%	7.0%
Inflation (devaluation) gap	(1.3)%	(12.2%)	8.8%

Although a material portion of our costs relate to operations in Israel, part of these Israeli costs are denominated in US Dollars or linked thereto. Costs not denominated in, or linked to, US Dollars are converted to US Dollars, when recorded, at the then prevailing exchange rates. The above affects our costs in US Dollars and this impacts our results.

Organizational Structure

The following is a list of all our subsidiaries, including the name, country of incorporation or residence, and the proportion of our ownership interest in each.

Name of Subsidiary	Country of Incorporation	Percentage of Ownership Interest
Advanced Vision Technology AVT (Germany) GmbH	Germany	100%
Advanced Vision Technology Inc.	USA	100%
AVT EMEA CVBA	Belgium	100%
Graphics Microsystems Inc.	USA	100%

Financial Results
For the year 2015

The following table sets forth consolidated income statement data for each of the years ended December 31, 2015, 2014 and 2013 (in thousands US Dollars):

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues	51,489	54,110	50,498
Cost of revenues	24,394	25,819	23,370
Gross profit	27,095	28,291	27,128
Gross margin in %	52.6%	52.3%	53.7%
Operating expenses:			
Research and development	8,057	7,655	7,287
Selling and marketing	9,547	9,605	8,983
General and administrative	5,430	5,083	5,092
Total operating expenses	23,034	22,343	21,362
Operating income	4,061	5,948	5,766
Financial Income (expense), net	(546)	28	(64)
Income before taxes on income	3,515	5,976	5,702
Taxes on income (tax benefit)	737	1,351	(882)
Net income	2,778	4,625	6,584

The following table sets forth selected consolidated income statement data for each of the three years ended December 31, 2015, 2014 and 2013 expressed as a percentage of total revenues:

	Year Ended December 31,		
	2015	**2014**	**2013**
Revenues	100%	100%	100%
Cost of revenues	47.38	47.72	46.28
Gross profit	52.62	52.28	53.72
Operating expenses:			
Research and development	15.65	14.15	14.43
Selling and marketing	18.54	17.75	17.79
General and administrative	10.54	9.39	10.08
Total operating expenses	44.73	41.29	42.30
Operating income	7.89	10.99	11.42
Financial Income (expense), net	(1.06)	0.05	(0.13)
Income before taxes on income	6.83	11.04	11.29
Taxes on income (tax benefit)	1.43	2.49	(1.75)
Net income	5.40	8.55	13.04

The following table sets forth selected Non-GAAP consolidated income data which adjusted to exclude non-cash amortization of acquired intangible assets, non-cash finance expense related to future earn-out payments as part of the agreement with E+L and stock based compensation expense (**"Non-GAAP"**) for the years ended December 31 2015, 2014 and 2013 (in thousands US Dollars):

	Year Ended December 31,				
	2015			**2014**	**2013**
	GAAP	**Adjustments**	**Non GAAP**	**Non GAAP**	**Non GAAP**
Revenues	51,489		51,489	54,110	50,498
Cost of revenues	24,394	247	24,147	25,599	23,069
Gross profit	27,095	247	27,342	28,511	27,429
Gross margin in %	52.62%		53.10%	52.69%	54.32%
Operating expenses:					
Research and development	8,057	63	7,994	7,595	7,227
Selling and marketing	9,547	131	9,416	9,503	8,828
General and administrative	5,430	181	5,249	4,959	5,032
Total operating expenses	23,034	375	22,659	22,057	21,087
Operating income	4,061	622	4,683	6,454	6,342
Financial Income (expense), net	(546)	144	(402)	28	(64)
Income before taxes on income	3,515	766	4,281	6,482	6,278
Taxes on income (tax benefit)	737		737	1,351	(882)
Net income	2,778	766	3,544	5,131	7,160

Revenues

Revenues are derived primarily from the sale of our systems. Additional revenues are generated through the sale of support services, training and software updates to customers.

Revenues in 2015 totaled $51.5 million, compared with $54.1 million in 2014 and $50.5 million in 2013.

Revenues in Q4 2015 totaled $13.0 million, compared with $13.0 million in Q4 2014 and $12.3 million in Q3 2015.

The decrease in total revenues in 2015 compared with 2014 is due primarily to an unfavorable impact of the Euro to the US Dollar exchange rate of approximately $3.6 million, when compared to foreign currency exchange rate in 2014.

Revenues from services are generated from maintenance contracts; time and material charges; consulting and training fees, installation and sales of spare parts. We recognize revenues over the contractual period or as services are performed. Service revenues in 2015 totaled $11.0 million (out of the total revenues of $51.5

million) compared with the $11.8 million generated in 2014. The decrease in service revenues is due primarily to the unfavorable impact of the Euro to the US Dollar exchange rate.

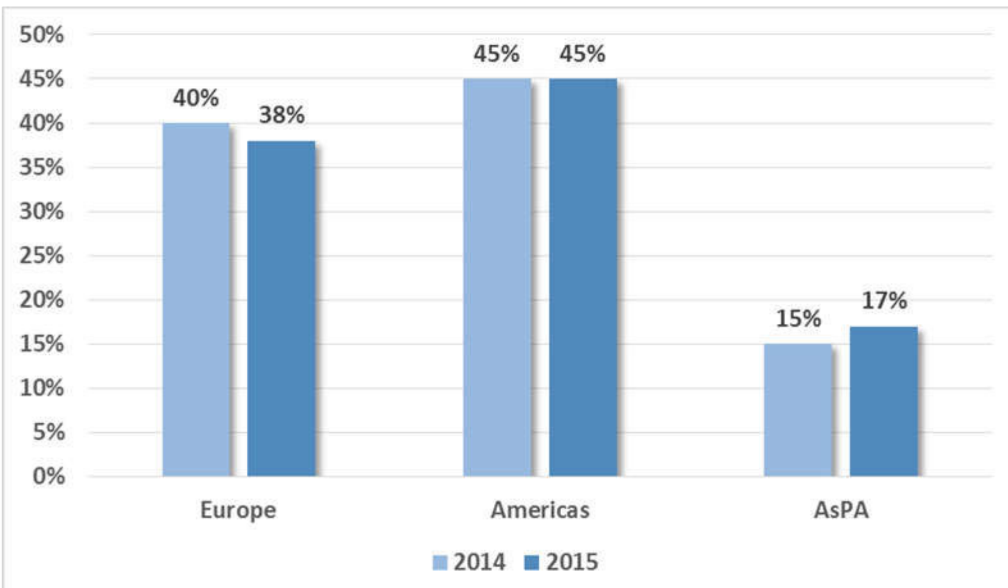
During 2015 order booking totaled $57.6 million compared with order booking of $52.9 million in 2014. During Q4 2015 order booking totaled $16.4 million (record quarter for AVT), compared with $12.3 million during Q4 2014 and $13.9 million in Q3 2015. The ratio of order booking to revenues in 2015 was 112%.

Order booking during 2015 reflects the negative impact of the stronger U.S. dollar in the amount of approximately $3.5 million when compared to foreign currency exchange rates during 2014.

As of December 31, 2015 order backlog totaled $22.4 million representing an increase of 28.7% compared with the backlog balance at December 31, 2014 and an increase of 16.7% when compared to Q3 2015.

We estimate that 30%-40% of this backlog will materialize into revenue during Q1 2016, while the majority of the balance will materialize into revenue over the following three quarters.

The following chart sets forth a breakdown of revenues by territory for 2015 and 2014:



During 2015, EMEA (Europe, Middle East & Africa) generated 38% of total revenues compared with 40% in 2014, Americas contributed 45% of total revenues as in 2014 and Asia-Pacific contributed 17% of total revenues compared with 15% in 2014.

