Unitronics (1989) (R"G) Ltd

Periodic and Annual Report for 2019

On January 1, 2020, the Company announced that it was back to the definition of "small corporation", as defined in this Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "Regulations") and in light of the above, and in accordance with the Company's Board of Directors resolution In this regard, the Company will continue to apply all the reliefs it has implemented to date as a small corporation, and are specified in Regulation 5D of the Regulations. The above mention is a generalization on the way of referral.

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Chapter A – Description of the Company's Business (Regulation 8A of the Securities Regulations (Periodic and Immediate Reports) 1970)

The Company is hereby pleased to present the 2019 Periodic Report which includes a description of the Company and the business development thereof, for the twelve-month period ended December 31, 2019. The financial data contained in this report is denominated in NIS unless otherwise specified. The data is current as of December 31, 2019, unless otherwise specified.

Part I – Description of the general development of the Company's business

1.1 Company's activity and description of its business development

The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 1983 (hereinafter: "**the Companies Ordinance**"). In July 1999 the Company became a public company as such is defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed for trading on the Euro. NM Belgium stock exchange in Belgium. In 2000, following the establishment of the Euronext stock exchange in Belgium, trading of the Company's shares was moved to this stock exchange. In May 2004 the Company published a prospectus in Israel according to which shares and other securities of the Company were listed for trading also on the Tel Aviv Stock Exchange (hereinafter: "**the Stock Exchange**").

On July 30, 2017 the Company completed the process of delisting its shares from the Euronext Stock Exchange in Brussels, Belgium, and listing said shares on the Stock Exchange, pursuant to the approval of, and in coordination with, the Euronext Stock Exchange and the Financial Services and Markets Authority (FSMA) in Belgium. For details regarding the procedure, the timetables and the Company's undertakings in connection with the foregoing, see immediate report dated June 6, 2017 on an event or matter outside the ordinary course of the corporation's business, Reference No. 2017-01-047806, as amended in immediate report dated June 20, 2017, Reference No. 2017-01-051619, included herein by reference and from July 31, 2017, Reference No. 2017-01-065935, included herein by reference.

Until March 12, 2019 (hereinafter: the "**Date of the Split**"), the Company operated in two main segments of activity, the product segment and the automated solutions segment. From the Date of the Split, the Company operates solely in the product segment and the activities thereof in the field of automated solutions have been transferred to Utron Ltd. (hereinafter: "**Utron**"), a company controlled by the controlling shareholders of the Company, as described in section 1.3.2 below (hereinafter: the "**Split**"). As part of the Split, the Company, on its own initiative, repaid all the outstanding Debentures (Series 5), as specified in section 1.3.2 below.

The Company is engaged in the design, development, production, marketing, sale and support of Programmable Logic Controllers (PLC's) (hereinafter: "**Controllers**"). Controllers are computer-based electronic products (hardware and software) used to command and control machines which perform automated operations, such as manufacturing systems and other automated installations in various fields.

The Company operates mainly from office and industry buildings in Airport City near the David Ben Gurion Airport (for further details see section 1.12 below).

1.2 Subsidiaries, related companies and holding structure diagram

Until the Date of the Split, the Company held three wholly-owned active subsidiaries and one active second tier subsidiary wholly owned by the Company (hereinafter: "**the Subsidiaries**"):

Unitronics Inc., wholly owned subsidiary of the company, which is incorporated in the United States (Delaware) (hereinafter: "**Unitronics Inc.**") and engages primarily in coordinating and running the Company's Products segment marketing and distribution operations in the United States and Canada.

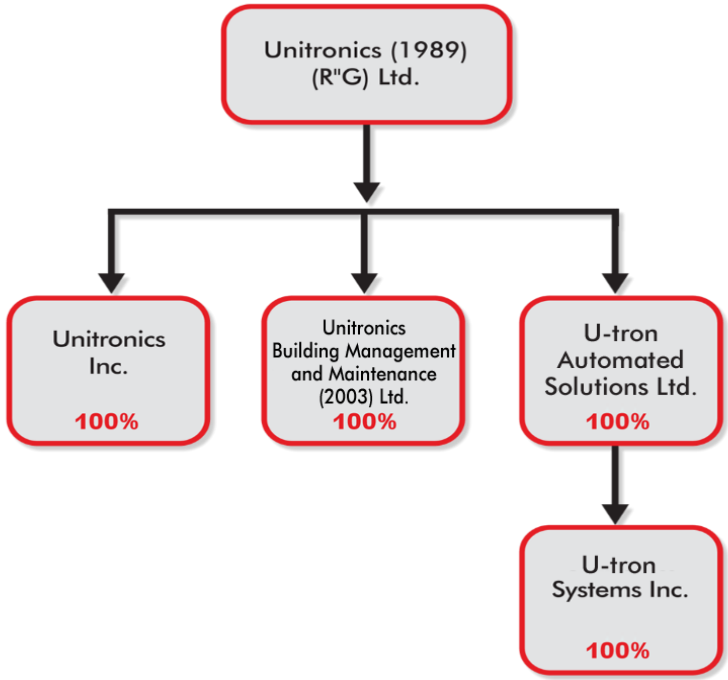
Unitronics Building Management & Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), wholly owned subsidiary of the company, which is primarily engaged in the management and maintenance of the Unitronics Building.

Utron Automated Solutions Ltd. (formerly: "Unitronics Automated Solutions Ltd and hereinafter: "**Utron Solutions**"), a wholly owned subsidiary of the Company, which coordinates the Company's automated solutions, including autonomous parking facilities and logistics systems.

Utron Systems Inc. (formerly: Unitronics System Inc., a wholly owned subsidiary of Utron Solutions), which is incorporated in the United States (Delaware) (hereinafter: "**Utron Systems**") and engages primarily in coordination and management of marketing, distribution and installation activities in the autonomous parking systems business in North America.

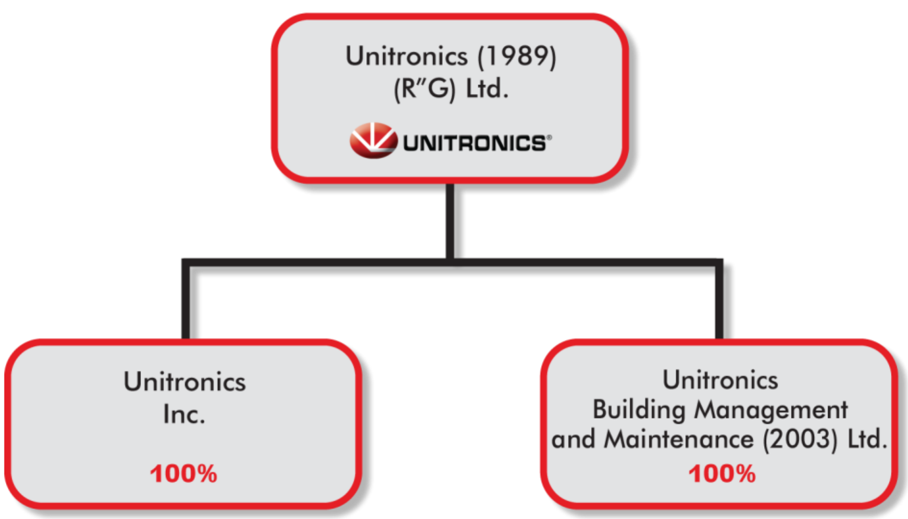
For further details see section 1.20 and section 1.21 below.

Below is a diagram of the holding structure of the Company and its active subsidiaries until the Date of the Split:



On the date and as part of the Split, Utron Solutions plus all of its operations and assets, including its holdings in Utron Systems, were transferred to Utron.

Following is a diagram of the structure of the holdings of the Company and the active subsidiaries following the Date of the Split:



1.3 Operating segments; the split

1.3.1 Operating segments

As aforesaid, until the Date of the Split, the Company operated in two main areas of activity, as follows:

Products segment: Design, development, manufacture, marketing, sale and support primarily of PLCs of various models that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs and software for the PLCs. The PLCs are primarily intended for management of automatic systems including industrial automation, logistics systems, automated parking facilities, for management of production floors and additional auxiliary items. In 2019, the Company expanded its product line and also started to market and sell Motion controllers which interface in an integrative and simple manner with the Company's PLC's. For details see section 1.9.9.2 below

This activity is carried out by the Company and through Unitronics Inc. The Company's PLCs and services are marketed and sold via an internal marketing and sales network of the Company through Unitronics Inc., and through a distributor network of approximately 200 distributors, 120 of which are in the US and in North America, and in approximately seventy countries (including Israel) mainly throughout Europe, Asia and South America.

Automated Solutions segment**:** For further details, see section 1.10 below. The Company ceased operations in this segment from the Date of the Split.

1.3.2 The Split

On August 19, 2018, the Company's board of directors adopted a resolution to review in principle a split of the Company's operations through a Split Prospectus and listing for trade on the Stock Exchange (hereinafter: the "**Split Prospectus**"), such that the Company will transfer its operations in the Automated Solutions segment to Utron, a company controlled by the controlling shareholders of the Company.

Further to this resolution, on September 6, 2018, the Company filed a motion in the Tel Aviv-Jaffa District Court for the approval of the Split pursuant to Article 303(a) of the Israeli Companies Law, 5759-1999.

For further details on the board of directors' resolution, see Immediate Report on an event or matter outside the ordinary course of the corporation's business, dated August 20, 2018, Reference No. 2018-01-077146, included herein by reference. For further details regarding the petition for the approval of distribution, see Immediate Report on the petition to court for the approval of distribution, dated September 6, 2018, Reference No. 2018-01-083341, included herein by reference. For further details, see also Information provided in a Debenture Holder Meeting dated October 7, 2018, Reference No.: 2018-01-089152, and Immediate Report on the Presentation to the Debenture Holders, dated October 7, 2018, Reference No. 2018-01-089158, which are included herein by reference.

On October 10, 2018, the meeting of Company debenture holders (Series 4) decided to instruct the Debenture Trustee not to oppose the distribution of the Company by way of splitting and transfer of operations to a new company held by trust for the Company's shareholders. For further details, see Immediate Report on the outcome of the meeting dated October 10, 2018, Reference No. 2018-10-095265, included herein by reference.

On October 25, 2018, the Trustee for the debentures (Series 5) notified that the debenture holders (Series 5) do not express any opinion in respect of the Company's motion for approval of distribution, as they were unable to carry out the voting due to absence of required legal quorum. for further details , see Immediate Report from the Bond Trustee dated October 25, 2018, Reference No. 2018-01-097000, which is included herein by reference. Following additional proceedings to obtain the opinion of series 5 debentures holders which failed (for details see section 2.9.3 in Chapter B of this Periodic Report), on February 12, 2019, the Board of Directors decided on early repayment, at the Company initiative, of the debentures (Series 5), subject to receipt of approval from the Court for the Company's motion to perform distribution by way of splitting its activity; for additional details, see Immediate Report on an event or matter outside the ordinary course of the corporation's business dated February 13, 2019, Reference No. 2019-01-014346, included herein by reference. As part of the Split, the Company repaid all of the outstanding debentures (Series 5) on April 1, 2019, as specified below in this section.

On February 19, 2019 a court verdict was issued approving the distribution subject to Company-initiated early repayment of Series 5 debentures, as detailed above, which will be performed close to the execution of the distribution; for further details, see Immediate Report on an event or matter outside the ordinary course of the corporation's business, dated February 20, 2019, Reference No. 2019-01-015945, included herein by reference. For further details of the transfer of proceeds of the early repayment to the trustee's account and the repayment of the debentures, see the Immediate Report of March 12, 2019 (Reference no.: 2019-01-021013). For further details of the loans taken by the Company, see the Immediate Report of March 3, 2019 (Reference no.: 2019-01-018444). For the report of the Trustee of the debentures (Series 5), see the Immediate Report of June 23, 2019 (Reference no.: 2019-01-052755). All the aforesaid Immediate Reports are hereby included herein by way of reference.

On February 28, 2019, The Company and Utron published the Split Prospectus pursuant to which the split will take place (Reference No.: 2019-01-017856) which came into effect on the Date of the Split. Within the framework of the split, each shareholder of the Company received Utron shares at a quantity equal to the quantity of the Company shares which each shareholder held on March 10, 2019 (assuming that the shareholder did not acquire the share on that date), which is the closing date (except for the Company itself, which holds its own dormant shares which did not grant the Company any right to Utron's shares). For further details, on the splitting procedure and the agreements signed with the Company on this matter, see Chapter 2 and Chapter 8 in the Split and Listing for Trading Prospectus dated February 28, 2019 published by the Company and Utron (Reference No. 2019-01-017856), included herein by reference. For details on the completion of the split see Immediate Report on an event or matter outside the ordinary course of the corporation's business dated March 12, 2019, Reference No. 2019-0102137, included herein by reference. Within this framework, the Company's activity of Automated Solutions was transferred to Utron. Additionally, The

Company and Utron entered into agreements to regulate the split and the services and other relations between the companies following the split, as detailed in Section 1.14.6 below. In addition, as mentioned above, the Company undertook to repay all the debentures (series 5) on trading and also transferred the early repayment consideration to a trustee account in the name of the Debentures (Series 5) Trustee.

1.4 Investments in the Company's capital and transactions with its shares

From January 1, 2017 until the publication date of this report, no investments were made in the capital of the Company, and, to the best of the Company's knowledge, no other material transaction was carried out with the Company's shares by an interested party in the Company outside the Stock Exchange.

In August 2018, an investment agreement was signed between the Company and Utron Solutions according to which any amount which was transferred and will be transferred from the Company to Utron Solutions, as of 1.1.2018, was used and will be used as the receipts of the Company on account of investment in the share capital of Utron Solutions which will be converted into share capital of Utron Solutions close to the Date of the Split. During 2018, the Company invested in receipts on account of shares in Utron Solutions in a total sum of NIS 23,578 thousand as well as a sum of NIS 1,604 thousand, from 31.12.2018 and until the Date of the Split, sums which were converted, as mentioned above close to the Date of the Split to the share capital and premium of Utron Solutions. In addition, close to the Date of the Split, a loan in the amount of NIS 120,081 thousand of the Company to Utron Solutions was converted to the share capital and premium of Utron Solutions.

1.5 Dividend distribution

The Company has neither distributed nor declared the distribution of dividends since it was established.

The balance of distributable earnings under the law as at December 31, 2019 and the date of publication of this report is approximately NIS 2.15 million.

On February 23, 2014, a resolution was passed by the Board of Directors of the Company with regard to the adoption of a dividend distribution policy as of the date of approval and publication of the financial statements as of December 31, 2013. The Company will distribute to its shareholders a dividend of 33% of the net profit attributable to the Company's shareholders in accordance with the audited consolidated annual financial statements of the Company (not including gains deriving from the revaluation of assets) (hereinafter: the "**Profit**") exceeding NIS 3 million, subject, inter alia, to the provisions of the law, financing requirements, business plans and obligations to the holders of the debentures (Series 4 and 5) (as part of the Deed of Trust of the debentures (Series 4 and 5) the Company has undertaken not to distribute a dividend in excess of 30% of the annual (calendar) net profit as long as there are outstanding debentures). The distribution of the dividend is subject to the decision of the Board of Directors of the Company.

As part of the loans received from a banking corporation, the Company has undertaken not to distribute a dividend to shareholders without the consent of the Bank (see Note 13A (2) to the 2019 consolidated financial statements - Chapter C of this Periodic Report)..

For details on the petition the Company filed to approve distribution against the background of the split, as mentioned in Section 1.3.2 above, see Immediate Report on the petition filed to the court to approve distribution dated September 9, 2018, Reference No. 2018-01-083341, which is included herein by reference. As mentioned in the above section, the Company Board of Directors made a resolution on February 12, 2019 to perform early repayment, at the Company's initiative for Debentures (Series 5) subject to approval received from Court for the Company's request to perform distribution by way of splitting the Company's activity, as mentioned in the Immediate Report on matters exceeding the ordinary course of business, dated February 13, 2019, Reference No. 2019-01014346; and on February 19, 2019, verdict was received approving the execution of the distribution, subject to the early repayment of the debentures, at the Company's initiative, as detailed above, which will be performed close to the execution of the distribution, as mentioned in the Immediate Report on an event or matter outside the ordinary course of the corporation's business, dated February 20, 2019, Reference No. 2019-01-015945; For further details with regard to the transfer of the proceeds of the early repayment to the trustee's account and the repayment of the debentures, see the Immediate Report of March 12, 2019, Reference no.: 2019-01-021013) on the matter or event which deviates from the ordinary business of the corporation. For further details of the loans taken by the Company in connection with the resolution of the Board of Directors with regard to the early repayment of the debentures (Series 5) on the initiative of the Company, see the Immediate Report of March 3, 2019 (Reference no.: 2019-01-018444). These reports are included herein, by way of reference.

Part II – Other Information

1.6 Financial information on the Company's business activities

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS thousands		
Revenues	137,545	134,946	123,160
Costs:			
Fixed**	64,748	62,789	52,008
Variable***	59,810	57,813	54,778
Total	**124,558**	**120,602**	**106,786**
Profit from ordinary activities	**12,987**	**14,344**	**16,810**

* Consistent with the financial statements
** Expenses that do not change as a result of changes in the Company's scope of activities
*** Expenses which change as a result of changes in the Company's scope of activities

For an explanation regarding the developments in each of the aforementioned data, see section 2.2.2 in Chapter B of this Periodic Report

1.7 General environment and impact of external factors on Company's activity

Industrial automation is being implemented in a variety of industries, including process industries (the food, drink, pharmaceuticals, chemical, paper and fuel industries), production systems (production machinery, automated tools), energy production systems (power stations of all kinds), logistics systems (storage, conveying and distribution systems) building control systems (air conditioning, heating, energy control, access control, warning and security systems), transportation systems (vehicles, aviation and shipping, traffic control), autonomous parking facilities, etc. The Company believes that the need for automation is attributable, among other reasons, to the increasing complexity of industrial processes; the increase in the volumes and types of activities and the information required to manage them; the aspiration to improve the efficiency of processes (optimization) and to increase the availability of resources while implementing safety rules; and the desire to economize on manpower and manual intervention. Automation products are intended to address these needs, including rapid response to the changing needs of the market, simplicity of design and of operation, connectivity to organizational management systems (ERP), high reliability and time between malfunctions (MTBF), high availability, as well as savings and efficiency.

For an analysis of the general environment, as well as general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several sources. These sources include, among others, market studies and articles by Technavio (http://www.technavio.com), by ARC Advisory Group (http://www.arcweb.com) and, by IHS Technology (https://technology.ihs.com) (summaries accessible to the public on the website),and by the International Parking Institute (hereinafter: "**IPI**") (http://www.parking.org). Hereinafter, wherever this report relies on the above market studies, this fact will be explicitly stated.

The Company's management estimates that product segment is affected by the growing need for application of automation stemming from the factors explained above – on the one hand, and by the state of the global and local economies and their general impact on the various industries – on the other hand.

Additional trends in the global automation market as reflected in the abovementioned market studies are the economic growth and accelerated industrial development of certain geographic regions of the world.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks and their manner of management, see section 1.22 below. For a discussion of information concerning the general environment and external factors, see section 1.9 below.

Part III – Description of the Company's business by operating segments

1.8 Overview

Until the Date of the Split, the Company operated in two business segments: the Products segment and the Automated Solutions segment; In 2018, the Company started the restructuring and on the Date of the Split it completed the Split and ceased its activities in the automated solutions segment, as specified in section 1.3.2 above.

In the Company's activities in all segments up to the Date of the Split, parallel use was made with many common systems as specified in Part IV below..

1.9 The activity segments of the Company (the products segment)

1.9.1 As aforesaid, as of the Date of the Split, the Company operates only in the products segment, whereas the results of the automated solutions field are presented as results of discontinued activities.

1.9.2 Structure of the operating segment and changes therein

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part, of the PLC, or its "brain") and the interface components (HMI – Human-Machine Interface) intended to allow the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC, with no prior knowledge of programming required. As aforesaid, the Company has recently expanded its product line and has also started to market Motion controllers which interface in an integrative and simple manner to the company's controllers.

1.9.3 Legislative restrictions, regulations and constraints applicable to the operating segment

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general in nature intended for the field of electronics and some more specific to the field of control and automation. In this context the relevant standards are mainly EN 61131-2: 2007 that deals with PLC requirements (concerning electromagnetic compatibility and safety aspects), and American and Canadian safety standards (such as the UL/cUL 508 or UL/cUL 61010 standard and ISA-12.12.01 – Hazardous Locations).

In addition, in recent years the Company has witnessed a growing trend on the part of authorities in both Israel and abroad to legislate regulations designed to protect the environment.

For details regarding compliance of the Company's products with these standards and the Company's assessments in this regard, see sections 1.9.21 and 1.9.22 below.

1.9.4 Changes in the scope of operations and profitability of the segment, developments in the segment's markets and changes in the segment's attributes

According to the IHS Report for 2017 (hereinafter: "**the IHS Report**"), the global PLC market was estimated at $8.5 billion in 2017 and is expected to reach $9.5 billion by 2021, whereas in accordance with the Technavio Report of August 2018, the global PLC market is expected to grow by approximately $3.92 billion between 2018-2022, at an average growth rate of almost 6% per year during this period.

Most sources similarly identify several trends:

(a) Classification of PLCs by size and properties: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as:

- Nano PLCs also known as Smart Relays;
- Micro PLCs also known as Compact PLCs;
- Small PLCs and medium PLCs together also known as Modular PLCs;
- Large PLCs also known as High-End Modular PLCs.

As stated in section 1.9.9 below, the Company focuses in the Products field on nano, micro, small and medium PLCs (and does not focus on large PLCS), that have, based on the sources cited above, the highest relative growth rates.

(b) Areas of application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different market development rates projected for the coming years in different industrial fields and for different types of customers.

(c) Geographic breakdown: A study of the geographical distribution of sales of PLCs around the world in recent years, according to the IHS Report, shows that in 2018 China surpassed the US for the first time with an activity volume of approximately $1.7 billion..

In the past few years the PLC market has displayed steady growth, and the various market surveys indicate forecasts for continued growth in this market together with great competition, which is also expected to grow and expand into different areas. Pursuant thereto, the Company estimates that a trend is evident of switching to the use of decentralized systems based on smaller controllers on which the Company is focusing its activities..

1.9.5 Technological changes which could have a material impact on the operating segment

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, and between PLCs and smartphones and tablets – using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in various sizes and the use of touch screens as a means of man-machine communication in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), incorporation of convenient and user-friendly interfaces (such as different-sized color and touch screens) in the body of the PLC, and built-in communications capabilities as detailed in sections 1.9.9.1 and 1.9.11 below.

1.9.6 Critical success factors in the operating segment and changes therein

The Company estimates that the primary success factors in the PLC sector include, among others, the availability of a range of products addressing market demand and trends; a robust, flexible programming environment designed to enable quick and easy realization of customer automation and control requirements; functional reliability of the products; competitive prices reflecting appropriate cost-benefit ratios; high standard of service and support promoting image and customer loyalty; and an extensive distribution infrastructure capable of providing a global response.

1.9.7 Main entry and exit barriers in the operating segment and changes therein

The Company estimates that the primary entry barriers to the PLC field include, among others, the duration of the development processes of the technologies underlying the PLCs and the significant time spans and complex penetration processes related to the integration and/or replacement of a PLC in a specific machine or application. The Company estimates there are no material exit barriers from the segment.

1.9.8 Substitutes for the products of the operating segment and changes therein

The field of industrial PLCs includes PLCs manufactured by different companies, as detailed in section 1.9.14 below. By its nature, a programmable industrial controller requires modification and programming actions that are usually performed by the client or an integrator on his behalf, in order to adapt it to the task it is designated for. It is therefore not possible to point out products that constitute an immediate, direct substitute for the Company's products, and in any event the client has to make adjustments, program, and usually also make electric and mechanical adjustments in order to use other PLCs.

1.9.9 Products and services

The Company's main products include PLCs of various series, external expansion units and software programs:

1.9.9.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinate the range of command, control, and communications operations executed by the PLC. The Company's PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of PLCs (number and type of connectable devices) define their dimensions, as specified in the table below

The PLCs' I/O capabilities may be expanded using external expansion units, thereby upgrading its functioning (as detailed below).The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GPRS, and others).The communications capability of the PLCs is intended to enable tracking, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.), but also from other stations, including the management offices or even from outside the organization's premises, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, to the organization’s planning and control levels (including raw materials inventory planning, finished products etc.) to the senior management or even people outside the organization. Below are major characteristics which distinguish between the above PLC categories:

Traditional classification	**Nano PLCs**	**Micro PLCs**	**Small PLCs**	**Medium PLCs**
Alternative classification	**Smart Relays**	**Compact PLCs**		**Modular PLCs**
Major relative advantages	Highly compact; low cost; suitable for control and automation of only the most basic tasks	Efficient price/ performance ratio; suitable for control of simple tasks and operation of relatively simple equipment	Larger I/O capacity and stronger supporting software, in a relatively compact package; suitable for command and control of complex automation tasks	Capacity to process large input volumes and control multiple inter-connected automation components
Major industrial applications	Simple industrial automation tasks, scheduled building controls, environmental systems (irrigation, air conditioning, etc.), safety systems	Micro PLCs, small PLCs and medium PLCs are typically used to control simple and complex automation tasks in most industrial applications, including in the automotive, food processing, chemical, pharmaceutical, metals, mining, paper, plastic, conveyance systems, packaging and other industries.		

The Company’s products focus on a range of up to tens of integral I/O points per individual PLC, with the ability to expand by tens to hundreds of additional points (up to 2,000 in the UniStream™ product range), using external expansion units and communications networks.

The main series of PLCs and expansion units manufactured by the Company include alpha numeric nano and micro PLCs (M91 and Jazz® series) and different-sized graphic PLCs (Samba™, Vision™ and UniStream™ series) with monochromatic or color touch-screens, external expansion and other accessories (such as cables, adapters, etc.).

The Company's PLCs are considered to be advanced technology products among the target audience – control engineers and machine builders. A validation of this is that the Company has been awarded the Engineers' Choice Award by Control Engineering magazine (www.controleng.com) for several years in succession (starting in 2012, a different product each year). This is an annual contest run by one of the most prestigious magazines in the United States in the field of controllers during which the readers themselves select products divided into several categories from a list of products launched in the same year. In 2019, for example, the UniStream™ PLC of the Company with a built-in screen and built-in I/O units was selected as the winner after having received the highest number of votes.

1.9.9.2 MOTION

The Company markets and sells products in the drive control segment and focuses on this segment primarily with frequency drives (VFD) and servo systems.

A frequency drive is a component which receives alternating current from an electrical network at a specific frequency and redistributes it at the desired frequency to control the speed and torque produced by electric motors in various applications and processes in industry. These products are commonly used in pumps, fans, compressors, etc.

Servo systems are "closed circuit" control systems (the need to receive constant feedback to correct runtime errors and fast response rates), a characteristic which distinguishes them from the frequency drive. These systems contain a servo drive and a servo motor. Common applications for this product are: various packaging, conveyance and raw material processing machinery, laboratory automation equipment as well as food and beverage machines. The Company markets AC-powered amplifiers, interfacing with industrial communications controlled by the PLC's of the Company as well as servo motors with absolute and incremental high resolution encoder location sensors.

1.9.9.3 Software

The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. Recently, as part of the expansion of the Company's product portfolio, the Company developed an integrative environment designed to enable these tools to also be used to program and configure the Motion solutions marketed by the Company in a simple and easy manner, which can simplify the integration process thereby preventing the need to be familiar with and to use the other software tools used by the customers up till now. The Company's main software programs of this type the UniLogic® software which serves PLCs from the UniStream® series only – as well as the U90™ and VisiLogic® software of the Company which serve the other PLC series of the Company. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is supposed to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various formats, and adaptation of the display to the varying conditions of the process being controlled (e.g. changing displays according to progression of manufacturing process along an industrial production line).

In addition, the Company provides programming tools for addressing additional needs, such as reading stored information from the PLC to electronic datasheets, connecting the PLC to communications networks, and remote control. The software package also includes a soft copy of operating instructions, the PLC software programs, documentation of the technical specifications of the product, and associated documentation data.

1.9.9.4 Trends and changes

The Company's PLC's are focused on the nano PLC segment, micro PLCs and small and medium PLCs. This sector is characterized in the market surveys described above as the market segment with the highest growth rate. At the same time, this market segment is highly competitive and prices of products therein are on a downward trend of market prices (see also section 1.9.4 above).

In addition, the Company has started to offer MOTION controllers with an emphasis on added value which is reflected by the simplicity of programming using the UniLogic® software of the Company and the complete integration of all the automation components offered by the company.

The Company invests in the development of new products designed to meet the changing needs of customers in the automation market. These products replace and are intended to continue replacing the Company's older products and are also intended to open new opportunities and markets for the Company.

1.9.9.5 Services

Services of the company in the Products segment comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services locally and abroad for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the use of the products and/or troubleshooting. Calls to the support team usually originate from the Company's distributors (see section 1.9.12.1.1 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad).These calls are processed by support staff, with the involvement of the Company's lab, development and marketing staff as necessary.

