# Unitronics (1989) (RG) Ltd.

# Quarterly Report as of June 30, 2019

**Until January 1, 2019, the Company was a "Small Corporation" as defined in the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "Regulations"), further to the decision of the Company's Board of Directors on March 9, 2014, in which the Board of Directors adopted all the reliefs set out in the Regulations. As of January 1, 2019, the Company ceased to be a small corporation. The Company intends to continue to report pursuant to Regulation 5D of the Regulations and to implement the reliefs given to a small corporation up to and including the quarterly report of the Company for the period ending on September 30, 2019. For further details, see the Immediate Report on this matter dated January 2, 2019 (Reference No. 2019-01-000931), which is hereby included by way of reference.**

## Table of Contents

# 1. Chapter A – Introduction

## 1.1. General

| | |
|---|---|
| Company name: | Unitronics (1989) (RG) Ltd.<br>(Hereinafter: the "**Company**" or "**Unitronics**") |
| Company number: | 520044199 |
| Address: | Unitronics House, Arava St., Airport City, POB 300, Israel 70100 |
| Email address: | riki@unitronics.com |
| Telephone: | 03 977 8888 |
| Facsimile: | 03 977 8877 |
| Period of the Report: | The six and three month periods ended on June 30, 2019 |
| Date of the Report: | June 30, 2019 |

In accordance with Regulation 39A of the Regulations, the following review is limited in scope and only relates to material changes and developments in the Company's affairs during the report period. At the same time, in some cases, for the purpose of providing an overall picture, the Company has included a more detailed description than is actually required, which incorporates information which, in its opinion, is not necessary material.

## 1.2. Description of the Company and its Business Environment

The company deals in the design, development, manufacturing, marketing, sales and support of programmable logic controllers (PLC) of various types that combine an operating panel (keyboard and display) as an integral part of the PLC, and connectivity (including Internet, intranet and cellular telephone communications) and external expansion units to the PLCs and software for PLCs (hereinafter: the "**Products Segment**"). The PLCs are designed primarily for the management of automated systems, including industrial automation, logistics systems, automated parking lots, management of production floors and other auxiliary means.

This activity is carried out by the Company as well as through Unitronics Inc., a wholly owned subsidiary incorporated in the US.

The Company's PLCs and services are marketed and sold through the Company's internal marketing system via Unitronics Inc., and through a network of distributors that includes about 190 distributors, of which approximately 127 in the US and in about 70 countries (including Israel) throughout Europe, Asia, South and Central America, North America and Africa.

The Company mainly operates from office and industrial buildings located at Airport City near the David Ben Gurion Airport. For further details, see Section 1.12 in Chapter A of the Company's Periodic Report for 2018, which was published by the Company on March 28, 2019, ref. no.: 2019-01-027805 (hereinafter: the "**Periodic Report**").

Until March 12, 2019 (hereinafter – "**the spin-off date**"), the Company also dealt in the segment of automatic solutions (for further details, see Section 1.10 of Chapter A of the Periodic Report) (hereinafter – "**the Automated Solutions Segment**"). The spin-off came into force on March 12, 2019, and as of that date, the Company operates through the Products Segment only, while the Automated Solutions segments was transferred to Utron Ltd., a company controlled by the Company's shareholders (hereinafter – "**the spin-off**" and "**Utron**", respectively). For additional details on the spin-off, see section 2.1.1, 2.1.2 and 2.1.4 of chapter 2 of the Prospectus for Spin-off and Listing for Trading dated February 28, 2019 (reference no: 2019-01-017856) (hereinafter – "**the Spin-off Prospectus**"), which is included herein by way of reference. For additional information regarding the completion of the spin-off, see an Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Company's Business dated March 12, 2019 (ref. no.: 2019-01-021037), which is included herein by way of reference. For additional information regarding the agreements signed between the Company and Utron for the purpose of arranging the spin-off and the services and additional inter-relations between them following completion of the spin-off, see sections 8.3-8.4 in Chapter 8 of the Spin-off Prospectus. As part of the spin-off, the Company has also repaid all its debentures (Series 5) that were in circulation on April 1, 2019. For additional details, see Section 1.3.2 below.

## 1.3. Material Events during the Report Period and in the Period until its Publication

### 1.3.1. Repayment of Debentures' Principal (Series 4)

On January 31, 2019, the Company paid the fifth out of six installments of the principal of Series 4 Debentures, which were issued by the Company pursuant to the Company's Shelf Prospectus that was published on February 22, 2011 (ref. no.: 2011-01-058260) and amended on March 17, 2011 (ref. no.: 2011-01-084435) (Hereinafter: the "**2011 Shelf Prospectus**") and pursuant to the Company's Shelf Offering Report dated January 24, 2013, under the 2011 Shelf Prospectus (ref. no.: 2013-01-021699) (hereinafter: the "**2013 Offering Report**"). As to the report issued by the Trustee for the Company's Series 4 debentures for 2018, see Immediate Report on the subject dated June 23, 2019 (reference no: 2019-01-052824). All the above mentioned immediate reports are included herein by way of reference.

### 1.3.2. Early Repayment of Debentures (Series 5)

In light of the spin-off, on February 12, 2019, the Company's Board of Directors decided to make an early redemption of the outstanding Debentures (Series 5), at the Company's initiative, subject to receipt of the Court's approval of the Company's request to make a distribution by way of spin-off (hereinafter - "**the Early Redemption**"). On February 19, 2019, the Court approved the said distribution, subject to the Early Redemption of the debentures that will take place immediately upon completion of the spin-off. On March 12, 2019, the Company announced the transfer of the proceeds of the Early Redemption to a trust account in the name of Hermetic Trust Services (1939) Ltd. (hereinafter: the "**Trustee**") for the holders of the Company's Series 5 Debentures. It should be noted that for the purpose of financing the early redemption of the Debentures (Series 5), the Company took out two loans from a banking entity in the total amount of NIS 30 million.

For further details regarding the Board of Directors' decision to carry out the Early Redemption as stated above, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Company's Business dated February 13, 2019 (ref. no.: 2019-01-014346). For further details regarding the Court's approval for the division by way of a spin-off, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Company's Business dated February 20, 2019 (reference no. 2019-01-015945). For additional details regarding the transfer of the Early Redemption proceeds to the Trustee's account and the repayment of the debentures using these proceeds, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Company's Business dated March 12, 2019 (ref. no.: 2019-01-021013). For additional information regarding the loans taken out by the Company, see Immediate Report dated March 3, 2019 (ref. no.: 2019-01-018444). As to the report issued by the Trustee for the Company's Series 5 debentures, see Immediate Report on the subject dated June 23, 2019 (reference no: 2019-01-052755). All the above mentioned immediate reports are included herein by way of reference.

**1.3.3.** Renewal of the Company's Directors' and Officers' Liability Insurance Policy

On March 27, 2019, following approval by the Company's Balance Sheet, Audit and Remuneration Committee from March 21, 2019, the Company's Board of Directors approved the renewal of the Company's Directors' and Officers' Liability Insurance Policy for , for a period of 12 months until May 31, 2020, in accordance with the provisions of Articles 1B(5) and 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (hereinafter: the "**Relief Regulations**") and in accordance with the Company's remuneration policy, for all directors and officers of the Company (including the Controlling Shareholders of the Company and their relatives). The main terms of the policy are as follows: Insurance coverage for one event and in total for damages that may occur during the insurance period in the amount of USD 7.5 million (seven million and five hundred thousand US Dollars) (in addition to reasonable legal defense expenses in Israel and abroad); the amount of the Company's deductible in respect of claims is between USD 7,500 and USD 35,000 per case, depending on the type of insurance event and the location in which the claim is made. For further details, see Immediate Report on a Transaction with a Controlling Shareholder which Does Not Require the Approval of a General Meeting dated March 28, 2019 (ref. no.: 2019-01-

027835), which is included herein by way of reference. For additional information regarding the Company's directors and officers' liability insurance arrangements, see Section 4.5.9 in Chapter D of the Periodic Report.

**1.3.4.** Market Maker

On January 1, 2019, the Company announced its continued engagement with a stock exchange and investment services company in Israel – I.B.I. Ltd., as a market maker. For details regarding the agreement with the market maker, see Immediate Report on an Event or Matter Deviating from the Company's Ordinary Business dated June 11, 2013 (ref. no.: 2013-01-061794) and Immediate Report regarding a Market Maker dated January 1, 2019 (ref. no.: 2019-01-000145)

**1.3.5.** Changes in senior officers of the Company

On March 28, 2019, the Company announced the end of Mr. Amit Ben-Zvi's tenure as Active Chairman of the Board of Directors and the commencement of his tenure, as of April 1, 2019, as Joint Active Chairman of the Board of Directors together with Mr. Haim Shani. For additional details, see Immediate Report on a Senior Officer that Ceased to Hold Office, dated March 28, 2019 (ref. no.: 2019-01-027823), and Immediate Report on the Appointment of a Senior Officer, dated March 28, 2019 (ref. no.: 2019-01-028012), which are included herein by way of reference.

In addition, on March 28, 2019, the Company announced the end of Mr. Haim Shani's tenure as CEO of the Company and the commencement of his tenure, as of April 1, 2019, as active Chairman of the Board. For additional details, see Immediate Report on Senior Officer who Ceased to Hold Office, dated March 28, 2019 (ref. no.: 2019-01-027829) and Immediate Report on the Appointment of a Senior Officer, dated March 28, 2019 (ref. no.: 2019-01-028015), which are included herein by way of reference.

On March 28, 2019, the Company announced the appointment of Mr. Amit Harari as CEO of the Company. For additional details, see Immediate Report on the Appointment of a Senior Officer, dated March 28, 2019 (ref. no.: 2019-01-027832), which is included herein by way of reference.

On April 15, 2019, the Company announced the end of CPA Eitan Alon's tenure, as CFO of the Company, as of June 1, 2019, and the commencement of CPA Yehuda Cohen's tenure as CFO of the Company as of that date. For further details, see Immediate Report on Senior Officer that Ceased to Hold Office, dated April 15, 2019 (ref. no.: 2019-01-037225), and Immediate Report on the Appointment of a Senior Officer, dated April 15, 2019 (ref. no.: 2019-01-037228), which are included herein by way of reference.

On May 30, 2019, following the request of the Company's internal auditor, CPA Ronen Leibovitch, to terminate his tenure as internal auditor of the Company, effective from the date of appointment of another auditor for the Company, the Company's Board of Directors, based on the recommendation of the Audit Committee, appointed CPA Danny Shapira as internal auditor for the company. For further details, see Immediate Report on the Company's Incumbent Senior Officers dated June 2, 2019 (reference no.: 2019-01-047187), which is included herein by way of reference.