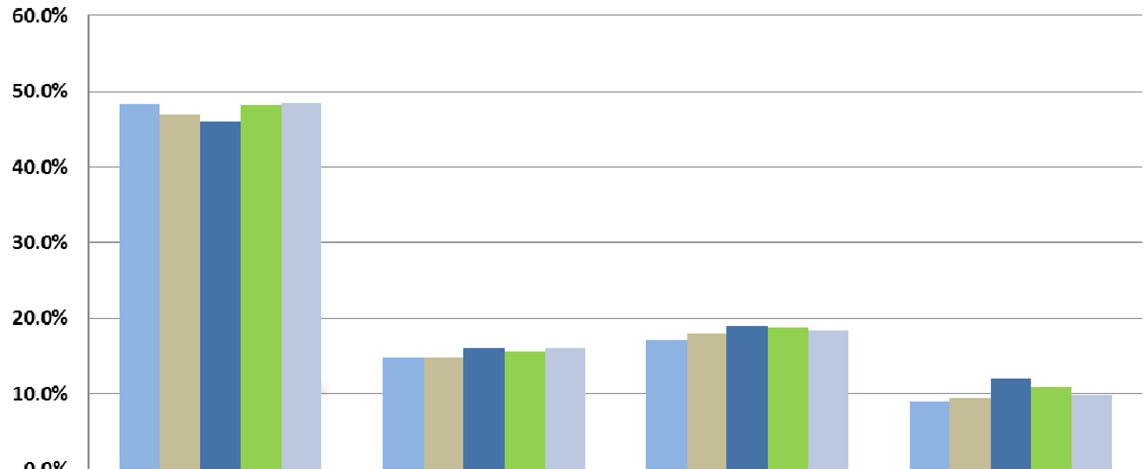
Cost of Revenues / Gross Profit

Cost of revenues includes materials, labor, manufacturing overhead and an estimation of costs associated with installation, warranty and training. It is our practice to provide a one-year warranty to the end-user. A provision, based on our experience and engineering estimates, is taken to cover costs in connection with such warranty for the 12 month period commencing at the end of installation.

Gross margin in 2015 was 52.6% compared with 52.3% in 2014. Non-GAAP gross margin in 2015 was 53.1% compared with 52.7% in 2014.

The increase in gross margin in 2015 compared with 2014 is due primarily to final royalty payments made to the chief scientist office in Q1 14, as offset by the negative impact the Euro-US Dollar exchange rate.

The following table sets forth selected consolidated expense data for each of the five quarters ended 31.12.2015, 30.09.2015, 30.06.2015, 31.3.2015and 31.12.2014 expressed as a percentage of total revenue:



	Cost of Revenues	R&D	Selling & Marketing	General & Administrative
Q4/14	48.3%	14.7%	17.0%	9.0%
Q1/15	46.9%	14.8%	18.1%	9.5%
Q2/15	46.1%	16.1%	19.0%	12.0%
Q3/15	48.2%	15.6%	18.7%	10.9%
Q4/15	48.5%	16.0%	18.3%	9.8%

Research and Development

During 2015, research and development expenses were $8,057 thousand, compared with $7,655 thousand in 2015.

Non-GAAP research and development expenses in 2015 increased to $7,994 thousand, compared with $7,595 thousand in 2014.

On a quarterly basis, during Q4 2015, research and development expenses were $2,091 thousand, compared with $1,920 thousand in Q4 2014 and compared with $1,928 thousand in Q3 2015**.**

The increase in research and development expenses during 2015 compared with the last year is due primarily to an increase in personnel and consultants partially offset by the favorable impact of the Israeli Shekel exchange rate relative to the US Dollar.

Selling and Marketing

During 2015 selling and marketing expenses were $9,547 thousand, compared with $9,605 thousand in 2014.

Non-GAAP selling and marketing expenses during 2015 were $9,416 thousand, compared with $9,503 thousand in 2014.

On a quarterly basis, during Q4 2015, selling and marketing expenses were $2,388 thousand, compared with

$2,221 thousand in Q4 2014 and compared with $2,310 thousand in Q3 2015.

The decrease compared with 2014 is attributable primarily to the favorable impact of the Israeli Shekel exchange rate relative to the US Dollar partially offset by increased marketing activities and an increase in personnel costs.

General and Administrative

During 2015 general and administrative expenses were $5,430 thousand, compared with $5,083 thousand in 2014.

Non-GAAP general and administrative expenses in 2015 were $5,249 thousand, compared with $4,959 thousand in 2014. The increase compared with the same period last year is mainly attributable to legal and consulting costs, mostly related to the agreement with E+L, which was signed on July 2, 2015, and which was partially offset by the favorable impact of the Israeli Shekel exchange rate relative to the US Dollar.

On a quarterly basis, during Q4 2015 general and administrative expenses were $1,272 thousand, compared with $1,175 thousand in Q42014 and compared with $1,344 in Q3 2015.

Stock-Based Compensation

Starting in January 1, 2006 we record based on ASC 718 share-based payments as expenses based on their fair value at the grant date. The compensation is recorded over the requisite service period. The measurement of the benefit is based on the Monte Carlo simulation.

Total stock-based compensation expense recorded during 2015 was $346 thousand compared with $252 thousand in 2014.

Operating and Net Income

Net income for 2015 was $2,778 thousand or diluted earnings of $0.45 per share compared with net income of $4,625 thousand or diluted earnings of $0.76 per share in 2014.

Non-GAAP net income in 2015, was $3,544 thousand compared with $5,131 thousand in 2014.

Non-GAAP operating income during 2015 excluding all expense items cited above was $4,683 thousand compared with $6,454 thousand in 2014. The decrease in Non-GAAP operating income is primarily due to lower revenue in 2015 which was impacted primarily by the unfavorable Euro to US Dollar exchange rate and slightly higher operating expenses.

Consolidated operating expenses were 44.7% of revenues in 2015 compared with 41.3% in 2014.

Consolidated Non-GAAP operating margin was 9.1% of revenues in 2015 compared with 11.9% in 2014.

EBITDA excluding stock-based compensation expense in 2015 was $5,105 thousand compared with income of $6,831 thousand in 2014.

The decrease in operating income is primarily due to lower revenue in 2015 which was highly impacted by the unfavorable Euro to US Dollar exchange rate offset by slightly lower operating expenses.

Financial Income (Expense), net

Financial income is comprised of interest income from bank deposits less bank fees and exchange rate differences.

Net financial expense during 2015 was $546 thousand compared with net financial income of $28 thousand in 2014.

Financial income in 2015 was $129 thousand compared to $176 in 2014. An additional net expense of $531 thousand was generated primarily from exchange rate differences, net of income from currency hedging activity and some bank charges compared with expenses of $148 thousand in 2014. In addition, in 2015 we recorded financial expense of $144 thousand, related to the valuation of future earn-out payments as part of the agreement with E+L.

Taxes

We operate within multiple taxing jurisdictions and are subject to audit in those jurisdictions. In our opinion, an adequate asset and provision for income taxes has been made in the financial statements. This asset and provision takes into consideration potential tax liability in Israel and other jurisdictions.

The Company has in the past benefitted from and continues to benefit from certain Israeli government programs and tax legislation, particularly as a result of the status of a significant portion of the Company's existing production facilities in Israel under the Law for the Encouragement of Capital Investments, 1959 (the "**Investment Law**"). According to an amendment to the Investment Law, effective as of August 5, 2013, (the "**Amendment**"), income derived by "Preferred Companies" from "Preferred Enterprises", referred to as "Preferred Income", is subject to a uniform tax rate of 16% in 2014 and thereafter (or 9%, in areas designated as Development Zone A). Pursuant to the Amendment, the Company has irrevocably elected to implement the Amendment with respect to its previous "Approved" and "Privileged" Enterprises so that income derived therefrom is now treated as Preferred Income.

As of January 1, 2014, dividends distributed from Preferred Income would subject the recipient to a 20% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld by the distributing company.

Liquidity and Capital Resources

As of December 31, 2015 our total current assets were $39.9 million, including a cash and financial investment balance of $17.7 million compared with cash and financial investments of $26.2 million as of December 31, 2014.

During 2015, $228 thousand were provided by operating activities compared with $5,229 thousand provided by operating activities during 2014.

The decrease in cash generated from operating activities is due to lower operating income, the increase in the trade receivable balance, the increase in other receivables and the increase in inventories.