1.9.10 Revenue breakdown and profitability of products and services

The various series of the Company's major products contribute to the Company's profitability in a manner which shows no material difference between each series. There were no material changes in the profitability of the Products segment in the years 2017, 2018 and 2019.

Below are details of the revenues and gross profit rates of the Company in the Products segment for the indicated periods:

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Income (amount and percentage of consolidated revenues)	137,545 (100%)	134,946 (100%)	123,596 (100%
Gross profit (amount and percentage)	58,738 (42.7%)	59,723 (44.3%	52,940 (42.8%)

1.9.10 New products

During the reported period, the Company has been engaged, and intends to continue engaging, inter alia, in activities for the development of additional series of controllers and/or new control products and/or expanding the capabilities and functionalities of the current series of controllers, designated to enable the Company to provide to its customers products and capabilities which are not within the existing product range of the Company, and using technologies that allow more advanced performance[1]. These products, which are in various stages of development (some of them in the initial stages and others in more advanced stages, about to be launched on the market) are planned to include additional products that will allow for the expansion of the product line and were intended to present the Company with new opportunities. During the year 2019, the company launched, inter alia, the Servo product line in the automation segment, the Unistream™ PLC, which is an expansion of the Unistream™ line, in which the PLC of the Company was designed, for the first time, to support the capabilities of a virtual screen and a large variety of Remote IO units without an integral screen.

These development efforts require the allocation of significant resources, primarily in the area of human capital, as well as the study and assimilation of new platforms and technologies. For information on the Company's development expenditures, see section 1.9.16 below.

[1] The information regarding the dimensions that are not within the Company's existing product range is forward-looking information. The main data serving as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in sections 1.7 and 1.9.4 above, the analysis of market requirements and customer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments regarding the costs of the research and development that would be required to finance the execution of the developments, and also the tough competition existing in the industry, as specified in this Report. The main factors which could cause this information not to materialize are the rates of investment that would be required in these operations, which could significantly overrun the Company's budgets in these subjects, limitations in the ability to commercialize these technologies at competitive market prices, or at all, the absence of the development of markets and a consumer culture suited to using the technologies developed, and the superior financial and technological means available to a considerable part of the Company's rivals, and all of the foregoing in addition to the general risks as set forth in section 1.22 below.

1.9.1.1 Customers

The direct customers of the Company are mainly distributors bound to the Company by distribution agreements (see section 1.9.12 below).The end customers are generally manufacturers of PLC-controlled industrial machines or automation solutions implements in a range of various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries and others. These machines or automation solutions are controlled by PLCs and are intended for the automation of defined tasks such as packaging, for specific operations on production lines, etc. The machine manufacturer or the automation solutions implement purchases PLCs suitable for the machine he is producing or the project he is implementing, installs the Company's PLCs in them, and markets it to his customers, who will integrate it in the production line or in other automatic applications that will be controlled and managed by the Company's PLCs. In general, the Company has no direct contact with end customers, who are in direct contact with the various distributors for customization, installation, warranty, and the like.

1.9.11.2 During the reporting period, the Company did not have a customer the income to the Company of which accounted for 10% or more of the income of the Company in accordance with the 2019 consolidated financial statements - Chapter C of this periodic report in the Products segment.

1.9.12 Marketing and distribution

The Company’s products and services are marketed and sold through the Company’s internal marketing and sales network, and via Unitronics Inc., as well as through a chain of distributors comprising about 200 distributors (of which 120 are in the United States and North America) in about seventy countries (including Israel) primarily throughout Europe, Asia and South America. In addition, in the United States only, the Company uses independent sales representatives to help in representing the company's products and services in front of the distributors and end customers in the United States.

1.9.12.1 The internal sales and marketing staff of the Company: The marketing team maintains direct contact with the current and future users of the Company's products and services, follows-up, re-nourishes and fosters customer relations, as well as locates business opportunities for the internal sales and marketing team of the Company and also coordinates and guides the activity of the Company's network of distributors, on an ongoing basis as well as at central events such as conferences, courses and training sessions held by the Company at its own facilities or at the distributors’ facilities. The Company likewise maintains a technical support team providing support services prior to and for the purpose of purchasing the Company’s products (mainly advice for the customization of products to the specific needs of each inquirer) and post-purchase training and technical support for assimilation of products and/or troubleshooting. Inquiries to the support team usually come from the Company’s distributors, from direct end users and from indirect end users (who purchased the Company’s products from distributors in Israel or abroad).These applications are processed by support staff and, if required, also with the involvement of the Company's development and sales staff.

1.9.12.2 Distributors: The Company's agreements with its distributors generally confer distribution rights (and in some cases exclusive rights) in defined territories (subject to the Company's right to sell by itself and/or through subsidiaries and/or pursuant to comprehensive agreements for setting up systems), for limited periods (usually one year), renewable subject to meeting specific minimum sales or at the Company's discretion in the event the distributor fails to meet said minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to a fixed price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 90 credit days, and from some requires collateral such as a bank guarantee or letters of credit (except in the United States). These agreements may generally be terminated at any time by a 30 to 90 day notice of either party, and are generally governed by Israeli Law and subject to the jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for the settlement of disputes.

The Company does not pay commission to its distributors, and the latter generate their profits from the difference between the purchase price and the selling price to the end customer. The Company suggests a recommended selling price to the distributors, but does not require them to charge these prices. The distributor is generally required to provide end users with a warranty period of 24 months.

The Company's distributors may not return products. Under the products' warranty, non-functioning products during the warranty period are either repaired or replaced. It should be noted that in actuality, the quantity of the replaced products is not material (for details on revenue recognition in the Products segment, see Note 2 section O) to the consolidated financial statements for 2019 – Chapter C of this Periodic Report).

1.9.12.3 Independent sales representatives (hereinafter: "**the reps**"): The Company's agreements with the reps, generally grant the reps exclusive rights in defined territories only in the United States for a limited periods (usually a year) automatically renewable. Generally, these agreements may terminate, at any time by any party, by giving notice 30 to 90 days, and subject to US law and the jurisdiction of the courts in Massachusetts and/or arbitration dispute settlement mechanism. The company pays commissions to the reps depending on actual sales made to distributors and end customers in the territory in which the reps have an exclusive agreement.

1.9.12.4 Sales promotion: The Company promotes its sales primarily through: (a) a website (http://www.unitronics.com) for downloading software and other help tools for the Company's products, and for obtaining details about the Company, its products and services; (b) social networks (c) public relations and contact with the market and with current and prospective customers, including updates on innovations and developments at the Company, follow-up of customer satisfaction and/or lessons to be learned and for implementation, and similar activities; (d) marketing and sales aids and activities, including detailed marketing catalogues, regular distribution of product updates and marketing material, use of demonstration kits at the customer's site and training sessions for customers and distributors; (e) participation in national and international trade exhibitions, whether directly or via the Company's distributors, and (f) issuing publications in the professional literature of the industrial PLC sector worldwide.

1.9.13 Order backlog

In general, the order backlog of the Products Department is in line with the nature of activity in this market, based mainly on stock and off-shelf purchases from distributors and therefore orders are usually accepted for immediate delivery rather than an order backlog

Expected revenue recognition period	Product order backlog as of March 16, 2020 (closest possible date to the date of this report)	Product order backlog as of December 31, 2019	Product order backlog as of December 31, 2018
	NIS in thousands		
Q1 2019	---	---	2,946
Q2 2019	---	---	967
Q3 2019	---	---	684
Q4 2019	---	---	750
For 2020	---	---	885
Q1 2020	2,613	2,786	---
Q2 2020	3,406	3,642	---
Q3 2020	2,132	2,458	---
Q4 2020	1,349	1,091	---
For 2021	445	232	---
Total	**9,945**	**10,209**	**6,232**

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business. The backlog mix, in terms of the main products included, is not indicative, and changes constantly, since it reflects specific demand for particular products based on the pace of consumption of various customers and the requirements of different markets that usually dictate this pace. As already mentioned, the nature of the activity in this market is primarily based on inventory and off-the-shelf purchases[2].

1.9.14 Competition

To the best of the Company's knowledge over 70% of the global market of industrial PLCs is ruled by six major players and in addition there are over 30 companies with an annual turnover of more than USD 10 million. One can define three categories of major competitors in the market:

[2] The information regarding the expected recognition of order backlog revenue is forward-looking information. The data relating to the forecast are an estimate only, relying on past experience and the planned schedules for the different orders. Changes in the basic assumptions leading to this estimate could significantly change the Company's estimate regarding future recognition of order backlog revenue compared to the data shown above.

A. Market leaders, usually multinational companies with global operations active in multiple fields, including in the PLC sector. Included in this group are: Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Intelligent Platforms.

B. Large multinationals dealing primarily in PLCs. Companies included in this group: ABB, Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.

C. Smaller companies operating in limited geographical regions or dealing in special niche products. This group includes such companies as: Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, and PILZ. In the Company's estimation, its activity in the products segment falls into this category. The Company knows of no other Israeli companies in this category.

The Company has no knowledge of statistics on which it can base the consumption and/or sales of controllers in Israel and therefore it cannot estimate the size of the local market, its share in the local market and/or its share in relation to the manufacturers/importers of other controllers in Israel. With regard to its share in the global market, the Company estimates based on internationally accepted international market research, that its share of the global programmed controller market is less than one percent.

The Company competes and intends to continue competing primarily on the basis of the advanced technology integrated into its products, and the cost effectiveness of its products as compared to that of its competitors (including the functionality of its products and their performance, reliability, portability, capacity for integration in existing systems, convenience and ease of installation, operation and maintenance, and the quality of the technical support and customer service provided by the Company).The Company estimates that its products are positioned mainly as niche products (small products including nano and micro PLCs) that combine integral user interface capabilities and broad communications capabilities – characteristics that are particularly suitable for various decentralized applications and for integration as a control component for manufacturers of small and medium machines. However, there is no certainty that the markets or the existing or prospective customers will regard the Company's products as worthier than those of the competitors. Similarly, there is no certainty that its competitors will not develop products and technology that will render the Company's products obsolete or less competitive.

As mentioned in this section above, the majority of the Company’s competitors are larger and more established companies, with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales resources, as well as a recognized name in the market. These competitors are able to respond before the Company to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company’s ability to compete effectively. There is no certainty that the Company will successfully compete in this market, and its competitors may succeed in capturing some of its market share.

1.9.15 Production capacity

The Company manufactures its products primarily through subcontractors. Subcontractors are responsible for most of the PLC component placement, final assembly, testing, calibration and product packaging activities, and in some cases are also responsible for purchasing components (hereinafter: the "**Turnkey Method**"). In addition, the Company itself assembles, using its staff and its facilities in Airport City, a certain portion of the components of the electrical circuits, and for some of the products, it performs the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out the production is also intended to maintain the possibilities for growth and flexibility in view of the high production capacity, using existing subcontractors and the ability to add subcontractors as needed (subject to a learning and assimilation curve). As for production operations within the Company, as of the date of this report most of the production capacity is being utilized, but the Company is able to increase its production capacity for these activities as needed, given the possibility of assigning these tasks to unskilled manpower, which is, therefore, relatively available and requires only a short training period.

1.9.15 Research and development

For additional details, see section 1.9.11 above.

Below are the main details concerning sums expended by the Company during the specified periods:

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS thousands		
Payroll and benefits	8,748	8,666	8,345
Subcontractors	3,635	983	1,603
Other expenses	1,739	1,632	1,608
Less capitalized expenses recognized as an intangible asset	(10,181)	(7,415)	(8,746)
Total	3,941	**3,866**	**2,810**

Overall, the Company expended approximately NIS 14,122 thousand during the reported year (of which approximately NIS 10,181 thousand were recognized as intangible assets) for the development of products and technologies, as specified in section 1.9.11 above.

From 1992 to 2003, the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the **"Chief Scientist**") participated in the funding of the Company's R&D programs under the Encouragement of Industrial Research and Development Law, 1984 (hereinafter: the "**R&D Law**").Subject to the support received for the financing of the Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate); receiving approvals regarding changes in holdings and controlling means in the Company; refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas. Total grants approved for the Company based on the R&D programs amounted to NIS 2,473 thousand in respect of which the Company paid to the Chief Scientist up to December 31, 2019, a total of NIS 540 thousand in royalties. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2019, totaled NIS 185 thousand, attributable to programs in respect of which, in management's estimation, royalties are likely to be paid. As of the date of this report, the Company is in compliance with its obligations to the Chief Scientist.

1.9.17 Intangible assets

As stated, the Company has recognized some expenses relating to the development of its products and technologies (as specified in section 1.9.16 above) as intangible assets. In addition, the Company safeguards its intellectual properties by registering patents, although it believes that in a world of rapid technological changes, its ability to develop and launch new state-of-the art products in a relatively short period of time, facilitates its success and penetration into markets, such that the protection of its intangible assets and intellectual properties is of lesser importance. For details on intangible assets related to this operating segment, see section 1.13 below.

For details of the Company's investment in its intellectual property, see Note 10 to the 2019 consolidated financial statements - Chapter C of this Periodic Report.

1.9.18 Human capital

Until March 2019, the activity of Company staff was divided in accordance with the activity segments of the Company, wherein the employees were employed and involved in the two operating segments of the Company, with a larger focus on the section of the employees of the Company employees in the specific segments (for details see section 1.14 above). As part of the Split, employees were transferred between the companies, with the Company and Utron both agreeing on a set of mutual arrangements and services to serve both, as mentioned in in Section 1.14.2 below.

1.9.19 Raw materials, suppliers and subcontractors

1.9.19.1 The Company's products may incorporate about 300-350 mechanical and electronic components, including electronic circuits and their components, keyboards, display screens, and others. About 95% of the components in most of the products are standard (off-the-shelf) products, manufactured in Israel and abroad. Some 5% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts, touch screens and specific LCD displays. Although these components are of major importance in Company products, they may be ordered from several suppliers/manufacturers in Israel and overseas, usually without any need for product adaptations, and consequently, there is no dependence on a single supplier/manufacturer. Most of the standard components can be purchased from different suppliers who can be replaced without changes in the product, and the Company is not dependent on a single source. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their replacement by new suppliers is liable to cause delays (of several weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs. For particular products, where the replacement of a supplier may lead to a longer delay, backup stocks with a 3-4 month supply are maintained (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement), the purchase quantities for these stocks being financially immaterial.

The Company is dependent on several manufacturers which specialize in the production and supply of unique items, including processors and communication components which can be purchased from suppliers in or outside Israel, primarily, Infineon, Texas Ins. , Freescale, Epson, Nexperia, ST Microelectronics. Even though these are standard components (off-shelf) for which substitutes from other manufacturers can be found, their replacement may involve structural and functional changes as well as various software and hardware adjustments which could cause delays and customization costs. This is a small number of components and the volume of the purchases of each component in 2019 was not material. To reduce the dependency on these components, the Company enters into annual order arrangements and in a few cases, into minimum stock retention agreements, with several different suppliers, in order to ensure availability and regular supply of these components.

1.9.19.2 The Company regularly surveys the components' state of supply on the market as well as lead times, in order to identify trends of shortage in due time. As in similar periods in the past when lead times for electronic components have grown longer, if the potential of a future shortage of a specific component is identified, the Company prepares itself by stocking up in advance with components with an increased lead time, by developing alternative acquisition channels, and by updating the suppliers in due time regarding the forecast quantities.

1.9.19.3 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock retention agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment at terms of net 60 EOM (after approval by acceptance control), predefined lead time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to volume discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of nonconformity or quality problems.

The Company enters into a minimum inventory retention agreement with certain suppliers, pursuant to which the supplier undertakes to keep an inventory at a certain percentage of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices, without any obligation of the Company to purchase inventory. Under these agreements, the Company is obligated, in only a few cases, subject to certain exceptions, to purchase the minimum stock, for amounts that are financially immaterial to the Company, even if not ordered by the end of the agreement period. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

1.9.19.4 The Company is party to a non-exclusive agreement dated September 12, 2018 with a manufacturing contractor for printed circuits which is also a provider of components and other services to the Company (hereinafter: the "**circuits supplier**"), which as of May 2018, FIMI, the controlling shareholder in the Company, is also a controller of this supplier. The Company has been connected with the circuit supplier for a period of over ten years prior until the acquisition of control over this supplier by FIMI. Due to developments in the printed circuit market and due to changes in the Company needs in this area, the Company has examined possible engagements with additional circuits suppliers and/or the possibility of expanding the existing relations with the circuit supplier and all this – prior to the control acquisition in the supplier by FIMI. Once FIMI has acquired control over the said supplier, the relations with the suppliers have been reviewed again and in August 2018, the Audit Committee and the Board of Directors approved the existing engagement with the circuit supplier as well as its expansion. The Board of Directors' approval to the engagement with the said supplier was received following the Audit Committee's approval which determined, having examined the data presented to it, including the terms of the engagement, its annual financial volume, and the competence terms and other service offers of other service providers which had been examined by the Company for this purpose, that the existing engagement and the expansion of the engagement with the circuit suppliers are not considered extraordinary transactions in which the controlling shareholder has personal interest but that they are non-negligible transaction and as such require the approval of the Audit Committee and Company Board of Directors, whose approval was received following the said deliberations. The Audit Committee further determined that given the circumstances a competitive procedure is not required and the review and selection process company carried out on the competence terms and proposals of other service providers constitutes a sufficient "other procedure", in line with the provisions of Section 117(1b) to the Companies Law.

To the best of the Company's knowledge, in 2019, the supplier of the circuits completed the purchase of a company that was also a supplier to the Company of printed circuits (hereinafter: the "**Subsidiary of the Supplier of the Circuits**") for years prior to its acquisition by the supplier of the circuits. In March 2020, the Audit Committee and the Board of Directors of the Company examined and ratified the agreement between the Company and the Subsidiary of the Supplier of the Circuits in a similar procedure and for similar reasons to approve the agreement with the aforesaid supplier of the circuits, as a non-extraordinary transaction and a non-material transaction in which the controlling shareholder has a personal interest.

The terms of the agreement with the supplier of the circuits and the Subsidiary of the Supplier of the Circuits include component purchases, placement and assembly and in some cases testing and packaging of the finished circuits, in accordance with the detailed instructions of the Company, and under the supervision of the Company, and in accordance with detailed purchase orders based on periodic forecasts relayed to the manufacturing contractor which are updated regularly. These suppliers provide a warranty on their work, insures their obligations under the Agreement, while the related intellectual property rights connected with the product are retained by the Company. Payment for the products is based on fixed amounts dependent on the volume of the ordered work and paid on a +65 day basis. Under the agreement with theses suppliers the Company sells certain raw materials to these suppliers for the purpose of manufacturing for the Company. The term of agreement is 12 months and the agreement is automatically renewed unless any of parties gives advance notice of termination to the other party. The Company's purchases from the supplier and the Subsidiary of the Supplier of the Circuits in 2018 and in 2019 amounted to NIS 3,472 thousand and NIS 8,373 thousand, respectively, constituting approximately 3.19% and approximately 6% of the Company's annual sales turnover. The increase in purchases in 2019 was due to the acquisition of the Subsidiary of the Supplier of Circuits (which at that time was already a supplier of the Company with orders to be supplied to the Company) by the aforesaid supplier of circuits, and from the discontinuation of the additional supplier from which the Company had concurrently purchased similar products. Later in 2019, the volume of purchases from these suppliers decreased, inter alia, due to the entering of the Company into agreements with other suppliers in this field. The Company has no dependency on the supplier of the circuits and on the Subsidiary of the Supplier of Circuits, and it can also work with other suppliers and move from one supplier to another with no difficulty or substantial differences in cost, although, in the Company's opinion, this would not necessarily serve the best interests of the Company.

1.9.19.5 The Company is not dependent on certain subcontractors for manufacture and it can hire for this purpose additional contractors. Nevertheless, replacing an existing subcontractor may involve delays resulting from the learning curve and the implementation of the Company's needs and/or use of unique manufacturing components tailored for the Company's needs (such as plastic cast molds for PLCs cases). In the Company's estimation, replacing a subcontractor, as mentioned above, is not expected to lead to material increase in costs for the Company.

1.9.20 Working capital

1.9.20.1 Total working capital

The Company's working capital as of December 31, 2019 amounted to approximately NIS 32,427 thousand (current assets of approximately NIS 81,660 thousand net of current liabilities of approximately NIS 49,233 thousand).

1.9.20.2 Inventory

The Company holds, whether itself or through its production contractors, on an ongoing basis about 30-150 days of components and raw materials inventory to meet forecast requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 30-60 days. The Company's policy is generally to hold a finished products inventory based on actual orders or internal forecasts regularly made and updated by the Company. However, and as necessary, the Company may deviate from this policy, mainly when preparing for extraordinary events or in response to the behavior of raw materials markets in the world (for example, in cases of concern over possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand).The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management software program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). From time to time the Company examines new means of inventory maintenance, with a view to increasing the finished goods inventory held by the Company, and shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. The Company typically provides a 12-24 months warranty for its products. The Company does not make provisions for warranty due to immateriality (absence of demands and/or demands of insignificant sums).

1.9.21 Environmental issues, risks and management thereof

The Company’s activity in this area is not characterized by exposure to environmental risks as the term is defined in section 28 in the First Schedule to the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 1969. However, as stated in section 1.9.3 above, the manufacture and marketing of electronic products is subject in different countries to directives that address the use of certain materials in the manufacture of electronic products and the treatment of electric and electronic equipment waste. In addition, the Israeli law also contains provisions that affect the use of certain materials in the manufacture of electronic products and the handling of waste of electrical and electronic equipment (including Regulation of the Treatment of Packaging Waste Law and the Law for Environmental Protection for the Environmental Treatment of Electronic Equipment).

The Law for the Regulation of Packaging Waste Treatment - 2011 ("**The Packaging Law**") is designed to reduce the amount of packaging waste, prevent its landfilling and encourage its recycling. The Law sets recycling targets according to the type of material and the year of recycling, all regarding manufacturers with product packaging weights that exceed a certain threshold per year. To the best of the Company's knowledge, until 2017, the total weight of packaging of the packaged products it sold per year did not reach the threshold set by law, and therefore, is not subject to the obligations thereof and the Company has advised the Ministry of Environmental Protection of the aforesaid. From 2018, in accordance with the requirements of this law, the Company has contracted with a "recognized implementation body" approved by the Ministry of Environmental Protection which is responsible for the compliance of manufacturers and importers with the provisions of the said law. The Company's estimates that the effect of this law on its expenses is not expected to be material.

The Law for Environmental Treatment of Electrical and Electronic Equipment and Batteries, 2012, sets recycling targets according to the year of recycling for importers and manufacturers of electronic equipment. In accordance with this law, the Company recently entered into a contract with a "recognized implementation body" of the Environmental Protection Ministry, which is responsible for the fulfillment of the obligations of manufacturers and importers, as per the provisions of said law. Moreover, the Company is studying the implications of the new law by inquiring with consultants and keeping up with up-to-date professional material. The Company's estimates that the effect of this law on its expenses is not expected to be material.

1.9.22 Standards and quality control

The Company is obliged to supply quality and reliable products and services, which meet both applicability requirement and customer's requirements and expectations. As part of its obligation, the quality system of its products segment operates in compliance with the ISO 9001:2015 requirements, performs control, monitoring, measurements, analysis, provides training and communicates with Company's employees.

The Company operates a lab, equipped with instruments designed to enable the Company to check the proper functioning of its finished products, including their mechanical and operational properties, as well as their software components. This lab maintains contact with other test labs in Israel and abroad.

In accordance with the requirements of the two EU directives dealing with electronic products, Directive 2014/30/EU (a directive pertaining to electromagnetic compliance) and Directive 2014/35/EU (a directive pertaining to safety aspects), the Company's products, which are defined as PLCs, must meet the standards defined in sections 8 and 11 of the EN 61131-2: 2007 standard, which deals with requirements applicable to such products. Pursuant to the provisions of these directives, the Company labels most of its PLCs of the series relevant to these directives with a CE mark, which indicates that the PLCs comply with the requirements of the directive.

Compliance with the above standards may be a legal requirement for marketing the Company's products in part of the Company's target markets, whereas in others this is a market requirement even though it is not a formal legal requirement. There is no certainty that the Company will be able to comply with the requirements applicable to its products in other standards, if required, and failure to comply with these regulations may limit the Company's ability to market its products in some of its target markets.

Most of the Company's PLCs and their external expansion components also comply with the requirements of US standards UL/cUL 61010-1, UL/cUL 61010-2-201 and UL/cUL 508 (safety aspects, including fire, temperature resistance, and electrical safety) and some comply with the requirements of the UL Hazardous Locations ISA 12.12.01 standard (work in a dangerous or explosive environment).Accordingly, the Company labels these products, and products largely based on them, with the UL/cUL mark.

Part of the Company's propulsion control products also comply with the requirements of US and Canadian standards, ANSI / UL 508C, UL 61800-5-1 and part comply with the requirements of ANSI / UL 508, UL 61010-1, UL 61010-2-201 standards. In accordance therewith, the Company marks these products with a UL/cUL marking. Part of the products also comply with the requirements of the European Standard IEC 61508-1, IEC 61508-2, IEC 61508-3, IEC 61508-4, EN 62061 / A2, EN ISO 13849-1, IEC 61800-5-2. In accordance therewith, the Company marks those products with a TUV marking.

The United States Securities and Exchange Commission regulations regarding "conflict minerals," which are designed to reduce the violation of human rights, require public companies listed on American stock exchanges to report the use of certain metals. These regulations are not directly applicable to the Company, however, they might be applicable to some of its customers, and therefore the Company is following developments in this matter. In addition, the Company turned to most of the suppliers and manufacturers in the chain of supply, in order to obtain declarations stating their compliance with these regulations.

As of the date of this report, the Company estimates that it will not spend material amounts over the next year on compliance with the provisions of the standards and regulations detailed above[3].

1.9.23 Business objectives and strategy

The Company aspires to position itself as a world leader in the field of control and automation products, in niches and markets in which its products have added value and a relative advantage. These niches include, among others, the fields of nano and micro PLCs, PLCs incorporating a control panel (including use of color displays, which is becoming prevalent in control panels for many systems), small PLCs incorporating communications and network support capabilities, and PLCs supporting decentralized architecture. In a breakdown of the target market (for further details see sections 1.7 and 1.9.4 above), the most prominent are manufacturers of small and medium machines that require economical, advanced and integrated control solutions, as well as constructors of systems that require solutions for remote control and/or data collection by communications. Criteria for evaluating success in achieving these objectives include, among others, number of installations (PLCs sold) every year, rate of penetration (sales) in new and existing countries and regions, customer satisfaction, percentage of repeat sales

[3] The information concerning the expected costs to the Company regarding compliance to the standards and regulations is forward-looking information. The principal data which served as a basis for this information are: the developments known to the Company today regarding the implementation of the regulations, the technical steps required for their implementation, and the Company's cooperation with its suppliers and manufacturers in this matter. The principal factors which may prevent this information from materializing are: changes in the provisions and/or interpretation of the regulations, and delays in compliance of the component and assembly vendors with these regulations.

to these customers, and overall contribution of the Products segment to the Company's profitability.

In order to realize these objectives, the Company plans to continue improving existing products as well as developing new products, on the basis of continuous analysis of users' needs and market trends, market surveys conducted from time to time, as well as responses from its distributors and customers. There is no assurance regarding the Company's ability to actually improve current products and to develop new products, and this depends, among others, on analysis of market needs and consumer preferences as reflected through the Company's direct contacts with the markets, technological feasibility, cost of potential developments, as well as the strong competition in the segment, as detailed in this report.

The Company further plans to continue to develop and to strengthen its direct sales capability and the international distribution infrastructure it has established, *inter alia* through continued supervision and follow-up of the activity of existing distributors, location of new distributors in new territories or where it is necessary to replace an existing distributor, professional training and instruction for distributors on subjects related to the Company's products, and gathering of relevant information. There is no assurance regarding the Company's ability to strengthen and develop its sales and marketing infrastructure and this depends, inter alia, on analyses of marketing attributes and markets for Company products conducted by the Company from time to time, and the evolving nature of PLCs as off-the-shelf products and as consumer products, as detailed in this report.

Another element is striving to increase customer satisfaction and loyalty through efforts to sell quality products and backing them up with suitable support and maintenance services.

1.9.24 Development forecast for the coming year

The Products segment has shown continuous growth in revenue during the past four years. In order to continue the growth trend, the Company will be required to continue to invest material amounts in R&D and marketing, so as to be able to offer existing and prospective customers competitive and efficient products, designed to provide a suitable response to their demands compared to those offered by its competitors. However, there is no assurance that investment of the aforesaid amounts in development and marketing, will increase or maintain the Company's current pace of sales. For details on the Company's estimates regarding development expenses expected in the products segment in 2020, see section 1.9.16 above.

1.10 Automated Solutions segment

In the automated solutions segment, the Company has been engaged in the design, development, marketing, construction and maintenance of automated systems for autonomous parking lots as well as computerized logistics systems, primarily automated warehouses and distribution centers, including the establishment of new systems and/or upgrading of current systems as well as maintenance services for these systems based on framework or on-call arrangements (hereinafter: the "**Automated Solutions Activity**").