CPA Shapira was appointed as internal auditor following a review of his auditing experience and activities in other public companies by the Company's audit committee and board of directors, taking into account, among other things, the type and size of the public company and the complexity of its operations, in view of the duties, roles and responsibilities imposed on CPA Shapira. To the best of the Company's knowledge, CPA Shapira satisfies the requirements set forth in section 146(B) of the Companies Law and the provisions of section 8 of the Internal Audit Law of 1992 (hereinafter – "**the Internal Audit Law**"). According to his statement to the Company, CPA Shapira conducts his internal audit in accordance with accepted professional standard, as specified in section 4(b) of the Internal Audit Law, which are based on the professional internal audit standards of the Internal Auditors Association in Israel. In the option of the Company's board of directors, the internal auditor meets the requirements set forth in the aforementioned standards, taking into account his professional experience and skills, the period of his employment with each company, his familiarity with the company and the manner in which he conducts, submits and presents the findings of his audit to the company. It is noted that the work plan and terms of employment of CPA Shapira are identical to those of the Company's previous internal auditor.

**1.3.6.** <u>Reappointment of an auditor</u>

On May 16, 2019, the special annual general meeting of the Company's shareholders (hereinafter: the "Meeting") approved the reappointment of the accounting firm BDO Ziv Haft as the Company's auditor until the date of the next annual general meeting of the Company's shareholders. In addition, the Meeting authorized the Company's Board of Directors to determine the auditor's remuneration. For additional details, see Immediate Report on the Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.7.** <u>Appointment of directors</u>

On May 16, 2019, the Meeting reappointed the following directors, until the date of the next annual general meeting of the Company's shareholders: Mr. Zvi Livne, Mr. Gilon Beck, Mr. Yariv Avissar, Mr. Amit Ben-Zvi, Mr. Haim Shani, and Ms. Bareket Shani. In addition, the Meeting reappointed Ms. Rivka Granot as an external director of the Company for an additional three-year tenure as of the Meeting's date of approval. For additional details, see Immediate report on a Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.8.** <u>Approval of the employment agreements of Mr. Haim Shani and Ms. Bareket Shani</u>

On May 16, 2019, the Meeting approved the employment agreements of Mr. Haim Shani and Ms. Bareket Shani for a period of three years commencing on April 1, 2019. For additional details, see Immediate Report on a Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.9.** <u>Approval of the terms of service of Mr. Amit Harari, CEO of the Company</u>

On May 16, 2019, the Meeting approved the terms of tenure of Mr. Amit Harari, the Company's CEO, effective as of April 1, 2019. For additional details, see Immediate Report on a Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.10.** <u>Approval of remuneration to the Joint Active Chairman of the Board of Directors of the Company</u>

On May 16, 2019, the Meeting approved the terms of tenure of Mr. Amit Harari, the Company's CEO, effective as of April 1, 2019. For additional details, see Immediate Report on a Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.11.** <u>Approval of an updated remuneration policy</u>

On May 16, 2019, the Meeting approved the payment of fees to Mr. Amit Ben-Zvi, Joint Active Chairman of the Company's Board of Directors, for a period of three years commencing on April 1, 2019. For additional details, see Immediate Report on a Meeting, dated April 8, 2019 (ref. no.: 2019-01-032430), and Immediate Report on the Results of a Meeting, dated May 16, 2019 (ref. no.: 2019-01-041868), which are included herein by way of reference.

**1.3.12.** <u>The signing of agreements for the construction of robotic parking lots in the US</u>

On January 11, 2019, Unitronics Systems Inc. a 2nd tier subsidiary (former) of the Company (hereinafter – "**Unitronics Systems Inc.**"), signed an agreement with an American customer for the construction of an autonomous parking garage in a building located in New York City, USA, for a total consideration of USD 13.5 million (approximately NIS 50 million, based on the dollar's representative rate on the date of the agreement). For additional details, see Immediate Report on an Event or Matter that Deviate from the Ordinary Course of the Company's Business, dated January 13, 2019 (reference no.: 2019-01-004144), which is included herein by way of reference.

On February 10, 2019, Unitronics Systems Inc. entered into three agreements with American clients for the construction of autonomous parking lots in New York City, USA, for a total consideration of USD 4.8 million (approximately NIS 17.5 million based on the USD representative rate on the date of the agreement). ). For additional details, see Immediate Report on an Event or Matter that Deviate from the Ordinary Course of Company Business, dated February 11, 2019 (reference no.: 2019-01-013797), which is included herein by way of reference.

It should be noted that the agreements described above in section 1.3.12 are part of the automated solutions segment, which was transferred to Utron under the spin-off, as stated in section 1.2.

**1.3.13.** Stock option Plan

On May 30, 2019, the Company's Board of Directors adopted an option plan for employees, consultants and officers of the Company and its subsidiaries (hereinafter - "**the Stock Option Plan**"). The plan is intended to reward Company employees, consultants and officers by granting (non-marketable) stock options, for no consideration, to purchase the Company's shares (hereinafter – "**the Options**"). It is hereby clarified that granting these options by virtue of the stock option plan is subject to the provisions of any applicable law and the requisite permits for awarding the options.

Unless the board of directors or a committee of the board of directors (as the case may be) determine otherwise, the options shall vest in three equal portions and may be exercised two years, three years and four years from the options grant date, respectively. At the end of six years from the grant date, the options will expire.

The basic exercise price of each option for each ordinary share of NIS 0.02 par value shall be: (1) the higher of: (a) the opening price of the Company's shares on the date of the Board of Directors' resolution on granting the Options; (B) a premium of 5% above the average price of the Company's shares on the Tel Aviv Stock Exchange Ltd. ("**the TASE**") during the 30 trading days preceding the date of the resolution to grant the Options to the offeree under the Stock Option Plan, or (2) another prices to be determined by the Company's board of directors ("**the Basic Exercise Price**") The basic exercise price will not be paid to the Company, but instead will be used to determine the financial value of the benefit to the offeree as derived from these options and the number of exercise shares resulting therefrom (Cashless Exercise).

**1.3.14.** Granting of options to employees and officers

On August 20, 2019 ("**the grant date**"), the Company's board of directors, following the approval of the Company's audit, remuneration and financial statements review committee, approved the allotment of 370,000 unlisted stock options to employees and officers of the Company and its subsidiaries, who are not directors, on the Tel Aviv Stock Exchange Ltd. ("**the TASE**"), of which 75,000 unlisted stock options to Mr. Amit Harari, the Company's CEO, were granted as part of a material private placement[1] ("**the Harari Options**"), and the remainder as part of a private placement which is not a material private placement or an irregular private placement[2], all in accordance with the terms of the Option Plan (as detailed in section 1. 3.13).

In accordance with the mechanism detailed in section 1.3.13 above, the exercise price of each option is NIS 12.7.

The fair value of each option on the grant date, which was calculated using the B&S model is NIS 3.09.

The options granted on the grant date (including the Harari Options) are exercisable into a maximum theoretical number of 370,000 ordinary shares of NIS 0.02 p.v. each of the Company ("**the Exercise Shares**").

The granting of options pursuant to this section 1.3.14 is subject to the following approvals:

A. The TASE's approval for the listing of the Exercise Shares;

B. The signing of an option agreement by each offeree, in accordance with the Stock Option Plan;

C. In connection with the Harari Options –the approval of the general meeting of Company shareholders, in accordance with the report on the convening of a special general meeting and regarding a material private placement and a non-material or irregular private placement of unlisted stock options of the Company, which will be published together with this Periodic Report.

[1] As this term is defined in Securities Regulations (Private Placement of Securities by a Listed Company), 2000 (hereinafter – "**the Private Placement Regulations**").

[2] Within its meanings in Regulation 21 of the Private Placement Regulations.

# 2. Chapter B – Board of Directors' Report

The board of directors' report was prepared in accordance with the applicable regulations and includes a condensed review of the relevant matters, assuming the periodic report is available to the reader.

## 2.1. The Financial Status

### 2.1.1. Balance sheet

The Company's balance sheet as of June 30, 2019, is presented after derecognizing the assets and liabilities attributable to the automated solutions segment (hereinafter – "**the discontinued operation**"), and reflects the continued activity only (the products segment and the activity of the subsidiary Unitronics House Management and Maintenance (2003) Ltd., hereinafter – "**the continued activities**"), as described below:

| | As of June 30 | | As of Dec. 31, 2018 | The Board of Directors' Explanations of Changes in Balance Sheets compared to December 31, 2018 |
|---|---|---|---|---|
| | 2019 | 2018 | | |
| | NIS thousands | | | |
| Current assets | 87,322 | 115,441 | 126,656 | 1. Derecognition of current assets (including cash) attributable to the discontinued operation in an amount of NIS 38 million<br>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. |
| Non-current assets | 66,056 | 85,779 | 82,302 | 1. Derecognition of non-current assets attributable to the discontinued operation in an amount of NIS 24 million.<br>2. Creation of rights-of-use assets in the continued activity as a result of the first-time application of IFRS 16 in the amount of NIS 3.5 million.<br>3. An increase in restricted deposits attributable to the continued activity in the amount of NIS 5 million. |
| **Total assets** | **153,378** | **201,240** | **208,958** | |
| Current liabilities | 54,096 | 57,993 | 60,127 | 1. Derecognition of current liabilities attributable to the discontinued operation in the amount of NIS 18 million.<br>2. Creation of lease liabilities in the continuing operations as a result of the first-time adoption of IFRS 16 in the amount of NIS 2.5 million.<br>3. An increase in trade and accounts payable attributable to the continuing operations. |
| Non-current liabilities | 42,757 | 54,489 | 52,367 | 1. An increase in long-term loans for continued activities, in the amount of NIS 30 million for the prepayment of Series 5 debentures.<br>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 2 million.<br>3. Current payments of series 4 debentures and prepayment of series 5 debentures in the amount of NIS 42 million. |
| Equity attributable to the Company's shareholders | 56,525 | 88,758 | 96,464 | Derecognition of capital attributed to the discontinued operation, including a current loss from discontinued operation in the amount of NIS 43 million.<br>Profit from continued activities in the amount of NIS 7 million |
| **Total liabilities and equity** | **153,378** | **201,240** | **208,958** | |

The Company's working capital as of June 30, 2019 amounted to NIS 32,226 thousand, compared to the Company's working capital as of December 31, 2018, which amounted to NIS 66,529 thousand. The decrease in working capital is mainly due to the derecognition of the current assets and liabilities of the discontinued operation.