The increase in the accounts receivable is attributed primarily to significant increase in shipments towards the end of 2015 which were not collected by then. The increase in inventories is attributed to shipments which were expected to be shipped in Q4 2015 but were delayed Q1 2016, supporting more product variations, and to the increase in the backlog to be delivered during the first half of 2016. The increase in other receivables is mainly attributed to an increase of current tax advances payments and advances to suppliers.

Consequently DSO in accounts receivable at December 31, 2015 were 75 days compared with 55 days at December 31, 2014.

Our net capital expenditures on fixed assets were $619 thousand in 2015, compared with $457 thousand in 2014.

The consideration for the acquisition of the inspection activity of E+L purchased pursuant to the agreement consisted of an initial cash payment of $2,353 thousand upon closing and additional variable earn-out payments over the next few years which are calculated based on future sales of certain products over a base amount. The Company evaluates the present fair value of these future earn-out payments at $1,432 thousand. This balance is recorded under current liabilities and long-term liability. The periodic unwinding of the discount (time value of money) on the future earn-out liability is recognized as a finance expense over the earn-out period. In 2015, the Company recorded $144 thousand finance expense.

The E+L inspection activity acquisition has been accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations". Based on a purchase price allocation study, prepared by an independent third party, a total of $2,660 thousand was allocated to technology and $332 thousand to customer relationship and trade names. The excess of the purchase price over the aggregated fair value of the intangible assets, in the amount of $793 thousand, was allocated to goodwill. The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

The intangible assets, other than goodwill, are presently being amortized on a straight-line basis primarily over a period of 6.5 years, which reflects the anticipated economic benefit from these assets. The goodwill and other intangible assets created in the acquisition are deductible for tax purposes.

Effective October, 2014, the District Court in Tel Aviv, Israel, approved the company's request to allow the reduction of its capital by up to $12 million, after the Israeli Tax Authority informed the District Court that it does not object to the ruling. Therefore, per applicable Israeli law, the board of directors of the company may opt to declare dividends and/or adopt a share buy-back program, which will consume up to an aggregate of $12 million of the company's capital. On March 18, 2015, the board of directors resolved to distribute an extra-ordinary gross dividend of $1.0 per share which was paid on April 2, 2015, in the total amount of $6.1 million.

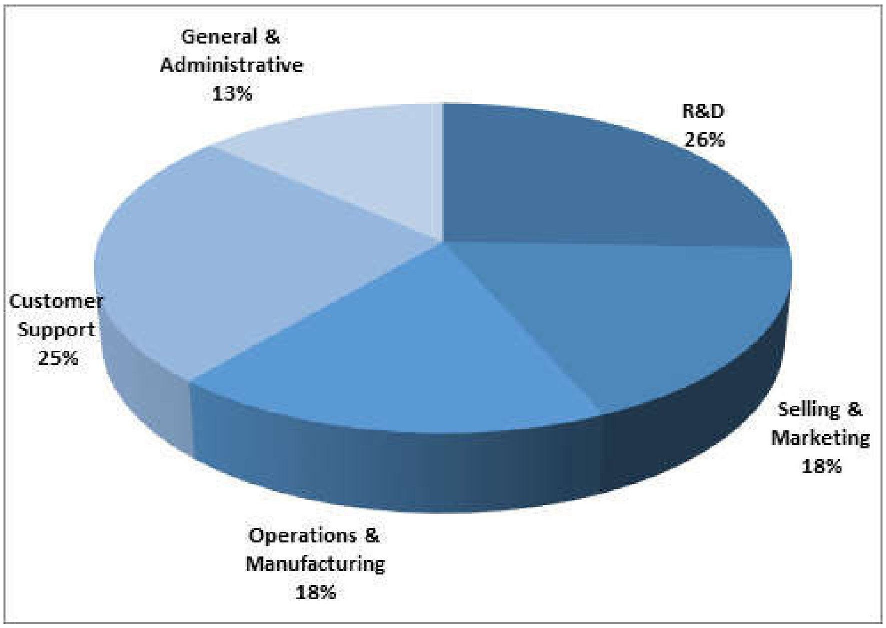
In February 2016, one of our customers in the United States, filed a lawsuit against AVT Inc. claiming for breach of contract and consequential damages. The Company’s management believes that the complaint is without merit and intends to contest it vigorously. However, since the lawsuit is in the early stages, the Company is unable to predict the final outcome of this lawsuit. No provision has been made in respect to this claim.

Employees

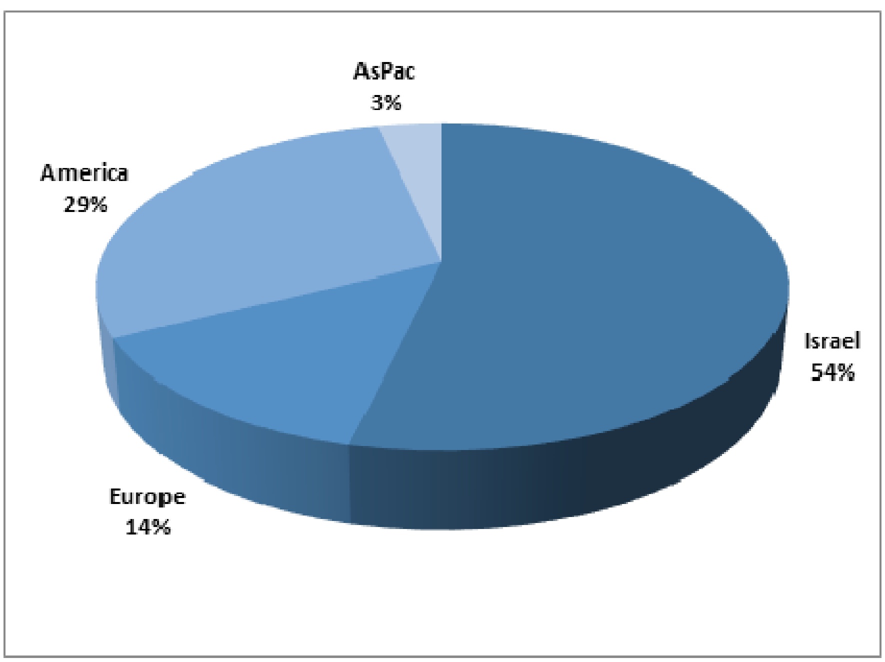
Our employees are our most valuable asset, driving our commitment to technological leadership and outstanding customer support. Our team repeatedly demonstrates our vision, and has the motivation, innovation and commitment to customer satisfaction that are the key ingredients for growth.

As of December 31, 2015, 229 people were employed by AVT worldwide compared with 217 employees on December 31, 2014.

The breakdown of employees by function is as follows:



Our employees are based in the following areas per their subsidiary affiliation:



ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

IN U.S. DOLLARS

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Building a better working world

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REPORT OF INDEPENDENT AUDITORS

To the board of directors and shareholders of

ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.

We have audited the accompanying consolidated financial statements of Advanced Vision Technology (A.V.T.) Ltd. (the "Company") and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

Kost, Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 1, 2016

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,665	$ 15,048
Short-term deposits	10,025	11,168
Trade receivables (net of allowance for doubtful accounts as of $ 1,102 and $ 869 as of December 31, 2015 and 2014, respectively)	10,657	8,170
Inventories	7,136	6,077
Other accounts receivable and prepaid expenses	4,452	3,740
Total current assets	39,935	44,203
LONG-TERM ASSETS:		
Deferred income taxes	1,899	2,233
Severance pay fund	2,488	2,811
Total long-term assets	4,387	5,044
PROPERTY AND EQUIPMENT, NET	1,466	1,269
INTANGIBLE ASSETS, NET	2,829	113
GOODWILL	793	-
Total assets	$ 49,410	$ 50,629

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share amounts)

	December 31, 2015	December 31, 2014
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 2,873	$ 3,110
Employees and payroll accruals	3,123	2,696
Customer advances and deferred revenues	2,148	2,690
Accrued expenses and other liabilities	5,991	5,029
Total current liabilities	14,135	13,525
LONG-TERM LIABILIITIES:		
Accrued severance pay	3,832	4,186
Other long-term liability	1,208	
Total long-term liabilities	5,040	4,186
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 2 par value: 15,000,000 shares authorized at December 31, 2015 and 2014; 6,913,627 and 6,857,480 shares issued at December 31, 2015 and 2014 respectively; 6,094,505 and 6,038,358 shares outstanding at December 31, 2015 and 2014, respectively	3,743	3,714
Additional paid-in capital	65,748	65,150
Treasury shares at cost – 819,122 shares as of December 31, 2015 and 2014.	(6,902)	(6,902)
Accumulated other comprehensive loss	(28)	-
Accumulated deficit	(32,326)	(29,044)
Total shareholders' equity	30,235	32,918
Total liabilities and shareholders' equity	$ 49,410	$ 50,629

The accompanying notes are an integral part of the consolidated financial statements.