As mentioned above, the Company's operation in the Automated Solutions segment was transferred in March 2019 to its fellow subsidiary Utron, and from that date the Company ceased to operate in this segment. In accordance therewith, the information described above in this Report refers, in a summarized manner only, to the period preceding the split, during which the activity of this segment was carried out by the Company. In addition, all the descriptions, assessments, and forecasts are to be read in this Report, above and below, in connection with the Automated Solutions Activity segment as being relevant to the Company only up to the Date of the Split.

1.11 Other activities

The Company has an additional activity, not included in the aforementioned main operating segments, which involves insignificant revenues and investments. This activity by its subsidiary, Unitronics Management, mainly involves maintenance, preservation and management in connection with the use of Unitronics Building (for details of the subsidiary's operations, see section 1.20.1 below). Below are data on the Company's revenues from the activity of Unitronics Management for the indicated periods:

	For the year ended December 31		
	2019	**2018**	**2017**
	NIS in thousands		
Revenues from Unitronics Management operations	478	434	436

Part IV – Matters Related to the Company's Overall Operations

1.12 Fixed assets, land, facilities, user right assets and insurance

The major part of fixed assets used by the Company is as set out below:

1.12.1 The fixed assets, real estate and facilities of the Company are used thereby primarily in the product segment activity; As part of the initial implementation of IFRS16, the real estate and the building have been classified as user right assets instead of fixed assets.

As part of the Split, the Company and Utron agreed on mutual services and arrangements between them, which include, among other things, user rights of the Company in part of the fixed assets, real estate and facilities used by Utron as part of its activities in the Automated Solutions segment.

1.12.2 Unitronics Building – lease from the Israel Land Administration: The Company has capitalized leasing rights (91%) for forty nine years (plus an extension option for an additional forty nine years) under lease agreements dated April 16, 2008, in the ground floor (including basement) and the first floor with a floor area of 1,295 sq.m, and 841 sq.m attached yard area (hereinafter: "**the Company's rights**"), of a building known as "**Unitronics Building**," the address of which is Airport City, P.O. Box 300, Ben Gurion Airport, 70100, Israel (hereinafter: "**the Company's rights in Unitronics Building**"). The Company's rights in the Unitronics Building also known as block 27 parcel 6832, registered in the Condominium Buildings Register in the Land Registration Bureau. The Company also acquired rights to an additional lot of 1,000 sq.m adjacent to Unitronics Building, serving as a parking lot for the Company's employees and visitors (hereinafter: "**the parking lot**").

The Company's rights in Unitronics Building serve as collateral to secure the financing for the acquisition of its rights in the Unitronics Building together with additional financing provided to the Company, all as set forth below in section 1.16 below. For its current operations, the Company uses the entire space on the Company floors at Unitronics Building. The other floors at Unitronics Building (floors 2-4) (hereinafter: "**the private floors**") are leased from ILA by a company controlled by Mr. Haim Shani, a controlling shareholder of the Company (jointly with FIMI Fund), who also serves as a Director of the Company, and served as CEO of the Company until the Split, serves as the active Chairmen of the Board of Directors of the Company following the Split, and his wife Ms. Bareket Shani (hereinafter: "**the lessor**"), and are leased to third parties, except for approximately 1,000 sq.m that were leased to the Company as detailed in section 1.12.3 below. The rights in the private floors were acquired about one month prior to the acquisition of the Company's rights in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its rights in the Company floors, at a price per square meter using the same pricing basis as used by the Company to acquire its rights.

1.12.3 Unitronics Building– lease from the controlling shareholder: In addition to the Company floors, which are used in their entirety by the Company, the Company leases from the lessor space on the private floors, based on its variable needs from time to time, at the same terms under which space is leased on the private floors to third parties, which also reflect lease terms prevailing at Airport City in general. As at the date of this report, and in accordance with an agreement which was approved in the General Meeting of the Company's Shareholders dated July 15, 2018, the Company leases 1,022 sq.m as of January 1, 2018, as well as 30 parking spaces for a lease period that ends on August 1, 2021, subject to the Company's right to adjust the required leased space to its needs from time to time, under the same terms (providing the leased space will not exceed 1,022 sq.m) and also to end the lease at any time with prior notice of three months, all according to the decision of the Company's Audit Committee. Under the terms of the lease agreement, the rent is set at NIS 75 per sq.m per month, a monthly total of NIS 76,650, linked to the CPI of June 2009 and a monthly total of NIS 117,481 plus maintenance service fees, parking spaces and linkage to abovementioned CPI differentials. For details on past space leased by the Company at the Unitronics Building and on lease terms under previous agreements, see Report on the Convening of a General Meeting of the Company's Shareholders which was published on May 30, 2018 (Reference No. 2018-01-053395), included herein by reference and also see section 4.8.1 in Chapter D of this Periodic Report.

1.12.4 In June 2015 Utron Solutions signed a lease agreement (hereinafter in this section: "**the agreement**") with a third party unrelated to the Company and/or to interested parties therein (hereinafter in this section: "**the lessor**"), in connection with part of a building in Airport City with a total area of 3,413 sq.m as well as 47 parking spaces (hereinafter in this section: "**the leased premises**"), in consideration for monthly rent of NIS 40 per sq.m during the first two and a half years of the agreement and NIS 42 per sq.m for the remainder of the lease period (plus management fees of NIS 6 per sq.m) (excluding VAT and linkage to the CPI) and NIS 300 per parking space. Under the agreement, the leased premises were placed at the disposal of Utron Solutions starting from August 2015 for construction works to adapt the building to the needs of Utron.

In accordance with the agreement, Utron Solutions has been paying rent on the building since January 2016. The agreement is effective from June 1, 2015 to December 31, 2020 with an extension option for a further five years subject to the terms stipulated in the agreement. The leased premises primarily serve the Automated Solutions segment.

As part of the Split, the Company has entered into a sublet agreement with Utron Solutions, whereby the Company rents at the cost price of the lessor approximately 220 sq.ft in the above leasehold to Utron Solutions, plus overhead expenses amounting to approximately NIS 13,000 per month, with back-to-back terms of the agreement of Utron Solutions with the lessor. In addition, each party has the right to terminate the sublet rental agreement between them with ninety days prior written notice.

1.12. 5 Unitronics Inc.: The subsidiary Unitronics Inc. leases from a third party unrelated to the Company and/or to interested parties therein office space in Quincy, near Boston, Massachusetts, with a total area of 2,363 square feet (219 sq.m), leased until March 31, 2021 at annual rent of $56,000.

1.12.6 Insurance

The Company and its subsidiaries are insured under various insurance policies for its activities, including, inter alia, property insurance, consequential damages insurance, third party insurance, officers' liability insurance, as well as combined professional and product liability insurance, including for the subsidiaries in the U.S. and various other insurance policies. The entry of the Company into the aforesaid policies is usually in consultation with the insurance advisors of the company. The Company believes that it has adequate insurance coverage.

1.12.7 Geographical regions

For data on Company operations and noncurrent assets related to overall Company operations by geographical regions, see Note 26 to the 2019 consolidated financial statements– Chapter C of this Periodic Report.

1.13 Intangible assets

1.13.1 General: The Company claims copyright and rights to use technologies, know-how and trade secrets (for patents and trademarks, see below).

The Company protects its trade secrets and intellectual property mainly by means of nondisclosure agreements with employees, consultants and some customers, as well as through the registration of patents and trademarks and through patent, design and trademark applications. There is no certainty that these means can provide adequate protection, and they may not protect the Company against competing developments carried out independently by third parties.

1.13.2 Patents and patent applications

The Company has a registered patent relating to the IO units connection as well on certain control and management features of autonomous parking systems.

In recent years the Company has also filed various patent applications in respect of certain technological features developed by it in connection with the automated parking systems, some of which have been patented; the rights of the Company in these patents have been transferred to Utron as part of the Split.

The Company also owns several design patents registered in the US, Israel and with the European Patent Office, on controllers developed and manufactured by the Company.

1.13.3 Trademark registration

The name Unitronics and the Company logo are registered trademarks in Israel, Europe and the US.

Over the years, the Company has filed and continues to file applications with the Patent and Trademark Office in North America and in Europe and with the Patent Registrar in Israel to register trademarks on various names, logos and designs used for the Company's different product ranges. From time to time, the Company files additional applications with the USPTO and with the Patent Registrar in Israel for the registration of various trademarks; there is no certainty that these applications will be granted.

1.13.4 Internet domain names

The Company has acquired rights to use domain names (including domain names with various country TLDs) in which it presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communicating with existing and potential customers. As customary, the Company is entitled to continue making exclusive use of these websites, subject to payment of annual usage fees (in insignificant amounts).

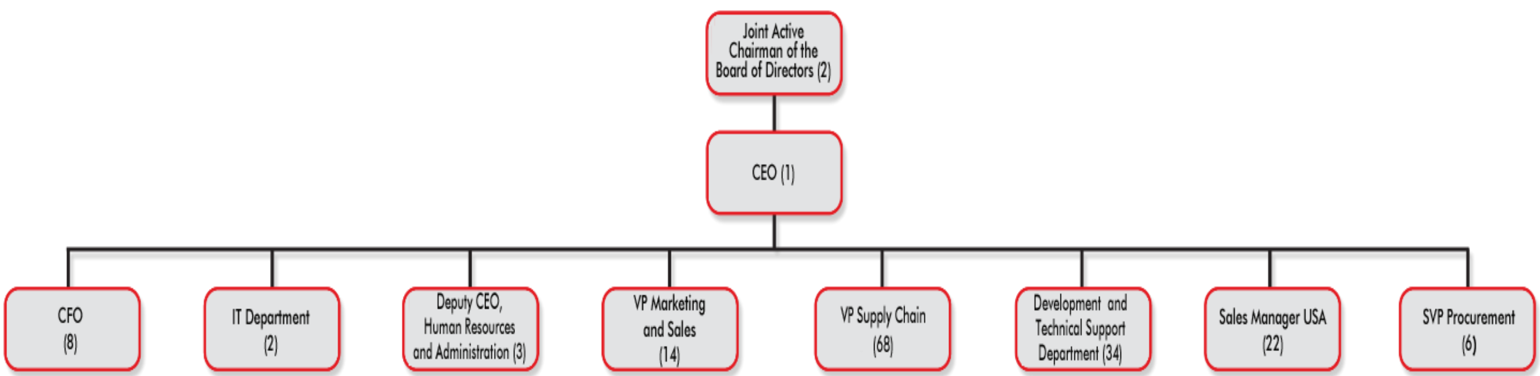
1.13.5 For details on the Company's investments in its intellectual property, see Note 10 to the 2019 consolidated financial statements– Chapter C of this Periodic Report.

1.14 Human resources

1.14.1 Up to the Date of the Split, Mr. Amit Ben Zvi served as the chairman of the Company Board of Directors, whereas Mr. Haim Shani, the controlling shareholder of the Company (jointly with FIMI Fund), served, up to the Split, as the Company CEO. In order to align the management structure to the required operation after the Split, the Company conducted several changes, such that after the Split, as of April 1, 2019, and as of the date of the report, Mr. Amit Ben Zvi serves as the active Joint Chairman of the Company Board, Mr. Haim Shani serves as the Active Chairman of the Company Board, and Mr. Amit Harari, serves as the Company CEO.

Several senior professional executives report to the CEO, as specified in the chart below, in professional activity segments as well as in the headquarter segment

Below is the organizational structure chart of the Company and the investee companies and the number of employees employed thereby as of the date of the report.



1.14.2. Company staff and composition:

Until the Date of the Split, the Company and its subsidiaries (in Israel and abroad) had a staff of 260 employees As of December 31, 2019, approximately 157 employees were employed in the Company, approximately 10 employees of which are employed by the Company and also provide services to Utron; in addition, approximately 7 employees which are employed by Utron provide services to the Company; For details, see section 1.14.6 in this report below.

As part of the split, 12 head office employees were transferred to Utron, keeping continuity of employment rights pursuant to the tax authorities' approval; additionally, Utron Solutions and Utron Systems' employees, who were part of the Company and its investee companies' staff are no longer Company employees or employees of investee companies. In accordance with the abovementioned, as at the publication date of this Report, the Company employs only 135 people. The breakdown of employees of the Company and its subsidiaries in Israel by occupation on the relevant dates, as of the report date, is as follows:

Occupation	**Staff headcount as of**	
	December 31, 2019	**December 31, 2018**
Sales and Marketing	36	13
Research and Development	34	64
Finance, Human Resources and Administration	11	27
Manufacturing, Logistics and Quality Assurance	74	77
Information systems and Integration	2	40
Total	**157**	**221**

1.14.3 Terms of employment: Most Company employees are employed under written, personal employment contracts which include customary undertakings with regard to nondisclosure, noncompetition and safeguarding of Company intellectual property.

Labor relations at the Company are not subject to any specific collective bargaining agreements, including the general collective agreement for metal, electricity and electronics employees and the extension order applying to that agreement.

Employee options plan

On May 30, 2019, the Company's Board of Directors adopted a plan to award options to employees, consultants and officers of the Company and its subsidiaries (hereinafter: the "**Option Plan**"). The plan is intended to reward the aforesaid employees, consultants and officers of the Company by awarding options (non-negotiable) with no consideration for the purchase of the shares of the Company (hereinafter: the "**Options**"). It is hereby clarified that the actual awarding of the options pursuant to the Option Plan is subject to the provisions of any law and permits required for the actual granting of the Options.

Except as otherwise decided by the Board of Directors or a committee of the Board of Directors (as applicable), the Options will mature in 3 equal portions and shall be exercisable two years, three years and four years from the date of the awarding of the respective options. The options shall expire at the end of six years from the date the options were awarded.

The basic exercise price of each option for each ordinary share of NIS 0.02 par value shall be: (1) the higher between: (a) the opening price of the Company's share on the date of the Board of Directors' decision to award the options to the Offeree; (b) a premium of 5% above the average price of the Company's shares on the Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Stock Exchange**") during the 30 trading days preceding the date of the decision to award the Options to the Offeree under the Option Plan, or (2) another price to be determined by the Company's Board of Directors (hereinafter: the "**Basic Exercise Price**"). The Basic Exercise Price will not actually be paid to the Company, but will only be used to determine the value of the monetary benefit to the Offeree deriving from the Options and the number of shares exercised therefrom (Cashless Exercise).

For further details of the Option Plan, see section 1.3.13 of the Company's quarterly report as of March 31, 2019, published by the Company on May 31, 2019, (Reference no.: 2019-01-047118), which is incorporated herein by way of reference.

On August 20, 2019 (hereinafter: the "**Award Date**"), the Company's Board of Directors, after receiving the approval of the Audit, Compensation and Financial Statements Examination Committee, approved the awarding of 370,000 unlisted Options to employees and officers of the Company and its subsidiaries, which are not Directors, on the Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Stock Exchange**"), of which 75,000 unlisted options were awarded to Mr. Amit Harari, CEO of the Company, under a material private offering[4] (hereinafter: the "**Harari Options**"), and the balance under a private offering which is not a material private offering or an extraordinary private offering[5], all in accordance with the terms of the Option Plan.

In accordance with the above mechanism, the exercise price of each option is NIS 12.7.

The fair value of each option on the Award Date calculated in accordance with the B&S model is NIS 3.09.

The Options which were awarded on the Award Date (including the Harari Options) will be exercisable for a maximum theoretical amount of 370,000 ordinary shares of NIS 0.02 par value each of the Company (hereinafter: the "**Exercise Shares**").

It should be noted that the awarding of the Harari Options was subject, inter alia, to the approval of the General Meeting of the Shareholders of the Company, which was received on September 26, 2019, in accordance with the Report of the Summons of the General Meeting, regarding a material private offering and a non-material private offering or a deviation from the unlisted Options of the Company, which was published on August 21, 2019.

For further details, see the Company's Immediate Reports of August 21, 2019 and September 26, 2019 (Reference no's.: 2019-01-072231 and 2019-01-099796, respectively), which are incorporated herein by way of reference.

[4] As such term is defined in the Securities Regulations (Private Offering of Securities in a Registered Company), 2000 (hereinafter: the "**Private Offering Regulations**")

[5] As such term is defined in Regulation 21 of the Private Offering Regulations.

For details of the awarding of 295,000 unlisted Options to employees and officers of the Company and its subsidiaries which are not Directors, see the Company's Immediate Report of October 3, 2010 (Reference no.: 2019-01-102940), which is incorporated herein by way of reference.

1.14.4 Officers and senior management

Senior officers are employed by the Company under personal employment agreement or under management and/or consulting agreements, and their terms of employment are subject to the Company's compensation policy. The terms of employment of officers who have employer-employee relations with the Company include, among others, a monthly salary, contributions to a pension fund and/or senior-employee insurance policy, contributions to a study fund, entitlement to annual vacation and convalescence pay, reimbursement of expenses and provision of company car. In addition, Company employees sign a nondisclosure and noncompetition undertaking. Said employment agreements (except for those of Mr. Haim Shani and Mrs. Bareket Shani) are for an unlimited period, with each party entitled to terminate the agreement by prior notice. Senior officers of the Company are also insured under a directors and officers professional liability insurance policy.

In addition, on May 16, 2019, following receipt of the approval of the Balance Sheet, Compensation and Audit Committee, the Company's Board of Directors and the Special General Meeting of the Shareholders of the Company, the Company ratified its Compensation Policy for its officers, which pursuant to the provisions of section 267A (d) of the Companies Law, shall be valid for three years from the date of its approval by the General Meeting of the Company. For details of the Company's Compensation Policy, see section 4.7.2 in Chapter D below. For details of the employment terms of the senior officers in the Company, see section 4.7 in Chapter D of this Periodic Report.

1.14.5 The Company’s investment in training and instruction

As part of its international marketing operations and support for its distributors, the Company also holds conferences and provides professional training for its distributors and regional sales staff. Professional training and enrichment is also provided to the employees in accordance with the decisions of the managers and the needs of the department. In addition, the Company provides in-house training for the staff of the different departments in the field of work safety. This training is given by the Company's Chief Safety Officer at the Company's facilities, as part of his job duties and within the cost of his salary..

1.14.6 Service arrangements between the Company and Utron:

In February 2019, the Company and Utron entered into service agreements which became effective upon completion of split. According to these agreements, a mutual setup of service was regulated between the parties, including financial and accounting services, legal, HR, IT and other general services. For details, see sections 8.3.2 and 8.3.3 in the Split and Listing for Trade Prospectus dated February 28, 2019 which was published by the Company and Utron (Reference No. 2019-01-017856), and Immediate Extraordinary Report on the completion of the split, dated March 12, 2019, Reference No. 2019-01-021037, included herein by reference.

1.15 Investments

In August 2018, an investment agreement was signed between the Company and Utron Solutions according to which any amount which was transferred or will be transferred from the Company to Utron Solutions, starting from January 1, 2018, was used or will be used as the Company receipts on account for investing in the share capital of Utron Solutions, which will be converted to Utron Solutions' share capital close to the Split. During 2018, the Company has invested in receipts on account of Unitronics Solutions shares, a sum total of NIS 23,578 thousand as well as a sum of NIS 1,604 thousand on 31.12.2018 and until the date of the split, which were converted as mentioned above, close to the split, to share capital and premium of Utron Solutions. Additionally, close to the Date of the Split, a Utron Solutions' loan of NIS 120,081 thousand has been converted to Utron Solutions' share capital and premium.

1.16 Financing

Company operations are financed using the Company's own equity as well as external financing sources. The Company's external financing sources are as follows:

Credit type	As of December 31, 2019			As of December 31, 2018		
	Credit amount, NIS thousands	Interest rate	Effective interest rate	Credit amount, NIS thousands	Interest rate	Effective interest rate
Long-term bank credit (EUR) (1)	1,778	LIBOR+ 3.41%	LIBOR+ 3.41%	2,325	LIBOR+ 3.41%	LIBOR+ 3.41%
Long-term bank credit (NIS) (2)	18,500	2.737	2.737	-	-	-
Long-term bank credit (NIS) (2)	10,000	2.717	2.717	-	-	-
Debentures (Series 4) (CPI-linked) (3)	11,396	CPI+ 5.4%	CPI+ 6.25%	22,643	CPI+ 5.4%	CPI+ 6.25%
Debentures (Series 5) (unlinked) (4)	-	-	-	27,442	5.8%	6.59%

(1) On July 6, 2011, the Company took a loan in the amount of EUR 1 million in connection with the purchase of real estate in Tirat Yehuda in the Modi'in District Industrial area which was sold in 2014. On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by way of charge to Bank Leumi, as security for the loans from Bank Leumi (which were provided to the Company in 2005 and in 2011). Further thereto, on May 1, 2008 two first pledges were created on the contractual lease rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008. On January 2015 pledges on the rights of the Company in the Unitronics Building were recorded in the Land Registration Bureau to secure the aforesaid loan. Under the terms of the

loans, the loans are repayable over 14 years, with the addition of interest at LIBOR + 3.41%.

(2) On March 3, 2019, the Company took two loans from a banking corporation to finance the repayment of Debentures (Series 5) in a total amount of NIS 30 million, as follows: a loan in the amount of NIS 10 million for a period of five years with an early repayment option, with an interest rate of prime plus less than one percent per year, with quarterly principal and interest payments. A loan in the amount of NIS 20 million, a bullet loan for a period of two years, without an early repayment option, at an interest rate of prime plus less than one percent per year with quarterly interest payments.

The Company has undertaken to the banking corporation, inter alia, to comply with the financial covenant with regard to the financial debt to tangible equity ratio not exceeding 80%, the financial debt to EBITDA ratio not exceeding 10 and equity of not less than NIS 25 million. In addition, the Company has undertaken to the banking corporation, to refrain from a change of control in the Company, not to merge or split with another corporation, and not to distribute a dividend to the shareholders, without obtaining the consent of the Bank for the aforesaid actions.

(3) On January 24, 2013, the Company issued NIS 53,125,000 par value of Debentures (Series 4), linked (principal and interest) to the Consumer Price Index at an effective annual interest rate of 6.25%. As of December 31, 2019, the Company is in compliance with the determined financial covenants. On January 29, 2020, the Company repaid the outstanding balance in the amount of NIS 11,156 thousand as well as interest and linkage in the amount of NIS 308 thousand.

(4) On September 10, 2014, the Company issued NIS 40,000,000 par value of Debentures (Series 5) at an effective annual interest rate of 6.59%. On February 12, 2019, the Company's Board of Directors approved a decision to perform an early repayment, at the Company's initiative, of the balance of the Debentures (Series 5) in order to complete the Split of the activity, in the amount of NIS 31,117 thousand, the difference of NIS 3,575 thousand against the book value of the Debentures was charged to the premium.

1.17 Taxation

For details on the tax laws applying to the Company and its subsidiaries, see Note 25 to the Company's 2019 consolidated financial statements– Chapter C of this Periodic Report.

For details regarding the implications of the split on the taxation of the Company's securities holders see Chapter 2 of the Split Prospectus.

1.17.1 The tax rates applicable to the Company

Amendment 71 of the Encouragement of Capital Investments Law (hereinafter: the "**Law**") provides for a tax rate on preferred income from a preferred enterprise of 16% (excluding Area A). The amendment also provides that if a dividend is distributed to an individual or a foreign resident from the profits of the aforesaid preferred enterprise, a tax rate of 20% will apply. Amendment No. 73 of the Law provides for a unique tax benefit track for a "preferred technological enterprise" whereby a tax rate of 12% applies (except Area A).

The Company has notified the Tax Authority of transition to the Amendment starting from the 2017 tax year.

The management of the Company estimates that the Company is eligible for preferred income benefits from a preferred technology plant.

The corporate tax rate in Israel in 2018 and 2019 is 23%.

1.17.2 The Company has tax assessments which are considered to be final up to 2014.

1.17.3 Approved enterprise/beneficiary enterprise

Until the end of 2016, the Company was on an approved/beneficiary enterprise track in accordance with the Encouragement of Capital Investments Law, 1959 (hereinafter: the "**Encouragement of Capital Investments Law**").

The balance of the undistributed profits of an approved/beneficiary enterprise, on which no tax has been paid, in accordance with self-assessments of the Company up to and including 2016 amounts to approximately NIS 38 million.

If a dividend from profits is distributed, the Company will be taxed at 25% and the dividend recipients will be taxed at 15%.

1.17.4 On November 28, 2018, the Company received a tax decision from the Tax Authority in connection with the Utron Split, including the transfer of the shares of Utron Solutions from the Company to Utron. For details see Note 25 to the 2019 consolidated financial statements - Chapter C of this Periodic Report.

1.17.5 The subsidiary, Unitronics Inc. is taxed under American tax law. The federal tax rate applicable to the aforesaid subsidiary up to and including 2017 is rated between 15% and 35%; The state tax rate applicable to Unitronics Inc. in the State of Massachusetts is 8.75%.

In 2017, a U.S. tax reform was approved effective as of 2018, the main impact of which on the operations of the Group activity is a drop in corporate tax to 21%.

1.18 Restrictions on and supervision of Company activities

1.18.1 Business license: Company operations at Unitronics Building in Airport City require a business license under the Business Licensing Law, 1968. In June 2004 the Company received from the Business Licensing Department of the Modi'in District Regional Council a business license, unlimited in time, for its plant at Airport City.

The Utron Automated Solutions operations in the leased building in Airport City which serves the Automated Solutions segment must hold a business license under the Business Licensing Law, 1968. Utron Solutions has a business license according to the law.

1.18.2 Work safety: The Company has a safety officer at its plant, in charge of compliance with the work safety provisions. The Company holds annual training courses for employees of various departments on work safety issues.

1.18.3 Standards: For details, see sections 1.9.22.

1.19 Material agreements and cooperation agreements

1.19.1 The agreement listed in section 1.4 above is a material agreement of the Company. In addition, the agreements detailed in this section are material agreements of the Company.

1.19.2 2013 Shelf Offering Report: On January 24, 2013 the Company published, pursuant to a shelf prospectus issued on February 23, 2011 (as amended again on January 20, 2013 and on March 4, 2013) (hereinafter: "**2011 Shelf Prospectus**"), a shelf offering report (hereinafter: "**2013 Offering Report**"), under which the public was offered up to NIS 53,125,000 par value of debentures (Series 4) of the Company, at 100% of their par value, linked (principal and interest) to the consumer price index of December 2012 (published on January 15, 2013). For the full text of the 2013 Offering Report, see report dated January 24, 2013, Reference No. 2013-01-021699. On January 29, 2020, the Company repaid the entire outstanding balance of the Debentures (Series 4). For further details, see section 1.3.2 above.

1.19.3 Trust deed for debentures (Series 4): On January 17, 2013, the Company entered into an agreement with Mishmeret Trust Services Ltd. (hereinafter in this section: "**the Trustee**") to serve as trustee for the debentures (Series 4) offered under the 2011 Shelf Prospectus 2011 and the 2013 Shelf Offering. The trust deed includes provisions as to the Trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the Trustee, replacement of the Trustee and expiry of the Trustee's office. As aforesaid, on January 29, 2020, the Company repaid the entire outstanding balance of the Debentures (Series 4).

1.19.4 2014 Shelf Offering: On September 10, 2014 the Company published, pursuant to a shelf prospectus dated August 19, 2014 (hereinafter: "**2014 Shelf Prospectus**"), a shelf offering report (hereinafter: "**2014 Offering Report**"), under which the public was offered up to NIS 40,000,000 par value of debentures (Series 5) of the Company, unlinked, at 100% of their par value. For the full text of the Offering Report, see report dated September 10, 2014, Reference No. 2014-01-155406. The Company repaid the entire outstanding balance of the Debentures (Series 5) as part of the Split. For further details, see section 1.3.2 above.

1.19.5 Restructuring agreement: The Company and Utron entered into a restructuring agreement whereby, subject to certain conditions, all the assets and liabilities of automated solutions activity will be transferred from the Company to Utron. For details see section 8.3 in the Split and Listing for Trade Prospectus dated February 28, 2019 which the Company and Utron published, (Reference No. 2019-01-017856), included herein by reference.

1.20 Subsidiaries

1.20.1 **Unitronics Building Management & Maintenance (2003) Ltd**.

1.20.1.1 General Description

Unitronics Building Management & Maintenance (2003) Ltd., ("**Unitronics Management**") was incorporated on April 29, 2003 as a wholly owned subsidiary of the Company.

1.20.1.2 Since March 2004, Unitronics Management is engaged primarily in the provision of maintenance, servicing and similar services in connection with the use of Unitronics Building (part of which is leased by the Company, while part is leased by interested parties in the Company, as detailed in section 1.12 in this section).

Unitronics Management operates out of Unitronics Building without offices, assets or designated employees of its own. The activity of Unitronics Management is carried out through managers and employees of the Company, making use of the Company's assets, while all the tenants of the building pay for the services of Unitronics Management on the basis of an index of charges that is identically applicable to all of them and requires payment pro rata to the area in use by each tenant. For details on the nature of the services provided by Unitronics Management and the payments collected by it (which are in amounts that are insignificant for the Company), section 1.12 above.

1.20.1.3 Registered and issued capital; the Company's share

As of the date of this report, the registered capital of Unitronics Management is NIS 100,000, divided into 100,000 ordinary shares of NIS 1 par value each, of which 1,000 shares have been issued, all of them held by the Company.

1.20.1.4 Cost of Unitronics Management shares to the Company and their carrying amount in its books

As of the date of this report, the cost to the Company of shares of Unitronics Management held by the Company is NIS 1,000.