### 2.1.2. Operating results

2.1.2.1. 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 section2.1.2.2 below.

| | **For the six-month period ended on June 30,** | | **For the three-month period ended on June 30** | | **For the year ended on December 31, 2018** | **The Board of Directors' Explanations of Changes in the profit and loss items compared to the corresponding period of 2018** |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2018** | |
| | **NIS in thousands** | | | | | |
| Income | 69,591 | 64,757 | 36,615 | 34,925 | 134,946 | The growth in income in the first half and the second quarter of 2019 compared to the corresponding periods of 2018 is mainly due to the increase in business activity in the US and the launch of new products. |
| Cost of income | 39,389 | 36,228 | 21,094 | 19,325 | 75,223 | |
| Gross profit (gross profit margin) | 30,202 ( 43.40%) | 28,529 (44.06%) | 15,521 (42.39%) | 15,600 (44.67%) | 59,723 (44.26%) | The gross profit in the first half increased as compared to the same period of 2018, due to the growth in sales. The slight decrease in gross profit margin in the first half and in the second quarter compared to the corresponding periods of 2018 was mainly due to product mix, a certain |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | increase in the cost of subcontractors, and the effect of exchange rates. |
| Development expenses | 2,124 | 2,021 | 1,120 | 1,177 | 3,866 | The development expenses (recognized in profit and loss) in the first half and in the second quarter of 2019 are similar to the corresponding periods of 2018 and reflect continued investment in the development of the technologies required to support the Company's activity. |
| Selling and marketing expenses | 12,682 | 12,482 | 6,515 | 6,308 | 25,313 | The slight growth in selling and marketing expenses in the first half and second quarter of 2019 compared to the corresponding quarters of 2018 primarily resulted from the expansion of the Company's sales overseas. |
| General and administrative expenses | 7,216 | 7,553 | 3,273 | 3,981 | 16,054 | The decrease in general and administrative expenses in the first half and second quarter of 2019 compared to the corresponding quarters of 2018 is mainly due to the reduction of expenses following the spin-off. |
| Other expenses | - | - | - | - | 146 | |
| Profit from ordinary activities | 8,180 | 6,473 | 4,613 | 4,134 | 14,344 | |
| Financing income (expenses), net | 399 | (1,653) | (21) | (678) | (4,261) | The decrease in financing expenses in the first half and second quarter of 2019 compared to the corresponding quarters of 2018 is mainly attributable to the effect of changes in the exchange rates and hedge transactions, and a decrease in outstanding loans and debentures. |
| Profit before taxes | 8,579 | 4,820 | 4,592 | 3,456 | 10,083 | |
| Taxes on income | (1,454) | (1,640) | (925) | (1,333) | (1,320) | Tax expenses during the reporting period are mainly attributable to the profit for 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 changes in deferred tax balances. |
| Profit for the period from continued activity | 7,125 | 3,180 | 3,667 | 2,123 | 8,763 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Profit (loss) from discontinued operation | (5,513) | (673) | - | (81) | 1,452 | See Section 2.1.2.2 below. |
| Profit (loss) for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 | |

**2.1.2.2. 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 June 30, 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.

**2.2. Liquidity and Financing Sources**

As of June 30, 2019, the Company's balance of cash and cash equivalents, short-term and long-term deposits, and marketable securities amounted to NIS 15,479 thousand, compared to NIS 37,826 thousand as of December 31, 2018. Below are explanations regarding the changes in cash flows:

| | For the six-month period that ended on June 30, | | For the three-month period that ended on June 30 | | For the year ended on December 31, 2018 | The Board of Directors' Explanations |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 | |
| | NIS in thousand | | | | | |
| Cash flow from operating activities | 8,920 | 2,159 | 3,468 | 3,656 | 5,682 | The cash flows up to the spin-off date also include the continued activities as well as the discontinued operation.<br>Cash flows from operating activities in the first half of 2019 were provided by the profit from continued activities after deducting the losses from the discontinued operation as part of the spin-off, and net of adjustments to cash flows, mainly from depreciation and amortization<br>Cash flows from operating activities in the first second quarter of 2019 were only provided by continued activities, reflecting the profits net of depreciation |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | and adjustments to the profit. |
| Cash flow from investment activities | (9,897) | (1,143) | (1,740) | (3,732) | 9,892 | 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 from financing activities | (21,577) | (11,060) | (1,362) | - | (13,328) | 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 June 30, 2019, the Company's unutilized credit lines for operating activities amounted to NIS 900 thousand. From time to time, the Company turns to financial institutions to take out lines of credit according to its needs.

### 2.2.1 Designated Disclosure for Debenture Holders

| (1) | Name of Securities | Debentures (Series 4) |
|---|---|---|
| A | Issuance date | January 2013 |
| B | The total par value on the issuance date | 53,125,000 |
| C | Its nominal value as of the report date | 11,156,250 |
| D | Nominal value according to linkage terms – as of the date of the report | 11,335,224 |
| E | The amount of accrued interest as of the date of the report | 257,438 |
| F | A liability value in the books as of the date of the report | 11,456,395 |
| G | Value on the stock exchange | 12,023,091 |
| H | Type of interest including description | 5.4% fixed annual interest. |
| I | Payment dates of the principal balance | An additional annual payment to be paid on January 31, 2020, at a rate of 21% of the principal. |
| J | Future interest payment dates | Every January 31 and July 31, as of July 31, 2019 until January 31, 2020 (inclusive). |
| K | Details of linkage base of principal + interest | Principal + interest linked to the consumer price index.<br>Base index – the December 2012 index, without protection. |
| L | Are the liability certificates convertible? | Non-convertible. |
| M | Entity's right to make an early redemption | Exists (for details regarding the conditions for exercising the Company's right to early redemption, see Section 12 of the Shelf Offering Report, dated January 24, 2013, ref. no.: 2013-01-021699). |
| N | Did the Company provide a guarantee for the payment of the liability in the deed of trust? | No. |
| O | Is the liability material to the Company? | Yes |
| (2) | The trustee, who is responsible for the series of liability certificates in the trust company, how to contact the trustee | Mishmeret – Trust Services Company Ltd.<br>48 Menachem Begin St., Tel Aviv 66184<br>Tel.: 03-6374352; fax.: 03-6374344<br>Email: ramis@mtrust.co.il |

As of the reporting period and during the reporting period, the Company has, to the best of its knowledge, complied with all the conditions and undertakings in the Deed of Trust for the debentures (Series 4), the Company was not found to be in breach of any undertaking or condition set forth in the deed of trust for Series 4 debentures, and there were no conditions providing grounds for the immediate repayment of the debentures.

The meeting of holders of Series 4 debentures of the Company, which was convened for July 16, 2015 and which, in the absence of a quorum, adopted resolutions in the adjourned meeting on July 20, 2015, the trustee's tenure was approved for the period until a full and final repayment of Series 4 debentures of the Company. For additional details see Immediate Report on the Results of a Meeting of Debenture Holders 9Series 4) dated July 28, 2015 (reference no.: 2015-01-083988).

On October 7, 2018, a meeting of the holders of debentured (Series 4 and Series 5) was convened to hold a consultation regarding the Company's petition to the Court to approve its division by way of a spin-off of the automated solutions segment into a new company. On October 10, 2018, the meeting of Series 4 debenture holders decided to instruct the Trustee not to object to the Company's division by way of a spin-off. For further details, see Immediate Report regarding Information Provided at a Meeting of the Holders of Company Debentures (Series 4 and Series 5), dated October 7, 2018 (ref. no.: 2018-01-089152), and Immediate Report on the Results of a Meeting of Holders of Company Debentures (Series 4), dated October 10, 2018 (ref. no: 2018-10-095265), which are included herein by way of reference.

On February 12, 2013, a charge was registered on money deposited in a bank account, in the amount of the semi-annual interest on the debentures, which is intended to secure the payment of interest pursuant to the debentures (Series 4). As long as the Company has an outstanding balance of debentures (Series 4), the Company and any of its subsidiaries (on the date of signing the Deed of Trust for Series 4 debentures and any additional subsidiary that will be established or acquired until the Series 4 debentures are repaid in full, insofar as such subsidiary exists) will refrain from creating a general floating charge on its assets in favor of any third party, without obtaining the prior consent of a meeting of debenture holders by a simple majority for that purpose. It is emphasized that the Company and/or any of its subsidiaries will be entitled to create on all or part of their assets, including cash and cash equivalents, specific charges of any priority, in favor of financing entities that will provide it with loans for the purchase of an asset or equipment, including a floating charge on specific asset(s), including for the purchase of construction services for a building, including for the purpose of replacing lenders that had specific charges on the date of the Offering Report with other lenders, without having to obtain the consent of a meeting of holders of Series 4 debentures for that purpose.

Under the terms of the issuance of the debentures (Series 4), the Company assumed the following undertakings:

- Distribution of dividends – the Company has undertaken that during the entire period in which the debentures (Series 4) will be in circulation, it will not distribute a dividend at a rate exceeding 30% of the cumulative annual net profit attributable to the Company's shareholders in this period, according to the most recent audited consolidated financial statements of the Company that were published prior to the date of the Company's decision regarding the distribution of the dividend, unless the Company received in the prior consent of the holders of the debentures (Series 4) that were received by a special resolution at the meeting of the debenture holders, which is to be convened in accordance with the Second Addendum to the Deed of

Trust of the debentures (Series 4). For further details regarding this restriction, see Section 11.1 of the 2013 Offering Report.

- Net financial debt to net CAP ratio – the Company has undertaken that from the date of listing of the debentures (Series 4), and for as long as the debentures (Series 4) are in circulation, the ratio between the Company's net financial debt and the net CAP of the Company (solo) in accordance with its audited or reviewed financial statements (solo) (as the case may be), with reference to the Company's financial statements as of June 30 and December 31, shall not exceed 80%. If the Company deviates from this undertaking, on any inspection date, the interest rate to be paid by the Company to the holders of the debentures (Series 4) on the payment date pursuant to the date of the deviation will be increased by 0.5% per annum above the interest rate determined in the tender, for the entire deviation period. If the Company deviates from this liability on a date subsequent to the previous inspection date, the interest rate to be paid by the Company to the holders of the debentures (Series 4) shall be increased by an additional 0.5% per annum above the previous interest rate, commencing from the date of the additional breach and until the end of the deviation period. If such deviation is discovered on two consecutive examination dates, in such a manner that this ratio is equal to 85% or more, then such deviation shall constitute grounds for calling for the immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding this restriction, see Section 11.2 of the 2013 Offering Report.