March 1, 2016		
Date of approval of the financial statements	Jaron Lotan CEO	Udi Bar Sela CFO

CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands (except per share amounts)

	Year ended December 31,		
	2015	2014	2013
Revenues	$ 51,489	$ 54,110	$ 50,498
Cost of revenues	24,394	25,819	23,370
Gross profit	27,095	28,291	27,128
Operating expenses:			
Research and development	8,057	7,655	7,451
Less - grants	-	-	(164)
Selling and marketing	9,547	9,605	8,983
General and administrative	5,430	5,083	5,092
Total operating expenses	23,034	22,343	21,362
Operating income	4,061	5,948	5,766
Financial income (expense), net	(546)	28	(64)
Income before taxes on income	3,515	5,976	5,702
Taxes on income (tax benefit)	737	1,351	(882)
Net income	$ 2,778	$ 4,625	$ 6,584
Basic earnings per ordinary share	$ 0.46	$ 0.77	$ 1.16
Diluted earnings per ordinary share	$ 0.45	$ 0.76	$ 1.12

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2015	2014	2013
Net income	$ 2,778	$ 4,625	$ 6,584
Other comprehensive income (loss):			
Unrealized loss on foreign currency cash flow hedge	(28)	-	-
Total comprehensive income	$ 2,750	$ 4,625	$ 6,584

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2013	3,402	62,568	(6,902)	-	(31,763)	27,305
Issuance of shares upon exercise of options	200	1,294	-	-	-	1,494
Stock-based compensation related to options granted to employees	-	237	-	-	-	237
Dividend paid to shareholders	-	-	-	-	(2,517)	(2,517)
Net income	-	-	-	-	6,584	6,584
Balance as of December 31, 2013	3,602	64,099	(6,902)	-	(27,696)	33,103
Issuance of shares upon exercise of options	112	799	-	-	-	911
Stock-based compensation related to options granted to employees	-	252	-	-	-	252
Dividend paid to shareholders	-	-	-	-	(5,973)	(5,973)
Net income	-	-	-	-	4,625	4,625
Balance as of December 31, 2014	3,714	65,150	(6,902)	-	(29,044)	32,918
Issuance of shares upon exercise of options	29	252	-	-	-	281
Stock-based compensation related to options granted to employees		346	-	-	-	346
Dividend paid to shareholders	-	-	-	-	(6,060)	(6,060)
Unrealized loss on foreign currency cash flow hedge	-	-	-	(28)		(28)
Net income	-	-	-	-	2,778	2,778
Balance as of December 31, 2015	$ 3,743	$ 65,748	$ (6,902)	$ (28)	$ (32,326)	$ 30,235

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	**2014**	**2013**
Cash flows from operating activities:			
Net income	$ 2,778	$ 4,625	$ 6,584
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation related to options granted to employees	346	252	237
Depreciation of property and equipment	422	377	389
Amortization of intangible assets	276	254	339
Valuation of earn-out	144	-	-
Increase in trade receivables, net	(2,487)	(233)	(117)
Revaluation of short-term deposits	3	124	(80)
Decrease (increase) in inventories	(1,059)	(483)	352
Decrease (increase) in other accounts receivable and prepaid expenses	(595)	(396)	667
Decrease (increase) in deferred income taxes, net	189	364	(3,228)
Increase (decrease) in trade payables	(237)	1,207	587
Increase (decrease) in employees and payroll accruals	427	77	(69)
Increase (decrease) in customer advances and deferred revenues	(542)	(923)	1,269
Increase in accrued expenses and other liabilities	594	94	1,347
Increase (decrease) in accrued severance pay, net	(31)	(110)	348
Net cash provided by operating activities	228	5,229	8,625
Cash flows from investing activities:			
Investment in short-term deposits	-	(40)	(9,000)
Proceeds from maturity of short-term deposits	1,140	3,000	1,500
Purchase of property and equipment	(619)	(457)	(398)
Acquisition of inspection activity	(2,353)	-	-
Net cash provided by (used in) investing activities	(1,832)	2,503	(7,898)
Cash flows from financing activities:			
Dividend paid to shareholders	(6,060)	(5,973)	(2,517)
Proceeds from exercise of options granted to employees	281	911	1,494
Net cash used in financing activities	(5,779)	(5,062)	(1,023)
Increase (decrease) in cash and cash equivalents	(7,383)	2,670	(296)
Cash and cash equivalents at the beginning of the year	15,048	12,378	12,674
Cash and cash equivalents at the end of the year	$ 7,665	$ 15,048	$ 12,378
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	$ 701	$ 1,748	$ 1,431
Non cash transactions:			
Earn-out payment obligations incurred as part of the acquisition of the inspection activity	$ 1,432	$ -	$ -

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL

Advanced Vision Technology (A.V.T.) Ltd. ("A.V.T.") was incorporated under the laws of the State of Israel on December 10, 1992 and commenced operations thereafter. A.V.T. and its wholly-owned subsidiaries (the "Company") design, develop, manufacture, market and support advanced video-based print inspection systems that automatically detect defects in various types of printing processes as well as closed loop color control ("CLC") systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with US generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company operates, the dollar is its functional and reporting currency. Accordingly, amounts in currencies other than dollars have been remeasured in accordance with ASC 830, "*Foreign Currency Matters*", as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date.

Expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of income in financial expense, net.

Management considers the non-U.S. subsidiaries operations to be similar in nature, closely tied and a direct integral extension of the parent company's operations. Accordingly, the functional currency of these subsidiaries is the dollar.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Principles of consolidation:

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents include short-term bank deposits that are readily convertible to cash with original maturities of three months or less at the date of acquisition.

e. Short-term deposits:

A short-term bank deposit is a deposit with a maturity of more than three months but less than one year. As of December 31, 2015, the deposits bear interest at an annual average rate of 1.65%. As of December 31, 2014, the deposits bear interest at an annual average rate of 1.14%.

f. Inventories:

Inventories are stated at the lower of cost or market. The Company evaluates periodically the quantities on hand relative to current selling prices and historical and forecasted sales volumes. Based on these evaluations, provisions are recorded if required to write down inventory to its net realizable value. Such provisions are included in the cost of revenues. For all years presented the write-offs were insignificant.

Cost is determined as follows:

Raw materials - according to the "average cost method"

Work in progress and finished products - based on average direct manufacturing costs and allocatable indirect manufacturing costs.

Spare parts for customer support - according to the "average cost method".

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20 - 33 (mainly 33)
Machinery and equipment	6 - 20 (mainly 20)
Office furniture and equipment	6 - 20 (mainly 6)
Leasehold improvements	The shorter of the term of the lease or the useful life of the asset

h. Intangible assets:

The intangible assets are stated at cost, net of accumulated amortization. The intangible assets are amortized over their estimated useful life using the straight-line method. The amortization period of the intangible assets is as follows; Technology 7-12 years, Customer Relationships and Trademarks over 7-10 years. The amortization period and the amortization method for an intangible asset is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization expenses of intangible assets are recognized in the statement of income, in the expense category consistent with the function of the intangible asset.

i. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, " *Property, Plant, and Equipment*" and ASC 350, *"Intangibles—Goodwill and Other"*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2015, 2014, and 2013 no indicators of impairment were identified and accordingly, no impairment losses were recorded.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Goodwill:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Under ASC No. 350, "Intangibles – Goodwill and other" ("ASC No. 350"), goodwill is not amortized but instead is tested for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company operates in one operating segment and this segment comprises the only reporting unit. The Company tests goodwill using the two-step process in accordance with ASC No. 350. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying amount of goodwill is written down to fair value.

k. Research and development costs:

Research and development costs, net of grants received, are charged to expenses as incurred.

l. Revenue recognition:

The Company derives its revenues from selling its products to end users and to printing press manufacturers through Original Equipment Manufacturer ("OEM") partners. The Company also generates revenues from maintenance, support and repair services related to these sales.