1.20.1.5 Loans, credit, guarantees, investments in the Company

As of date of this report, Unitronics Management has no debts to the Company and the Company has not issued any guarantees in favor of Unitronics Management, with the exception of current debts in the ordinary course of business, in insignificant amounts.

1.20.1.6 Holders of more than 25% of the share capital

As of the date of this report, and since its incorporation, Unitronics Management has been wholly owned and controlled by the Company.

1.20.1.7 Management fees, interest, dividend and other payments from Unitronics Management

During the periods reported in this report, Unitronics Management has not paid and has not undertaken to pay the Company any management fees, interest or dividend, other than reimbursement of expenses in insignificant amounts.

1.20.1.8 Directors and senior officers in Unitronics Management

The directors of Unitronics Management are: Messrs. Haim Shani, Bareket Shani and Zvi Livne, all of whom serve as directors in the Company.

No General Manager has been appointed to Unitronics Management; Mr. Haim Shani, who also serves as CEO up to the Date of the Split and a Director of the Company, serves in practice as the Chairman of the Board of Directors of Unitronics Management.

1.20.1.9 Profit/(loss) of Unitronics Management

For information regarding profit (loss) of Unitronics Management, see the table in section 1.21.4.7 below.

1.20.2 **Unitronics Inc.**

1.20.2.1. General description

Unitronics Inc. was incorporated on June 25, 2001, as a wholly owned subsidiary of the Company. Unitronics Inc. is primarily engaged in the marketing and distribution of products from the Products segment of the Company and its service activities in the United States, and operates a network of more than 120 distributors spread primarily throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts (as stated in section 1.12.5 above), where most of the activities of the Products segment are carried out in the US.

1.20.2.2 Registered and issued capital, the Company's share

As of the date of this report, the registered share capital of Unitronics Inc. is $10, divided into 1,000 shares of $0.01 par value each, all of which have been issued to the Company and are held by it.

1.20.2.3 Cost to the Company of Unitronics Inc. shares and their carrying amount in its books

As of the date of this report, the cost to the Company of the shares of Unitronics Inc. held by the Company is US $10.

1.20.2.4 Capital notes, credit, guarantees, investments in the Company

The equity deficiency of Unitronics Inc. as of December 31, 2019 amounts to approximately NIS 5.5 million. The balance of the current debt of Unitronics Inc. to the Company as of December 31, 2019 amounts to approximately NIS 14.3 million. In addition, the Company issued to Unitronics Inc. capital notes for a total of NIS 12 million, unlinked and with no interest, as set forth in Note E(3) to the Special Report pursuant to Regulation 9C in Chapter C of this Periodic Report.

1.20.2.5 Holders of more than 25% of the share capital

As of the date of this report, and since its incorporation, Unitronics Inc. has been wholly owned and controlled by the Company.

1.20.2.6 Management fees, interest, dividend and other payments – Unitronics Inc.

During the periods reported in this report, Unitronics Inc. has not paid and has not undertaken to pay the Company any management fees, interest or dividend.

1.20.2.7 Directors and senior officers in Unitronics Inc.

Mr. Amit Ben-Zvi serves as Chairman of the Board of Unitronics Inc. Mr. Haim Shani serves as President and Ms. Bareket Shani, Mr. Shani's wife, serves as Corporate Secretary at Unitronics Inc. For details on the distribution of Mr. Shani's remuneration between the Company and Unitronics Inc., see section 4.7.3 in Chapter D of this Periodic Report.

1.21 Related companies

1.21.1 Utron, Utron Solutions and Utron Systems.

1.21.1.1 General description

As mentioned above, as part of the Split, all the shares of Utron Solutions which were held by the Company up to the the Split were transferred to Utron and the name thereof was changed to Utron Automated Solutions Ltd. on August 5, 2019..

1.21.1.2 Registered and issued capital, the Company's share

Up to the Split, the registered share capital of Utron Solutions is NIS 1,000,000, divided into 100,000,000 shares of NIS 0.01 par value each, of which 10,000 shares in the amount of NIS 100 were issued to the Company and are held by it. In addition, 11,622,000 shares of Utron Solutions in the amount of NIS 116,220 were allotted to the Company in consideration for the transfer of an IP development asset of the Company to Utron Solutions, pursuant to an agreement dated March 29, 2012 for the consolidation of the parking solutions business under the subsidiary.

As mentioned above, as part of the Split, all the shares of Utron Solutions which were held by the Company up to the Split were transferred to Utron.

1.21.1.3 Cost to the Company of Unitronics Solutions shares and their carrying amount in its books

Up to the Split, the cost to the Company of the shares of Utron Solutions held by the Company was NIS 116,320. As of the date of publication of this report, and as a result of the Split, the Company does not have the cost of the Utron Solutions shares which are held by the Company.

1.21.1.4 Capital notes, credit, guarantees, investments in the Company

As of December 31, 2018, the balance of the debt of Utron Solutions to the Company stands at NIS 121 million, classified as long term. In March 2019, the Company converted the debt to receipt on shares account. As part of an agreement from January 2019 which was made within the framework of the split, Utron has undertaken to step into the shoes of Utron Systems for the execution of a certain project if Utron Systems will not be able to execute the project, and compensate the customer for any damage and expense Utron Systems is responsible for, according to the agreement, and as long as Unitronics Systems has not violated the agreement. For details see sections 8.3.8 in the Split and Listing for Trading Prospectus dated February 28, 2019, which was published by the Company and Utron (Reference No. 2019-01-017856), included herein by reference. The balance of the debt to the Company after converting the receipts on account of the shares of Utron, Utron Solutions and Utron Systems is a net amount of approximately NIS 4 million.

1.21.1.5 Holders of more than 25% of the share capital

Up to the Date of the Split, Utron Solutions was wholly owned and controlled by the Company.

1.21.1.6 Management fees, interest, dividend and other payments – Unitronics Solutions

Up to the Date of the Split, Utron Solutions paid the Company interest and management fees for services provided to it by the Company which include management and administration services, After the Split, services agreements were signed between the Company and Utron as part of the Split which are also relevant to Utron Solutions after the Split, see Chapter 8 in the Split and Listing for Trade Prospectus dated February 28, 2019, published by the Company and Utron, (Reference No. 2019-01-017856), included herein by reference.

Profit (loss) before and after tax, dividend, management fees and interest income fromsubsidiaries and related companies.

	Year ended December 31, 2019	
	Unitronics Management	Unitronics Inc.
	NIS thousands	
Profit (loss) before tax	107	(596)
Profit (loss) after tax	107	(655)

Dividend	-	-
Management fees	-	-
Interest Income	-	-

	Year ended December 31, 2018				**Year ended December 31, 2017**			
	Utron Systems (*)	Utron Solutions (**)	Unitronics Manage-ment	Unitronics Inc.	Utron Systems (*)	Utron Solutions (**)	Unitronics Manage-ment	Unitronics Inc.
	NIS in thousands							
Profit (loss) before tax	715	(7,215)	(75)	3,608	(6)	(15,472)	26	(1,690)
Profit (loss) after tax	637	(7,363)	(75)	3,608	(6)	(15,472)	26	(1,690)
Dividend	-	-	-	-	-	-	-	-
Management fees	-	880	-	-	-	880	-	-
Interest income	-	3,093	-	-	-	2,719	-	-

The Company is not entitled to any dividend, interest or management fees in respect of the reporting year, apart from the data brought in the above table.

(*) Up to the Split, was wholly owned by Utron Solutions. The data shown above is taken from the books of Utron Solutions.
(**) Including the share of Utron Solutions in the losses of Utron Systems.

1.22 <u>Discussion of risk factors</u>

The following are risk factors affecting the Company (in the Products segment and in the Automated Solutions segment), and management's assessment as to the extent of their influence on its business:

Type of risk	**Nature of risk**	**Estimated extent of influence on the Company**
Macro risks	*Exposure to market risks*: The Company is exposed to fluctuations in interest rates, in exchange rates and in the consumer price index. For details see Note 28 to the 2019 consolidated financial statements– Chapter C of this Periodic Report.	Medium

Type of risk	Nature of risk	Estimated extent of influence on the Company
	Exposure to strikes in Israeli ports: Strikes in Israel's seaports and/or airports could delay the import of raw materials used by the Company (including logistics system components) and/or the export abroad of Company products, thereby disrupting the supply times to which the Company is committed, which is liable to cause the Company expenses and/or harm its reputation.	Low
	Production in China: The situation in China has an effect on the Company's operations through its subcontractors in China. Harm to the Company's subcontractors in China, without sufficient warning to enable the finding of alternative subcontractors, may result in delays in supplying the Company's products to its customers.	Medium
	Impact of the Corona virus: The Company is exposed to the influence of local and global macroeconomic effects and risks associated with the outbreak of the Corona virus, which may affect its ability to purchase raw materials and products, their prices, their conveyance and the ability thereof to regularly produce, sell and ship products. In addition, the Company is exposed to a decline in demand for its products, an impact on sales volume and the strength of its customers. Failure to eradicate the Corona virus and the continuation or exacerbation of measures taken by the authorities and the countries may adversely affect the Company's business activities, including, inter alia, the possible lack of human resources due to absenteeism, lengthening of project times, delays in projects performed by the Company caused by damage to third parties, a slowdown in customer activity, restrictions on travel abroad of employees and managers of the Company and instability in global markets. In this regard, it should be noted that as of the date of publication of the periodic report a material negative financial impact is evident, the negative consequences of which are likely to extend to many sectors of the market, the scope of which cannot be estimated in the world and in Israel. As of the date of the periodic report, capital markets around the world, as well as in Israel, have reacted radically to the crisis and there has been a sharp decline in prices, including the in the shares of the Company.	Medium
Sector-related risks	*Competition*: The Company is exposed to competition from entities whose resources and reputation surpass those of the Company as set forth in section 1.9.14..	High
	Standards: The Company is exposed to risks arising from the failure of its products or services to comply with certain standard requirements as set forth in sections 1.9.21 and 1.9.22 above.	Medium

Type of risk	Nature of risk	Estimated extent of influence on the Company
	Raw materials: The Company is exposed to risks arising from temporary shortages in electronic components worldwide and limited allocations of components by component manufacturers, in cases of excess demand, as set forth in section 1.9.19 above.	Medium
	Development of new technologies and/or products: The Company is exposed to the risks involved in developing new products and/or technologies the successful development and/or the marketing of which is doubtful as specified in sections 1.9. 5 and 1.9.16 above.	Medium
	Cyber threats – the Company is exposed to risks emanating from the use of a large variety of IT systems and various communications components, when some of these systems include internet connection and/or internet cloud. The Company uses different means to protect these systems, starting with a firewall, through encryption devices and software/hardware protections intended to prevent hacking or malware disruptions. The use of such protections proved in the past to be reliable and effective, as a rule, and the systems implemented by the Company has not been adversely affected by malicious activity such that were described above. Nevertheless, there is no guarantee that these means and devices will continue to protect in the future against hacking and disruption attempts. Such hacking or disruptions may adversely affect the Company's results.	
	Leverage: The Company has commitments for the repayment of loans as specified in section 1.16 above. If the Company's assessments regarding its financial strength prove erroneous, there is a possibility, though unlikely, that the Company will be unable to comply with the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (*inter alia* for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite its financial strength, to comply with the loan repayment terms in the future. The balance of the Company's liabilities for repayment of external loans as of December 31, 2019 (prior to the payment of the full balance of the Debentures (Series 4) of the Company in January 2020) was in the amount of approximately NIS 30 million as specified in section 1.1.6 above.	low
	Unregistered intellectual property: The Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks arising from the non-registration of those items of intellectual property in respect of which	Low

Type of risk	Nature of risk	Estimated extent of influence on the Company
	applications were filed and are pending (for details see section 1.13 above).	
	Low share prices and trading volumes: The volumes of trading in the Company's shares on the Tel Aviv Stock Exchange are generally low, a fact which adversely affects their marketability and could make it difficult for the Company to raise additional capital from the public, should it wish to do so.	Low

Chapter B – Board of Directors Report on the State of Affairs of the Corporation (Reg. 10 - 10A)

The Board of Directors of the Company is pleased to submit the Board of Directors' Report on the State of Affairs of the Company for the year ended December 31, 2019 (hereinafter: "the reporting period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Regulations"). The Board of Directors' report reviews the major changes in the Company's activities, which occurred during the period of the report up to the date of publication of the report. It is clarified that the description contained in the Board of Directors' report includes only information which, in the Company's opinion, constitutes material information and is made assuming that the reader has a description of the corporation's business as included in Chapter A of this periodic report.

2.1 Summarized Description of the Corporation and Its Business Environment

Up to the date of the split the Company had two operating segments as detailed in section 1.3.1 in Chapter A of this Periodic Report and in note 24 of the consolidated financial statements for 2019 - Chapter C of this Periodic Report: the Products segment (for details see section 1.9 in Chapter A of this Periodic Report) and the Automated Solutions segment (for details see section 1.10 in Chapter A of this Periodic Report). As stated in section 1.3 in Chapter A of this Periodic Report, on the date of the split the Company's automated solutions (Hereinafter: "Discontinued Operations") operation was transferred to Utron Ltd., A company controlled by the company's controlling shareholders ("Utron") and from that date the company ceased to operate in the field of automated solutions.

2.2 Analysis of Financial Position

2.2.1 Statement of Financial Position

	As of December 31		Board of Directors Explanation for the Changes
	2019	2018	
	NIS in thousands		
Current assets	81,660	126,656	1. Derecognition of current assets attributable to the discontinued operation offset by debit balances attributable to the related company 2. A decrease in cash balances for the purpose of repaying series 4 debentures of Series 4 and the prepayment of series 5 debentures, which was partly financed with a bank loans.

	As of December 31		Board of Directors Explanation for the Changes
	2019	**2018**	
	NIS in thousands		
Non-current assets	65,896	82,302	1. Derecognition of non-current assets attributable to the discontinued operation in an amount of NIS 24 million. 2. Creation of rights-of-use assets as a result of the influence of the application of IFRS 16 in the amount of NIS 3 million. 3. An increase in deposits restricted for use in the amount of NIS 5 million.
Total assets	**147,556**	**208,958**	
Current liabilities	49,233	60,127	1. Derecognition of current liabilities attributable to the discontinued operation offset by credit balance attributable to a related company. 2. Creation of lease liabilities as a result of the application of IFRS 16 in the amount of NIS 2 million.
Non-current liabilities	41,765	52,367	1. An increase in long-term loans for continued activities, in the amount of NIS 26 million for the prepayment of Series 5 debentures. 2. . Creation of lease liabilities in the continued activity as a result of the first-time adoption of IFRS 16 in the amount of NIS 1 million. 3. Current payments of series 4 debentures and prepayment of series 5 debentures in the amount of NIS 37 million.
Equity attributable to shareholders of the Company	56,558	96,464	Derecognition of capital attributed to the discontinued operation, including a current loss from discontinued operation in the amount of NIS 47 million. Profit from continued activities in the amount of NIS 8 million
Total liabilities and equity	**147,556**	**208,958**	

The working capital of the Company at December 31, 2019 and December 31, 2018 was NIS 32,427 thousand and NIS 66,529 thousand, respectively. The decrease in working capital of the company is due to decrease in current assets of the company, as described above.

2.2.2 Operating results

2.2.2.1 As a result of the spin-off, the operating results in the financial statements (including the comparative figures) are attributable to the continued activity (the products segment). The discontinued operation (the automated solutions segment), is presented as the operating results of discontinued activities as described in section 2.2.2.2 below.

	For the year ended on December 31,			**Board of Directors Explanations for the Changes**
	2019	**2018**	**2017**	
	NIS in thousands			
Income	137,545	134,946	123,596	The growth in income in 2019 compared to 2018 is mainly due to the increase in business activity in the US and the launch of new products, with neutralization of the influence of the decrease in the exchange rate of the Euro which decreased the sales in Shekel terms.
Cost of income	78,807	75,223	70,656	
Gross profit (gross profit margin)	58,738 (42.7%)	59,723 (44.26%)	52,940 (42.83%)	Gross profit in 2019, as well as the gross profit rate, decreased mainly due to the impact of the decline in the euro exchange rate on gross margin as well as an increase in labor costs and overheads in production.
Development expenses	3,941	3,866	2,810	The development expenses are without material change and reflect continued investment in the development of the technologies required to support the Company's activity.
Selling and marketing expenses	26,702	25,313	21,478	The growth in sales and marketing expenses in 2019 compared to the corresponding period is primarily due to the expansion of the Company's sales overseas.
General and administrative expenses	15,108	16,054	11,842	The decrease in general and administrative expenses in 2019 compared to the corresponding

				period is mainly due to the reduction of expenses following the spin-off.
Other expenses	-	146	-	
Profit from ordinary activities	12,987	14,344	16,810	
Financing expenses, net	3,299	4,261	5,504	The decrease in financing expenses 2019 compared to the corresponding period was due to a decrease in interest expenses due to a decrease in the total balance of liabilities in respect of bonds and loans, financing income from hedging transactions less expenses for exchange rate differentials, and less an increase in the expenses of revaluation of Fimi's options written to finance expenses.
Profit before taxes	9,688	10,083	11,306	
Taxes on income	1,545	1,320	1,127	The changes in tax expenses compared to previous periods derives mainly from taxes with regard to previous years which were credited in the previous as well as from the profit mix in the period in respect of which the Company created a provision for current taxes, taking into account the tax benefits to which the Company is entitled as well as from changes in deferred tax balances.
Profit for the period from continued activity	8,143	8,763	10,179	
Profit (loss) from discontinued operation	(5,513)	1,452	(9,143)	
Profit (loss) for the period	2,630	10,215	1,036	

2.2.2.2 Results of the discontinued operation

Following the spin-off, the automated solutions segment is presented under "results of discontinued operation", separately from "profit for the period from discontinued operation", as detailed in note 3 of the financial statements for December 31, 2019. These results are the same as those reported in the financial statements for the first quarter of 2019, during which the spin-off was carried out.

2.3 Liquidity and Financing Sources

As of December 31, 2019, 2018 and 2017, the balance of cash, cash equivalents, marketable securities and bank deposits of the Company totaled NIS 15,590 thousand, NIS 37,826 thousand and NIS 54,919 thousand, respectively. Following are explanations for the changes in cash flows:

	As of December 31			Board of Directors Explanation of Changes
	2019	2018	2017	
	NIS in thousands			
Cash flow – operating activities	22,283	5,682	8,942	The cash flows up to the spin-off date also include the continued activities as well as the discontinued operation. Cash flows from operating activities in the year of 2019 derives from the profit from continued activities after deducting the losses from the discontinued operation, and net of adjustments to cash flows, mainly from depreciation and amortization
Cash flow – investing activities	(20,825)	9,892	11,757	The cash flows used in investment activities during the reported period was mainly generated by investment in development assets and the use of a long-term deposit as collateral for the loans, and cash expenses following the spin-off.
Cash flow – financing activities	(23,427)	(13,328)	(9,760)	The cash flows used in financing activities during the reported period was mainly used to repay debentures net of loans provided by a banking corporation.

As of December 31, 2019 and as of the reporting date, the Company had unused confirmed credit facilities available for operating activities totaling NIS 900 thousand. The Company turns from time to time to the financial institutions to receive credit lines according to its needs.

2.4 Subsequent events

A. On January 1, 2020, the Company announced that it was back to the definition of "small corporation" (as defined in these Regulations) and that in light of the above, and in accordance with the decision of the Company's Board of Directors on the matter, the Company will continue to apply all the reliefs it has implemented until that date as a small corporation, From the 2019 Periodic Report, and will continue to report by quarterly reporting format (from the reporting period beginning January 1, 2020). For more details, see the Company's Immediate Report of January 1, 2020 (Reference No. 2020-01-000085). The above mention is a generalization on the way of referral.

B. On January 29, 2020, the Company repaid the balance of debentures (Series 4) in the amount of NIS 11,156 thousand, as well as interest and linkage in the amount of NIS 308 thousand. A pledged deposit in the amount of the semi-annual interest payments of the debentures in favor of bondholders (Series 4), was removed in February 2020 with the repayment of the bond.

C. On March 9, 2020, the Company took out a loan from a banking corporation of 1.9 million euros for a period of 24 months. The loan is repaid on 24 monthly installments, carries a fixed interest rate of 2.58% per annum, and joins existing liens and liabilities on the Company's loans from the banking corporation.

D. The company is exposed to local and global macroeconomic impacts and risks associated with the Corona virus outbreak, which could affect its ability to purchase raw materials and products, their prices, their conveyance, and their ability to regularly produce, sell and ship products. In addition, the company is exposed to a decline in demand for its products and an impact on sales volume and the strength of its customers. Non-eradication of the Corona virus and the continuation or exacerbation of measures taken by authorities and countries (both in Israel and abroad), and in particular in its centers of activity in the United States from which the Company distributes its products in North America and whose revenues are very material to the Company as well as in production centers and / or raw materials such as China and Korea) may impair the Company's business activity, due, among other things, to a decline in production capacity (resulting from, among other things, disabling personnel or restricting movement of citizens, workers, congregations, gatherings, workers' isolations returning from abroad or coming into contact Direct with agents returning from overseas and required for isolation) , Components for end products or products, inter alia, as a result of transport restrictions, including due to disabling ports or airports (as well as a reduction in the volume of international commercial flights), restrictions on the departure of company employees and managers from the country, relocation of workers to work from home and global market instability, which may cause a decrease in demand for the company's products, a rejection or delay in the supply of products and / or an effect on their prices, and other negative consequences that are difficult to anticipate. It should be emphasized that in view of the fact that this is a dynamic event characterized by a great deal of uncertainty, among other things, in connection with the rate of the spread of the Corona virus, the duration of the spread and the measures taken by the various authorities in the various countries in which the company is active, the company cannot assess the full extent and the nature of the effects of its activities. The degree of influence depends on the extent and extent of their materialization. In this context, it should be noted that, as of the date of publication of the periodic report, a significant negative economic impact is evident, the negative consequences of which are likely to extend to many sectors of the economy and its scope, in the world and in Israel, cannot be estimated. As of the date of the periodic report, capital markets around the world, as well as in Israel, have reacted to the crisis and have seen sharp declines in prices, including the company's shares.

2.5 Details required by Regulation 8B (9) of the Regulations

Identify the subject of the assessment	Fair value The price adjustment mechanism of a warrant for a warrant
The timing of the assessment	December 31, 2019
The value of the valuation issue	NIS 6,103,636
Appraiser	Accountant Shai Fulbranis, holds an A.B. in economics with an accounting degree from Ben-Gurion University. He holds an Israeli accountancy license. Fulbrenis CEO Barkat Ben-Yehuda since 2007.
Experience in carrying out valuations for accounting needs in reported corporations and on a scale similar to that of the reporting or exceeding valuation	Has rich experience of 13 years in the field of valuations and economic consulting on similar or larger scale.
Company dependency	There is no dependency on the company.
Providing indemnity to the valuator	The Company undertakes to indemnify the Valuer in connection with any compensation, which exceeds three of the fees paid by the Company to the Valuer in respect of the Opinion, in which the Valuer must be valued to a third party and / or the Company in connection with the Opinion, including, in all The expenses that will be required for legal representation, including expert advice and opinion, will be transferred to the valuator within 30 days from the date of their valuation notification to the Company.
Evaluation model	Monte Carlo
The assumptions by which the assessor made the valuation	Unitronics Standard Deviation 31.58%, Utron Standard Deviation 30.34%, Riskless Interest Rate 0.3%, Lifetime 3 Years, Unitronics Base Property NIS 12.73, Utron Base Property 8.12.
Impact on profit and loss	Financing expenses of NIS 2,202 thousand for the period ended December 31, 2019.

2.6 Report on Liabilities by Maturity Dates (Reg. 9D)

For details of the Company's liabilities by maturity dates, as of December 31, 2019, see Immediate Report T-126 Published by the Company concurrently with the publication of this report, which is hereby incorporated by reference.

2.7 Corporate Governance Aspects

2.7.1 Details on the Company's Internal Auditor

(a) The Company's internal auditor is the accountant Daniel Shapiro, who holds this position from May 2019. Until then, served as the Internal Auditor, Ronen Leibowitz, who sought to terminate his position as the Company's internal auditor, with effect from the date of another internal auditor To the company. The appointment of the Auditor Shapira was approved at the meetings of balance-sheet, Remuneration and Audit committee (in this section 2.7 - "Audit Committee") and the Company's Board of Directors on May 27, 2019 and May 30, 2019, respectively. To the best of the Company's knowledge, Auditor Shapira complies with section 146 (B) The Companies Law and the provisions of Section 8 of the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law"). In the opinion of the Company's Board of Directors, Shapiro's accountant meets the requirements set out in the above standards, taking into account his professionalism, his skills, his period of employment By the Company, its familiarity with the Company, and the manner in which it edits, submits and presents to the Company the findings of the audits conducted by him. The Internal Auditor appointed to the position after the Audit Committee and the Company's Board of Directors We have reviewed his experience and activities in the field of internal auditing with other public companies and, inter alia, in the type of company, its size, scope and complexity, and in light of its duties, powers and functions Imposed upon him. The internal auditor of the company has no material business or other significant relationships with the company or a related company It should be noted that the internal auditor also serves as the internal auditor of Utron Ltd., a company controlled by the company's controlling shareholders. To the best of the Company's knowledge, the Internal Auditor does not play any role outside the Creator Company or may conflict with his role as the Company's internal auditor and does not hold any of the Company's securities.

(b) CPA Daniel Shapira does not play any additional role in the Company beyond his term as Internal Auditor of the Company, and provides internal audit services to the Company as an external entity through the firm of Daniel Shapira Accountants located in 7, Jabotinsky St., Ramat Gan, which specializes in internal audit. And has approximately 27 years of internal audit experience in public companies in a variety of areas of activity.

(c) The organizational supervisor of the internal auditor of the company is the chairman of the board of directors of the company, and the chairman of the audit committee of the company as a professional supervisor and the person who directs the internal auditor on the matters for internal audit.

(d) <u>Work plan and considerations in its determination</u>: The audit work plan in the Company is a multi-year plan, the considerations in which it is determined are mainly: (1) the internal auditor's proposals, (2) the members of the audit committee and the company's board of directors based, inter alia, on the internal auditor's proposals, Internal Audit Issues In previous years, the Company's General Counsel's recommendations and issues discussed at regular meetings of the Audit Committee and the Company's Board of Directors, (3) the size of the Company, its organizational structure, the nature and scope of its business activities, and (4) a risk survey conducted at the Company and necessary adjustments. The audit committee discusses and approves the annual work plan and the issues to be reviewed by the internal auditor and these issues are reviewed by the internal auditor in his annual work. It is the internal auditor's authority to act in his discretion as to whether to deviate from the planned program and to check data found by him at random during the execution of the work plan. If the internal auditor decides to carry out a comprehensive examination of a topic or subject that is not on the list approved by the Audit Committee for the annual or periodic work plan, the internal auditor will recommend to the Chairman and the Audit Committee to amend the program and this will result in discussion and approval within the meetings of the Audit Committee. From time to time, and in accordance with the need for the company's activities abroad as well.

(e) During the reporting period, 120 hours were spent by the internal auditor on internal auditing of the Company in Israel. The Board of Directors believes that this number of hours is consistent with the activity reviewed by the auditor. The auditor is allowed flexibility in shifting hours from one issue to another. Also, since his work is carried out on a regular and continuous basis, the internal auditor can shift hours from one year to the next to enable suitable in-depth and exhaustive coverage of the reviewed issues at his discretion. Furthermore, the scope of employment of the internal auditor is determined each year together with the approval of the work plan, taking into consideration, inter alia, and the scope of the work plan for the relevant year, its complexity and the sensitivity of the issues reviewed during that year.

	2019	**2018**
Hours spent on internal audit of the Company with respect to its operations in Israel.	120	130
Hours spent on internal audit of investee companies with respect to their operations in Israel.	-	-
Hours spent on internal audit of the Company and investee companies with respect to their operations overseas.	-	-

(f) The internal auditor, pursuant to his notice to the Company dated December, 2019, performs the internal audit in accordance with generally accepted professional standards, as stated in section 4(b) of the Internal Audit Law, which are based on the professional standards for internal auditing. In the Board of Directors' opinion, the internal auditor meets the requirements stipulated by the above standards, having regard to the internal auditor's professional aptitude and skills, the duration of his employment by the Company, his familiarity with the Company, and the manner in which he prepares and submits the audits and presents their findings to the Company.

(g) Review of material transactions: The internal auditor did not review the material transactions, as the term is defined in section 5(f) of the Fourth Schedule to the Regulations, which the Company executed during the reporting period, including the process of their approval.

(h) All documents and information requested by the internal auditor, including with respect to operations of subsidiaries, are provided to him as stipulated by section 9 of the Internal Audit Law, and he is allowed free access to such information, including continuous, unmediated access to Company information systems, including financial data.