- Net financial debt to EBITDA ratio – the Company undertook that from the date of listing of the debentures (Series 4), and for as long as the debentures (Series 4) are in circulation, the ratio between the Company's net financial debt and the EBITDA of the Company, according to its (consolidated) audited or reviewed financial statements (as the case may be), with reference to the Company's financial statements as at June 30 and December 31, shall not exceed 10. If the Company deviates from this ratio, on any examination date, the interest rate to be paid by the Company to the holders of the debentures (Series 4) on the payment date following the deviation date will be increased by 0.5% per annum above the interest rate determined in the tender, for the entire deviation period. Should the Company breach this undertaking on a date subsequent to the previous examination date, the interest rate payable by the Company to the holders of the debentures (Series 4) shall be increased by an additional 0.5% per annum above the previous interest rate, commencing from the date of the additional breach and until the end of the deviation period. If such deviation is discovered on two consecutive examination dates, such that this ratio will be equal to 12 or more, then said deviation shall constitute grounds for calling for the immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding this restriction, see Section 11.3 of the 2013 Offering Report.

- Equity Limit - The Company's shareholders' equity according to the Company's audited or reviewed financial statements (solo) (as the case may be), with reference to the Company's financial statements as at June 30 and December 31, shall not be less than NIS 20,000,000. If the Company deviates from this limit, on any examination date, the interest rate payable by the Company to the holders of the Debentures (Series 4) on the payment date following the publication of the recent financial statements indicating the deviation, will be raised by 0.5% per annum above the interest rate determined in the tender, for the entire deviation period. If the Company breaches this undertaking on a date subsequent to the previous examination date, the interest rate payable by the Company to the holders of the debentures (Series 4) shall be raised by an additional 0.5% per annum above the previous interest rate, commencing from the date of the additional breach and until the end of the deviation period. If such deviation is discovered on two consecutive examination dates, in such a manner that the shareholders' equity is less than NIS 15,000,000, then such deviation shall constitute grounds for calling the outstanding balance of the debentures (Series 4) due and payable. For further details regarding this restriction, see Section 11.4 of the 2013 Offering Report.

- The Company's undertaking not to create charges – the Company has undertaken not to create a general floating charge on all of its assets, and to act so that none of its subsidiaries (on the date of signing the Trust Deed for Series 4 debentures and any additional subsidiary of the Company that will be established or acquired up to the date of the final repayment of the debentures (Series 4), insofar that such exist) shall not create a lien as aforesaid. For details regarding this restriction, see Section 11.5 of the 2013 Offering Report.

The Company shall be entitled (but not obligated) to perform, at its sole discretion, early redemption, in whole or in part, of the debentures (Series 4), under the terms and restrictions specified in the Amended Shelf Prospectus, as it is defined in section 1.19.2 of Chapter A of the Periodic Report and in the 2013 Offering Report.

Upon the occurrence of certain events, and under certain conditions, the Trustee of the debentures (Series 4) shall be entitled to call the debentures (Series 4) for immediate repayment. A summary of such events include, inter alia: a state of material deterioration in the Company's business, with a real concern that the Company will not be able to repay the debentures on time; imposition of an attachment on the Company's assets, execution actions taken against the Company's assets, appointment of a liquidator or temporary or permanent receiver for the Company's assets, which are not removed and/or canceled within 45 days; sale of the majority of the Company's assets; if Mr. Haim Shani ceases to be a controlling shareholder of the Company, directly or indirectly, without obtaining the approval of the holders of debentures (Series 4) for the transfer of control; a fundamental breach of the terms of the debentures and the Deed of Trust (Series 4) that are not remedied within 14 days from the date on which the Trustee notifies the Company of the breach; a breach of any of the financial covenants specified in Section 11 of the 2013 Offering Report, in which it is expressly stated that said breach constitutes grounds for immediate repayment. For details regarding all the grounds available to the Trustee for calling the debentures (series 4) for immediate repayment, see Section 18.1 of the 2013 Offering Report.

For additional details on the early redemption of the Company's debentures (Series 5), see section 1.3.2 above.

**2.3. Quarterly Report Regarding the Balance of the Company's Liabilities according to its Repayment Schedule**

For details regarding the Company's liabilities by repayment dates as of June 30, 2019, see the report on the Balance of the Company's Liabilities According to its Repayment Schedule, which is published concurrently with this report and is included herein by way of reference.

**2.4. Review of warnings signs**

In accordance with Regulation 10(b)(14) of the Regulations (hereinafter – "**the Regulation**"), the Company's Board of Directors, in its meeting on August 20, 2019, examined whether warning signs (as they are defined in the Regulation) exist in the interim consolidated financial statements and in the separate financial statements as of June 30, 2019. The Company's Board of Directors determined that no such warning signs exist, as they are defined in the Regulation, the Company has no liquidity difficulties, and it is able to meet its obligations, including the payment of all its liabilities in respect of Series 4 debentures. Such examination is carried out by the Company's Board of Directors once a quarter, concurrently with the approval of the financial statements published by the Company for that quarter.

| Amit Ben-Zvi<br>Joint Active Chairman of the Board of Directors | Haim Shani<br>Active Chairman of the Board of Directors | Amit Harari<br>CEO |
|---|---|---|

Date: May 30, 2019

# UNITRONICS (1989) (R"G) LTD

# Consolidated Financial Statements

# June 30, 2019

## (Unaudited)

**Unitronics (1989) (R"G) Ltd**

**Consolidated Financial Statements**

**June 30, 2019**

**(Unaudited)**

Table of contents

**Independent Auditors' Report**
***<u>To the shareholders of Unitronics (1989) (R"G) Ltd.</u>***

### *Introduction*

We have reviewed the accompanying financial information of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter – "the Group") which includes the condensed consolidated statements of financial position as of June 30, 2019 and the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three and nine month periods then ended. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of interim financial information includes making inquiries, particularly with the people responsible for financial and accounting matters, and performing analytic and other review procedures. A review is significantly limited in scope in comparison to an audit conducted in accordance with generally accepted accounting standards in Israel, and therefore does not allow us to reach an assurance that we have become aware of all material issues which may have been identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review and on the review reports provided by other auditors, nothing has come to our attention which would lead us to believe that the aforementioned financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to previous paragraph, based on our review and on the review reports provided by other auditors, nothing has come to our attention which would lead us to believe that the above financial information does not comply, in all material respects, with the disclosure requirements set forth in Section D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

### *Emphasis of Matter*

Without qualifying our abovementioned conclusion, we draw attention to Note 1 to the condensed consolidated interim financial statements attached with regard to the split during the reporting period of the Group's automated solutions area and related operations, and its presentation as discontinued operations.

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

August 20, 2019

**Unitronics (1989) (R"G) Ltd.**

**Condensed Consolidated Statements of Financial Position**

| | As of June 30 | | As of December 31 |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | |
| Current assets | | | |
| Cash and cash equivalents | 15,479 | 25,915 | 37,826 |
| Restricted cash | 307 | 709 | 613 |
| Bank deposits | - | 15,700 | - |
| Trade and income receivable - | 25,948 | 27,633 | 35,244 |
| Income receivable in respect of construction contracts | - | 7,575 | 12,379 |
| Accounts receivable | 4,931 | 3,511 | 4,569 |
| Associated company | 4,079 | - | - |
| Other financial assets | 219 | 172 | 49 |
| Inventory | 36,359 | 34,226 | 35,976 |
| | 87,322 | 115,441 | 126,656 |
| Non-current assets | | | |
| Restricted bank deposit(*) | 5,036 | - | - |
| Rights-of-use assets | 17,404 | - | - |
| Other deposits | 119 | 282 | 269 |
| Property and equipment, net | 2,366 | 21,562 | 20,835 |
| Intangible assets, net | 41,131 | 63,955 | 61,198 |
| | 66,056 | 85,799 | 82,302 |
| | 153,378 | 201,240 | 208,958 |

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

Date of approval of the financial statements: August 20, 2019

* See note 1

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

**Unitronics (1989) (R”G) Ltd.**

**Condensed Consolidated Statements of Financial Position**

| | As of June 30 | | As of December 31 |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | |
| Current liabilities | | | |
| Current maturities of long-term bank loans | 2,338 | 346 | 358 |
| Current maturities of debentures | 11,456 | 13,051 | 13,106 |
| Accounts payable – trade | 23,291 | 20,883 | 21,823 |
| Associated companies | 7,540 | - | - |
| Other financial liabilities | - | 438 | 414 |
| Liabilities in respect of construction contracts | - | 7,279 | 3,467 |
| Liabilities in respect of leases | 1,617 | - | - |
| Other accounts payable | 7,854 | 15,996 | 20,959 |
| | 54,096 | 57,993 | 60,127 |
| Non-current liabilities | | | |
| Bank loans | 29,264 | 2,154 | 1,967 |
| Debentures | - | 38,808 | 36,979 |
| Employee benefit liabilities, net | 1,780 | 2,564 | 2,242 |
| Liabilities in respect of leases | 2,386 | - | - |
| Liability for share purchase options | 4,408 | 6,384 | 6,872 |
| Deferred taxes | 4,919 | 4,579 | 4,307 |
| | 42,757 | 54,489 | 52,367 |
| Equity | | | |
| Share capital | 427 | 427 | 427 |
| Share premium | 63,204 | 104,513 | 104,513 |
| Capital reserve from translation of financial statements of foreign operations | (1,840) | (1,256) | (1,598) |
| Treasury shares | (7,042) | (7,042) | (7,042) |
| Reserve due to transaction with a controlling shareholder | 104 | 104 | 104 |
| Retained earnings (accumulated loss) | 1,672 | (7,988) | 60 |
| | 56,525 | 88,758 | 96,464 |
| | 153,378 | 201,240 | 208,958 |

The notes to the interim consolidated financial statements form an integral part thereof

## Unitronics (1989) (R"G) Ltd.

## Condensed Consolidated Statements of Profit or Loss

| | For the six month period ended on June 30 | | For the three month period ended on June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | | | |
| Revenues | 69,591 | 64,757 | 36,615 | 34,925 | 134,946 |
| Cost of revenues | 39,389 | 36,228 | 21,094 | 19,325 | 75,223 |
| Gross profit | 30,202 | 28,529 | 15,521 | 15,600 | 59,723 |
| Development expenses, net | 2,124 | 2,021 | 1,120 | 1,177 | 3,866 |
| Selling & marketing expenses | 12,682 | 12,482 | 6,515 | 6,308 | 25,313 |
| General & administrative expenses | 7,216 | 7,553 | 3,273 | 3,981 | 16,054 |
| Other expenses | - | - | - | - | 146 |
| Profit from ordinary operations | 8,180 | 6,473 | 4,613 | 4,134 | 14,344 |
| Financing incomes | 3,134 | 570 | 2,116 | - | 774 |
| Financing expenses | 2,735 | 2,223 | 2,137 | 678 | 5,035 |
| Profit before taxes on income | 8,579 | 4,820 | 4,592 | 3,456 | 10,083 |
| Taxes on income | 1,454 | 1,640 | 925 | 1,333 | 1,320 |
| Profit for the period from continuing operations | 7,125 | 3,180 | 3,667 | 2,123 | 8,763 |
| Profit (loss) from discontinued activity (*) | (5,513) | (673) | - | (81) | 1,452 |
| Profit for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |
| Basic earnings per share in NIS from continuing operations | 0.518 | 0.231 | 0.267 | 0.154 | 0.637 |
| Basic earnings (loss) per share in NIS from discontinued activity | (0.401) | (0.049) | - | (0.006) | 0.106 |
| Basic earnings (loss) per share in NIS | 0.117 | 0.182 | 0.267 | 0.148 | 0.743 |
| Diluted earnings per share in NIS from continuing operations | 0.518 | 0.186 | 0.267 | 0.129 | 0.610 |
| Diluted earnings (loss) per share in NIS from discontinued activity | (0.401) | (0.047) | - | (0.006) | 0.102 |
| Diluted earnings (loss) per share in NIS | 0.117 | 0.139 | 0.267 | 0.123 | 0.712 |

