



Unitronics (1989) (R”G) Ltd

Periodic and Annual Report for 2017

The Company is a “Small Corporation” as this term is defined in the Amendment to the Securities Regulations (Periodic and Immediate Reports) (Amendment), 2014 (hereinafter: “the Amendment”). On March 9, 2014 the Board of Directors of the Company adopted all the reliefs prescribed in the Amendment. For additional details see immediate report dated March 9, 2014 (reference no. 2014-01-009177), included herein by reference.

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Chapter A – Description of the Company's Business (Reg. 8A)

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

1.1 Company's activity and description of its business development

Until March 12, 2019, the Company operated in two main areas of activity, the Products segment and the Automated Solutions segment. As of March 12, 2019, the Company operates in the Products segment only, and its Automated Solutions operation was transferred to a fellow subsidiary Utron Ltd. (hereinafter: "**Utron**"), as part of a split in the Company activities, as detailed below (hereinafter: "the split").

In the segment products the Company engages in the design, development, manufacture, marketing, sale and support of PLCs (programmable logic controllers) (hereinafter: "**PLCs**"). PLCs are computer-based electronic products (hardware and software) used for command and control of machines performing automated actions, such as production systems and other automated installations in various areas. In the area of automatic solutions, the Company engaged until March 12 2019, also provides design, development, marketing, construction and maintenance services within the framework of projects for mechanized systems for autonomous parking facilities and for the automation, computerization and integration of computerized logistics systems, mainly automated warehouses and mechanized distribution centers and at all the establishment of new systems and / or upgrading existing systems and maintenance services for these systems based on framework arrangements or on call ("**the activity of automated solutions**").

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

On July 30, 2017 the Company completed the process of delisting its shares from the Euronext Stock Exchange in Brussels, Belgium, and listing said shares on the Tel Aviv Stock Exchange, pursuant to the approval of, and in coordination with, the Euronext Stock Exchange and the Financial Services and Markets Authority (FSMA) in Belgium. Upon the completion of said process, 3,783,995 ordinary shares of the Company of NIS 0.02 par value each were listed on the Tel Aviv Stock Exchange. For details regarding the procedure, the timetables and the Company's undertakings in connection with the foregoing, see immediate report dated June 6, 2017 on an event or matter outside the ordinary course of the corporation's business, Reference No. 2017-01-047806, as amended in immediate report dated June 20, 2017, Reference No. 2017-01-051619, included herein

by reference and from July 31, 2017, Reference No. 2017-01-065935, included herein by reference.

During the Report period the Company commenced the split activity, within which the Automated Solutions segment was designated to be transferred to a fellow subsidiary of the Company; on March 12, 2019, the split became effective, as detailed in Section 1.3.2. below. As part of the split completion, the Company's entire operation of Automated Solutions was transferred to Utron; in addition, the Company undertook to repay, at its initiative, all the Debentures (Series 5) registered for trading, as detailed in Section 1.16 below.

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

1.2 Subsidiaries and holding structure diagram

For splitting in to the Company has three wholly-owned active subsidiaries and one active second tier subsidiary wholly owned by the Company (hereinafter: "**the Subsidiaries**"):

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

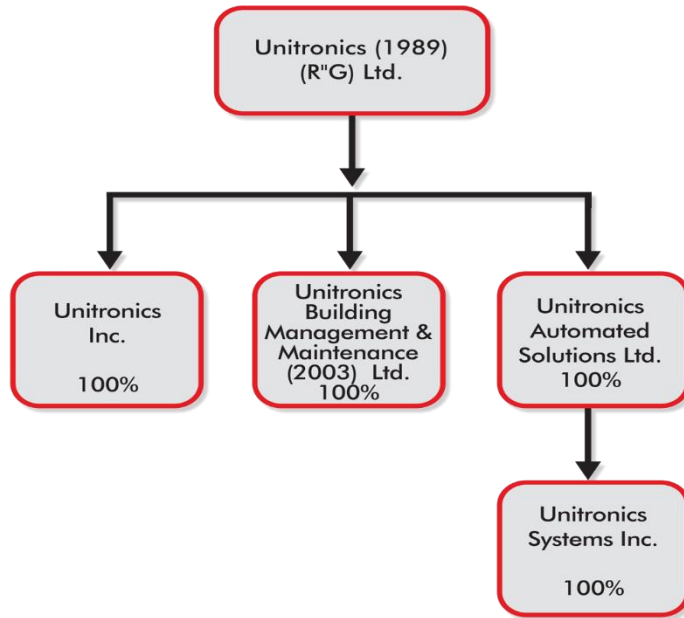
Unitronics Building Management & Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), wholly owned subsidiary of the company, which is primarily engaged in the management and maintenance of the Unitronics Building.