Revenues from product sales are recognized in accordance with ASC 605, "*Revenue Recognition*" and SEC Staff Accounting Bulletin ("SAB") No. 104, "*Revenue Recognition*" ("SAB 104"), when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no future obligation exists and collectability is probable.

The Company generally does not grant a right of return to its customers. When sale arrangements include a customer acceptance provision with respect to products, revenue is not recognized before the Company has demonstrated that the criteria specified in the acceptance provisions have been satisfied, or that the acceptance provision has lapsed.

Deferred revenues include amounts received from customers for which revenue has not been recognized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Warranty costs:

The Company provides a 12 month warranty for its products at no charge. The Company estimates the costs that may be incurred during the warranty period and records a liability for the amount of such costs at the time revenue from the product sale is recognized.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

Cash and cash equivalents and short-term deposits are deposited with major banks in Israel and in the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, low credit risk exists with respect to these investments.

The Company's trade receivables are derived from sales to customers located primarily in the United States and Europe. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. In certain circumstances, the Company may require letters of credit or other collateral. The Company maintains an allowance for doubtful accounts based upon management's experience. The allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection.

As of December 31, 2015 and 2014, the allowance for doubtful accounts amounted to $ 1,102 and $ 869, respectively. Bad debt expense amounted to $ 255, $ 150 and $ 174 in the years ended December 31, 2015, 2014 and 2013, respectively. The risk of collection associated with accounts receivable is mitigated by the diversity and number of customers.

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "*Compensation - Stock Compensation*". ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the statement of income.

The Company recognizes compensation expense for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Monte Carlo simulation option pricing model as the most appropriate fair value method for its equity-based awards and values options based on the market value of the underlying shares on the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected term of the equity-based award. Expected volatility is calculated based upon actual historical stock price movements. The suboptimal exercise factor represents the value of the underlying share as a multiple of the exercise price of the option which, if achieved, results in exercise of the option. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. Until 2011 the Company did not intend to distribute, and did not pay any dividends. During 2012 the Company adopted a distribution policy, according to which the Company will distribute up to 50% of the Company's net income, subject to the board of directors approval, starting 2012.

The fair value for options granted during the year are estimated at the date of grant, using the Monte Carlo simulation model with the following assumptions:

	Year ended December 31,		
	2015	**2014**	**2013**
Risk-free interest rate	0.27%	1.24%	1.12%
Suboptimal exercise multiple	2.13/2.57	2.13/2.57	2.13/2.57
Forfeiture rate	7.92%	6.75%	6.45%
Dividend yield	3.5%	8.7%/4.5%	6.0%/4.5%
Expected volatility	40%	38%	42%

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Derivative Instruments:

Starting 2015, the Company entered into foreign currency options to hedge a portion of the exposure to the variability in expected future cash flows resulting from changes in related foreign currency exchange rates between the New Israeli Shekel (''NIS'') and the U.S. Dollar. These transactions are designated as cash flow hedges, as defined by Accounting Standards Codification (''ASC'') Topic 815, ''Derivatives and Hedging.''

ASC Topic 815 requires that the Company recognize derivative instruments as either assets or liabilities in its balance sheet at fair value. These contracts are Level 2 fair value measurements in accordance with ASC Topic 820, ''Fair Value Measurements and Disclosures.'' For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss), net of taxes, and reclassified into earnings (various operating expenses) in the same period or periods during which the hedged transaction affects earnings.

The Company's cash flow hedging strategy is to hedge against the risk of overall changes in cash flows resulting from certain forecasted foreign currency salary and related payments during the next twelve months. The Company hedges portions of its forecasted expenses denominated in NIS with a single counterparty using foreign currency options.

During 2015 the Company recorded in other comprehensive income an unrealized loss from foreign currency cash flow hedges in the amount of $28.

q. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations" which requires allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at fair value as of the acquisition date. The ASC also requires the estimation of fair value of potential contingent consideration at the acquisition date and restructuring and acquisition-related costs to be expensed as incurred.

Any subsequent changes in the estimated contingent consideration are to be recorded in the statement of income.

r. Fair value of financial instruments:

The Company applies ASC No. 820, pursuant to which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In determining fair value, the Company uses various valuation approaches. ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company.

Unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, trade payables, employees and payroll accruals, accrued expenses and other current liabilities approximate their fair values due to the short-term maturity of these instruments.

The liability for contingent consideration arising from the business combination is considered as level 3.

s. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "*Comprehensive Income*". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Treasury stock:

On June 27, 2003, the Company repurchased some of its shares in a tender offer and thereafter held those shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction of shareholders' equity.

Occasionally, the Company may reissue treasury shares upon exercise of options. When treasury shares are reissued, the Company charges to retained earnings the excess of the purchase cost over the exercise price and the accumulated stock based compensation. The purchase cost is calculated based on the specific identification method. If the purchase cost is less than the exercise price, the Company credits the difference to additional paid-in capital.

u. Royalty-bearing grants:

Royalty-bearing grants from the Office of the Chief Scientist of the Ministry of Economy in Israel for funding certain approved research and development projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are included as a deduction from research and development costs.

Research and development grants recognized amounted to $ 164 in the year ended December 31, 2013. Total royalties accrued or paid amounted to $ 526 and $ 1,308 in the years ended December 31, 2014 and 2013, respectively and were recorded as cost of revenues.

v. Severance pay:

The Company's liability for its Israeli employee's severance pay is calculated pursuant to the Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of those employees is covered by monthly deposits with severance pay funds, insurance policies and by an accrual.

The deposited funds may be withdrawn only upon fulfillment of the obligation pursuant to the Israeli severance pay law or labor agreements. The value of the insurance policies is based on the cash surrender value which includes profits or losses accumulated up to the balance sheet date. The funds and insurance policies are recorded as an asset in the Company's balance sheet.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In April 2014, the Company and its employees agreed to be subject to the terms set forth in Section 14 of the Israeli's Severance Pay Law and the General Approval of the Minister of Labor and Welfare. Pursuant to Section 14 and the General Approval, commencing from April 2014, the Company makes monthly deposits in severance pay funds based on a fixed percentage of the salary and such deposits release the Company from severance pay obligation to the employee upon termination of employment, voluntarily or involuntarily, in respect of the period of service commencing from April 2014. Accordingly, the severance pay accrual and fund recorded in the Company's balance sheet as of December 31, 2015 and 2014, reflects the severance pay liability and related deposits in respect of the service period prior to April 2014.

Severance expenses for the years ended December 31, 2015, 2014 and 2013 amounted to $ 99, $ 138 and $ 266, respectively.

w. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year.

Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during the year plus dilutive potential equivalent Ordinary shares considered outstanding during the year, in accordance with ASC 260, "*Earnings Per Share*".

x. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "*Income Taxes*". ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

The Company accounts for its uncertain tax positions in accordance with ASC 740 which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company reevaluates its income tax positions to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. The Company accrues interest and penalties related to unrecognized tax benefits in tax expense.

y. The impact of recently issued accounting standards (still not effective for the Company as of December 31, 2015) is as follows:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. We are still evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted.

NOTE 3:- BUSINESS COMBINATION

On July 2, 2015, AVT and Erhardt + Leimer GmbH ("E+L") signed a purchase agreement ("the agreement") and a cooperation agreement regarding a strategic alliance for the printing and converting industries. E+L is a leader in web guiding, web viewing and web tension control. This agreement broadens the product portfolios and strengthens services for customers of AVT and E+L, through solutions based on the two companies' combined experience and technological skills.