(i) Below are the dates on which a written report on the internal auditor's findings was submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held on the reports by the Audit Committee and/or Board of Directors of the Company:

Issue	**2019 reports**	**2018 reports**
Report No 1:		
Date of submission of internal auditor's report	December, 2019	March, 2019
Date of discussion by Audit Committee	March 22, 2020	March 21, 2019
Date of discussion by Board of Directors	March 25, 2020	March 27, 2019

- Another report is in progress

(j) The Board of Directors believes that the scope, nature and continuity of the activity and work plan of the Company's internal auditor are reasonable, considering the size of the Company, its organizational structure and the nature and scope of its business activities, and that they allow for the fulfillment of the objectives of the internal audit.

(l) The internal auditor's fee for services rendered for 2019 amounted to NIS 24 thousand and includes another report which has not yet been presented to the audit committee and the company's board of directors. The internal auditor is paid an hourly rate of NIS 200. In the Board of Directors' opinion, the remuneration of the internal auditor does not influence his professional judgment, considering, inter alia, the Board of Directors' impression of the manner in which he performs the internal audit work at the Company, the level of detail, accuracy and depth of the audit findings submitted by him to date, as well as the amount of his overall income relative to his fee as the Company's internal auditor, to the best of the Company's knowledge.

2.7.2 Directors Having Accounting and Financial Skills

Pursuant to section 92 (a) (12) of the Companies Law, The Company's board of directors has determined that the minimum number of directors having accounting and financial expertise is two. This decision was made taking in account, among others, the type and size of the Company, as well as the scope and complexity of its business activities. In the opinion of the Company's board of directors, the minimum number of directors as stated allows the board to perform and exercise its duties, functions and powers pursuant to the law and the Company's incorporation documents.

For details on directors having accounting and financial skills, see section 4.13 in Chapter D of this Periodic Report.

2.7.3 Independent directors

As of the report date, the Company has not incorporated in its Articles of Association the provisions of the Companies Law, 1999, regarding the number of independent directors.

2.7.4 Donations policy

The Company has no policy regarding charitable donations.
However, it should be noted that the company contributed in 2019 amounts which are not material to the Company.

2.7.5 Disclosure Regarding Fee of Independent Auditors

The accountant of the Company and its subsidiaries in Israel and the United States is BDO Ziv Haft.

The fee of the Company's accountants for the services provided to the subsidiaries is determined based on the scope of work required to render the services. The accountants' fee is determined in accordance with the recommendation of the Company's management (and upon receipt of the Audit Committee's position that the salary paid to the auditor during the reporting period is adequate) by the Company's Board of Directors in light of the required audit work and to compare external auditors' fees in public companies similar to the Company in relation to the scope Their activity, in relation to the salary used in previous years, and in relation to the volume of audit activity expected in the reporting year, According to the authority granted to him by the General Meeting of Shareholders of the Company which appointed the auditors.
Below are details of the total remuneration to which the Company's independent auditors are entitled in respect of audit and other services:

CPA	Company to which service was rendered	Nature of service	2019* NIS in thousands	2019* work hours	2018 NIS in thousands	2018 work hours
BDO Ziv Haft, Tel Aviv, Israel	Unitronics (1989) (R"G) Ltd. and its subsidiaries	Audit services, audit-related services and tax services	2,040	256	2,380	359
BDO Ziv Haft, Tel Aviv, Israel	Unitronics (1989) (R"G) Ltd. and its subsidiaries	Shelf Prospectus and Split- Utron Ltd.	-	-	1,944	356

*After the spin off

2.8 Disclosure Requirements in Connection with Financial Reporting

2.8.1 Critical accounting estimates:

For details on the critical accounting estimates used in the financial statements, see Note 2 (Accounting Policy) to the consolidated financial statements for 2019 – Chapter C of this Periodic Report.

2.9 <u>Specific Disclosure to Debenture Holders</u>

2.9.1 Corporate debentures (Reg. 10(b) (13))

2.9.2 For details regarding the final redemption of the Company's debentures (Series 4) on January 31, 2020, as a result of which the Company has discharged all of its debenture obligations (Series 4) and the debentures (Series 4) have been cleared from the Tel Aviv Stock Exchange. See the Immediate Report of the Company January 30, 2020 (Reference No. 2020-01-009766), which is hereby incorporated by reference, and Note 30B to the Consolidated Financial Statements for 2019 - Chapter C of this Periodic Report.

2.9.3 For details regarding full early redemption of the Company's debentures (Series 5) on April 1, 2019, the Company repaid its full obligations to the Debentures (Series 5) and the debentures (Series 5) were cleared from the Tel Aviv Stock Exchange. See Note 14B to the Consolidated Financial Statements for 2019 - Chapter C of this Periodic Report.

2.10 **<u>Share Buyback</u> –** As of the reporting date, the Company has no buyback plans in effect.

____________________	____________________	____________________
Amit Ben-Zvi Joint Active Chairman of the Board of Directors	Haim Shani Active Chairman of the Board of Directors	Amit Harari CEO

March 25, 2020

UNITRONICS (1989) (R"G) LTD

Consolidated
Financial Statements
December 31, 2019

Unitronics (1989) (R"G) Ltd

Consolidated Financial Statements

December 31, 2019

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Independent Auditors' Report
To the shareholders of Unitronics (1989) (R"G) Ltd.

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as of December 31, 2019 and 2018 and the consolidated statements of profit or loss, comprehensive Income (loss), changes in equity and cash flows for each of the three years ended December 31, 2019. These consolidated financial statements are in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditor's Regulations (Auditor's Mode of Performance) 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2019 and 2018 and the results of operations, changes in equity and cash flows of them for each of the three years ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) and Israeli Securities Regulations (Annual Financial Statements), 2010.

Without prejudice to the foregoing opinion, we draw your attention to the aforesaid in Note 1 and 3 of the financial statements regarding the Spinoff of the Group's automated solutions segment and related activities during the reporting period, and the presentation thereof as discontinued operations.

Ziv Haft
Certified Public Accountants (Isr.)
BDO Member Firm

March 25, 2020

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Financial Position

	Note	December 31, 2019	December 31, 2018
		NIS thousands	
Current assets			
Cash and cash equivalents	4	15,590	37,826
Restricted cash	16B(3)	306	613
Deposits in banks		4,008	-
Receivables, net	5	19,121	35,244
Income receivable from construction agreements	8	-	12,379
Receivables and outstanding balances	6	3,455	4,618(*)
Related companies	1B	3,420	-
Inventory	7	35,760	35,976
		81,660	126,656
Non-current assets			
Restricted use bank deposits	1A	4,815	-
User right assets	8	16,331	-
Other deposits		118	269
Fixed assets, net	9	2,443	20,835
Intangible assets, net	10	42,189	61,198
		65,896	82,302
		147,556	**208,958**

(*) Reclassified

Amit Ben Zvi and Haim Shani Joint Chairmen of the Board of Directors	Amit Harari CEO	Yehuda Cohen Chief Financial Officer

Date of approval of the financial statements: March 25, 2020

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Financial Position

	Note	December 31, 2019	December 31, 2018
		NIS thousands	
Current liabilities			
Current maturities of loans from banks	11A	2,323	358
Current maturities of bonds	11B	11,396	13,106
Accounts payable - Trade		17,111	21,823
Related companies	1B	6,715	-
Liabilities in respect of construction agreements		-	3,467
Lease liabilities	8	2,014	-
Receivables and credit balances	12	9,674	21,373(*)
		49,233	60,127
Non-current Liabilities			
Loans from banks	13	27,954	1,967
Bonds	14	-	36,979
Liabilities for benefits to employees, net	15	1,982	2,242
Lease liabilities	8	1,114	-
Liability for share options	28E	6,104	6,872
Deferred taxes	25H	4,611	4,307
		41,765	52,367
Contingent liabilities, mortgages and guarantees	16		
Equity	17,18		
Share capital		427	427
Share premium		63,204	104,513
Capital reserve with regard to conversion of financial statements of foreign activities		(2,436)	(1,598)
Capital reserve for share based payment		151	-
Shares in the treasury		(7,042)	(7,042)
Fund regarding a transaction with the controlling shareholder		104	104
Retained (loss) profit		2,150	60
		56,558	96,464
		147,556	**208,958**

(*) Reclassified

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Profit or Loss

		For the year ended December 31,		
		2019	2018	2017
	Note	NIS thousands		
Revenues	26	137,545	134,946	123,596
Cost of revenues	19	78,807	75,223	70,656
Gross profit		58,738	59,723	52,940
Development expenses, net	20	3,941	3,866	2,810
Selling & marketing expenses	21	26,702	25,313	21,478
General & administrative expenses	22	15,108	16,054	11,842
Other expenses		-	146	-
Operating profit (loss)		12,987	14,344	16,810
Financing incomes	23A	1,169	774	942
Financing expenses	23B	4,468	5,035	6,446
Profit (loss) before tax benefit (taxes on income)		9,688	10,083	11,306
Tax benefit (taxes on income)	25K	1,545	1.320	1,127
Profit from continuing operations		8,143	8,763	10,179
Profit (loss) from discontinued operations	1,3	(5,513)	1.452	(9,143)
Profit for the period		2,630	10,215	1,036
Basic profit (loss) per ordinary share of NIS 0.02 par value :	27			
Basic profit (loss) per share in NIS from continued operations		0.592	0.637	0.740
Basic profit(loss) per share in NIS from discontinued operations		(0.401)	0.106	(0.665)
Basic earnings per share in NIS		0.191	0.743	0.075
Diluted earnings per share in NIS from continuing operations		0.592	0.610	0.740
Diluted profit (loss) per share from discontinued operations		(0.401)	0.102	(0.665)
Diluted profit per share in NIS		0.191	0.712	0.075

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Comprehensive Income (Loss)

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Profit (loss) for the period	2,630	10,215	1,036
Other comprehensive income (loss) (after tax)			
Items that will not be classified afterwards to profit or loss:			
Remeasurement gain (losses) from defined benefit plans	(540)	340	(70)
Items that will be reclassified to profit or loss in the future if certain conditions are met:			
Adjustments arising from translating financial statements of foreign operations	(1,175)	764	(2,646)
Other comprehensive income (loss) for the year	(1,715)	1,104	(2,716)
Total comprehensive income (loss) for the year	915	11,319	(1,680)

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Changes in Equity

	Share capital	Share premium	Capital reserve from conversion of financial statements of foreign operations	Capital reserve from share based payments	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings (loss)	Total
			NIS thousands					
Balance at January 1, 2017	427	104,513	209	-	(7,042)	104	(2,167)	96,044
Net profit for the year	-	-	-	-	-	-	1,036	1,036
Other comprehensive loss for the year	-	-	(2,646)	-	-	-	(70)	(2,716)
Total comprehensive income (loss) for the year	-	-	(2,646)	-	-	-	966	(1,680)
Balance at December 31, 2017	427	104,513	(2,437)	-	(7,042)	104	(1,201)	94,364
Cumulative effect of the initial implementation of IFRS 15	-	-	75	-	-	-	(9,294)	(9,219)
Profit for the year	-	-	-	-	-	-	10,215	10,215
Other comprehensive income for the year	-	-	764	-	-	-	340	1,104
Total comprehensive income for the year	-	-	764	-	-	-	10,555	11,319
Balance at December 31, 2018	427	104,513	(1,598)	-	(7,042)	104	60	96,464
Profit for the year	-	-	-	-	-	-	2,630	2,630
Other comprehensive income for the year	-	-	(1,175)	-	-	-	(540)	(1,715)
Total comprehensive income for the year	-		(1,175)		-	-	2,090	915
Cost of share based payment			-	151	-	-	-	151
Spinoff of the automated solutions segment and related activities (*)	-	41,309	337	-	-	-	-	(40,972)
Balance at December 31, 2019	427	63,204	(2,436)	151	(7,042)	104	2,150	56,558

(*) See notes 1 and 3

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Cash flows - operating activities			
Profit (loss) for the year	2,630	10,215	1,036
Adjustments necessary to show the cash flows from operations (Appendix A)	19,653	(4,533)	7,906
Net cash flows derived from operating activities	22,283	5,682	8,942
Cash flows - investment activities			
Investment in fixed assets	(1,123)	(832)	(1,421)
Realization of (investment in) short-term deposits in banks	(4,000)	20,000	25,000
Realization of restricted cash	307	386	1,069
Realization (investment) in other long-term deposits, net	-	-	(14)
Investment in pledged long term deposit	(5,000)	-	-
Investment in intangible assets	(11,009)	(9,662)	(12,877)
Net cash flows provided by (used in) investing activities	(20,825)	9,892	11,757
Cash flows - financing activities			
Repayment of long-term loans	(1,836)	(354)	(1,094)
Taking of loans (*)	30,000	--	-
Cash expended during the Spinoff of the automated solutions (*)	(6,483)	-	-
Repayment of bonds (*)	(42,624)	(12,974)	(8,666)
Repayment of pledges with regard to leases	(2,844)	-	-
Net cash used in financing activities	(23,427)	(13,328)	(9,760
Conversion differences for cash and cash equivalents	(267)	870	(1,986)
Annual change in cash and cash equivalents	(22,236)	3,116	8,953
Cash and cash equivalents at beginning of year	37,826	34,710	25,757
Cash and cash equivalents at end of year	15,590	37,826	34,710

(*) See notes 1 and 3

The notes to the Consolidated financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Appendix A			
Adjustments necessary to present the cash flows from current operations			
Income and expenses not involving cash flows:			
Depreciation and reductions	16,079	17,100	17,265
Cost of share based payment	151	-	-
Changes in liabilities for benefits to employees, net	(263)	36	118
Revaluation of cash balances in foreign currency	(135)	(234)	14
Capital loss	-	146	13
Change in deferred taxes	(411)	(330)	395
Reevaluation of deposits in banks	204	209	(62)
Reevaluation of long-term loans and bonds	(214)	679	130
Reevaluation of other financial assets	(365)	342	396
Reevaluation of share options	2,202	(38)	2,103
Interest for IFRS 16	(118)	-	-
Changes in assets and liabilities:			
Decrease (increase) in trade receivables and receivable income	9,340	(6,556)	(29,768)
Increase in revenues receivable in respect of construction contracts	(5,195)	(12,379)	-
Decrease (increase) in accounts receivables - other	(1,173)	(1,223)	261
Increase in inventory	(3,967)	(3,231)	(7,045)
Increase in related companies, net	3,271	-	-
Increase (decrease) in accounts payable - trade	(1,088)	(1,078)	3,222
Increase (decrease) in accounts payable - other	4,802	(1,443)	22,051
Increase (decrease) in liabilities with regard to construction agreements	(3,467)	3,467	-
Decrease (increase) in work being performed	-	-	(1,097)
	19,653	(4,533)	7,906
Appendix B - Additional information on cash flows regarding operating activities			
Cash paid during the year for:			
Interest	2,396	3,338	3,933
Taxes on income	1,828	2,450	1,710
Cash received during the year for:			
Interest and dividend	17	255	176

The notes to the Consolidated financial statements form an integral part thereof.

Note 1 - General

A. A. Unitronics (1989) (R"G) Ltd. (hereinafter: the "Company") was incorporated in August 1989. In 1999, the Company became a public company and listed its shares for trading on the stock exchange in Brussels, Belgium. In 2004, the Company issued securities on the stock exchange in Tel Aviv.

On July 30, 2017, the Company completed the process of delisting its shares from trading on the stock exchange in Brussels, Belgium, see Note 16F below. The Company is jointly held by the FIMI Fund 49.99% and Mr. Haim Shani 21.92%.

On August 19, 2018, the Company's Board of Directors decided in principle to examine the Spinoff of operations of the Company (hereinafter: the "Spinoff"), pursuant to a Spinoff Prospectus and listing for trading on the Tel Aviv Stock Exchange (hereinafter: the "Prospectus"), such that the Company will transfer the scope of the automated solutions to Utron Ltd. (hereinafter: "Utron"), a sister company of the Company the shares of which were held by a trustee for the shareholders of the Company. In order to advance the Spinoff, on February 12, 2019, the Company's Board of Directors resolved to perform an early repayment at the initiative of the Company of the Debentures (Series 5) and on February 19, 2019, the Court approved the Spinoff subject to the performance of the early repayment.

On February 28, 2019, the Company and Utron issued a Spinoff Prospectus and a listing for trading in accordance with which the Spinoff was performed.

To finance the repayment of the Debentures (Series 5), on March 3, 2019, the Company took two loans from a banking corporation in a total amount of NIS 30 million. A loan in the amount of NIS 10 million for a five-year period with an early repayment option, at an interest rate of prime plus less than one percent per annum, with interest and principal payments payable on a quarterly basis. A loan of NIS 20 million loan, a "bullet loan" for a period of two years, without an early repayment option, at an interest rate of prime plus less than one percent per year with quarterly interest payments. With regard to these loans, as of December 31, 2019, the Company is in compliance with the determined financial covenants.
On the date of the provision of the credit and for a period of 24 months, an amount of no less than NIS 5 million shall be deposited in the Company's bank account at any time. In addition, the Company pledged under a first-ranked pledge, of an unlimited amount, a property held thereby, in accordance with an assessor valuation of no less than NIS 16 million.

On March 12, 2019, following the fulfillment of the preconditions, the Spinoff process was completed in accordance with the Spinoff Prospectus and listing for trading on the Tel Aviv Stock Exchange. On the date of the Spinoff the automated solutions operations was transferred from the Company to Utron, by way of the transfer of the automated solutions operations by the Company and the transfer of the rights of the Company to Utron Solutions, a wholly owned subsidiary of Utron, all as specified in the Prospectus and in accordance with the provisions of the Spinoff agreement between the Company and Utron.

The Spinoff essentially constitutes a restructuring transaction between entities under the same control and is therefore recognized as a capital reduction by way of a net offsetting of the asset premiums, liabilities and capital reserve fund for adjustments deriving from the conversion of the financial statements of foreign operations, which were Spunoff, all in accordance with their book value as of March 31, 2019 (adjustments were not made for the period from the date of the Spinoff to March 31, 2019 due to the non-materiality thereof) and therefore no gain is recognized for the difference between the fair value and the book value of the net assets which were Spunoff. In addition, in connection with the early repayment of the Debentures and the adjustment of the fair value of the option warrants (see Note 29) directly related to the Spinoff, the differences between the book value and the fair value of the liabilities, net of the tax influence, as of the date of the Spinoff, were also charged to the premium as part of the total recording of the Spinoff.

Until March 12, 2019, the Group operated in two main segments, the product segment and the automated solutions segment, and also held 100% of the capital and control rights of Utron Automated Solutions Ltd. (hereinafter: "Utron Solutions", formerly Unitronics Solutions) and the second-tier subsidiary in the United States, Utron Systems Inc. (hereinafter: "Utron Systems," formerly Unitronics Systems Inc.). As of March 12, 2019, the Company operates only in the product segment, and its operations in the automated solutions segment have been transferred to Utron as part of the Spinoff. In addition, the automated solutions segment which was Spunoff and which constitutes one of the two reportable segments of the Company, was presented as a discontinued operation, as specified in Note 3, and the reporting of the segment was discontinued, since the Company continues to operate in one reportable segment.

B. On the date of the completion of the Spinoff, Utron entered into agreements with the Company as follows:

1) An agreement for the Company to provide services to Utron for five years, with each party having the right to terminate the agreement with ninety days prior written notice. Pursuant to the services agreement, services will be provided to Utron by the Company, without there being an employer-employee relationship between Utron and the Company.

2) An agreement for Utron to provide services to the Company for a period of five years, with each party having the right to terminate the agreement with ninety days prior written notice. Pursuant to the Services Agreement, services will be provided to the Company by Utron, without there being an

Note 1 – General (cont’d)

employer-employee relationship between Utron and the Company and anyone on behalf thereof.

3) An agreement for the assignment of the projects of the subsidiary of the Company in the US (hereinafter: “Unitronics Inc.”), to Unitronics Systems Inc. (a subsidiary of Utron Solutions, (hereinafter: “Unitronics Systems”)) until completion of the projects which were signed by Unitronics Inc. and which belong to the automated solutions segment which was transferred as part of the Spinoff.

4) An agreement to provide services, including employees from Unitronics Inc. to Utron and from Utron to Unitronics Inc. for a period of five years, with each party having the right to terminate the agreement with ninety days prior written notice.

5) An acquisition agreement, whereby Utron will periodically acquire, in accordance with its needs, products manufactured by the Company pursuant to an advance fixed price list in accordance with which the Group sells the same products to its distributors. The aforesaid agreement will be valid for a period of 10 years, with each party having the right to terminate the agreement with ninety days prior written notice.

6) A rental agreement pursuant to which Utron will rent to the Company, under a sub-let, in the building in which it is located in Airport City, an area of 220.5 square meters, at the cost which Utron pays to the landlord in a total amount of approximately NIS 160 thousand per year plus overhead costs. The aforesaid agreement is back-to-back (BTB) against Utron's agreement with the landlord.

The balances of the current related companies in the statement of financial position are the result of the aforesaid agreements.

C. The Group (the Company and its subsidiaries as set forth in section E below) operates in the design, development, production, marketing, sale and support of programmable logic controllers (PLC).

D. Details of the subsidiaries, their activities and the holding rates therein:

1. The Company holds 100% of the capital and controlling rights in Unitronics Inc. (hereinafter: "Unitronics Inc."). Unitronics Inc. was established by the Company in the United States and commenced operations in June 2001. Unitronics Inc. is primarily engaged in coordinating and managing the marketing and distribution activities of the Company's products in the United States.

2. The Company holds 100% of the equity and control of Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter: "Unitronics Management"). Unitronics Management was established by the Company in 2003 and commenced operations in January 2004. Unitronics Management is primarily engaged in the management and maintenance of Unitronics Building - the building in which the Company's facilities and offices are located.

3. The Company holds 100% of the equity and control of Unitronics Gmbh (hereinafter: “Unitronics Germany”), a company established by the Company in Germany which is in the process of incorporation. Unitronics Germany has not yet started operations, it will focus primarily on coordinating and managing the marketing and distribution activities of the Company's products in Germany and other European countries.

Note 2 – Accounting policies

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

A. Basis of presentation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Furthermore, the financial statements have been prepared in conformity with the disclosure requirements of the Israel Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements were prepared on the basis of cost, excluding derivative and financial instruments which are measured at fair value through the statement of profit or loss (see section E below) and employee benefit liabilities which are measured in accordance with the provisions of IAS19 (see section N below).

Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company has influence in the investment entity, exposure or rights to variable returns as a result of its involvement in the investment entity as well as its ability to use its power to influence the amount of the yield which will result from the investment entity. A control examination takes into account the influence of the voting rights only if they are concrete. The consolidation of the financial statements takes place as of the date on which control is obtained, until the date on which control is terminated.

Note 2 – Accounting policies (cont'd)

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries have been applied uniformly and consistently with those applied in the financial statements of the Company. Mutual material balances and transactions as well as gains and losses deriving from transactions between the Company and its subsidiaries have been fully eliminated in the consolidated financial statements.

B. Assumptions and estimates

The preparation of the financial statements requires management to make estimates and assumptions which affect the application of the accounting policies on the reported amounts of assets, liabilities, income and expenses. Changes in accounting estimates are recognized in the period in which the estimate was changed.

The following are the main assumptions made in the financial statements concerning uncertainty as of the reporting date and the critical estimates that were calculated by the Group and for which a material change in the estimates and assumptions may change the value of the assets and liabilities in the financial statements in the following year:

Development costs

Development costs are discounted as an asset in accordance with the accounting policies set forth in section K below. In order to determine the amounts to be discounted as an asset, management estimates, inter alia, the expected cash flows from the asset and the expected benefit period. See also Note 9.

Deferred taxes

Assets (liabilities) in respect of deferred taxes are recognized in accordance with section M below. Calculation of deferred tax assets (liabilities) is based on assumptions, inter alia, of the dates of realization of the temporary differences and the tax rates expected to apply on the dates of realization.

C. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

The financial statements are presented in shekels, the functional currency of the Company, which is the currency that best reflects the economic environment and transactions in which the Company operates.

The functional currency is determined separately for each investee company and in accordance with that currency, the financial situation and the results of the operations of the investee company are measured. When the functional currency of the investee company is different from that of the Company, the investee company comprises foreign activity the financial statements data of which is converted in order to include them in the financial statements of the Company as follows:

A. Assets and liabilities at each reporting date (including comparative figures) are converted according to the closing rate of exchange of each reporting date.

B. Revenue and expenses for all periods presented in the statement of profit or loss (including comparative figures) are converted according to the average exchange rates in all of the presented periods; However, in those cases where there were significant fluctuations in the rate of exchange, the revenues and expenses were converted according to the exchange rates on the actual dates of the transactions.

C. Share capital, capital reserves and other capital movements are converted at the exchange rates on the date on which they were incurred.

D. The retained earnings were converted based on the opening balance converted according to the exchange rate at that time and relevant additional movements during the period, which are converted as specified in subsection B and C above.

E. All conversion differences which were created were classified as a separate item in shareholders equity, in the capital reserve "Adjustments deriving from the conversion of the financial statements of foreign operations".

Loans and other monetary balances of the Group with regard to foreign operations, which are not intended to be settled or likely to be repaid in the foreseeable future, are, in substance, a part of the net investment of the Company in foreign operations. The exchange rate differences arising from these items are recognized in other comprehensive income and accumulated as equity.

When the net investment is realized, the conversion differences included in the aforesaid capital reserve are recognized in the statement of profit or loss.

Note 2 – Accounting policies (cont'd)

2. Foreign currency transactions, assets and liabilities

Transactions denominated in foreign currency are recorded upon initial recognition according to the exchange rate on the date of the transaction. After initial recognition, financial assets and liabilities denominated in foreign currency are converted into shekels according to the exchange rate on that date. Exchange rate differences are recognized in the statement of profit or loss. Non-monetary assets and liabilities are converted into shekels according to the exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at their fair value are converted into shekels according to the exchange rate on the date on which the fair value is determined.

D. Cash equivalents

Cash equivalents are considered high-liquid investments, including unrestricted short-term bank deposits with an initial maturity not exceeding three months from the date of investment or with a maturity date exceeding three months, but which are immediately redeemable on demand without penalty and which form part of the management of cash.

E. Financial Instruments

1. Financial Assets

Financial assets have been classified as one of the standard measurement groups in the standard based on the Company's business model for managing financial assets and based on the contractual cash flow characteristics of the financial asset - financial assets (debt instruments) at amortized cost and financial assets (debt instruments or equity) at fair value through profit or loss.

A. Financial assets at fair value through profit or loss

These assets are initially measured at fair value, and changes in the fair value following initial recognition are recognized in profit or loss. Transaction costs directly attributable to these assets are recognized in profit or loss at the time they are incurred. This group includes financial assets held for trading.

B. Reduced value debt instruments

Debt instruments, which are held in accordance with a business model the purpose of which is to hold the financial assets in order to secure the contractual cash flows and the contractual terms of these assets, provide entitlement on defined dates to cash flows which are principal and interest payments only, initially measured at fair value plus their directly attributable transaction costs, except for trade receivables that were initially recognized at their transaction price. Following initial recognition, these assets were measured at an amortized cost. Loans and receivables are included in this group. Following initial recognition, loans are presented according to their terms and according to the additional direct transaction costs, using the effective interest method less the provision for impairment. Short-term receivables are presented in accordance with their terms, usually at their nominal value.

2. Financial liabilities

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs.

Following initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

A. Financial liabilities measured at amortized cost

Following initial recognition, loans and other liabilities are measured based on their terms at cost less directly attributable transaction costs using the effective interest method.

B. Financial liabilities at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities classified as held for trading.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near future. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivatives are classified as held for trading unless they are designated to be effective hedging instruments.

Note 2 - Accounting Policies (cont'd)

E. Financial instruments (cont'd)

3. Disposal of financial instruments

   A. Financial assets

   A financial asset is derecognized when the contractual rights to receive cash flows from the financial asset expire.

   B. Financial liabilities

   A financial liability is derecognized when it is settled, namely, the liability has been repaid, canceled or expired. A financial liability is settled when the debtor (the Company) repays the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

4. Impairment of financial assets

   The Company measured credit losses in the amount of the forecasted credit losses during the entire life cycle of the instrument for trade receivables, for other financial instruments the credit risk of which increased significantly from the date of initial recognition and for receivable income from construction agreements. Expected credit losses throughout the life cycle of the instrument are the weighted average of credit losses, weighted in accordance with the risks of failure. The Company measured credit losses in the amount of the expected credit losses for a 12-month period for financial instruments the credit risk of which did not increase significantly from the date of initial recognition, with the exception of trade receivables.

   At the end of each reporting period, the Company assessed whether the credit risk of a financial instrument has increased significantly from the date of initial recognition by comparing the probability of a default on the reporting date with the probability of a default on the initial recognition date. The Company considers a financial asset to be in default when the debtor is not expected to pay the full debt to the Company or when contractual payments are in arrears of more than 90 days. The Company also assumes that the credit risk of a financial instrument has not increased significantly from the date of initial recognition if the Company determines at the end of the reporting period that there is a low risk of default on the financial instrument, namely, the financial instrument has a low risk of failure, the borrower has a strong ability to fulfill its contractual cash flow obligations in the near term and adverse changes in the financial and business terms in the long term will not necessarily impair the borrower's ability to fulfill the aforesaid obligations.