(*) See notes 1 and 3 regarding discontinued activity

The notes to the interim consolidated financial statements form an integral part thereof

**Unitronics (1989) (R"G) Ltd.**

**Condensed Consolidated Statements of Comprehensive Income**

| | For the six month period ended on June 30 | | For the three month period ended on June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | | | |
| Profit for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |
| Other comprehensive income (loss) (net of tax) | | | | | |
| Items that will not subsequently be reclassified to profit or loss: | | | | | |
| Remeasurement Profit from defined benefit plans | - | - | - | - | 340 |
| Items that will be reclassified to profit or loss if certain conditions are met: | | | | | |
| Adjustments arising from translation of financial statements of foreign operations | (579) | 1,106 | (376) | 825 | 764 |
| Other comprehensive income (loss) for the period | (579) | 1,106 | (376) | 825 | 1,104 |
| Total comprehensive income for the period | 1,033 | 3,613 | 3,291 | 2,867 | 11,319 |

The notes to the interim consolidated financial statements form an integral part thereof

## Unitronics (1989) (R"G) Ltd.

## Condensed Consolidated Statements of Changes in Shareholders Equity

| | Share capital | Share premium | Capital reserve from adjustments due to translation of foreign operations | Company shares held by the company | Reserve from a transaction with a controlling Shareholder | Retained earnings (Accumulated loss) | Total |
|---|---|---|---|---|---|---|---|
| | | | | NIS, in thousands (Unaudited) | | | |
| Balance as of January 1, 2019 | 427 | 104,513 | (1,598) | (7,042) | 104 | 60 | 96,464 |
| Profit for the period | - | - | - | - | - | 1,612 | 1,612 |
| Other comprehensive loss for the period | - | - | (579) | - | - | - | (579) |
| Total comprehensive loss for the period | - | - | (579) | - | - | 1,612 | 979 |
| Spin-off of automated solutions segment and related activities | - | (41,309) | 337 | - | - | - | (40,972) |
| Balance as of June 30, 2019 (unaudited) | 427 | 63,204 | (1,840) | (7,042) | 104 | 1,672 | 56,525 |
| Balance as of April 1, 2019 (unaudited) | 427 | 63,204 | (1,464) | (7,042) | 104 | (1995) | 53,234 |
| Profit for the period | - | - | - | - | - | 3,667 | 3,667 |
| Other comprehensive loss for the period | - | - | (376) | - | - | - | (376) |
| Total comprehensive income (loss) for the period | - | - | (376) | - | - | 3,667 | 3,291 |
| Balance as of June 30, 2019 (unaudited) | 427 | 63,204 | (1,840) | (7,042) | 104 | 1,672 | 56,525 |
| Balance as of January 1, 2018 | 427 | 104,513 | (2,437) | (7,042) | 104 | (1,201) | 94,364 |
| Cumulative effect as of January 1, 2018 due to initial implementation of IFRS 15 | - | - | 75 | - | - | (9,294) | (9,219) |
| Profit for the period | - | - | - | - | - | 2,507 | 2,507 |
| Other comprehensive income for the period | - | - | 1,106 | - | - | - | 1,106 |
| Total comprehensive income for the period | - | - | 1,106 | - | - | 2,507 | 3,613 |
| Balance as of June 30, 2019 (unaudited) | 427 | 104,513 | (1,256) | (7,042) | 104 | (7,988) | 88,758 |
| Balance as of April 1, 2018 (unaudited) | 427 | 104,513 | (2,081) | (7,042) | 104 | (10,030) | 85,891 |
| Profit for the period | - | - | - | - | - | 2,042 | 2,042 |
| Other comprehensive income for the period | - | - | 825 | - | - | - | 825 |
| Total comprehensive income for the period | - | - | 825 | - | - | 2,042 | 2,867 |
| Balance as of June 30, 2018 (unaudited) | 427 | 104,513 | (1,256) | (7,042) | 104 | (7,988) | 88,758 |
| Balance as of January 1, 2018 | 427 | 104,513 | (2,437) | (7,042) | 104 | (1,201) | 94,364 |
| Cumulative effect as of January 1, 2018 due to 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 as of December 31, 2018 | 427 | 104,513 | (1,598) | (7,042) | 104 | 60 | 96,464 |

The notes to the interim consolidated financial statements form an integral part thereof

**Unitronics (1989) (R"G) Ltd.**

**Condensed Consolidated Statements of Cash Flows**

| | For the six month period ended on June 30 | | For the three month period ended on June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | | | |
| Cash flows – operating activities: | | | | | |
| Profit for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |
| Adjustments equired to show the cash flows from operating activities (Appendix A) | 7,308 | (348) | (199) | 1,614 | (4,533) |
| Cash flows provided by operating activities | 8,920 | 2,159 | 3,468 | 3,656 | 5,682 |
| Cash flows – investment activities: | | | | | |
| Investment in fixed assets | (642) | (338) | - | (81) | (832) |
| Use of restricted cash | 306 | 294 | - | - | 386 |
| Withdrawal (investment) of bank deposits | - | 4,500 | - | (500) | 20,000 |
| Withdrawal of long-term deposits | - | 61 | - | 67 | - |
| Withdrawal (investment) of long-term deposit | (5,000) | - | 57 | - | - |
| Investment in intangible assets | (4,561) | (5,660) | (1,797) | (3,218) | (9,662) |
| Cash flows provided by (used in) investment activities | (9,897) | (1,143) | (1,740) | (3,732) | 9,892 |
| Cash flows – financing activities: | | | | | |
| Repayment of long-term loans | (795) | (86) | (594) | - | (354) |
| Loans taken(*) | 30,000 | - | - | - | - |
| Cash outflows due to the spin-off of the automated solutions segment(*) | (6,483) | - | - | - | - |
| Repayment of debentures(*) | (42,393) | (10,974) | - | - | (12,974) |
| Repayment of lease liabilities | (1,906) | - | (768) | - | - |
| Net cash used for financing activities | (21,577) | (11,060) | (1,362) | - | (13,328) |
| Translation differences in respect of cash and cash equivalents | 207 | 1,249 | 313 | 799 | 870 |
| Change in cash and cash equivalents for the period | (22,347) | (8,795) | 679 | 723 | 3,116 |
| Cash and cash equivalents at beginning of year | 37,826 | 34,710 | 14,800 | 25,192 | 34,710 |
| Cash and cash equivalents at end of year | 15,479 | 25,915 | 15,479 | 25,915 | 37,826 |

(*) See notes 1&3

The notes to the interim consolidated financial statements form an integral part thereof

## Unitronics (1989) (R"G) Ltd.

## Condensed Consolidated Statements of Cash Flows

| | For the six month period ended on June 30 | | For the three month period ended on June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | | | NIS, (in thousands) | | |
| Appendix A | | | | | |
| Adjustments necessary to show the cash flows from operations | | | | | |
| Income and expenses not involving cash flows: | | | | | |
| Depreciation and amortization | 8,917 | 9,465 | 3,054 | 5,064 | 17,100 |
| Changes in employee benefit liabilities, net | (63) | 19 | - | 67 | 36 |
| Revaluation of cash balances in foreign currency | (207) | (220) | (102) | 52 | (234) |
| Capital loss | - | - | - | - | 146 |
| Revaluation of deposits | (14) | 9 | (34) | (19) | 209 |
| Revaluation of long-term loans and debentures | 251 | 197 | 251 | 177 | 679 |
| Changes in deferred taxes | 106 | (58) | (121) | (12) | (330) |
| Revaluation of share options | 506 | (526) | 506 | (286) | (38) |
| Revaluation of financial assets, net | (584) | 240 | 152 | (215) | 342 |
| Changes in assets and liabilities: | | | | | |
| Decrease (increase) in trade and income receivables | 2,648 | (723) | (3,213) | (1,120) | (6,556) |
| Increase in income receivable in respect of construction contracts | (5,195) | (7,575) | - | (3,588) | (12,379) |
| increase in accounts receivable | (2,617) | (252) | (1,634) | (110) | (1,223) |
| Associated companies, net | 3,461 | - | 3,461 | - | - |
| Increase in inventory | (4,400) | (1,642) | (3,266) | (683) | (3,231) |
| Increase (decrease) in trade payables | 6,536 | (2,008) | 3,123 | (1,907) | (1,078) |
| Increase (decrease in liabilities in respect of construction contracts | (3,467) | 7,279 | - | (1,149) | 3,467 |
| Increase (decrease) in other accounts payable | 1,430 | (4,553) | (2,376) | 5,343 | (1,443) |
| | 7,308 | (348) | (199) | 1,614 | (4,533) |

## Unitronics (1989) (R"G) Ltd.

## Condensed Consolidated Statements of Cash Flows

| | For the six month period ended on June 30 | | For the three month period ended on June 30 | | For the year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS, (in thousands) | | | | |
| Appendix B - Additional information on cash flows regarding operating activities | | | | | |
| Cash paid during the year for: | | | | | |
| Interest | 1,461 | 1,816 | 264 | 40 | 3,338 |
| Taxes on income | 241 | 27 | - | 13 | 2,450 |
| Cash received during the year for: | | | | | |
| Interest | - | 44 | - | 16 | 255 |

The notes to the interim consolidated financial statements form an integral part thereof

**Note 1 – General:**

(2) An agreement for the provision of services from Utron to the Company for a period of five years, with each party having the right to terminate the agreement with a 90 day written notice. Under the Services Agreement, services will be provided to the Company by Utron, without the existence of employee-employer relations between Utron and the Company and anyone acting on its behalf.

(3) An agreement to transfer projects from a subsidiary of the Company in the United States (hereinafter - "Unitronics Inc.") to Unitronics Systems Inc. (a subsidiary of Unitronics Solutions (hereinafter - "Unitronics Systems") until the completion of projects signed in the first quarter of 2019.

(4) An agreement for the provision of services including employees from Unitronics Inc. for a period of five years, with each party having the right to terminate the agreement with a 90 day written notice.