The consideration for the acquisition of the inspection activity of E+L purchased pursuant to the agreement consisted of an initial cash payment of $2,353 upon closing and additional variable earn-out payments (contingent consideration) over the next 4 years which are calculated based on future sales of certain products over a base amount. The Company evaluates the present fair value of the liability for these future earn-out payments at $1,432. This balance presented in current liabilities long-term liability.

The periodic unwinding of the discount (time value of money) on the future earn-out liability is recognized as a finance expense over the earn-out period. In 2015, the Company recorded $144 finance expense.

Acquisition cost in the amount of $211 was expensed in the statement of income.

The acquisition has been accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations". Based on a purchase price allocation study, prepared by an independent third party, a total of $2,660 was allocated to technology, $224 to customer relationships and $108 to trade names. The excess of the purchase price over the aggregated fair value of the intangible assets, in the amount of $793 was allocated to goodwill. The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

The intangible assets, other than goodwill, are presently being amortized on a straight-line basis primarily over a period of 7 and 12 years which reflects the anticipated economic benefit from these assets. The goodwill and other intangible assets created in the acquisition are deductible for tax purposes.

Had the acquisition of the inspection activity occurred at the beginning of 2015, the effect on the proforma combined revenues and earnings of the Company and the inspection activity would have been immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 4:- INVENTORIES

	December 31, 2015	December 31, 2014
Raw materials	$ 2,688	$ 2,287
Work in progress	1,081	1,038
Finished products	1,242	1,056
Spare parts for customer support	2,125	1,696
	$ 7,136	$ 6,077

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2015	December 31, 2014
Government authorities	$ 2,010	$ 1,733
Prepaid expenses	336	538
Deferred income taxes	1,467	1,322
Other accounts receivable	639	147
	$ 4,452	$ 3,740

U.S. dollars in thousands

NOTE 6:- PROPERTY AND EQUIPMENT

	December 31, 2015	December 31, 2014
Cost:		
Computers and peripheral equipment	$ 3,819	$ 3,559
Machinery and equipment	1,631	1,794
Office furniture and equipment	725	622
Leasehold improvements	675	654
	6,850	6,629
Accumulated depreciation:		
Computers and peripheral equipment	3,346	3,151
Machinery and equipment	1,211	1,485
Office furniture and equipment	460	421
Leasehold improvements	367	303
	5,384	5,360
Property and equipment, net	$ 1,466	$ 1,269

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was $ 422, $ 377 and $ 389, respectively. During 2015, the Company sold to a supplier, fully depreciated machinery and equipment with original cost of $400, see Note 9c.

NOTE 7:- INTANGIBLE ASSETS AND GOODWILL

a. Intangible assets:

	December 31, 2015	December 31, 2014
Cost:		
Technology	$ 6,427	$ 3,767
Customer Relationships	894	670
Trademarks	406	298
	7,727	4,735
Accumulated amortization:		
Technology	3,971	3,767
Customer relationships	665	627
Trademarks	262	228
	4,898	4,622
Intangible assets, net	$ 2,829	$ 113

U.S. dollars in thousands

NOTE 7:- INTANGIBLE ASSETS AND GOODWILL (Cont.)

Amortization expense amounted to $ 276, $ 254 and $ 339 for the years ended December 31, 2015, 2014 and 2013, respectively.

Estimated amortization expense for the years ended:

December 31,	
2016	$ 410
2017	398
2018	372
2019	372
2020-2026	1,277
	$ 2,829

b. Goodwill

Goodwill balance as of December 31, 2015 was $793 which is attributed to the agreement with E+L (see Note 3).

As described in Note 2j, the Company test for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As of December 31, 2015 the Company determined there was no impairment with respect to goodwill.

NOTE 8:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2015	**2014**
Provision for warranty costs	$ 673	$ 776
Income taxes payable	2,506	2,343
Provision for earn-out	368	-
Accrued expenses and other liabilities	2,444	1,910
	$ 5,991	$ 5,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company and its subsidiaries lease office facilities and motor vehicles, under operating leases, for periods ending in 2019.

Future minimum lease commitments under non-cancelable operating leases as of December 31, 2015, are as follows:

Year	Lease commitment
2016	$ 1,642
2017	1,151
2018	886
2019-2021	123
	$ 3,802

Total rent expense for the years ended December 31, 2015, 2014 and 2013 amounted to $ 2,080, $ 2,648 and $ 2,565, respectively.

The Company leases motor vehicles under cancelable operating lease agreements. The Company has an option to be released from this agreement, which may result in penalties in a maximum amount of $ 17 as of December 31, 2015.

b. Royalty commitments:

The Company was committed to pay royalties to the Chief Scientist of Israel's Ministry of Economy and Industry at a rate of 3.5% of all revenues from the sales of products and services that are developed with the assistance of the Chief Scientist by way of grants. The total royalty commitment does not exceed 100% of the amount of the grant plus interest at the applicable LIBOR rate at the time the grants were received.

In January 2014 the Company decided to prepay the above mentioned contingent obligation, in the amount of $656, and no future royalties are payable with respect thereof.

c. Production contractual commitments:

The Company has entered into a contractual commitment until 2017 with a certain supplier for manufacturing and operations services. In connection with this commitment, the Company sold to the supplier fully depreciated machinery and equipment with original cost of $400 for consideration of $400. The gain of $400 will be recognized as a reduction of cost of goods to be provided over the term of the contract. Future minimum payments under these contractual commitments is $120 and $60 in 2016 and 2017, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

d. Legal proceedings:

From time to time the Company is a party to claims and legal proceedings that are incidental to the conduct of its business. As of December 31, 2015, there is no pending or threatened legal proceeding to which the Company is a party that, in its opinion, is likely to have a material adverse effect on its future financial results. In respect of litigation subsequent to December 31, 2015 see note 15b.

e. Liens:

To secure its line of credit for bank guarantees, the Company has recorded a fixed lien of $ 140 on a cash deposit.

NOTE 10:- INCOME TAXES

a. General

The Company operates within multiple taxing jurisdictions (primarily in Israel and in the U.S.) and is subject to audit in those jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In management's opinion, adequate provisions for income taxes have been made.

b. Israel taxation

1. Corporate tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 25% in 2013, 26.5% in 2014 and 2015 and 25% in 2016 and thereafter.

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The Company benefits from certain government programs and tax legislation, particularly as a result of the ‘Approved Enterprise’, ‘Benefiting Enterprise’ or ‘Preferred Enterprise’ status of a significant portion of the Company’s existing production facilities in Israel under the Law (an “Approved Enterprise”, a “Benefiting Enterprise”, a “Preferred Enterprise”). Pursuant to these programs and legislation, a significant portion of the Company’s income is currently taxed at reduced rates.

The Company elected the alternative benefits route under the Investment Law with respect to its Approved Enterprises. Under this route the Company waived government grants in return for a tax exemption on undistributed income

In 2011 amendments to the Law became effective and were further amended in

NOTE 10:- INCOME TAXES (Cont.)

August 2013 (the "2011 Amendment"). Under the 2011 Amendment, income derived by 'Preferred Companies' from 'Preferred Enterprises' (both as defined in the 2011 Amendment) would be subject to a uniform rate of corporate tax for an unlimited period as opposed to the incentives prior to the 2011 Amendment that were limited to income from Approved or Benefiting Enterprises during their benefits period. According to the 2011 Amendment, the tax rate applicable to such income, referred to as 'Preferred Income' for 2014 and onwards is 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel. As of January 1, 2014, dividends distributed from Preferred Income would subject the recipient to a 20% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld at source. Under the transitional provisions of the 2011 Amendment, companies may elect to irrevocably implement the 2011 Amendment with respect to their existing Approved and Benefiting Enterprises while waiving benefits provided under the legislation prior to the 2011 Amendment or keep implementing the legislation prior to the 2011 Amendment.

The Company elected to implement the 2011 Amendment beginning the 2012 tax year.

Pursuant to an amendment to the Law which became effective on November 12, 2012 (the "2012 Amendment"), companies that have tax exempt income from Approved or Benefiting Enterprises were able to elect by November 11, 2013 to pay a reduced corporate tax rate as set forth in the 2012 Amendment on such undistributed income as of December 31, 2011 and thereafter distribute a dividend from such income without being required to pay additional corporate tax with respect to such income as the case would otherwise be, as previously described. A company that made this election, will be required to make certain investments in its Approved or Benefiting Enterprise, as prescribed in the 2012 Amendment, and cannot withdraw from its election.