   At the end of each reporting period, the Company assesses whether an asset has been impaired due to credit risk, namely, if an event has occurred which has a detrimental effect on the future cash flows of the asset which is being assessed. The Company erases the total gross book value of a financial asset, in whole or in part, if the Company has no reasonable expectation of the asset being restored. The amount of the forecasted credit losses is not material to the financial statements.

F. Trade receivables

The Company presents an unconditional right to receive consideration from trade receivables. The right to consideration is not contingent, if required, on the passage of time until the repayment date, even if it may be subject to a refund in the future. The Company treats trade receivables as financial assets.

G. Inventory

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes the cost of purchasing the inventory and the costs incurred in bringing the inventories to their current location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion costs and the estimated costs required to make the sale.

The cost of the inventory is determined as follows:

Raw materials and packaging - by the weighted moving average method.

Good in process - on the basis of average cost, including materials, labor and other direct and indirect manufacturing expenses, less completion costs.

Note 2 - Accounting Policies (cont'd)

G. Inventory (cont'd)

Finished goods - based on average cost including materials, labor and other direct and indirect manufacturing expenses.

The Company periodically reviews the situation of the inventory and its age, and makes provisions for slow moving inventory accordingly.

H. Operating turnover period

The Company's operating turnover period is one year.

I. Treasury shares

The Company's shares held by the Company are measured at the cost of their acquisition and are shown as deducted from the capital of the Company. Any gain or loss arising from the acquisition, sale, issue or cancellation of treasury shares is credited directly to equity.

J. Leases

The accounting treatment is until December 31, 2018:

The examinations for classifying a lease as a financial or operating lease are based on the nature of the agreements and are examined on the date of the agreement according to the regulations specified in IAS 17 "Leases".

1. Operating lease

Lease agreements, in which all the risks and benefits inherent in ownership of the property are not actually transferred, are classified as operating leases. Current lease payments are charged to the statement of profit or loss over the lease term.

2. Finance lease

Lease agreements, in which all the risks and benefits associated with ownership of the leased asset have been transferred to the Company, are classified as finance leases. The leased asset is measured at the start of the lease period at the lower of the fair value of the leased asset or the current value of the minimum lease payments. The liability for lease payments is presented at its current value when the lease payments are allocated between financing expenses and repayment of the liability for the lease, according to the effective interest method.

Following initial recognition, the leased asset is treated in accordance with the accounting policies applicable to this asset (see section J below).

The accounting treatment as of January 1, 2019:

On the date of the start of the lease, the Company recognized the user rights in the property and the lease liabilities in all the leases in the statement of financial position, subject to the following:

The Company chose not to recognize the user rights and lease liabilities for leases with a period not exceeding 12 months.

When the Company reasonably anticipates that the effects on the financial statements resulting from the accounting treatment for a portfolio of leases with similar characteristics will not be materially different than the application for the individual leases included in the portfolio, the Company has chosen to apply the accounting treatment to the portfolio in general using estimates and assumptions which reflect the size and the composition of the portfolio.

The Company has determined the term of the lease as a period during which the lease cannot be revoked, taking into account also the periods covered by extension (or cancellation) options of the lease term, when it is reasonably certain that the tenant will exercise (not exercise) the option.

Note 2 - Accounting Policies (cont'd)

J. Leases (cont'd)

At the start of the lease, the Company measured the lease liability at the current value of the lease payments which have not been paid at that date, discounted by the interest rate embodied in the lease, unless this rate is not easily determinable, then it was measured in accordance with the nominal additional interest rate of the Company on that date. Lease payments which have not been paid at the start of the lease include fixed payments, variable lease payments which are dependent on the index or rate, using the current index or the current rate on the date of the start of the lease.

A user rights asset is measured at the start of the lease at cost, which consists of the initial measurement amount of the lease liability and any initial direct costs incurred.

Subsequent to the date of the start of the lease, the lease liability was measured by increasing the book value to reflect the interest on the lease liability; the reduction of the book value in order to reflect the lease payments which have been made; adjustments for the re-measurement of the lease liability;

When there is a change in future lease payments deriving from a change in the index or rate used to determine them, the Company re-measured the liability in accordance with the current value of the updated lease payments, discounted at the original discount rate, except if the change is due to a change in variable interest rates.

Subsequent to the date of the start of the lease, the Company measured the user rights in the asset at the cost thereof, net of depreciation and losses of any accumulated impairment, including adjustment for any re-measurement of the aforesaid lease liability.

From the date of the start of the lease, when reducing user rights in the asset, the Company applied the depreciation requirements for fixed assets subject to the following. The Company depreciates the user rights in the asset over the shorter of the lease term and the useful life of the user rights in the asset.

In the statement of financial position, the user rights and the lease liabilities were presented separately. In the statement of profit or loss and other comprehensive income, the Company presented the depreciation expenses of the user rights in the asset separate from interest expenses for the lease liability. In the statement of cash flows, payments for the principal portion of the lease liability were classified as financing activities and payments for the portion of the interest on the lease liability were classified as current operations. Short-term lease payments which were not included in the measurement of the lease liability were classified as current activities.

Regarding the implementation of IFRS 16 as of January 1, 2019, see Note W below.

K. Fixed assets

Fixed assets are presented at cost plus direct acquisition costs, less accumulated depreciation, less accumulated impairment losses and less any related investment grants, excluding expenses for current maintenance.

Fixed asset item components that have a significant cost relative to the total cost of the item are amortized separately according to the component method.

Depreciation is calculated on a straight-line basis over the useful life cycle of the assets at equal annual rates.

The useful life cycle of fixed assets is as follows:

	%	Mainly %
Buildings	2	
Leasehold improvements	10	
Machinery and equipment	7-33	(mainly 33%)
Motor vehicles	15	
Office furniture and equipment	6-33	(mainly 7%)

Note 2 - Accounting Policies (cont'd)

J. Leases (cont'd)

Leasehold improvements are depreciated on a straight-line basis over their useful life. In determining the useful life of leasehold improvements, the expiry dates of the related leases also are taken into account.

The useful life cycle, depreciation method and residual value of each asset is reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As to impairment of a fixed asset, see section (L) below. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

L. Intangible assets

Intangible assets which are purchased separately are measured upon initial recognition at their cost plus the direct acquisition costs. Following initial recognition, intangible assets with a defined life cycle are presented at their cost less accumulated amortization and less losses from accrued impairment in value.

In the management's opinion, the intangible assets have a defined life cycle. The assets are amortized over their useful economic life cycle on a straight-line basis and are examined for any impairment in value when there are signs indicating an impairment in value of an intangible asset. The period of amortization and the method of amortization for an intangible asset, with a defined useful life cycle, are examined at least once a year. A change in the useful life cycle or in the pattern of expected consumption of the economic benefits expected to result from the asset will be treated as a change in the period or a change in amortization, respectively, and will be reported as a change in the accounting estimate. Amortization expenses for intangible assets, with a defined useful life cycle, are credited to the statements of profit or loss.

Software

Acquired computers software user licenses are discounted based on the costs incurred in the purchase and preparation for the use of the specific software. These costs are depreciated under the straight-line method over the expected useful life cycle of the software.

Research and development

Research costs are charged to profit or loss when incurred. An intangible asset arising from a development or a self-development project is recognized as an asset if the following can be demonstrated: the technological feasibility of completing the intangible asset such that it will be available for use or sale; the Company's intention to complete and use or sell the intangible asset; the ability to use or sell the intangible asset; the manner in which the intangible asset will generates future economic benefits; the existence of the necessary technical, financial and other resources available to complete the intangible asset and the ability to reliably measure the expenses thereof during its development.

The asset is measured at cost and presented less any accumulated amortization and less any accumulated impairment losses. Amortization of the asset starts when the development is completed and the asset is available for use. The asset is amortized over its useful life cycle. Examination of the of impairment is performed annually over the period of the development project.

Other development costs, which do not comply with these conditions are credited to the statement of profit or loss when incurred. Development expenses which were recognized as an expense in the past are not recognized as an expense in a later period. Capitalized development expenses are recognized as an intangible asset and are amortized from the time when the asset is available for use, and calculated using the straight-line method over the useful life cycle of the asset.

Impairment of development assets is accounted for in accordance with the provisions of IAS 36 "Impairment of Asset" (see section L below).

Note 2 - Accounting Policies (cont'd)

L. Intangible assets (cont'd)

Amortization

Intangible assets are depreciated on a straight-line basis. The useful life cycle of intangible assets is as follows:

	Years
Software	3
Patents and licenses	3
Development costs	5-7

L. Impairment of non-financial assets

The Company evaluates the need for impairment of the book value of all non-financial assets in the statement of financial position, except for inventory, assets deriving from construction agreements and deferred tax assets, when there are signs, as a result of events or changes in circumstances, which indicate that the book value is not recoverable. In cases where the book value of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognized in profit or loss.

M. Taxes on income

Current or deferred tax expenses are recognized in profit or loss, except if they relate to items which are credited to other comprehensive income or equity.

1. Current taxes

The current tax liability is determined using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes

Deferred taxes are calculated in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred tax balances are calculated at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

The calculation of deferred taxes does not take into account the taxes that would apply in the case of the realization of investments in investee companies, as long as the sale of investments in the investee companies is not expected in the foreseeable future. In addition, a deferred tax asset with regard to deductible temporary differences deriving from investments in investee companies have only been recognized when the reversal of the temporary difference is expected in the foreseeable future and taxable income is expected, against which the temporary differences can be utilized.

Also, deferred taxes that would apply in the event of distribution of earnings by investee companies as dividends have not been taken into account in calculating deferred taxes, due to the Company's policy not to initiate a distribution of dividends by a subsidiary which would trigger an additional tax liability.

Taxes on income which relate to distribution to shareholders of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

The Company reflected the impact of the uncertainty in determining current and deferred tax calculation components when it is unlikely that the tax authority will accept uncertain tax treatment. The Company reflected the impact of uncertainty on any uncertain tax treatment using the "most likely amount" or the "expectation" method in accordance with the method which the entity expects to provide better forecasts in connection with the uncertain decision. The Company has determined whether to consider uncertain tax treatment individually, or in conjunction with one or more uncertain tax treatments, in accordance with an approach which provides better forecasts of the uncertain decision.

Note 2 - Accounting Policies (cont'd)

N. Liabilities due to employee benefits

The Group has a number of types of employee benefits:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be wholly settled twelve months prior to the end of the annual reporting period in which the employees provide the related services. These benefits include salaries, vacation days, sick leave, rest pay and employer social security contributions which are recognized as expenses when the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the company has a legal or implied obligation to make such payment for past service rendered by an employee in the past and a reliable estimate of the amount can be made.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and pension funds which are classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans according to Section 14 of the Severance Pay Law, according to which the Group pays, on a permanent basis, payments without it having any legal or implied obligation to pay additional payments even if the accrued principal is not a sufficient amount to pay all the benefits to the employee relating to the service of the employee during the current period and previous periods. Deposits in defined deposit programs for severance pay pursuant to Section 14 or for savings are recognized as an expense at the time of the deposit to the plan, concurrent with the receiving of work services from the employee.

Furthermore, the Company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured according to the actuarial valuation method of the projected eligibility unit. The actuarial calculations takes into account future salary increases and rates of employee turnover based on the estimated time of payment. The amounts are presented based on discounted projected future cash flows according to the interest rate of index-linked high quality corporate bonds, the repayment date of which is similar to the severance pay liability period.

The Company deposits funds in respect of its severance pay obligation to part of its employees on an ongoing basis in pension funds, insurance companies and severance pay funds (hereinafter: the "Plan Assets"). The Plan Assets are assets held by a long-term employee benefit fund or qualifying insurance policies. The Plan Assets are not available for use by the Group's creditors and they cannot be paid directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the current value of the defined benefit obligation less the fair value of the Plan Assets.

Re-measurement of the net liability are charged to the other comprehensive income in the period in which they occur.

O. Revenue recognition

The Company recognizes revenue from agreements with customers on the date of the transfer of control of the goods or service to the customer and measures the income in the amount representing the consideration that the Company expects to be entitled to for the same goods or service.

Revenue from product sales - The Company recognizes revenue from the sale of products on the delivery date, since this is the date on which control is transferred to the customer.

P. Discounts to customers

Current discounts to customers are included in the financial statements on the granting thereof and are charged to the revenue section.

Note 2 - Accounting Policies (cont'd)

Q. Earnings (loss) per share

Earnings (loss) per share are calculated according to the number of ordinary shares. Basic earnings per share includes only shares that actually exist during the period. Potential ordinary shares (convertible securities such as convertible debentures and option warrants) are included only in the calculation diluted earnings per share, in the event that their effect dilutes the earnings per share such that their conversion reduces earnings per share or increases the loss per share. In addition, potential ordinary shares which were converted during the period are included in the diluted earnings per share only till the date of the conversion, and from that date the shares issued as a result of the conversion are included in basic earnings per share. The Company's share in the profits of investee companies is calculated according to the company's share in the earnings per share of the investee companies multiplied by the number of shares held by the Company.

R. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that the use of financial resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed to the Company, such as in an insurance agreement, the reimbursement is recognized as a separate asset only on the date when the reimbursement is actually certain. The expense will be recognized in the statement of profit or loss net of any reimbursement of expenses.

S. Fair value measurement

Fair value is the price that would be received in the sale of an asset or the price that would be paid to transfer a liability in an ordinary transaction between market participants on the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best financial interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate financial benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant forecast inputs and minimizing the use of inputs which cannot be forecast.

All assets and liabilities measured at fair value or for which fair value is disclosed are divided into value category ratings, based on the lowest level input that is significant to the fair value measurement in general:

Level 1 - Quoted prices (without adjustments) in an active market of identical assets and liabilities.

Level 2 - Data other than quoted prices included in Level 1 which can be forecasted either directly or indirectly.

Level 3 - Data that is not based on market data which can be forecasted (valuation techniques without the use of market data which can be forecasted).

T. Share-based payment

The Company recognized share-based payment transactions which include transactions with employees which will be settled with Company equity instruments. The value of the benefit is measured on the date it is granted based on the fair value of the equity instruments granted and recognized in profit or loss, over the vesting period based on the best achievable maturity forecasts of several equity instruments.

U. Discontinued operations

Discontinued operations are a component of the Group's business, which represents a separate significant business line. Comparative figures for discontinued operations were restated in the statements of profit or loss, as if the operations had been discontinued from the beginning of the earliest comparison period. Furthermore, the results, cash flows and the asset summary, net, of the discontinued operations which were included in the Spinoff, are presented in Note 3 of this report. The results of the discontinued operations for the year ended December 31, 2019 include the results of the three-month activity ending March 31, 2019, in lieu of including them up to the date of the Spinoff for insignificant reasons.

Note 2 - Accounting Policies (cont'd)

V. Initial implementation of new standards

Below is information regarding international financial reporting standards, revisions to standards and interpretations, which the Company initially implemented as of January 1, 2019.

International Financial Reporting Standard 16 "Leases" (hereinafter: "IFRS 16")

IFRS 16, which was published in January 2016, replaces International Accounting Standard 17 "Leases" and its interpretations. IFRS 16 changes the accounting treatment of leases by the lessee, whereas most of the accounting treatment of the lessor remains unchanged.

For all leases in which the Company is the lessee, the Company has implemented IFRS 16 retrospectively as of January 1, 2019, without re-representing the previous periods, the cumulative effect of the retrospective application was recognized as coordination of the opening balance of retained earnings.

For all leases in which the Company is the lessee, the Company is not required to make any adjustments on January 1, 2019. As of this date, the Company is treats leases in accordance with IFRS 16.

On January 1, 2019, the Company initially implemented IFRS 16 and below is the effect of the application on the relevant sections on that date in thousands of shekels:

	Balance as of January 1, 2019 (Unaudited)		
	Balance prior to application of IFRS 16	Effect of the application of IFRS 16	Balance after the effect of the application
Fixed assets	20,835	(13,573)	7,262
User right assets	-	34,671	34,671
Short-term lease liabilities:	-	(4,987)	(4,987)
Long-term lease liabilities	-	(16,111)	(16,111)

For the purpose of initial measurement of lease liabilities at the date of the initial application, the Company discounted the balance of unpaid lease payments as of that date by the additional interest rate thereof on at that date.

The Company selected the practical relief on the date of the initial application and used a single discount rate for a portfolio of leases with similar characteristics. The Company selected to use the transition relief of not to include initial direct costs in the measurement of user rights on the date of the initial application. The weighted average of the Company's additional interest rates used to measure the asset user rights and lease liabilities obligations which were recognized on the date of the initial application is 3.53%.

The Company has selected the practical transition relief, based on each separate lease, of relying on the estimate as of December 31, 2018, as to whether the leases are burdensome rather than conducting an impairment examination. The Company measured asset user rights which were classified as a finance lease prior to the adoption of IFRS 16 in accordance with the book value of the lease asset immediately prior to the date of the initial application.

For a description of accounting policies following the initial application of IFRS 16 - see Note 10 above.

Note 3 – Spinoff of the automated solutions segment – discontinued operations

A. The following are the results of the discontinued operations included in the consolidated income statement:

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Income	14,075	66,669	61,406
Expenses	19,144	63,430	69,503
Pre-tax profit (loss) on income	(5,069)	3,239	(8,097)
Taxes on income	444	1,787	1,046
Profit (loss) for the period from discontinued operations	(5,513)	1,452	(9,143)

B. The following are the cash flows of the discontinued operations which are included in the consolidated cash flow statements:

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Net cash flow deriving from (used for) current operations	2,491	(8,606) (*)	(9,383)
Net cash used for investment activity	(733)	(2,390)	(4,568)
Net cas used for financing activity	(814)	-	-

(*) Non-material adjustment of comparative figures

C. The following is a breakdown of the assets and liabilities which were disposed of due to the Spinoff:

	March 31, 2019
	(Unaudited)
	NIS thousands
Cash	6,483
Capital less cash	6,202
Intangible assets	40,269
Intangible liabilities	(13,103)
	39,851

Note 4 - Cash and cash equivalents

	December 31, 2019	December 31, 2018
	NIS, (in thousands)	
Israeli currency	1,990	20,178
Foreign currency	13,600	17,648
	15,590	37,826

Note 5 – Accounts receivable – Trade, net

	As of December 31	
	2019	2018
Open accounts	19,237	35,479
Less provision for doubtful debts	(116)	(235)
	19,121	35,244

Below is an analysis of trade receivables (open accounts) for which no impairment was recognized (provision for doubtful debts) due to immateriality, in accordance with the collection delay in relation to the reporting date:

	Receivables not yet due (without collection arrears)	Past due trade receivables			Total
		Up to 30 days	30 to 60 days	More than 60 days	
			NIS thousands		
December 31, 2019	17,727	1,136	54	204	19,121
December 31, 2018	24,577	5,236	2,732	2,699	35,244

Note 6 – Other accounts receivable

	As of December 31	
	2019	2018
	NIS thousands	
Government institutions	2,386	2,276
Prepaid expenses	1,069	1,360
Other receivables	-	933
	3,455	4,569

Note 7 – Inventory

	As of December 31	
	2019	2018
	NIS thousands	
Materials and Packaging	14,314	14,658
Inventory in process	13,806	12,717
Finished products	7,640	8,601
	35,760	35,976

Note 8 - Leases

A. Information about lease activities

The Company leases a fleet of vehicles for 3 years.

The Company has discounted leasing rights (91%) for forty-nine years (and an option to extend for an additional forty-nine years) pursuant to lease agreements dated April 16, 2008 in the structure in which the Company operates in Israel. The extension options were not taken into account in calculating the asset user rights since the Company is no able to estimate the expected realization probability as of the date of the report.

B. Information about user rights

	December 31, 2019			
	User rights			
	Land rights	Building	Vehicles	Total
	NIS thousands			
Depreciation - for the year ended	465	1,394	626	2,485
Depreciated cost per day	13,137	2,122	1,072	16,331

Total additions to asset non-cash user rights during 2019 totaled NIS 771 thousand.

The total asset user rights which were terminated due to the Spinoff of the automated solutions segment and related operations in 2019 is NIS 15.8 million, less depreciation expenses of NIS 742 thousand.

C. Analysis of contractual lease liability maturity dates

With regard to the analysis of contractual lease liability maturity dates - see Note 29 (a) 3.

D. Additional quantitative information about leases

	For year ended December 31, 2019
	NIS thousands
Interest expenses on lease liabilities	118
Total cash flow paid for leases	2,145

Note 9 – Fixed assets, net

	Land rights and Buildings (*)	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
			NIS (in thousands)			
Cost						
Balance as at January 1, 2018	22,567	7,380	5,672	850	3,718	40,187
Acquisitions and investments	142	116	370	21	183	832
Disposals during the year	-	-	(238)	(15)	(404)	(657)
Exchange differences	-	-	-	(4)	52	48
Balance as at December 31, 2018	22,709	7,496	5,804	852	3,549	40,410
Initial application of IFRS 16 – separate classification	(22,709)	-	-	-	-	(22,709)
Spinoff of automated solutions segment and related operations (*)	-	(6,019)	(101)	(30)	(630)	(6,780)
Acquisitions and investments in the account year	-	-	751	326	129	1,206
Disposals in the account year	-	-	-	(584)	-	(584)
Exchange differences	-	-	-	-	(104)	(104
Balance as at December 31, 2019	-	1,477	6,454	564	2,944	11,439
Accumulated depreciation						
Balance as at January 1, 2018	8,614	1,941	4,538	410	2,446	17,949
Depreciation during the account year	522	729	482	128	254	2,115
Disposals during the account year	-	-	(229)	-	(310)	(539)
Exchange differences	-	-	-	(1)	51	50
Balance as at December 31, 2018	9,136	2,670	4,791	537	2,441	19,575
Initial application of IFRS 16 – separate classification	(9,316)	-	-	-	-	(9,136)
Spinoff of automated solutions segment and related operations (*)	-	(1,473)	(92)	(10)	(257)	(1,832)
Acquisitions and investments in the account year	-	129	528	123	131	911
Disposals in the account year		-	-	(455)	-	(455)
Exchange differences	-	-	-	-	(67)	(67)
Balance as at December 31, 2019	-	1,326	5,227	195	2,248	8,996
Depreciated cost as at December 31, 2019	-	151	1,227	369	696	2,443
Depreciated cost as at at December 31, 2018	13,573	4,826	1,013	315	1,108	20,835

(*) The building is located in Airport City near the Ben Gurion Airport, on land leased from the Israel Lands Administration pursuant to an agreement dated August 23, 2000 at a discounted lease (91%) for a period of 49 years including a depreciated amount of capitalized direct costs of approximately NIS 531 thousands as at December 31, 2018. As part of the initial application of standard IFRS 16 as of January 1, 2019, it was classified as asset user rights (see Note 2 W and Note 8A above.

Note 10 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
		NIS (in thousands)		
Cost				
Balance as at January 1, 2018	1,646	2,407	131,350	135,403
Additions – created internally	99	46	9,517	9,662
Balance as at December 31, 2018	-	(801)	-	(801)
Spinoff of the automated solutions segment and related operations(**)	1,745	1,652	144,481*	147,878
Additions created internally	(931)	(314)	(39,316)	(40,561)
Balance as at December 31, 2018	136	10	10,181	10,327
	950	1,348	115,346	117,644
Accumulated amortization				
Balance as at January 1, 2018				
Depreciation during the account year	1,368	1,984	65,496	68,848
Disposals during the account year	190	226	14,556	14,972
Balance as at December 31, 2018	-	(754)	-	(754)
Spinoff of the automated solutions segment and related operations(**)	1,558	1,456	83,641*	86,655
Additions created internally	(830)	(246)	(20,617)	(21,693)
Balance as at December 31, 2019	57	115	10,321	10,493
	785	1,325	73,345	75,455
Depreciated amount as at December 31, 2019	165	23	42,001	42,189
Depreciated amount as at December 31, 2018	187	196	60,815	61,198

(*) reclassified
(**) See notes 1 and 3

Note 11 - Current maturities of non-current liabilities

	December 31, 2019	December 31, 2018
	NIS thousands	
A. Current maturities of long-term loans:		
Linked to the EURO	323	358
Not linked	2,000	-
	2,323	358
B. Current maturities of bonds:		
Linked to the CPI	11,396	11,261
Not linked	-	1,845
	11,396	13,106

Note 12 - Accounts payable - other

Employees and institutions in respect of salaries	3,021	5,776
Provision for vacation	1,857	2,041
Payable expenses	4,145	11,629
Provision for loss	-	281
Other	651	1,232
	9,674	20,959

Note 13 - Loans from banks

A. Composition:

	December 31, 2019	December 31, 2018
	NIS (in thousands)	
Long-term loans from banks:		
EURO linked loans(1)	1,778	2,325
Unlinked loans (2)	28,500	-
Less current maturities	(2,323)	(358)
	27,954	1,967

(1) On July 6, 2011, the Company took a loan of € 1 million at an interest rate of Libor + 3.41%. The loan principal and interest payments are repayable on a quarterly basis for 14 years.

(2) On March 3, 2019, the Company took two loans from a banking corporation to finance the repayment of the Debentures (Series 5) in a total amount of NIS 30 million as follows: a loan of NIS 10 million for a five-year period with an early repayment option at an interest rate of prime plus less than one percent per annum, with payments of interest and principal on quarterly basis. A loan of NIS 20 million, a bullet loan, for a period of two years, with no option of early repayment, at an interest rate of prime plus less than one percent per annum, with payments of interest on a quarterly basis.

The Company has undertaken to the banking corporation, inter alia, to comply with the financial covenants of a financial debt to tangible equity ratio of not more than 80%, a financial debt to a debt serving operating profit (EBITDA) not exceeding 10 plus an equity restriction of not less than NIS 25 million.

In addition, the Company has undertaken to the banking corporation, to refrain from a change of control in the Company, not to merge or spinoff with another corporation, and not to distribute a dividend to the shareholders, without obtaining the bank's consent for the aforesaid actions.

B. With regard to liens - see Note 16B.

Note 14 - Debentures

A. On January 24, 2013, the Company issued NIS 53,125,000 par value of Debentures (Series 4) not linked (principal and interest) to the Consumer Price Index at an annual effective interest rate of 6.25%. As of December 31, 2019, the Company was in compliance with the determined financial covenants. On January 29, 2020, the Company repaid the outstanding balance of NIS 11,156 thousand as well as interest and linkage in the amount of NIS 308 thousand.

B. On September 10, 2014, the Company issued NIS 40,000,000 par value of Debentures (Series 5) at an annual effective interest rate of 6.59%. On February 12, 2019, the Board of Directors of the Compamy resolved to perform an early repayment at the initiative of the Company of the outstanding Debentures (Series 5), in order to close the Spinoff, in the amount of NIS 31,117 thousand, a difference of NIS 3,575 thousand against the book value of the debentures was charged to a premium (see Note 1).

Note 15 - Liabilities for benefits to employees, net

A. Post-employment benefits:

Labor laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability therefor is accounted for as a post-employment benefit. The calculation of the Company's employee benefit liability is made according to the valid employment agreement based on the employee's salary and employment term which establish the entitlement to receive the severance pay. Post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plan, as specified below.

B. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the severance pay payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies releases the Group from any additional liability to employees for whom the aforesaid contributions are made. These contributions and contributions for savings represent defined contribution plans.

C. Defined benefits plans:

The part of the severance pay payments not covered by deposits in defined contribution plans, as mentioned above, are handled by the Company as defined benefit plans according to which the liability for benefits to employees is recognized, and for which the Company deposits amounts in pension funds and in suitable insurance policies.

D. Plan liabilities, net

	As of December 31,	
	2019	2018
	NIS (in thousands)	
Defined benefit liabilities	2,224	7,501
Fair value of plan assets	(242)	(5,259)
Net liabilities	1,982	2,242

Note 16 - Contingent liabilities, mortgages, guarantees and agreements

A. **Contingent liabilities**

1. The Company received grants from the Chief Scientist of the Ministry of Trade and Industry for participation in research and development programs carried out thereby. The Company is required to pay royalties to the Chief Scientist at rates of 2% to 5% of the amounts received for the sale of the products or knowledge developed under the programs, or from the sale of any rights therein. The royalties are limited to 100% of the grants received.
The balance of grants received less royalties paid therefor as of December 31, 2019 amounts to approximately NIS 1,940 thousand. The liability balance as of December 31, 2019 amounts to approximately NIS 185 thousand for projects which the management of the Company estimates royalty payments are due.

B. Mortgages and guarantees

1. As security for the Company's liabilities to a bank, a first lien was recorded on the Company's contractual rights pursuant to lease agreements dated August 23, 2000 between the Company and the Israel Lands Administration. The remaining depreciated cost of the Company's share in the Unitronics Building which is pledged as security for these loans, amounts to approximately NIS 13,854 thousands as of December 31, 2019 (see Note 13A (2)).

2. As part of the Deed of Trust of the Debentures (Series 4), the Company has undertaken, inter alia, to pledge a deposit in an amount equal to the semi-annual interest payments of the Debentures in favor of the holders of the Debentures (Series 4). The pledge was removed in February 2020, following the repayment of the Debentures (see Note 30B).

3. As of the date of the report, a foreign insurance company has provided a framework for the provision of pledges (Surety Bond) to secure Utron Systems' commitments to establish projects in the amount of $ 60 million. As of December 31, 2019, approximately $ 31 million was utilized. As part of the Split Agreements, the Company has undertaken to continue to submit the said warrants and is entitled to indemnification from Utron Systems in the event of the exercise of the warrants.