(5) A purchase agreement according to which Utron will purchase from time to time, based on its needs, products manufactured by the Company according to a fixed price and known in advance, according to which the Group will sell the same products to its distributors, The said agreement will be effective for a period of 10 years, with each party having the right to terminate the agreement with a 90-day written notice.

(6) A lease agreement under which Utron will sub-lease to the Company in the building in which it is located in the Airport City, with an area of 220.5 $m^2$,for the same price paid by Utron to the landlord, plus overhead costs, totaling NIS 160 thousands per year. The said agreement is back to back (BTB) against Utron's agreement of Utron with the landlord.

On November 28, 2018, the Company received a Tax Decision from the Tax Authority, in connection with the spin-off of Utron including the transfer of the Company's Utron Solutions shares to Utron:

A. The spin-off and transfer of employees will be carried out in accordance with the terms of section 105(A)(1) (including 105(C)(1) and (5)) and 103P, respectively, of the Income Tax Ordinance and Regulations, and therefore are not liable for tax since, among other reasons, the sources of distribution are the proceeds of the Company's issue of debentures and equity to FIMI. It is also clarified, that there are Company employees that will provide services to Utron throughout the transfer period and voce versa, employees that will transfer to Utron and will provide services to the Company, all at market conditions, as stated above.

B. The Company and Utron have undertaken that in the two-year period following the spin-off, each of them shall have a separate and independent economic activity, the revenues of which are subject to tax pursuant to section 2(1) of the Ordinance, and which originates from the spun-off activity prior to the spin-off date.

C. In the two-year period following the spin-off date there shall be no transfer of cash or assets, provision of guarantees or any other activity between the Company and Utron, other than during the ordinary course of business and at market value, In addition, no mutual balances shall be created between the Company and Utron in connection with the spin-off and there shall be no transfer of proceeds whatsoever, including to or from third parties.

## Note 2 - Significant Accounting Policies

A. The consolidated interim financial statements of the Company are prepared in conformity with IAS 34, "Interim Financial Reporting" and in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

B. The accounting policy used in preparing the interim consolidated financial statements is consistent with the policy applied in the preparation of the consolidated annual financial statements, except as detailed in sections C. and B. below.

C. The spin-off is in fact a restructuring transaction between entities under the same control and was therefore recorded as a capital reduction by means of a net offset from the premium of the assets, liabilities and capital reserve in respect of foreign currency translation adjustments of foreign operation, that were spin-off, all in accordance with their carrying amount at the end of the reporting period (no adjustments have been made from the date of the spin-off to the end of the reporting period due to lack of materiality) and therefore no gain was recorded in respect of the difference between the fair value of the net assets that were spin-off and their book value. In addition, in connection with the early redemption of the debentures and the adjustment of the fair value of FIMI's options (see Note 4) that are directly related to the spin-off, the differences between the book values and fair value of the liabilities, and net of the tax effect, as of the spin-off date, were also carried to premium as part of the recording the spin-off. In addition, the automated solutions segment, which constituted one of the two reportable segments of the Company, was presented as discontinued operations as detailed below, and the segment reporting was canceled as the Company continues to operate one reportable segment.

Discontinued operations are one of the components of the Group's business, representing a separate, significant actualized operations line of business. With respect to the discontinued operations, the comparative figures in the statement of income were restated, as if the operation had been discontinued at the beginning of the earliest comparative period. In addition, the results, cash flows and summary of the spun-off net assets of the discontinued operations are presented in Note 3 of these financial statements. The results of the discontinued operations for the first quarter of 2019 include the results of operations for the three months ended March 31, 2019, instead of including them until the date of the spin-off, for reasons of immateriality.

D. Further to Note 2K to the annual consolidated financial statements, on January 1, 2019, the Company adopted IFRS 16 for the first time and the effect of the first-time application on relevant items at that date are as follows:

| | **As of January 1, 2019 (unaudited)** | | |
|---|---|---|---|
| | **Balance prior to application of IFRS 16** | **Effects of applying IFRS 16** | **Balance following application of IFRS 16** |
| Fixed assets | 20,835 | (13,573) | 7,262 |
| Rights-of-use assets | - | 34,671 | 34,671 |
| Short-term lease liabilities | - | (4,987) | (4,987) |
| Long-term lease liabilities | - | (16,111) | (16,111) |

## Note 2 - Significant Accounting Policies (continued):

For purposes of initial measurement of lease liabilities on the date of initial application of IFRS 16, the Company discounted the balance of unpaid lease payments as of that date using its incremental interest rate on that date.

The Company has selected the practical relief upon the first-time adoption of IFRS 16 and used a single discount rate for a portfolio of leases with similar characteristics.

The Company has chosen the transition relief, not to include initial direct costs in measuring the right to use the property on the initial application date. The weighted average of the company's incremental interest rate used for measuring the leasing liabilities and the rights-of-use recognized on the initial application date is 3.53%.

The Company chose the practical relief for the transitional period, based on each lease separately, to rely on its assessment of December 31, 2018 whether leases are onerous rather than performing an impairment test. The Company has been measuring Rights-of-use assets prior to adopting IFRS 16, according to the book value of the lease properties immediately before the initial application date

## Note 3 – Sale of the automated solutions segment – a discontinued activity:

A. Below are the results relating to the discontinued activity, which were included in the consolidated statement of profit and loss:

| | For the six-month period that ended on | | For the three-month period that ended on | | For the year that ended on |
|---|---|---|---|---|---|
| | June 30 2019 | June 30 2018 | June 30 2019 | June 30 2018 | 2018 |
| | Unaudited | | Unaudited | | Audited |
| | NIS in thousand | | | | |
| Revenues | 14,075 | 30,919 | - | 16,017 | 66,669 |
| Expenses | 19,144 | 30,940 | - | 15,699 | 63,430 |
| Profit (loss) before taxes on income | (5,069) | (21) | - | 318 | 3,239 |
| Taxes on income | 444 | 652 | - | 399 | 1,787 |
| **Profit (loss) for the period from discontinued activity** | (5,513) | (673) | - | (81) | 1,452 |

## Note 3 – Sale of the automated solutions segment – a discontinued activity:

B. The cash flows in the consolidated statements of cash flows include net cash from the discontinued operation, as follows:

| | For the six-month period that ended on | | For the three-month period that ended on | | For the year ending on |
|---|---|---|---|---|---|
| | June 30 2019 | June 30 2018 | June 30 2019 | June 30 2018 | December 2018 |
| | Unaudited | | Unaudited | | Audited |
| | NIS in thousand | | | | |
| Net cash provided by (used in) operating activities | 2,491 | (3,851) | - | (1,965) | (8,606)* |
| Net cash used in (provided by) investment activities | (733) | (1,414) | - | (808) | (2,390) |
| Net cash used in financing activities | (814) | - | - | - | - |

(*) immaterial adjustment of comparison numbers

C. Below are details on the assets and liabilities derecognized as part of the spin-off:

| | March 31 2019 |
|---|---|
| | Unaudited |
| | NIS, thousand |
| Cash | 6,483 |
| Working capital net of cash | 6,202 |
| Non-current assets | 40,269 |
| Non-current liabilities | (13,103) |
| | 39,851 |

## Note 4 – Financial instruments

A. Classification of financial instruments according to the fair value hierarchy

The financial instruments which are presented in the statement of financial position at fair value, or whose fair value is disclosed, are classified by groups with similar characteristics using the following fair value hierarchy, which is determined based on the source of input used in measuring fair value :

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Inputs that are not based on observable market data (valuation techniques that use inputs which are not based on observable market data).

## Note 4 – Financial instruments

A. Classification of financial instruments according to fair value hierarchy (continued):

The Company holds financial instruments that are measured at fair value according to the following classifications:

| | Level 2 | Level 3 |
|---|---|---|
| | NIS in thousand | |
| As of June 30, 2019 (unaudited): | | |
| Financial assets measured at fair value | | |
| Foreign currency forward contracts | 219 | - |
| Financial liabilities measured at fair value | | |
| Liabilities in respect of share options | - | 4,408 |
| As of June 30, 2018 (unaudited): | | |
| Financial assets measured at fair value | | |
| Foreign currency forward contracts | 172 | - |
| Financial liabilities measured at fair value | | |
| Foreign currency forward contracts | 438 | - |
| Liabilities in respect of share options | - | 6,384 |
| As of December 31, 2018 (audited): | | |
| Financial assets measured at fair value | | |
| Foreign currency forward contracts | 49 | - |
| Financial liabilities measured at fair value | | |
| Foreign currency forward contracts | 414 | - |
| Liabilities in respect of share options | - | 6,872 |

During the reported periods there were no transfers between the levels.

**Note 4 – Financial instruments (continued):**

B. Adjustments in respect of fair value measurements classified to Level 3 in the fair value hierarchy of financial instruments

| | Financial liabilities at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| | For the six-month period that ended on June 30 | | For the three-month period that ended on June 30 | | For the year that ended on December 31 |
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS in thousand | | | | |
| At the start of the period | 6,872 | 6,910 | 3,902 | 6,670 | 6,910 |
| Total change carried to premium following adjustments due as a result of the spin-off (*) | (2,970) | - | - | - | - |
| Total loss (profit), net, recognized in financing income | 506 | (526) | 506 | (286) | 38 |
| At the end of the period | 4,408 | 6,384 | 4,408 | 6,384 | 6,872 |

(*) The total amount included in share premium in respect of this adjustment is, net of tax: NIS 516 thousand (NIS 2,454 thousand)

C. Quantitative information regarding fair value measurements classified to Level 3:

The effect on the capital gain / loss, NIS in thousand, following a change in the underlying asset at the rate of:

| | As of June 30, 2019 | | |
|---|---|---|---|
| | +10% | Fair value | -10% |
| Effect on the capital gain / loss | 199 | 4,408 | (214) |

D. Valuation techniques:

Liabilities in respect of share options

The fair value of the liability for share purchase option for which no quoted market price exists, is determined for every reporting period on the basis of the economic model used in an evaluation made by an external appraiser.

Further to note 16E of the consolidated annual financial statements, with respect to the said spin-off, entitlement to additional Company shares held by FIMI shall depend on FIMI's total consideration from the sale of its holdings in the Company's shares and Utron shares, as a result of which the number of variables affecting the value of the options has increased and accordingly, the measurement model has been changed from the Binomial Model to the Monte Carlo Model.

The fair value of the price adjustment mechanism is the expected future value of the additional shares, which will be allotted to FIMI (to the extent they are allotted), discounted on the date of the calculation, where the number of shares that will be allotted to FIMI will be derived from the consideration FIMI will receive upon the sale of all the acquired shares.