During March and November 2013, the Company made the election and duly released all of its tax-exempt income related to its various Approved Enterprises and Benefiting Enterprises. Subsequent to the election, the Company no longer has a tax liability upon future distributions of its past tax-exempt income. As a result of the election, the Company recorded an expense of $1,373.

The application of the 2012 Amendment to its tax-exempt income requires the Company to invest $1,014 in its industrial enterprises in Israel over a five-year period ending in 2017, either in the acquisition of industrial assets (excluding real estate assets); investment in R&D in Israel; or salaries paid to new employees who joined the enterprise, relative to the number of employees employed in the enterprise at the end of the 2011 fiscal year, excluding payroll payment to "office holders" (as such term is defined in the Israeli Companies Law).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

c. Carryforward tax losses:

As of December 31, 2015, the U.S. subsidiary had U.S. federal carryforward tax losses of approximately $ 1,480 that can be carried forward and offset against taxable income for 12-20 years and expire from 2020-2028. The Tax Return Act of 1986 limits the use of net operating loss and tax credit carry forwards in certain situations where changes occur in the stock ownership of a company. Due to the change in ownership that occurred at the end of 2009, the utilization of the abovementioned carry forwards are likely to be subject to limitation of section 382 to the IRS regulations.

As of December 31, 2015, the German subsidiary used all its carry forward tax losses.

d. Deferred income taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2015 and 2014, the Company's deferred taxes were in respect of the following:

	December 31,	
	2015	**2014**
Deferred tax assets:		
Net operating loss carryforwards	$ 542	$ 1,002
Different amortization rates of intangible assets	1,458	1,660
Reserves and allowances	3,330	3,430
Deferred tax assets before valuation allowance	5,330	6,092
Valuation allowance	(1,948)	(2,515)
Deferred tax assets	3,382	3,577
Deferred tax liability:		
Different depreciation and amortization rates of property, equipment and goodwill	(16)	(22)
Total deferred tax liability	(16)	(22)
Net deferred tax asset	$ 3,366	$ 3,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

	December 31,	
	2015	2014
Domestic:		
Current deferred tax asset	$ 705	$ 602
Non-current deferred tax asset	515	491
	1,220	1,093
Foreign:		
Current deferred tax asset	762	720
Non-current deferred tax asset	3,332	4,279
Non-current deferred tax liability	-	(22)
Valuation allowance	(1,948)	(2,515)
	2,146	2,462
	$ 3,366	$ 3,555

e. Income before taxes on income consists of the following:

	Year ended December 31,		
	2015	2014	2013
Domestic	$ 1,851	$ 4,269	$ 2,800
Foreign	1,664	1,707	2,902
	$ 3,515	$ 5,976	$ 5,702

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

f. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31,		
	2015	2014	2013
Current	$ 549	$ 987	$ 3,138
Deferred	188	364	(4,020)
	$ 737	$ 1,351	$ (882)
Domestic:			
Current	$ 382	$ 771	$ 2,034
Deferred	(128)	(94)	(308)
	$ 254	$ 677	$ 1,726
Foreign:			
Current	$ 167	$ 216	$ 1,104
Deferred	316	458	(3,712)
	$ 483	$ 674	$ (2,608)

U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

g. Reconciliation of the theoretical tax expense:

	Year ended December 31,		
	2015	**2014**	**2013**
Income before taxes on income	$ 3,515	$ 5,976	$ 5,702
Statutory tax rate	26.5%	26.5%	25%
Theoretical tax expenses at statutory tax rate	$ 931	$ 1,584	$ 1,426
Increase (decrease) in respect of:			
Losses, reserves and allowances for which valuation allowance was provided	34	6	87
Utilization of carryforward losses for which valuation allowance was provided in prior year	(458)	(31)	(728)
Elimination of valuation allowance for losses, reserves and allowances	-	-	(2,920)
Tax adjustment in respect of "Preferred Enterprise" status	(190)	(448)	(393)
Tax adjustment in respect of foreign subsidiaries different tax rates	160	205	197
Expense related to the election to release previously tax-exempted earnings under the Order described in Note 10b above	-	-	1,373
Stock-based compensation expense	92	67	59
Non-deductible expenses	171	53	53
Other	(3)	(85)	(36)
Actual tax expense (benefit)	$ 737	$ 1,351	$ (882)

h. The balance sheet at December 31, 2015 and 2014, include a liability for unrecognized tax benefits of $ 921, with respect to taxation of certain of the Company's income under foreign jurisdictions as well as certain limitations of the utilization of carryforward losses and taxes related to the Approved enterprise status in Israel. The Company recognizes interest accrued and rate differences related to unrecognized tax benefits as tax expense.

NOTE 10:- INCOME TAXES (Cont.)

i. The Company and its subsidiaries are routinely examined by various taxing authorities. A.V.T. Ltd. has received final tax assessments in Israel through 2011, the Company's tax year 2012 through 2014 remains subject to examination by the Israeli Tax Authorities.
As a result of net operating loss carryforwards, the U.S. subsidiaries tax years 2009 through 2014 remain subject to examination by the IRS for U.S. federal tax purposes and for tax years 2008 and forward for state purposes. There are tax years which remain subject to examination in various other jurisdictions that are not material to the Company's financial statements.

NOTE 11:- SHARE CAPITAL

a. General:

Ordinary shares confer upon their holders the right to receive notice of and to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

b. In 2003, the Company through a tender offer to all, purchased 1,890,752 shares at a cost of $15,933. Through December 31, 2013, a total of 623,000 treasury shares were issued to certain investors and 448,630 treasury shares were issued to employees as result of exercise of options made by them. As of December 31, 2015 and 2014, the Company hold 819,122 treasury shares.

On October 2, 2014, the District Court in Tel Aviv, Israel, approved the Company's request to allow the reduction of its capital by up to $12,000, after the Israeli Tax Authority informed the District Court that it does not object to the request. Therefore, subject to applicable Israeli law in respect of dividend distributions, the board of directors of the Company may opt to declare a distribution of dividends and/or adopt a share buy-back program, which will reduce up to $12,000 of the Company's capital.

c. Stock option plans:

Under the 2009 Israeli Incentive Plan, the Company is authorized to grant options to purchase Ordinary shares to its Israeli employees, non-employees directors and non-employees consultants. Under the 1999 Share Option and Incentive Plan and the 2000 Global Stock Option Plan, the Company grants stock options to non-Israeli employees, officers and non-employees consultants. Options granted pursuant to the three plans expire between six to ten years from the date of grant or upon termination of the optionee's employment or other relationship with the Company. The options generally vest over three to four years. Any options that are cancelled or forfeited before expiration become available for future grants.

U.S. dollars in thousands (except for share and per share data)

NOTE 11:- SHARE CAPITAL (Cont.)

A summary of the stock option activities in 2015 is as follows:

	Amount	Weighted average exercise price	Weighted average remaining contractual life	Aggregate Intrinsic value
Outstanding at January 1, 2015	492,265	9.27	4.89	
Granted	120,227			
Exercised	(56,147)			
Forfeited	(21,882)			
Outstanding at December 31, 2015	534,463	10.17	4.88	*) 675
Vested and expected to vest at December 31, 2015	468,790	10.02	4.69	**) 656
Vested at December 31, 2015	131,213	8.21	2.19	***) 418

*) Represents intrinsic value of 245,370 outstanding options that are in-the-money as of December 31, 2015. The remaining 289,093 outstanding options are out of the money as of December 31, 2015 and their intrinsic value was considered as zero.

**) Represents intrinsic value of 229,332 vested and expected to vest options that are in-the-money as of December 31, 2015. The remaining 239,458 vested and expected to vest options are out of the money as of December 31, 2015 and their intrinsic value was considered as zero.

***) Represents intrinsic value of 101,965 vested options that are in-the-money as of December 31, 2015. The remaining 29,248 vested options are out of the money as of December 31, 2015 and their intrinsic value was considered as zero.