Note 17 – Share base payment

On May 30, 2019, the Company's Board of Directors adopted an option plan to reward employees, consultants and officers of the Company and its subsidiaries. On August 20, 2019, 370,000 options were allocated to the employees and officers in the Group (of which 75,000 options were allocated to the CEO of the Company). Each option is exercisable for an ordinary share of NIS 0.02 par value of the Company. The option exercise mecanism is through the allocation of shares in the value of the benefit at the exercise date, such that in practice the allocated shares and dilution are lower than the total options. The vesting period of the options is 4 years from the date they were granted and the life cycle of the options is 6 years from the date they were granted. The exercise price of each option is NIS 12.7 which is determined according to the options plan as the higher between the market price on the date they were granted or a premium of 5% above the average market price in the 30 trading days preceding the date they were granted. The fair value of each option on the date they were granted which was calculated in accordance with the B&S model is NIS 3.09. The fair value of the options as of the date they were granted is NIS 1,222 thousand.

Note 18 - Share Capital

A. Composition:

	As of December 31, 2018 and 2019	
	Number of shares	
	Registered	Issued and paid up
Ordinary shares of NIS 0.02 par value each	100,000,000	15,428,504

B. As at December 31, 2019 and 2018, the Company held 1,676,192 shares, representing approximately 10.86% as of December 31, 2019 and 2018 of the Company's issued share capital, which was acquired for a total amount of approximately NIS 7,042 thousands.

C. Dividend Distribution policy

On February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of approval and publication of the financial statements for December 31, 2013. The Company is to distribute to its shareholders a dividend of 33% of the net profit attributable to the shareholders of the Company based on the Company's annual audited consolidated financial statements (not including earnings deriving from asset revaluation) (hereinafter: the "Profit"), above an amount of NIS 3 million, subject, inter alia, to statutory provisions, financing requirements, business plans and the obligations of the Company to the holders of the Debentures (Series 4 and 5) (the Company has undertaken in the Deed of Trust of the Debentures (Series 4 and 5) not to distribute a dividend amounting to more than 30% of the annual (calendar) net profit, as long as there are outstanding debentures). The dividend distribution is subject to a resolution of the Company's Board of Directors. No dividend was distributed for the 2019 and 2018 fiscal years. As part of the loans obtained from a banking corporation, the Company has undertaken not to distribute a dividend to shareholders without the bank's consent (see Note 13A (2)).

D. Managing the Company's capital

The object of the Company in managing its shareholders' equity is to maintain the Company's ability to ensure continuity of business and thereby create a return for its shareholders, investors and other interested parties.

The Company is working to achieve a return on capital at a level acceptable in the segment and in the field of operations in the markets in which the Company operates. This return is be subject to changes according to market factors in the segment and in the Company's business environment. The Company is not subject to any demands regarding attaining a specific return on equity.

Note 18 - Share Capital (cont'd)

E. On May 18, 2016 an investment transaction in the Company was concluded by the FIMI Fund (hereinafter: "FIMI"), in which FIMI invested in the Company a sum of NIS 60 million against the allocation of 3,750,000 shares representing approximately 27.27% of the Company's issued capital. The Company's controlling shareholder, Mr. Haim Shani, notified the Company that he had simultaneously signed an agreement with FIMI in which FIMI acquired therefrom 3,125,000 shares of the Company held thereby for a total of NIS 50 million representing approximately 22.72% of the share capital of the Company (after the closing of the two transactions). Consequently, following the entry of FIMI, Mr. Haim Shani holds 22% of the shares of the Company and continues to serve as the CEO of the Company, whereas FIMI holds 49.99% of the issued share capital of the Company.

As of the date of the transaction, the Company is held under the joint control of FIMI and Mr. Haim Shani.

The share allocation costs amounted to approximately NIS 1,647 thousand.

In addition, the Company granted FIMI a share option letter stating that if the conditions set forth in the investment agreement are fulfilled, the Company shall allocate to FIMI up to 535,714 additional shares (hereinafter: the "Additional Shares"), for no additional consideration. At the request of the stock exchange, the Company has undertaken that as a condition for the allocation of the additional shares, it will capitalize into share capital a part of the share premium in the allocated shares or any other equity source which is permitted to be capitalized under any law, in the amount of 30 agorot for each additional share actually allocated to FIMI.

The Company split the package that was issued to FIMI in the gross sum of NIS 60 million. The Company initially attributed the consideration to the option letter, which constitutes a derivative instrument in the amount of approximately NIS 4.5 million, whereas the difference between the gross consideration and the option value was attributed to the component of the shares which were allocated to FIMI. For further details see Note 26F.

F. On July 25, 2017, trading of the shares of the Company in Belgium was terminated, and on July 30, 2017, these shares were delisted from trading in Belgium and registered for trade on the Tel Aviv Stock Exchange.

Note 19 - Cost of revenues

	For the year ended December 31,		
	2019	2018	2017
	NIS (in thousands)		
Materials and subcontractors (*)	58,043	53,899	55,470
Payroll and related benefits	10,392	8,634	7,211
Changes in inventory in process and finished products	(3,198)	691	(4,297)
Depreciation and amortization	11,454	9,782	9,524
Company and building management costs	478	508	407
Other expenses	1,638	1,709	2,341
	78,807	75,223	70,656

As part of the product manufacturing activity, the Company purchases and sells raw materials to subcontractors for production for the Company. Raw material sales to subcontractors are at cost to the company and do not include gross profit. Since the Company acts as an agent for these transactions, material costs are shown to offset revenues from raw material inventory sales to subcontractors. In 2019, revenues from the sale of raw material inventory to subcontractors totaled approximately NIS 5.3 million (in 2018 and 2017 totaled approximately NIS 4.6 and approximately NIS 5.2 million, respectively).

Note 20 - Development expenses, net

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Salaries and related benefits	8,748	8,666	8,345
Subcontractors	3,635	982	1,604
Others	1,739	1,632	1,608
Less - expenses capitalized to Intangible assets	(10,181)	(7,414)	(8,747)
	3,941	3,866	2,810

Note 21 – Sales and marketing expenses

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Salaries and related benefits	14,077	13,436	10,483
Travel and marketing abroad	1,422	677	468
Exhibitions, advertising and other expenses	11,203	11,200	10,527
	26,702	25,313	21,478

Note 22 - General and administrative expenses

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Salaries and related benefits	9,108	10,022	7,406
Office rent, maintenance and communications	745	1,673	1,821
Depreciation and amortization	550	328	322
Professional services	1,423	2,004	1,000
Provision for doubtful debts	116	30	30
Other expenses	3,166	1,997	1,263
	15,108	16,054	11,842

Note 23 - Financing income (expenses)

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
A. Financing income			
Profit from hedge transactions, net	1,169	-	49
Net profit from changes in exchange rates	-	697	713
Revaluation of option warrants	-	38	-
Others	-	39	180
	1,169	774	942
B. Financing expenses			
Financing cost relating to bonds	1,129	3,579	4,138
Loss from hedging transactions, net	-	1,036	-
Loss,net, from differences in exchange rates	300	-	-
Loan interest	743	-	-
Revaluation of option warrants	2.202	-	2,013
Others	94	420	295
	4,468	5,035	6,446
C. Classification of financing income (expenses) according to financial instruments			
Financial assets measured at fair value through the statement of profit or loss	1,169	(1,036)	50
Financial liabilities measured at reduced cost	(1,129)	(3,720)	(4,267)
Financial liabilities measured at fair value through the statement of profit or loss	(2,202)	38	(2,013)

Note 24 - Interested and related parties

A. Transactions with interested and related parties

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Salaries and related benefits (1)	1,530	1,836	1,829
Bonus to interested parties	520	1,630	260
Salary of the Chairman of the Board of Directors' and joint functionaries(2)	774	647	796
Salaries of other directors	352	373	362
Rental expenses and management fees	1,234	1,200	1,155
Number of salary and benefit recipients	2	2	2
Number of Chairman of the Board of Directors salary recipients	2	1	1
Number of recipients of other directors salaries	5	5	5

(1) Includes Mr. Amit Harari's salary as of April 1, 2019, Mr. Haim Shani's salary up to and including that date, and Ms. Barkat Shani's salary.

(2) Includes Mr. Amit Ben Zvi's salary and Mr. Haim Shani's salary as of April 1, 2019.

Note 24 - Interested and related parties (cont'd)

B. Officers Insurance

The Company has insured the liability of the directors and officers subject to the provisions of the law. The policy covers the liability of the directors and officers of the company up to an amount of USD 7.5 million.

C. The annual general meeting of the Company's shareholders (hereinafter: the "AGM") has approved indemnity and exemption of the Company's office holders as may be appointed from time to time, and/or those serving in another company (excluding office holders which are controlling shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders. In addition, the AGM has approved the indemnity and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company (jointly with the FIMI Fund) and his wife.

D. Mr. Haim Shani is entitled to an annual bonus at a rate of 7.5% of the pre-tax profit for each year commencing 2005, as long as he is employed as a senior officer in the Company. Starting from the closing date of the FIMI investment transaction (as approved on March 29, 2016 by the Company's Compensation Committee and Board of Directors, and subsequently, on May 9, 2016, by the AGM), the bonus is subject to a cap of NIS 1.14 million (linked to the known CPI on May 9, 2016, the closing date of the FIMI investment transaction) (hereinafter: the "Future Bonuses"). The Future Bonuses will be calculated each year anew (and not cumulatively), without taking losses into account, and will be paid within 30 days of the date of approval of the financial statements by the Company's Board of Directors for each calendar year as aforesaid and affirmation by the Company's Compensation Committee that their terms are consistent with the Company's Compensation Policy and the terms of Mr. Shani's employment agreement.

On May 16, 2019, the General Meeting approved the appointment of Mr. Amit Harari, the CEO of the Company, as of April 1, 2019, and approved the appointment of Mr. Haim Shani as an active Joint Chairman of the Board of Directors and his employment agreement as specified in section E below.

B. Officers insurance (cont'd)

E. The Company is bound by personal employment agreements with Mr. Haim Shani (a controlling shareholder [jointly with the FIMI Fund] and a Director] and with Ms. Bareket Shani (Mr. Shani's wife, who is also a Director) (hereinafter in this section: the "**Employment Agreements**"), according to which Mr. Shani serves as Company CEO and Ms. Shani serves as Deputy CEO and Chief Human Resources Officer. Under the Employment Agreements, the monthly salary of the controlling shareholders shall be NIS 60,000 and NIS 30,000, respectively. In addition, the salary of the controlling shareholders shall be linked to the CPI, such that as of January 2012, and at the beginning of each year, an amount equal to the percentage of change in the past year's CPI shall be added to their salary. The Employment Agreements were approved by the Compensation Committee and the Board of Directors on March 29, 2016, and subsequently on May 9, 2016 by the General Meeting. The Employment Agreements are in force for a period of three years up to May 9, 2019.

On May 16, 2019, the General Meeting of Shareholders approved the Employee Agreements at the same terms of Mr. Haim Shani and Ms. Bareket Shani for a period of an additional three years starting from April 1, 2019.

F. As part of the FIMI Fund investment transaction in the Company, Mr. Amit Ben Zvi was appointed to serve as an active salaried Joint Chairman of the Board of Directors. Starting from the transaction closing date, Mr. Ben -Zvi is entitled, for his service as an active Joint Chairman of the Board of Directors of the Company, to a total annual salary equal to 55%, plus VAT and expenses, of the cost to the employer for Mr. Haim Shani, who until April 1, 2019 served as the CEO of the Company, and thereafter was appointed to the position of active Joint Chairman of the Board of Directors. The salary is paid to Mr. Ben Zvi on a quarterly basis, for the services provided to the Company for the previous calendar quarter.

On May 16, 2019, the General Meeting reaffirmed the remuneration under the same terms to Mr. Amit Ben Zvi, active Chairman of the Board of Directors of the Company, for an additional three years starting April 1, 2019.

G. The Company is party to an agreement with a printed circuit assembly contractor which is also a supplier of other components and services to the Company, the controlling shareholder of which is FIMI. The agreement is for a period of one year and is renewed automatically unless one of the parties has given prior notice of termination. The Company's volume of acquisitions from the supplier in 2018 and 2019 was NIS 3,472 thousand and NIS 8,373 thousand, respectively.).

Note 25 - Taxes on income

A. The tax rates applicable to the company

Amendment 71 to the Capital Investment Encouragement Law (hereinafter: the "Law") provides for a tax rate on preferred income from a preferred enterprise of 16% (excluding Area A). The amendment also provides that if a dividend is distributed to an individual or foreign resident of the profits of a preferred enterprise as stated above, a tax rate of 20% will apply. Amendment 73 of the Law provides a unique tax benefit track for a "preferred technological enterprise" whereby a tax rate of 12% applies (excluding Area A).

The Company notified the Tax Authority regarding transition to the application of the amendment starting from the 2017 tax year.

The Company management estimates that the Company is eligible for preferred income benefits from a preferred technological enterprise.

The corporate tax rate in Israel in 2018-2019 and thereafter is 23%.

B. The company has tax assessments that are considered final until 2014.

C. Industrial company

The Company is an "industrial company" pursuant to the Encouragement of Industry (Taxation) Law, 1969 with respect to the product segment. According to this status and pursuant to the regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflation Adjustments Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property which is used in the development or advancement of the enterprise, to deduct issuance expenses for shares listed for trading on the stock exchange as well as to file consolidated financial statements under certain conditions.

D. Approved Enterprise/Beneficiary Enterprise

Until the end of 2016, the Company was on the track of an Approved Enterprise / Beneficiary Enterprise pursuant to the Encouragement of Capital Investments Law, 1959 (hereinafter: the "Encouragement of Capital Investments Law").

The balance of the undistributed profits of an Approved Enterprise/ Beneficiary Enterprise for which no tax has been paid, according to the Company's tax returns up to and including 2016, amounts to approximately NIS 38 million.
If a dividend is distributed from these profits, the Company will be liable for tax at the rate of 25% and the recipients of the dividend will be liable for tax at the rate of 15%.

E. On November 28, 2018, the Company received a tax decision from the Tax Authority, in connection with the Utron Spinoff, including the transfer of Utron Solutions shares from the Company to Utron:

(1) The Spinoff and transfer of employees are in accordance with the provisions of Articles 105A (1) (including 105C (A) (1) and (5)) and 103(O) respectively, to the Income Tax Ordinance and Regulations, and are therefore not taxable since, inter alia, they are the source of the distribution in the issues of debentures and the issuance of capital to FIMI by the Company. It has also been clarified that there are employees in the Company who provide services to Utron throughout the transition period and vice versa, employees who have transferred to Utron who provide services to the Company, all under market conditions, as stated above.

(2) The Company and Utron have undertaken that in the two-year period following the date of the Spinoff, each of them shall have separate independent economic activity, the income of which is liable pursuant to section 2 (1) of the Ordinance, the source of which is Spinoff activity prior to the date of the Spinoff.

(3) In the two-year period following the date of the Spinoff, the Company and Utron will not transfer cash or assets, provide guarantees or any other activity, except during the ordinary course of business and at market value. In addition, no reciprocal balances will be created between the Company and Utron in connection with the Spinoff, nor will any consideration be paid, including to or from any related parties.

F. The subsidiary, Unitronics Inc. is taxed under US tax law, the federal tax rate applicable to the aforesaid subsidiary until 2017 is rated between 15% and 35%; The state tax rate applicable to Unitronics Inc. in the State of Massachusetts is 8.75%.

In 2017, a tax reform was approved in the United States as of 2018, the main impact of which on the activity

of the group is a drop in corporate tax to 21%.

Note 25 - Taxes on income (cont'd)

G. Deferred taxes:

	Statements of financial position		Statements of income		
	For the year ended December 31,		For the year ended December 31,		
	2019	2018	2019	2018	2017
	NIS thousands				
Deferred tax liabilities:					
Fixed assets	-	531	531	(92)	(45)
Other financial assets	-	-	-	-	63
Asset user rights	1,022	-	(1,022)	-	-
Intangible assets	5,392	5,280	(112)	185	(554)
	6,414	5,811	(603)	93	(536)
Deferred tax assets:					
Fixed assets	28	-	28	-	-
Inventory	374	324	50	11	(56)
Other financial liabilities	498	739	474*	304	342
Lease liabilities	386	-	386	-	-
Employee benefits	517	441	76	(78)	(141)
	1,803	1,504	1,014	237	145
Deferred tax income (expenses)			411	330	(391)
Deferred tax liabilities, net presented under non-current liabilities	4,611	4,307			

* NIS 516 thousand was credited to equity in 2019 as part of the Spinoff, see Note 28E.

The deferred tax balances included in the financial statements as of December 31, 2019 are calculated at the tax rates the legislation of which was completed as of the reporting date.

H. The tax on income relates to the other comprehensive income sections:

	Statements of income		
	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Profit (loss) from re-measurement for defined benefit plans	-	62	5

Note 25 - Taxes on income (cont'd)

I. Taxes on income included in profit or loss

	Statements of income		
	For the year ended December 31,		
	2019	2018	2017
		NIS thousands	
Current taxes	(1,633)	(2,331)	(1,782)
Taxes for previous years	(323)	(1,106)	-
Deferred tax income (expense) income, see also Section H above.	411	330	(391)
	(1,545)	(3,107)	(2,173)

J. Theoretical tax

	Statements of income		
	For the year ended December 31,		
	2019	2018	2017
		NIS thousands	
Pre-tax profit from continuing operations	9,688	10,083	11,306
Tax rates	23%	23%	24%
Tax calculated according to statutory tax	2,228	2,319	2,714
Unrecognized expenses	224	79	68
Losses for tax purposes and timing differences for which taxes have been deferred	68	407	408
Tax rate benefit for preferred enterprise	(1,114)	(2,591)	(2,052)
Taxes for previous years	323	1,106	-
Other differences	(184)	-	(11)
Taxes on income	1,545	1,320	1,127

Note 26 - Income

The following is the income according to geographic areas:

	Statements of income		
	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Israel	7,643	7,117	5,332
Europe	52,492	59,880	55,308
Unites States	59,203	51,648	47,326
Others differences	18,207	16,301	15,630
Taxes on income	137,545	134,946	123,596

Note 27 – Profit (loss) per share

	For the year ended December 31,		
	2019	2018	2017
	NIS thousands		
Profit (loss) used to calculate the basic earnings per share (NIS thousands)	2,630	10,215	1,036
Impact on profit assuming conversion of options (NIS thousands) r	-	(38)	-
Annual profit (loss) used to calculate the diluted earnings per share (NIS thousands)	2,630	10,177	1,036
Weighted average of amounts of shares used to calculate the earnings per share (No. of shares)			
Basic	13,752,312	13,752,312	13,752,312
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	13,752,312	13,752,312	13,752,312
With the addition of options	-	535,714	-
Adjusted weighted average of number of ordinary shares used to calculate the diluted earnings per share	13,752,312	13,752,312	13,752,312

* Shares the issuance of which is possible that were not included in the calculation since their anti-dilutive effect in 2019 amounts to USD 905,714 and includes the shares which may be allotted to FIMI (see Note 28) and employee options (see Note 17).

Note 28 - Financial instruments

A. Financial Risk factors

The Company's operations expose it to various financial risks such as market risks (currency risk and interest risk) credit risks and liquidity risks. The risk management program of the Company focuses on actions to reduce to a minimum the possible negative effects on the Company's financial transactions.

Risk management is performed by the Company's management under the supervision of the Board of Directors.

1. Market Risks

a. Currency and Index risks

(1) Most of the sales of the Company in the automated solutions segment are denominated in or linked to the US dollar or the Euro.

Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and the payment thereof, are likely to create an exposure for the Company.

(2) The Company has index-linked Debentures (Series 4) and therefore, changes in the CPI could subject the Company to exposure.

(3) The Company has loans in Euro, and therefore changes in the rate of exchange of the Euro against the NIS could create an exposure for the Company.

b. Interest risks

The Company has loans denominated in Euro, with a variable Libor interest spread. Changes in the rates of interest could affect the Company's business results.

2. Credit Risks

As at December 31, 2019 the Company had trade account receivables amounting to approximately NIS 19 million. The Company does not anticipate material credit risks in respect of trade account receivables, deposits and other account receivables.

3. Liquidity risks

The liquidity risk is the risk that the Company will not be able to fulfill its financial obligations when they fall due. The Company's approach to manage its liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to fulfill its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to fulfill its financial obligations. The aforesaid does not take into account the potential effect of extreme scenarios which cannot reasonably be expected.

Note 28 - Financial instruments (cont'd)

The following table presents the maturity dates of the financial liabilities of the Company according to the terms thereof, in non-material amounts (including interest payments):

As of December 31, 2019:

	Book Value	Up to 1 year	2nd year	3rd year	4th year	5th year and thereafter	Total expected cash flow
	NIS thousands						
Accounts payable - trade	26,349	26,349	-	-	-	-	26.349
Accounts payable - other	9,033	9,033	-	-	-	-	9,033
Foreign currency forward contracts	-	-	-	-	-	-	-
Option warrants (*)	6,104	-	-	6,104	-	-	6,104
Loans from banks	30,360	3,128	22,653	2,455	2,391	1,002	31,629
Bonds	11,652	-11,716	-	-	-	-	11,716
Lease liabilities	3,128	2,092	1,051	143	-	-	3,286
	86,626	52,318	23,704	8,701	2,391	1,002	88,117

December 31, 2018:

	Book Value	Up to 1 year	2nd year	3rd year	4th year	5th year and thereafter	Total expected cash flow
	NIS thousands						
Accounts payable - trade	21,823	21,823	-	-	-	-	21,823
Accounts payable - other	20,959	20,959	-	-	-	-	20,959
Foreign currency forward contracts	414	414	-	-	-	-	414
Option warrants (*)	6,872	-	-	-	6,872	-	6,872
Loans from banks	2,325	423	412	401	390	928	2,554
Bonds	50,085	15,878	15,149	9,392	8,928	8,464	57,811
	102,478	59,497	15,561	9,793	16,190	9,392	110,433

(*) Repayment by way of issue of shares.

Unitronics (1989) (R"G) Ltd.
Notes to the Consolidated Financial Statements

Note 28 - Financial instruments (cont'd)

B. Fair value

The balance in the financial statements of cash and cash equivalents, short and long-term bank deposits, debtors and receivables, forward contracts, supplier liabilities to trade and service provider liabilities and other payables are compatible to or close to their fair value.

C. Classification of financial instruments at fair value rating

The financial instruments in the statement of financial position are presented according to their classified fair value, by groups with similar characteristics to the rating of fair value as follows, which is determined in accordance with the source of the data used in determining the fair value:

Level 1: Quoted prices (without adjustments) in an active market of identical assets and liabilities.

Level 2: Data which is not quoted prices included in Level 1, which can be forecasted directly or indirectly.

Level 3: Data which is not based on forecastable market data (valuation techniques with out the use of un-forecastable market data

D. Adjustment for fair value measurement of an instrument classified at Level 3 in the fair value of financial instruments

E. Liability for option warrants - financial liability at fair value through profit or loss:

	2019	2018
Beginning of period	6,872	6,910
Total change attributed to the premium in connection with the adjustment for the Spinoff(*)	(2,970)	-
Total net loss (gain) recognized in profit or loss	2,202	(38)
Balance as of December 31	6,104	6,872

(*) The total amount charged to the premium for this adjustment is net of in the amount of a total of NIS 516 thousand (NIS 2,454 thousand).

F. Liability for options

As part of the 2016 FIMI investment agreement, the Company granted FIMI a notice of rights to receive shares pursuant to which if the the terms specified in the investment agreement are fulfilled, the Company will allocate to FIMI up to an additional 535,714 shares, with no additional consideration. At the request of the stock exchange, the Company has undertaken, as a condition for the allocation of the additional shares, that it will capitalize into share capital part of the premium on the allocated shares, or any other source of equity permitted to be capitalized under any law, in the amount of 30 agorot, for each additional share actually allocated to FIMI.

As a result of the Spinoff, as specified in Note 1, the entitlement of FIMI to additional shares of the Company will depend on the total consideration which FIMI will receive from the sale of its holdings of the Company's shares and the shares of Utron Ltd., therefore the number of variables affecting the value of the option warrants has increased and accordingly the measurement model was changed from the "Binomial" model to the "Monte Carlo" model.

The future value of the additional shares was calculated by multiplying (a) the total number of shares received by FIMI at - (b) the future value of the share and the - (c) the probability of the future value of the share.

The figure used to measure the fair value which is unforecastable is the standard deviation.

Note 28 - Financial instruments (cont'd)

F. Liability for options (cont'd)

The fair value of the additional shares was calculated by discounting the future value at risk-free interest on the date of the calculation.

The fair value of the liability for option warrants, for which there is no quoted market price, is determined in each reporting period on the basis of an economic model in the valuation of an external assessor.

The fair value of the price adjustment mechanism is the forecasted future value of the additional shares allocatd to FIMI (if allocated) discounted as of the date of the calculation, wherein the number of shares allocated to FIMI will be derived from the consideration received by FIMI upon the date of the sale of all its holdings in the Company's shares and the shares of Utron Ltd.

	For the year ended December 31,	
	2019	2018
	Profit (loss) due to the change	
	NIS thousands)	
Sensitivity analyses for changes in the base asset[(1)]:		
10% increase	(238)	128
10% decrease	396	315
20% increase	(382)	54
20% decrease	871	720
Sensitivity analyses for changes in the deviation from the standard[(1)]:		
5% increase	131	307
5% decrease	(94)	(80)
10% increase	237	797
10% decrease	(228)	(158)

(1) When calculating the aforesaid sensitivity tests and the deviation from the standard deviation, the increase/decrease rate which was taken into account is the change in both the shares of the Company and Utron Ltd. was according to the "Monte Carlo" model as specified above.

H. Forward contracts and option warrants

The Company periodically enters into foreign currency forward contracts aimed at hedging part of its cash flow exposure to exchange rate fluctuations. Foreign currency forward contracts are not designated as a gender instrument, and therefore gains or losses from their measurement are charged to the statement of profit or loss. Forward contracts are for periods of 1 to 12 months.

Note 28 - Financial instruments (cont'd)

I. Sensitivity tests for a change in market factors

	For the year ended December 31,	
	2019	2018
	Profit (loss)	
	NIS thousands	
Sensitivity analyses for changes in the USD exchange rate:		
5% increase in the exchange rate	664	2,503
5% decrease in the exchange rate	(664)	(2,503)
Sensitivity analyses for changes in the Euro exchange rate:		
5% increase in the exchange rate	677	653
5% decrease in the exchange rate	(677)	(653)

The changes chosen in the relevant risk factors were determined in accordance with management's evaluations regarding possible and reasonable changes in these risk factors.

The Company prepared sensitivity analyses for the main market risk factors, which would affect the result of operations or the reported financial situation. The sensitivity analyses present the profit or loss and/or change in shareholders' equity (before tax) for each financial instrument, for the relevant risk factor chosen therefor, as of each date of report. Examining the risk factors was performed on the basis of the significant exposure of the results of operations or the financial situation for each risk factor relative to the functional currency and on the assumption that all the other factors are fixed.

Note 29 - Information about investee companies

	Country of incorporation	Shares conferring voting rights	Shares conferring rights to profits
		Holding rate as of December 31, 2019	
Unitronics Inc.	USA	100%	100%
Unitronics building management and maintenance (2003) Ltd.	Israel	100%	100%
Unitronics GmbH	Germany	100%	100%
		Holding rate as of December 31, 2018	
Unitronics Inc.	USA	100%	100%
Unitronics building management and maintenance (2003) Ltd.	Israel	100%	100%
Utron automated solutions Ltd.	Israel	100%	100%
Unitronics Systems Inc.(*)	USA	100%	100%

(*) Wholly held by Utron Automated Solutions Ltd.

Note 30 - Events subsequent to the date of the report

A. On January 1, 2020, the Company announced that it had returned to the definition of a "small corporation" (as such term is defined in the regulations) and that in light of the above, and in accordance with the decision of the Company's Board of Directors on the matter, the Company will continue to apply all the reliefs it had implemented until that date as a small corporation starting from the 2019 Periodic Report, and will continue to report in a quarterly reporting format (from the report period starting on January 1, 2020). For further details, see the Company's Immediate Report of January 1, 2020 (Reference no. 2020-01-000085). The aforesaid is included by way of reference.

B. On January 29, 2020, the Company repaid the balance of the Debentures (Series 4) in the total amount of NIS 11,156 thousand as well as interest and linkage in the amount of NIS 308 thousand. A pledged deposit in the amount of the semi-annual interest payments on the debentures in favor of the holders of the Debentures (Series 4) was released in February 2020 upon repayment of the Debentures.

C. On March 9, 2020, the Company took a loan from a banking corporation in the total amount of € 1.9 million for a period of 24 months with an annual fixed interest rate of 2.58%, which joins the current pledges and liabilities of the Company's loans from the banking corporation.

D. The Company is exposed to local and global macroeconomic impacts and risks in connection with the outbreak of the Corona virus, which could affect its ability to purchase raw materials and products, as well as their prices, their conveyance and their ability to regularly produce, sell and ship products. In addition, the Company is exposed to a decline in demand for its products and an impact on the sales volume and the strength of its customers.