The future value of FIMI shares was estimated using the Monte Carlo model and was divided into two categories:

1. The branches where the value of the shares acquired is lower than 250% of FIMI'S purchase price for which FIMI is entitled to the allotment of additional shares.

2. The branches in which the value of the shares acquired is higher than 250% of FIMI'S purchase price for which FIMI is not entitled to the allotment of additional shares.

The future value of the additional shares was calculated by multiplying (a) the total shares that FIMI will receive by (b) the future value of the share and by (c) the probable future value of the share.

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

**Unitronics (1989) (R”G) Ltd.**
**Notes to the Condensed Consolidated Financial Statements**

## Note 5 – Revenues:

The table below presents revenues by geographic regions:

| | For the six-month period that ended on | | For the three-month period that ended on | | For the year that ended on |
|---|---|---|---|---|---|
| | June 30 2019 | June 30 2018 | June 30 2019 | June 30 2018 | 2018 December |
| | Unaudited | | Unaudited | | Audited |
| | NIS in thousand | | | | |
| Israel | 3,602 | 3,096 | 1,797 | 1,426 | 7,117 |
| Europe and others | 33,188 | 33,735 | 17,667 | 18,349 | 76,181 |
| United States | 32,801 | 27,925 | 17,151 | 15,149 | 51,648 |
| **Total revenues** | 69,591 | 64,757 | 36,615 | 34,925 | 134,946 |

## Note 6 – Events subsequent to the balance sheet date:

On August 20, 2019, the Company's board of directors approved the allotment of 370,000 stock options to Group employees and officers. Each option is exercisable into an ordinary share of 0.02 p.v. of the Company. The mechanism of exercising these options is by allotting bonus shares on the exercise date, such that in practice the value of the allotted shares and diluted shares will be lower than the total value of the options. The vesting period of the options is 4 years from the grant date and the life of the options is 6 years from the grant date. The exercise price of each option is NIS 12.7, which is determined in accordance with the stock options plan, as the higher of the market price on the grant date or a premium of 5% above the average market price in the 30 trading days that preceded the options grant date.

The fair value of each option on the grant date, which was calculated using the B&S model is NIS 3.09.

# Unitronics (1989) (R"G) Ltd.

# Presentation of Financial Information from the Condensed Interim Consolidated Financial Statements Attributable to the Company

# As of June 30, 2019

# (Unaudited)

**<u>Independent Auditors' Special Review Report to the Shareholders of Unitronics (1989) (R"G) Ltd. on Separate Interim Financial Information Pursuant to Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970</u>**

## Introduction

We have reviewed the separate interim financial information disclosed in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970 of Unitronics (1989) (R"G) Ltd. ("the Company") as of June 30, 2019 and for the six- and three-month periods then ended. The board of directors and management are responsible for the preparation and presentation of this separate interim financial information in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the separate interim financial information for these interim periods, based on our review.

## Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of Financial Information for Interim Periods Performed by the Independent Auditor of the Entity." A review of separate financial information for interim periods consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above separate interim financial information has not been prepared, in all material respects, in accordance with Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970.

## Emphasis of matter

Without qualifying our above conclusion, we draw attention to Note 1 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

Tel Aviv, August 20, 2019

## Unitronics (1989) (R"G) Ltd.

## Amounts of Assets and Liabilities Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company

| | June 30 | | December 31 |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Audited) |
| | NIS in thousands | | |
| Current assets | | | |
| Cash and cash equivalents | 9,367 | 13,093 | 23,366 |
| Restricted cash | 307 | 607 | 613 |
| Bank deposits | - | 15,700 | - |
| Trade accounts and income receivable | 15,232 | 16,432 | 19,541 |
| Income receivable in respect of construction contracts | - | - | 4,194 |
| Other accounts receivable | 7,320 | 2,247 | 3,188 |
| Related company | 4,079 | - | - |
| Other accounts receivable – subsidiaries | 10,608 | 14,697 | 9,432 |
| Other financial assets | 219 | 172 | 49 |
| Inventory | 33,993 | 29,727 | 30,645 |
| | 81,125 | 92,675 | 91,028 |
| Non-current assets | | | |
| Restricted bank deposit | 5,036 | - | - |
| Other deposits | 120 | 91 | 115 |
| Right-of-use assets | 17,035 | - | - |
| Property, plant and equipment, net | 2,066 | 16,032 | 15,591 |
| Loans and capital notes to subsidiaries net of excess of liabilities over assets attributable thereto | 4,021 | 33,821 | 46,650 |
| Intangible assets, net | 41,131 | 43,209 | 42,351 |
| | 69,409 | 93,153 | 104,707 |
| | 150,534 | 185,828 | 195,735 |

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

Date of approval of the financial statements: August 20, 2019

The accompanying additional information forms an integral part of the separate financial data and financial information.

**Unitronics (1989) (R"G) Ltd.**

**Amounts of Assets and Liabilities Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company**

| | June 30 | | December 31 |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Audited) |
| | NIS in thousands | | |
| Current liabilities | | | |
| Current maturities of bank loans | 2,338 | 346 | 358 |
| Current maturities of debentures | 11,456 | 13,051 | 13,106 |
| Trade accounts payable | 22,102 | 16,744 | 17,566 |
| Related company | 6,432 | - | - |
| Other financial liabilities | - | 438 | 414 |
| Liabilities in respect of construction contracts | - | - | 1,278 |
| Lease liabilities | 1,401 | - | - |
| Other accounts payable | 7,678 | 12,453 | 14,645 |
| | 51,407 | 43,032 | 47,367 |
| Non-current liabilities | | | |
| Bank loans | 29,264 | 2,154 | 1,967 |
| Debentures | - | 38,806 | 36,979 |
| Employee benefit liabilities, net | 1,780 | 2,115 | 1,779 |
| Lease liabilities | 2,231 | - | - |
| Liability for share purchase options | 4,408 | 6,384 | 6,872 |
| Deferred taxes | 4,919 | 4,579 | 4,307 |
| | 42,602 | 54,038 | 51,904 |
| Equity | | | |
| Share capital | 427 | 427 | 427 |
| Share premium | 63,204 | 104,513 | 104,513 |
| Capital reserve from translation of foreign operations | (1,840) | (1,256) | (1,598) |
| Treasury shares | (7,042) | (7,042) | (7,042) |
| Reserve due to transaction with a controlling shareholder | 104 | 104 | 104 |
| Accumulated profit (loss) | 1,672 | (7,988) | 60 |
| | 56,525 | 88,758 | 96,464 |
| | 150,534 | 185,828 | 195,735 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

**Unitronics (1989) (R"G) Ltd.**

**Amounts of Revenues and Expenses Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company**

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS in thousands | | | | |
| Revenues | 39,172 | 39,575 | 21,047 | 21,234 | 81,897 |
| Revenues from subsidiaries | 22,389 | 19,453 | 11,062 | 9,800 | 38,146 |
| Total revenues | 61,561 | 59,028 | 32,109 | 31,034 | 120,043 |
| Cost of revenues | 38,325 | 35,011 | 20,070 | 17,909 | 74,472 |
| Gross profit | 23,236 | 24,017 | 12,039 | 13,125 | 45,571 |
| Development expenses | 2,124 | 2,021 | 1,120 | 1,177 | 3,866 |
| Selling and marketing expenses | 6,025 | 5,987 | 3,414 | 2,973 | 12,403 |
| General and administrative expenses | 6,164 | 6,863 | 2,879 | 3,704 | 14,481 |
| General and administrative expenses in respect of subsidiaries | 336 | 226 | 168 | 47 | 738 |
| Other expenses | - | - | - | - | 146 |
| Profit from ordinary operations | 8,587 | 8,920 | 4,458 | 5,224 | 13,937 |
| Financing income | 1,817 | 570 | 73 | - | 85 |
| Financing expenses | 2,730 | 2,653 | 794 | 1,189 | 4,925 |
| Profit after financing, net | 7,674 | 6,837 | 3,737 | 4,035 | 9,097 |
| Company's share in losses (profits) of subsidiaries | (905) | 2,017 | (868) | 579 | (986) |
| Profit before taxes on income | 8,579 | 4,820 | 4,605 | 3,456 | 10,083 |
| Taxes on income | 1,454 | 1,640 | 938 | 1,333 | 1,320 |
| Profit for the period from continuing operations | 7,125 | 3,180 | 3,667 | 2,123 | 8,763 |
| Profit (loss) from discontinued operations | (5,513) | (673) | - | (81) | 1,452 |
| Profit for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

**Unitronics (1989) (R"G) Ltd.**

**Amounts of Revenues and Expenses Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company**

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS in thousands | | | | |
| Profit (loss) for the period | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |
| Other comprehensive income (loss) (after tax) | | | | | |
| Amounts that will not subsequently be classified to profit or loss: | | | | | |
| Remeasurement profits from defined benefit plans | - | - | - | - | 340 |
| Amounts that will be reclassified to profit or loss if certain conditions are met: | | | | | |
| Adjustments arising from translating financial statements of foreign operations | (579) | 1,106 | (376) | 825 | 764 |
| Other comprehensive income (loss) for the period | (579) | 1,106 | (376) | 825 | 1,104 |
| Total comprehensive income (loss) for the period | 1,033 | 3,613 | 3,291 | 2,867 | 11,319 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

## Unitronics (1989) (R"G) Ltd.

## Amounts of Cash Flows Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS in thousands | | | | |
| Cash flows – operating activities: | | | | | |
| Profit for the period attributable to the Company's shareholders | 1,612 | 2,507 | 3,667 | 2,042 | 10,215 |
| Adjustments required to present cash flows – operating activities (Appendix A) | 10,453 | 10,657 | (2,039) | 8,195 | 11,277 |
| Net cash provided by operating activities of the Company | 12,065 | 13,164 | 1,628 | 10,237 | 21,492 |
| Net cash used in (provided by) operating activities in respect of transactions with subsidiaries | (1,176) | (10,562) | (165) | (6,470) | (162) |
| Net cash provided by (used in) operating activities | 10,889 | 2,602 | 1,463 | 3,767 | 21,330 |
| Cash flows – investing activities: | | | | | |
| Investment in plant, property and equipment | (409) | (233) | - | (39) | (564) |
| Realization of bank deposits | - | 4,500 | - | (500) | 20,000 |
| Realization of restricted cash | 306 | 294 | - | - | 288 |
| Realization of long-term deposits, net | - | 51 | - | 51 | 17 |
| Charge on long-term deposit | (5,000) | - | 57 | - | - |
| Investment in intangible assets | (3,883) | (4,335) | (1,787) | (2,431) | (7,486) |
| Net cash provided by (used in) investing activities | (8,966) | 277 | (1,730) | (2,919) | 12,255 |
| Net cash used in investing activities in respect of transactions with subsidiaries | (1,604) | (2,900) | - | (1,200) | (21,132) |
| Net cash used in investing activities in respect | (10,570) | (2,623) | (1,730) | (4,119) | (8,877) |
| Cash flows – financing activities: | | | | | |
| Repayment of long-term loans | (795) | (86) | (594) | - | (354) |
| Repayment of debentures | (42,393) | (10,973) | - | - | (12,974) |
| Taking of loans | 30,000 | - | - | - | - |
| Repayment of lease liabilities | (1,337) | - | (864) | - | - |
| Net cash used in financing activities | (14,525) | (11,059) | (1,458) | - | (13,328) |
| Translation differences in respect of cash and cash equivalents | 207 | 91 | 313 | (53) | 159 |
| Change in cash and cash equivalents for the period | (13,999) | (10,989) | (1,518) | (405) | (716) |
| Cash and cash equivalents at beginning of period | 23,366 | 24,082 | 10,885 | 13,498 | 24,082 |
| Cash and cash equivalents at end of period | 9,367 | 13,093 | 9,367 | 13,093 | 23,366 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