As of December 31, 2015, $ 589 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.8 years.

The weighted-average grant-date fair value of options granted during the years 2015, 2014 and 2013 was $ 2.95, $ 2.25 and $ 2.09, respectively. The total intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013, was $ 350, $ 1,195 and $ 1,427, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 11:- SHARE CAPITAL (Cont.)

Following are the outstanding options by exercise price as of December 31, 2015:

	Outstanding			Exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
$			$			$
0	11,500	1.39	0	11,500	1.39	0
2.56-3.97	5,300	0.91	3.80	5,300	0.91	3.80
5.65-9.83	191,826	3.17	8.31	74,893	2.02	7.57
10.69-11.87	216,287	6.08	11.35	22,020	3.82	10.97
12.07-15.45	109,550	6.09	12.50	17,500	1.81	14.17
	534,463	4.88	10.17	131,213	2.19	8.21

The following table sets forth the total stock-based compensation expense resulting from stock options:

	Year ended December 31,		
	2015	2014	2013
Cost of revenues	$ 42	$ 27	$ 45
Research and development	64	60	60
Selling and marketing	59	41	72
General and administrative	181	124	60
Total stock-based compensation expense	$ 346	$ 252	$ 237

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 12:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted Earnings Per Share ("EPS"):

	Year ended December 31,		
	2015	**2014**	**2013**
Net income	$ 2,778	$ 4,625	$ 6,584
Weighted average number of Ordinary shares used in computing - Basic EPS	6,072,024	5,984,182	5,669,624
Dilutive effect:			
Employee stock options	68,267	114,738	220,747
Weighted average number of Ordinary shares used in computing - Diluted EPS	6,140,291	6,098,920	5,890,371
Basic earnings per share	$ 0.46	$ 0.77	$ 1.16
Diluted earnings per share	$ 0.45	$ 0.76	$ 1.12

The total numbers of options excluded from the calculation of diluted net earnings per share, as they would have an anti-dilutive effect were 310,860, 225,652 and 258,258 for the years ended December 31, 2015, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 13:- SEGMENT INFORMATION

The Company operates in one reporting segment; see Note 1 for a brief description of the Company's business.

Operations in Israel and the U.S. include research and development, marketing and sales. Operations in Europe include marketing, support and sales. The following is selected information according to geographic areas:

	Year ended December 31,		
	2015	**2014**	**2013**
Revenues based on the customer's location:			
United States	$ 22,230	$ 24,691	$ 23,083
Europe (other than Germany and Israel)	14,214	17,537	14,442
Germany	4,876	3,541	3,126
Israel	525	251	381
Other	9,644	8,090	9,466
	$ 51,489	$ 54,110	$ 50,498

	December 31,	
	2015	**2014**
Long-lived assets by geographic location:		
Israel	$ 882	$ 757
United States	449	491
Europe	135	21
	$ 1,466	$ 1,269

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 14:- SELECTED STATEMENT OF INCOME DATA

a. Revenues:

	Year ended December 31,		
	2015	**2014**	**2013**
Revenues:			
Products	$ 40,497	$ 42,273	$ 39,301
Services	10,992	11,837	11,197
Total Revenues	$ 51,489	$ 54,110	$ 50,498

b. Financial income (expense), net:

	Year ended December 31,		
	2015	**2014**	**2013**
Financial income:			
Interest	$ 129	$ 121	$ 115
Foreign currency translation differences, net	-	55	24
	129	176	139
Financial expenses			
Bank charges and other	158	148	203
Foreign currency translation differences, net	373		
Expense related to valuation of future earn-out payment	144	-	-
	675	148	203
	$ (546)	$ 28	$ (64)

NOTE 15:- SUBSEQUENT EVENT

a. On March 1, 2016, the board of directors has resolved to distribute an extra-ordinary gross dividend of $0.75 per share which will be paid on March 22, 2016.

b. In February 2016, one of our customers in the United States, filed a lawsuit against our wholly-owned subsidiary AVT Advanced Vision technology Inc. claiming for breach of contract and consequential damages. The Company's management believes that the complaint is without merit and intends to contest it vigorously. However, since the lawsuit is in the early stages, the Company is unable to predict the final outcome of this lawsuit. No provision has been made in respect to this claim.

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Report of the Board of Directors

Dear Shareholders,

In 2015, we saw continued indications for increasing demand for our products. We finished 2015 with record order bookings and backlog. Having said that, 2015 results were heavily impacted by the exchange rate effects of the Euro against the US Dollar. The weakness of the Euro vs. U.S. Dollar exchange rate was the main reason for the updated projections for the 2015 calendar year we announced during Q2 2015.

In the beginning of July 2015 we signed an agreement with Erhardt & Leimer ("E+L") establishing our strategic alliance with E+L which also entail the acquisition of its print inspection assets. We are very excited about this alliance which will strengthen our offerings to our customers and the breadth of our solutions. We expect this deal to positively impact revenues and profits as of 2016.

On the Digital front, we signed a number of new OEMs for our unique Jet-IQ solution and are continuing to work on expanding that base.

During 2015 the Board of Directors performed its duties as outlined by the law and according to corporate governance prevailing in the State of Israel. As part of our duties, we have supervised the ongoing conduct of the Company's management and were informed, at the Board of Directors' meetings, of business developments and material corporate issues related to the Company and its subsidiaries.

In light of the Company's level of cash reserves, the board of directors has resolved on March 1, 2016, to distribute an extra-ordinary gross dividend of $0.75 per share.

For 2016 we have a plan that will generate further top line growth while putting more emphasis on executing our strategic plan with respect to both expansion of our print application coverage and extension of the breath of our solutions.

As of December 31, 2015, the Board of Directors consisted of 6 members, including 2 external Directors. Board meetings focus, among other things, on overseeing the activities of management, setting business priorities, strategies for profitable organic and non-organic growth (such as the E+L transaction), corporate governance, financial oversight and reporting and business development.

In compliance with the Israel Companies Law, the Board of Directors has an Audit Committee, which consists of 3 Board members, the 2 external Directors and an additional Director who meets the independence criteria under the Israel Companies Law. The Audit Committee is responsible, among other things, for(a) identifying flaws in the management of the Company's business, making recommendations to the Board as to how to correct them and providing for arrangements regarding employee complaints with respect thereto; (b) reviewing and considering certain related party transactions and certain actions involving conflicts of interest; (c) reviewing the internal auditor's performance and approving the internal auditor's work plan and examining the Company's internal control structure and processes; (d) examining the external auditor's scope of work as well as the external auditor's fees and providing its recommendations to the appropriate corporate organ; and (e) overseeing the accounting and financial reporting processes of the Company. In addition, the Board of Directors has a Compensation Committee of three Directors, including both External Directors. The responsibilities of the Compensation Committee include periodically reviewing the implementation of the Company's compensation policy and providing the Board of Directors with recommendations with respect to any amendments or updates thereto, and reviewing and resolving whether or not to approve arrangements with respect to the terms of office and employment of officers and directors, including with respect to bonuses, equity-based awards and other forms of compensation.

During 2015, we held 12 Board of Directors meetings, 4 Audit Committee meetings and 9 Compensation Committee meetings. All Board of Directors meetings consisted of a legal quorum of more than four attendees and the Audit and Compensation Committee meetings were attended by at least 2 Directors, as required by Israeli Law.

The management of the Company prepared the annual consolidated Financial Statements in accordance with US GAAP. The consolidated balance sheets of the Company and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the three years ended December 31, 2015, were audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

At the Audit Committee meeting held on February 28, 2016 and at the Board of Directors meeting held on March 1, 2016, both of which were attended by the Company's auditors and legal counsel, we discussed the 2015 Financial Statements and resolved to approve the Annual Report.

I would like to thank our customers for their business and for their continued confidence in AVT and to our management team, employees, partners and suppliers for their hard work and contribution to our growth and success.

Hod Hasharon, March 1, 2016

Very truly yours,

Dan Falk

Dan Falk
Chairman of the Board of Directors
Advanced Vision Technology (AVT) Ltd.