Non-eradication of the Corona virus and the continuation or exacerbation of measures taken by authorities and countries (both in Israel and abroad) (and in particular in its centers of activity in the United States from which the Company distributes its products in North America and the revenues of which are very material to the Company as well as the production centers and/or raw materials such as China and Korea) may impair the Company's business activity, due, inter alia, to a decline in production capacity and capability (resulting from, inter alia, the return of personnel, restricting the movement of citizens, workers, crowding, gatherings, isolation of employees returning from abroad or those who have come into direct contact with people returning from abroad and are to go into isolation), delays in shipping and supply of raw materials and components for products or final products, inter alia, as a result of transport restrictions, including due to the closing down of ports or airports (as well as reducing the volume of international commercial flights and lack of regularity), restrictions on the departure of Company employees and managers from Israel, relocation of employees to work from home and market instability in the global markets which may cause a decrease in demand for the Company's products, the rejection or delay in the supply of products and/or the impact on their prices, and other negative consequences which are difficult to anticipate.

It should be emphasized that in view of the fact that this is a dynamic event characterized by a great deal of uncertainty, inter alia, in connection with the rate of the spread of the Corona virus, the duration of the spread and the measures taken by the various authorities in the various countries in which the Company is active, the Company is unable to estimate the full extent and nature of the aforesaid effects on its operations, since the degree of influence depends on the extent and nature its materialization.

In this regard, it should be noted that, as of the date of publication of the periodic report, a significant negative economic impact is evident, the negative consequences of which are likely to expand to many sectors of the economy and its scope, in the world and in Israel, cannot be estimated. As of the date of the periodic report, capital markets around the world, as well as in Israel, have reacted sharply to the crisis and steep declines in prices have been recorded, including the shares of the Company

UNITRONICS (1989) (R"G) LTD

Financial data from the consolidated financial statements attributed to the company itself

December 31, 2019

To the shareholders of Unitronics (1989) (R"G) Ltd

Re: Auditors' special report on separate financial information under Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter - the "Company") as of December 31, 2019 and 2018 and for the year ended December 31, 2019 which included in the Company's periodic report. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We conducted our audits in accordance with auditing standards, generally accepted in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance that the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall separate financial information presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial information is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to Note 3a to the separate interim financial information regarding the spin-off during the reporting period of the automated solutions operating segment (which includes, inter alia, a subsidiary – Utron Solution Ltd.(Former : Unitronics Solution Ltd.)) and related activities, and the presentation thereof as a discontinued activity.

Ziv Haft
Certified Public Accountants (Isr.)
BDO Member Firm

March 25, 2020

Unitronics (1989) (R"G) Ltd

Assets and liabilities included in the consolidated financial statements attributed to the company

	Additional information	December 31, 2019	December 31, 2018
		NIS, (in thousands)	
Current assets			
Cash and cash equivalents	B	7,874	23,366
Restricted deposit		306	613
Bank deposit		4,008	-
Trade accounts, net		13,169	19,541
Income receivable for construction contract		-	4,194
Other accounts receivable		3,075	3,237(*)
Related company		2,655	-
Other accounts receivable – subsidiaries	E(3)	12,711	9,432
Inventory		33,106	30,645
		76,904	91,028
Non-current assets			
Long-term restricted bank deposit		4,815	-
Other deposits		118	115
Right-of-use assets		16,076	-
Property and equipment, net		2,130	15,591
Loans and capital notes to subsidiaries less surplus of liabilities over assets associated with subsidiaries	F(3)(b)	3,702	46,650
Intangible assets, net		42,189	42,351
		69,030	104,707
		145,934	**195,735**

(*) reclassified

Amit Ben Zvi and Haim Shani Co-Chairmen of the Board of Directors	Amit Harari CEO	Yehuda Cohen CFO

Approved: March 25, 2020

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Assets and liabilities included in the consolidated financial statements attributed to the company

	Additional information	December 31, 2019	December 31, 2018
		NIS, (in thousands)	
Current liabilities			
Current maturities of non-current loans		2,323	358
Current maturities of bonds		11,396	13,106
Accounts payable -			
Trade		16,127	17,566
Related company		6,715	-
Liability in respect of construction contracts		-	1,278
Lease liabilities	C	1,807	14,645
Other accounts payable		9,296	(*)15,059
		47,664	47,367
Non-current liabilities			
Loans from the bank		27,954	1,967
Bonds		-	36,979
Liabilities for benefits to employees, net		1,982	1,779
Lease liabilities		1,061	-
Liability for share purchase option	C1	6,104	6,872
Deferred taxes	D	4,611	4,307
		41,712	51,904
Equity			
Share capital		427	427
Reserve due to transaction with a controlling shareholder		151	-
Share premium		63,204	104,513
Capital reserve from translation of foreign operation		(2,436)	(1,598)
Company shares held by the company		(7,042)	(7,042)
Reserve from a transaction with a controlling party		104	104
Retained earnings		2,150	60
		56,558	96,464
		145,934	**195,735**

(*) reclassified

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Revenues and expenses included in the consolidated financial statements attributed to the company

	Additional information	For the year ended December 31, 2019	2018	2017
		NIS, (in thousands)		
Revenues		77,876	81,897	76,379
Revenues from subsidiaries	E1	43,518	38,146	34,234
Total revenues		121,394	120,043	110,613
Cost of revenues		78,718	74,472	70,168
Gross profit		42,676	45,571	40,445
Development expenses		3,941	3,866	2,810
Selling & marketing expenses		13,012	12,403	10,532
General & administrative expenses		12,693	14,481	10,427
General & administrative expenses to subsidiaries	E1	730	738	745
Other expenses		-	146	-
Profit from ordinary operations		12,300	13,937	15,931
Financing incomes		1,169	85	942
Financing expenses		4,135	4,925	6,878
Profit after financing, net		9,334	9,097	9,995
The Company's share of subsidiaries profit		295	986	1,311
Profit before tax		9,629	10,083	11,306
Tax on income	D6	1,486	1,320	1,127
Profit for the period from continuing operations		8,143	8,763	10,179
Profit (loss) from discontinued operations	G1	(5,513)	1,452	(9,143)
Profit for the period		2,630	10,215	1,036

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Comprehensive income included in the consolidated financial statements attributed to the company

	For the year ended December 31,		
	2019	2018	2017
	NIS, (in thousands)		
profit (loss) for the year attributed to the company's shareholders	2,630	10,215	1,036
Other comprehensive income (loss) (after tax)			
Items that will not be classified afterwards to profit or loss:			
Remeasurement gain (losses) from defined benefit plans	(540)	340	(70)
Items that will be reclassified to profit or loss in the future if certain conditions are met:			
Adjustments arising from translating financial statements of foreign operations	(1,175)	764	(2,646)
Other comprehensive income (loss) for the year attributed to the company's shareholders	(1,715)	1,104	(2,716)
Total comprehensive profit (loss) for the year attributed to the company's shareholders	915	11,319	(1,680)

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Cash Flows included in the consolidated financial statements attributed to the company

	For the year ended December 31,		
	2019	2018	2017
	NIS, (in thousands)		
Cash flows - operating activities			
Profit (loss) for the year attributed to the company's shareholders	2,630	10,215	1,036
Adjustments necessary to show the cash flows from operations (Appendix A)	23,112	11,277	20,788
Cash flows provided by operating activities of the company	25,742	21,492	21,824
Cash flows used in operating activities from transactions with subsidiaries	(3,279)	(162)	(3,300)
Cash flows provided by (used in) operating activities	22,463	21,330	18,524
Cash flows - investing activities			
Sale of (investment in) marketable securities, net	-	-	-
Purchase of property and equipment	(972)	(564)	(894)
Investment in restricted long-term deposits	(5,000)	-	-
Investment in short-term deposits in banks (repayment)	(4,000)	20,000	25,000
Repayment from restricted deposit	307	288	190
Repayment (investment) in long-term deposits	-	17	82
Investment in intangible assets	(10,331)	(7,486)	(8,825)
Cash flows provided by (used in) investing activities	(19,996)	12,255	15,553
Cash flows provided by investing activities from transactions with subsidiaries	(1,604)	(21,132)	(19,228)
Cash flows provided by (used in) investing activities	(21,600)	(8,877)	(3,675)
Cash flows - financing activities			
Repayment of long-term loans	(1,835)	(354)	(1,094)
Repayment of bonds	(42,263)	(12,974)	(8,666)
Taking of loans	30,000	-	-
Repayment of lease liabilities	(2,122)	-	-
Cash flows provided by (used in) financing activities	(16,220)	(13,328)	(9,760)
Translation differences on cash and cash equivalents	(135)	159	(64)
Change in cash and cash equivalents	(15,492)	(716)	5,025
Cash and cash equivalents at beginning of year	23,366	24,082	19,057
Cash and cash equivalents at end of year	7,874	23,366	24,082

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Cash Flows included in the consolidated financial statements attributed to the company

	For the year ended December 31,		
	2019	2018	2017
	NIS, (in thousands)		
Appendix A - Adjustments necessary to show the cash flows from operations			
Income and expenses not involving cash flows:			
Company's share at losses of subsidiaries	5,822	6,378	14,162
Depreciation and amortization	13,594	10,694	10,753
Changes in liabilities for benefits to employees, net	(263)	(324)	93
Capital loss	-	146	-
Changes in Deferred taxes	(411)	(330)	395
Revaluation of foreign currency cash balances	135	(159)	64
Reevaluation of deposits in banks	177	209	(62)
Reevaluation of long-term loans and bonds	(214)	679	130
Cost of shared-based payment	151	-	-
Reevaluation of embedded derivatives	(365)	339	396
Reevaluation of share purchase option	2,202	(38)	2,013
Interest on leases	(107)	-	-
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable - trade	2,792	(4,112)	(4,100)
Increase in revenues receivable in respect of construction contracts	(623)	(4,194)	-
Increase in accounts receivable - other	113	(1,153)	(85)
Increase in inventory	(2,461)	(3,244)	(7,619)
Increase (decrease) in liability in respect of construction contracts	(1,278)	1,278	-
Increase (decrease) in accounts payable - trade	(1,328)	(2,445)	4,799
Change in related companies, net	4,061	-	-
Increase (decrease) in accounts payable - other	1,115	7,553	(151)
	23,112	11,277	20,788
Appendix B - Additional information on cash flows regarding operating activities			
Cash paid during the year for:			
Interest	2,396	3,338	3,933
Taxes on income	1,828	2,450	1,710
Cash received during the year for:			
Interest	17	255	176

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Additional information

A. **Details of the separate financial information**

1. Principles of Editing Separate Financial Information

The separate financial information of Unitronics (1989) (RG) Ltd. (hereinafter "the Company") includes financial data from the Company's consolidated financial statements, which are attributed to the Company itself as a parent company, and are prepared in accordance with Regulation 9C and the 10th Schedule to the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies applied in the separate financial information are the same as the accounting policies set forth in Note 2 to the Company's consolidated financial statements as of December 31, 2019, subject to the foregoing in this section and detailed in Note A2 below.

2. The handling of inter-social transactions

In the separate financial information, transactions between the Company and subsidiaries were recognized and measured, those were eliminated in the consolidated financial statements. Recognition and measurement was conducted in accordance with the recognition and measurement principles set out in international financial reporting standards so that these transactions were treated as transactions performed with third parties.

The statements included in the separate financial information presented intercompany balances and income and expenses for intercompany transactions, eliminated in the consolidated financial statements, separate from the "balance for investee companies, net" and "net income for investee companies," so that the capital attributed to the company owner and the profit for the period attributed to the parent company owner on the basis of the Company's consolidated financial statements, are the same as the capital attributed to the company itself as a parent company and the profit to the period attributed to the company itself as the parent company, respectively, based on the company's separate financial information.

Within the cash flow amounts attributed to the company itself as a parent company the net cash flows for transactions with subsidiaries are presented as part of current operations, investment activities or financing activities, as applicable.

3. On August 19, 2018, the Company's Board of Directors decided in principle to examine the division of operations of the Company (hereinafter - "Split"), through a fragmentation prospectus and listing on the Tel Aviv Stock Exchange Stock Exchange (hereinafter - the "Prospectus"), so that the Company transfers the segment of the Automated Solution Operations to Utron Ltd. (hereinafter "Utron"), a sister company to a company whose shares were held by a trustee for the company's shareholders. In favor of promoting the split, on February 12, 2019, the Company's Board of Directors made a decision to early redeem the Company's bond initiative (Series 5) and on February 19, 2019, the Court approved the split subject to the prior redemption.

On February 28, 2019, the company and Utron issued a fragmentation and trading prospectus under which the split was made.

To finance bond repayment (Series 5), on March 3, 2019, the Company took two loans from a banking corporation for a total of NIS 30 million. NIS 10 million loan for a five-year period with early repayment option, at prime plus less than one percent per annum, with interest payments and principal on a quarterly basis. NIS 20 million loan, "Bullet loan" for a period of two years, Without an early repayment option, prime interest plus less than one percent per year with quarterly interest payments. As of these loans, as of December 31, 2019, the Company is in compliance with financial covenants.
On the date of credit and for a period of 24 months, a deposit of no less than NIS 5 million was deposited in the Company's bank account at any time.

Details of the separate financial information(Con'd)

On March 12, 2019, after the preconditions were fulfilled, the split process was completed according to the split prospectus and registration on the Tel Aviv Stock Exchange Ltd. Trading. At the time of the split, the transfer of the automated solution activity area from the Company to Utron was completed by transferring the automated solution activity carried out by the Company and transfer of the Company's holdings in Utron Solutions, a wholly owned subsidiary to Utron, all as specified in the prospectus and in accordance with the Company's split agreement.
The split went into effect by reducing capital as a deduction from the premium of all assets and liabilities split and all in book values, and the early repayment of the debentures for NIS 31,117 thousand was completed, the difference of NIS 3,575 thousand against the value of the debentures in the books is also imputed Premium (see Note 1A to consolidated financial statements).

Until March 12, 2019, the Company operated in two main areas of activity, the product and automated solutions areas, and also held 100% of the capital and control rights of Utron Automated Solutions Ltd. (hereinafter - "Utron Solutions", formerly "Unitronics Automated Solutions").
As of March 12, 2019, the company operates only in the products sector, and its operations in the automated solutions and its investment in Utron Solutions Company (incidentally converting NIS 120,081 thousand of Utron Solutions to the company,into Utron Solution Capital) were transferred to Utron in the way of split.

For agreements signed between the company and Utron in 2019 regarding the split transaction and the tax authority's tax decision, see Note 1B to the consolidated financial statements.

B. **Cash and cash equivalents attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries)**

	Foreign currency		Israeli currency	
	US Dollar	Euro	Not linked	Total
	NIS, (in thousands)			
December 31, 2019:				
Cash and cash equivalents	3,024	2,876	1,974	7,874
December 31, 2018:				
Cash and cash equivalents	2,566	2,189	18,611	23,366

C. **Disclosure of financial liabilities attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries)**

	2019	2018
Financial liabilities at fair value through the statement of operations:		
Forward contracts on foreign currency	-	414
Liability for share purchase option	6,104	6,872
Other financial liabilities at reduced cost:		
Financial liabilities measured at reduced cost	59,601	82,821

C. **Disclosure of financial liabilities attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries) (cont'd)**

1. Forward contracts and options

The Company from time to time enters into forward contracts and purchases and writes foreign currency options for partial hedging against its cash flow exposure to fluctuations in currency exchange rates. Forward contracts and foreign currency options are not designated as hedging instruments, and therefore any profit or loss from their measurement is recognized in the statement of profit or loss. Forward contracts and options are for terms of up to 12 months.

2. Liquidity risk attributed to the parent company

The liquidity risk is the risk that the company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable possibility to expect them.

The following table presents the contractual maturity dates of the financial liabilities in undiscounted amounts (including interest payments):

	Book value	1st year	2nd year	3rd year	4th year	5th year and after	Total
	NIS, (in thousands)						
December 31, 2019:							
Accounts payable - trade	22,843	22,843	-	-	-	-	22,843
Accounts payable - other	8,503	8,503	-	-	-	-	8,503
Forward contracts on foreign currency	-	-	-	-	-	-	-
Liability for share purchase option	6,104	-	-	6,104	-	-	6,104
Loans from banks	30,360	3,128	22,653	2,455	2,391	1,002	31,629
Bonds	11,652	11,716	-	-	-	-	11,396
Lease liabilities	2,868	1,872	996	143	-	-	3,011
	82,330	48,062	23,649	8,702	2,391	1,002	83,806
December 31, 2018:							
Accounts payable - trade	17,566	17,566	-	-	-	-	17,566
Accounts payable - other	14,645	14,645	-	-	-	-	14,645
Forward contracts on foreign currency	414	414	-	-	-	-	414
Liability for share purchase option	6,872	-	-	-	6,872	-	6,872
Loans from banks	2,325	423	412	401	390	928	2,554
Bonds	50,085	15,878	15,149	9,392	8,928	8,464	57,811
	91,907	48,926	15,561	9,793	16,190	9,392	99,862

Unitronics (1989) (R"G) Ltd

Additional information

D. **Disclosure of taxes on income attributed to the company**

1. Tax laws applicable to the company:

   Amendment 71 of the Capital Investment Encouragement Law ("Law") provides for a tax rate on preferred income from a preferential enterprise of 16% (excluding Area A). The amendment also provides that if a dividend is distributed to an individual or resident outside the preferred factory profits as stated above, a tax rate of 20% will apply. Amendment No. 73 of the Law provides for a unique tax benefit track for a "preferred technology enterprise" whereby a tax rate of 12% applies (except Area A).

   The company has notified the Tax Authority about the scope of the amendment starting with the 2017 tax year.

   In the company's management's estimation, the company is eligible for preferential income benefits from a preferred technology plant.

   The corporate tax rate in Israel in 2018 and 2019 or later is 23%.

2. The Company has final tax assessments for all years up to 2014.

3. Industrial company
   The Company has the status of an "industrial company" The Law for the Encouragement of Industry (Taxation), 1969 in respect of product activity, as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

4. Approved / preferred Enterprise

   Until the end of 2016, the Company was an Approved Enterprise / Beneficiary pursuant to the Encouragement of Capital Investments Law, 1959 (hereinafter: the "Encouragement of Capital Investments Law").
   The balance of the profits of an approved / beneficiary, undistributed enterprise for which no tax has been paid, according to the Company's tax returns up to and including 2016, amounts to NIS 38 million.
   Insofar as a dividend is distributed from these profits, the Company will be liable to tax at the rate of 25% and the recipients of the dividend will be liable to tax at a rate of 15%.

5 On November 28, 2018, the Company received a tax decision from the Tax Authority in connection with Utron's split, including the transfer of Utron solutions shares to Utron:

   a. The division and transfer of employees are in accordance with the conditions of Sections 105A (1) (including 105C (A) (1) and (5)) and 103T, respectively, to the Income Tax Ordinance and Regulations, and are therefore not taxable because, among other things, the sources of distribution are in bond issues And the issuance of the capital to Fimi by the Company. It has also been clarified that there are employees in the company who provide services to Utron throughout the transition period and vice versa, employees who have moved to Uron and provide services to the Company and all under market conditions, as stated above.
   b. The Company and Utron undertook that in the two-year period following the split date, each of them would have separate independent economic activity, the income of which is committed under section 2 (1) of the Ordinance and originated in the splitting activity prior to the split date.

D.**Disclosure of taxes on income attributed to the company (cont'd)**

c. In the two-year period after the split, the Company and Utron will not transfer cash or assets, provide guarantees or any other activities, except in the ordinary course of business and at market value. In addition, no reciprocal balances will be created between the Company and Utron in connection with the split, nor will any consideration be paid to any related parties or related parties.

5. Deferred tax attributed to the company

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2019	2018	2019	2018	2017
	NIS in thousands				
Deferred tax liabilities:					
Property, plant and equipment	-	531	531	(92)	(45)
Other financial assets	-	-	-	-	63
Marketable securities	-	-	-	-	-
Right of use assets	1,022	-	(1,022)	-	-
Intangible assets	5,392	5,280	(112)	185	(554)
	6,414	5,811	(603)	93	(536)
Deferred tax assets:					
Property, plant and equipment	28	-	28	-	-
Inventory	374	324	50	11	(56)
Other financial liabilities	498	739	*474	304	342
Lease liabilities	386	-	386	- -	
Employee benefits	517	441	76	(78)	(141)
	1,803	1,504	1,014	237	145
Deferred tax income (expenses), net			411	330	(391)
Deferred tax liabilities, net	4,611	4,307			

* NIS 516 thousand is credited to equity in 2019 as part of the split, see Note 28H to the Consolidated Financial Statements.

The deferred tax balances included in the financial statements as of December 31, 2019 are calculated at the tax rates whose legislation was completed as of the reporting date.

D. **Disclosure of taxes on income attributed to the company itself (cont'd)**

.5. Income taxes relating to items of other comprehensive income:

	Statements of income		
	Year ended December 31,		
	2019	2018	2017
	NIS in thousands		
Remeasurement gain (loss) from defined benefit plans	-	62	5

6. Taxes on income included in profit or loss:

Current tax	(1,574)	(2,331)	(2,331)
Taxes in respect of previous years	(323)	(1,028)	(1,028)
Deferred tax income (expenses), See Section 5 above.	411	330	330
	(1,486)	(3,029)	(3,029)

7. Theoretical tax:

	For the year ended December 31,		
	2019	2018	2017
	NIS in thousands		
Profit (loss) before tax benefit (taxes on income)	9,629	10,083	11,306
Statutory tax rate	23%	23%	24%
Tax computed at the statutory tax rate	2,214	2,319	2,714
Increase in taxes resulting from non-deductible expenses	224	79	68
Temporary differences and losses for tax purposes where deferred taxes were not recognized	68	407	408
Benefit from privileged tax rate	(1,114)	(2,591)	(2,052)
Previous year tax	323	1,106	-
Other	(229)	-	(11)
Taxes on income (tax benefit)	1,486	1,320	1,127

Unitronics (1989) (R"G) Ltd

Additional information

E. **Capital notes, balances and substantial engagements with subsidiaries**

1. Transactions with subsidiaries

	For the year ended December 31,		
	2019	2018	2017
	(in thousands)		
	NIS		
Revenues	43,518	38,146	34,234
General & administrative expenses	730	738	745
Financing incomes	-	3,093	2,719

2. Engagements with subsidiaries

a. The consolidated company Unitronics Inc. was established by the Company in 2001 to market, sell and distribute the company's products and to operate projects in the United States. The consolidated company acquires products and services from the company and sells these products and services to its customers.

b. The consolidated company Unitronics building management and maintenance (2003) Ltd. was established by the Company in 2003 in order to manage and maintain the companies building. The company pays to the consolidated company management and maintenance fees for the area used by the company.

c. On August 19, 2018, the Company's Board of Directors decided in principle to examine the division of operations of the Company (hereinafter - "Split"), through a fragmentation prospectus and listing on the Tel Aviv Stock Exchange Ltd (hereinafter - the "Prospectus"), so that the Company transfers the segment of the Automated Solution Operations to Utron Ltd. ("Utron"), a sister company to a company whose shares were held by a trustee for the company's shareholders. In favor of promoting the split, on February 12, 2019, the Company's Board of Directors made a decision to early redeem the Company's bond initiative (Series 5) and on February 19, 2019, the Court approved the split subject to the prior redemption.

On February 28, 2019, the company and Utron issued a fragmentation prospectus and Registration for trading according to which the split took place.

To finance bond repayment (Series 5), on March 3, 2019, the Company took two loans from a banking corporation for a total of NIS 30 million. NIS 10 million loan for a five year period with early repayment option, at prime plus less than one percent per annum, with interest payments and principal on quarterly basis. NIS 20 million loan for a two year period, "Bullet loan" Without an early repayment option, prime interest plus less than one percent per year with quarterly interest payments. As of these loans, as of December 31, 2019, the Company is in compliance with financial covenants.

On the date of credit and for a period of 24 months, a deposit of no less than NIS 5 million was deposited in the Company's bank account at any time.
In addition, the company first-class mortgages its property for unlimited amount estimated at an appraiser's value not less than NIS 16 million.

E. **Capital notes, balances and substantial engagements with subsidiaries (cont'd)**

On March 12, 2019, after the preconditions were fulfilled, the split process was completed according to the split prospectus and listing on the Tel Aviv Stock Exchange. The transaction was completed by transferring the automated solutions segment from the company to Utron, through the transfer of the automated solutions segment by the company and transfer The Company's holding in Utron Automated Solutions Ltd. (hereinafter - "Utron Solutions", formerly "Unitronics Automated Solutions Ltd."), its wholly owned subsidiary, to Utron, and all as specified in the Prospectus and in accordance with the provisions of a split agreement between the Company and Utron. Entered into force by way of capital reduction as a deduction from the premium Of all assets and liabilities split and all in book values, as well as the early repayment of the debentures in exchange for NIS 31,117 thousand, the difference of NIS 3,575 thousand against the value of the debentures in the books is also charged to the premium (see Note 1A and 14B). To the consolidated financial statements).

Until March 12, 2019, the company operated in two main areas of activity, the product area and the automated solutions field, and also held 100% of the capital rights and control of Utron Solutions. As of March 12, 2019, the company operates only in the products sector, and its operations in the automated solutions and its investment in Utron Solutions Company (incidentally converting debt of NIS 120,081 thousand of Utron Solutions to the company, into Utron Capital Solutions) were transferred to Utron in the split.

Regarding agreements signed between the company and Yotron in 2019 regarding the split transaction and the tax authority's tax decision, see Note to the Consolidated Financial Statements.

3. Capital notes, guarantees and balances

a. On December 31, 2007 the company provided eight capital notes in the amount of NIS 1 million each to the subsidiary Unitronics Inc. against the current balance. On December 31, 2010 and 2011 the Company provided additional two capital notes in the amount of NIS 1 million each. On December 31, 2012 the company provided additional two capital notes in the amount of NIS 1 million each. The balance of capital notes as at December 2017 and 2016 amount to NIS 12 million. The Capital notes are nominated in NIS, not linked, do not bear interest and the maturity date will not be before the end of 5 years from the date they were provided. The repayment of this capital notes will defer to other obligations and will prior only to distribution of assets to shareholders in liquidation.

   In addition, there is ongoing balance of the subsidiary Unitronics Inc. as at December 31, 2019 in the amount of approximately NIS 12.5 million (approximately NIS 9.2 million as at December 31, 2018).

b. As of December 31, 2019 there is ongoing balance of the subsidiary Unitronics building management and maintenance (2003) Ltd. in the amount of approximately NIS 206 thousand (approximately NIS 240 thousand as at December 31, 2018).

F. Continuing with Note 2C to the Consolidated Annual Financial Statements, on January 1, 2019, the Company has implemented For the first time, Standard IFRS 16, following are the effects of the application on relevant sections at that date:

	Balance as of January 1, 2019 (Unaudited)		
	Balance prior to application of IFRS 16	Effect of the application of IFRS 16	Balance after the effect of the application
Fixed assets	15,591	(13,573)	2,018
User right assets	-	17,567	17,567
Short-term lease liabilities:	-	(1,667)	(1,667)
Long-term lease liabilities	-	(2,327)	(2,327)

The weighted average of the Company's additional interest rates used to measure the usage rights assets and lease obligations recognized at the date of initial application is 3.20%.

G. **Spinoff of the automated solutions segment – discontinued operations**

1. The following are the results of the discontinued operations included in the consolidated income statement:

	For the year ended December 31	
	2019	2018
	NIS thousands	
Income	6,826	18,703
Expenses	11,895	15,542
Pre-tax profit (loss) on income	(5,069)	3,161
Taxes on income	444	1,707
Profit (loss) for the period from discontinued operations	(5,513)	1,452

2. The following are the cash flows of the discontinued operations which are included in the consolidated cash flow statements attributed to the company :

	For the year ended December 31		
	2019	2018	2017
	NIS thousands		
Net cash flow deriving from (used for) current operations	(1,206)	6,855	
Net cash used for investment activity	(1,604)	(21,131)	

G. **Spinoff of the automated solutions segment – discontinued operations** (cont'd)

3. The following is a breakdown of the assets and liabilities which were disposed of due to the Spinoff:

	March 31, 2019
	(Unaudited)
	NIS thousands
Working capital	(806)
Investment in a held company	(39,045)
	39,851

Chapter E - Statements by the CEO and CFO of the Corporation for 2019

a. **Statement by CEO pursuant to Regulation 9b(d)(1) of the regulations**
b. **Statement by CFO pursuant to Regulation 9b(d)(2) of the regulations**

<u>Statement by the CEO pursuant to Regulation 9b(d)(1) of the regulations:</u>

I, Amit Harari, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2019 ("**the Reports**").

2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the reports.

3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.

4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 25, 2020

____

Amit Harari, CEO

<u>Statement by the CFO pursuant to Regulation 9b(d)(2) of the regulations</u>

I, Yehuda Cohen, certify that:

1. I have reviewed the financial statements and other financial information included in the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2019 ("**the reports**").

2. To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.

3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.

4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 25, 2020

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Yehuda Cohen, CFO