## Unitronics (1989) (R"G) Ltd.

## Amounts of Cash Flows Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | NIS in thousands | | | | |
| Appendix A | | | | | |
| Adjustments required to present cash flows – operating activities | | | | | |
| Income and expenses not involving cash flows: | | | | | |
| Company's share in losses (profit) of subsidiaries | 5,975 | 6,441 | (745) | 3,133 | 6,378 |
| Depreciation and amortization | 6,576 | 6,225 | 3,173 | 3,475 | 10,694 |
| Change in employee benefit liabilities, net | - | 11 | - | 62 | (324) |
| Capital loss | - | - | - | - | 146 |
| Change in deferred taxes | 106 | (58) | (121) | (12) | (330) |
| Revaluation of cash in foreign currency | (207) | (92) | (101) | 51 | (159) |
| Revaluation of deposits | (41) | 9 | (62) | (19) | 209 |
| Revaluation of long-term loans and debentures | 251 | 197 | 251 | 177 | 679 |
| Revaluation of financial assets, net | (584) | 240 | 152 | (215) | 339 |
| Revaluation of share purchase options | 506 | (526) | 506 | (286) | (38) |
| Changes in assets and liabilities: | | | | | |
| Decrease (increase) in trade accounts and income receivable | 11,337 | (1,003) | 9,148 | (1,683) | (4,112) |
| Increase in income receivable in respect of construction contracts | (623) | - | - | - | (4,194) |
| Increase in other accounts receivable | (14,741) | (222) | (14,844) | (255) | (1,153) |
| Decrease in related companies, net | 2,354 | - | 2,354 | - | - |
| Increase in inventory | (3,348) | (2,326) | (3,376) | (1,358) | (3,244) |
| Increase (decrease) in trade accounts payable | 4,672 | (3,267) | 3,412 | (494) | (2,445) |
| Increase (decrease) in other accounts payable | (502) | 5,028 | (1,786) | 5,619 | 7,553 |
| Increase (decrease) in liabilities in respect of construction contracts | (1,278) | - | - | - | 1,278 |
| | 10,453 | 10,657 | (2,039) | 8,195 | 11,277 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

**Unitronics (1989) (R"G) Ltd.**

**Amounts of Cash Flows Included in the Condensed Interim Consolidated Financial Statements Attributable to the Company**

Appendix B – Additional information on cash flows for operating activities

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| | | | NIS in thousands | | |
| Cash paid during the period for: | | | | | |
| Interest | 1,461 | 1,816 | 264 | 40 | 3,338 |
| Taxes on income | 241 | 27 | - | 13 | 2,450 |
| Cash received during the period for: | | | | | |
| Interest | - | 44 | - | 16 | 255 |

The accompanying additional information forms an integral part of the separate financial data and financial information.

**Unitronics (1989) (R"G) Ltd.**

**Additional Information**

## 1. General

A. This separate financial information has been prepared in condensed format as of June 30, 2019 and for the six-month period and the three-month period then ended, in accordance with the provisions of Regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970. This separate financial information should be read in conjunction with the separate financial information on the annual financial statements of the Company as of December 31, 2018 and for the year then ended, the accompanying additional information And with the condensed consolidated interim financial statements as of June 30, 2019

The accounting policies applied in this separate interim financial information are consistent with the accounting policies set out in Note 2 to the condensed interim consolidated financial statements of the Company as of June 30, 2019 ("the interim consolidated financial statements").

On August 19, 2018, the board of directors of the Company adopted a resolution in principle to consider a spin-off of the Company's operations ("the spin-off"), through a prospectus for the implementation of a spin-off and the listing of securities on the Tel Aviv Stock Exchange Ltd. ("the prospectus"), such that the Company would transfer its operations in the automated solutions segment to Utron Ltd. ("Utron"), a fellow subsidiary of the Company whose shares were held by a trustee on behalf of the Company's shareholders. To further the spin-off, on February 12, 2019 the board of directors of the Company adopted a resolution for early redemption at the Company's initiative of debentures (Series 5), and on February 19, 2019 the court approved the spin-off subject to implementation of the early redemption.

On February 28, 2018, the Company and Utron issued a spin-off and listing prospectus, pursuant to which the spin-off was carried out.

To finance the repayment of debentures (Series 5), the Company took on March 3, 2019 two bank loans for a total of NIS 30 million: one five-year loan for NIS 10 million at prime plus less than one percent per year, with an option for prepayment and with quarterly payments of principal and interest, and another, two-year bullet loan for NIS 20 million at prime plus less than one percent per year, with no prepayment option and with quarterly interest payments. As of these loans, as of June 30, 2019, the Company is in compliance with financial covenants.
As of the date of provision of the loan and during a period of 24 months, a deposit of no less than NIS 5 million must be held at all times in the Company's bank account. In addition, the Company placed a first mortgage on property owned by it, for an unlimited amount, according to an appraiser's valuation which may not be less than NIS 16 million.

On March 12, 2019 After the preconditions were met, the split process was completed according to the split prospectus and listing on the Tel Aviv Stock Exchange Ltd. At the date 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 holding in Utron Solutions, a wholly owned subsidiary, to Utron, all as specified in the prospectus and in accordance with the Company's split agreement between the Company and Utron. The spin-off came into effect by way of a reduction in equity, as a deduction from the premium of all the assets and liabilities that were spun off, based on book value. In addition, the early repayment of the debentures was completed in consideration for NIS 31,117,000, with the difference of NIS 3,575,000 against the debentures' book value also charged to the premium (see Note 2C to the interim consolidated financial statements).

Up to March 12, 2019 the Company operated in two main operating segments – the products segment and the automated solutions segment, and it owned 100% of the capital rights and controlling interests in Utron Automated Solutions Ltd. ("Utron Solutions," formerly – "Unitronics automated Solutions Ltd."). As of March 12, 2019, the Company operates in the products segment only, and its operations in the automated solutions segment and investment in Utron Solutions (in conjunction with the conversion of the debt of NIS 120,081,000 of Utron Solutions to the Company into equity of Utron Solutions) were transferred to Utron, as part of the spin-off.

Regarding agreements signed by the Company with Utron in 2019 in connection with the spin-off transaction, and the tax ruling of the Israel Tax Authority, see Note 1 to the condensed interim consolidated financial statements.

B. Further to Note 2T to the annual consolidated financial statements and to Note 2D to the interim consolidated financial statements, on January 1, 2019 the Company initially applied IFRS 16. Following is the effect of the application on the relevant items as of that date:

| | Balance as of January 1, 2019 (Unaudited) | | |
|---|---|---|---|
| | Balance prior to adopting IFRS 16 | Effects of adopting IFRS 16 | Balance after adopting IFRS 16 |
| | | NIS in thousands | |
| Plant, property and equipment | 15,591 | (13,573) | 2,018 |
| Right-of-use assets | - | 17,567 | 17,567 |
| Liabilities for short-term lease | - | (1,667) | (1,667) |
| Liabilities for long-term lease | - | (2,327) | (2,327) |

The weighted average of the Company's incremental interest rates used for measuring the right-of-use assets and the lease liabilities recognized at initial application is 3.20%.

**2. Spin-off of automated solutions segment – discontinued activity:**

A. Below are the results relating to the discontinued activity, which were included in the amounts of revenues and expenses included in the condensed interim consolidated financial statements attributable to the Company:

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | Unaudited | | Unaudited | | Audited |
| | NIS in thousands | | | | |
| Revenues | 6,826 | 7,570 | | 4,968 | 18,703 |
| Expenses (including Company's share in losses of a subsidiary) | 11,895 | 7,591 | - | 4,650 | 15,542 |
| Profit (loss) before taxes on income | (5,069) | (21) | - | 318 | 3,161 |
| Taxes on income | 444 | 652 | - | 399 | 1,709 |
| Profit (loss) for the period from discontinued activity | (5,513) | (673) | - | (81) | 1,452 |

B. Below are the cash flows of the discontinued activity which were included in the amounts of cash flows included in the condensed interim consolidated financial statements attributable to the Company:

| | Six-month period ended June 30 | | Three-month period ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | Unaudited | | Unaudited | | Audited |
| | NIS in thousands | | | | |
| Net cash provided by (used in) operating activities | (1,206) | 4,467 | - | 3,999 | 6,855 |
| Net cash used in investing activities | (1,604) | (10,182) | - | (7,298) | (21,131) |

C. Below are details of the assets and liabilities which were deducted as part of the spin-off:

| | March 31 |
|---|---|
| | 2019 |
| | Unaudited |
| | NIS in thousands |
| Working capital | (806) |
| Investment in a subsidiary | (39,045) |
| | 39,851 |

# Chapter D - Statements by the CEO and CFO of the Corporation for the Second Quarter of 2019

a. **Statement by CEO pursuant to Regulation 38C(D)(1) of the regulations**
b. **Statement by CFO pursuant to Regulation 38C(D)(2) of the regulations**

**Statement by the CEO pursuant to Regulation 38C(D)(1) of the regulations:**

I, Amit Harari, certify that:

1. I have reviewed the quarterly report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the second quarter of 2019 ("the Report").

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 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 the Audit 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.

August 20, 2019

__________________________

Amit Harari, CEO

## <u>Statement by the CFO pursuant to Regulation 38C(D)(2) of the regulations</u>

I, Yehuda Cohen, certify that:

1. I have reviewed the interim financial statements and other financial information included in the interim reports of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the second quarter of 2019 (hereinafter - "the Report" or “the Interim Reports”).

2. To the best of my knowledge, the interim financial statements and the other financial information included in the interim reports are 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 interim financial statements and the other financial information included in the interim reports 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 the Audit 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.

August 20, 2019

________________________
Yehuda Cohen, CFO