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

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

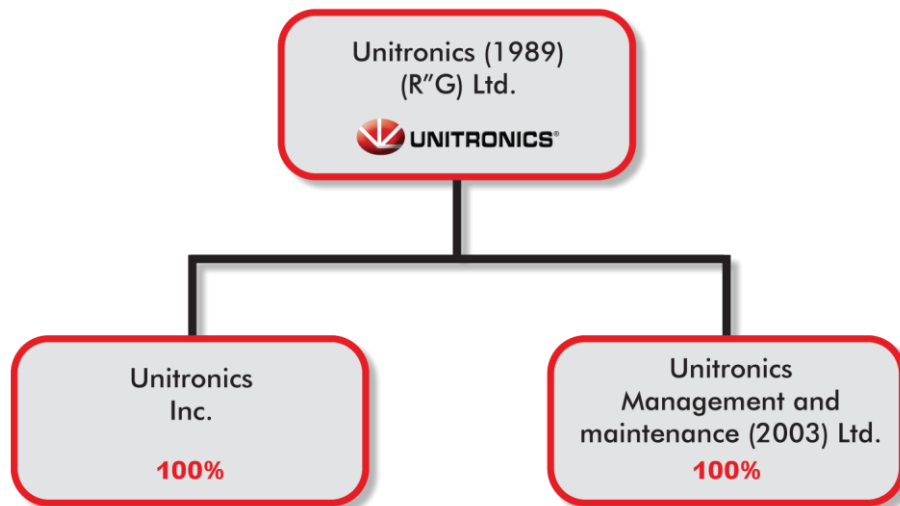
For further details see section 1.20 below.

Below is a diagram of the holding structure of the Company and its active subsidiaries for splitting into:



On March 12, 2019, Unitronics Solutions was transferred to all of its operations and assets, including its holdings in Unitronics Systems, to Utron, within the framework of the split as defined below.

Following is a diagram of the structure of the holdings of the Company and the subsidiaries operating after the split:



1.3 Operating segments; the split

1.3.1 Operating segments

As aforesaid, until March 2019, the Company operated in two main areas of activity, as follows:

Products segment: Design, development, manufacture, marketing, sale and support of PLCs of various models that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs and software for the PLCs. The PLCs are primarily intended for management of automatic systems including industrial automation, logistics systems, automated parking facilities, for management of production floors and additional auxiliary items.

This activity is carried out by the Company and through Unitronics Inc.

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

Automated Solutions segment: Development, design, marketing, production, construction and maintenance of autonomous parking facilities and computerized logistics systems (mainly automated warehouses and automated distribution centers), including the installation of new systems and/or upgrading and servicing of existing systems as well as maintenance services for these systems based on framework agreements or individual service calls.

This activity is carried out through the Company, through Unitronics Solutions, and through Unitronics Systems.

The services in this operating segment are provided mainly to customers in Israel and in the US.

Until the end of 2016 the Company reported the activities of autonomous parking facilities and logistics systems as two separate business segments in its periodic reports, and as two separate operating segments in its financial statements. Given the great similarity in these activities, reflected, inter alia, in their project-based character, the nature of the products and services, the nature of the production processes and the use of shared know-how and production means, as of January 1, 2017 the Company's management examines the performance of both segments jointly and allocates joint resources to them. Therefore, the Company regards these activities as a single operating segment, and it reports them as such starting from its financial statements for the first quarter of 2017.

1.3.2 The Split

On August 19, 2018, the Company's board of directors adopted a resolution in principle to consider a split of the Company's operations (hereinafter: "**split**"), through a prospectus for the implementation of a split and listing for trade on the Tel Aviv Stock Exchange Ltd. (hereinafter: the "**Prospectus**" and the "**TASE**," respectively), so that the Company will transfer its operations in the Automated Solutions segment (which are carried out through the Company and through its subsidiary Unitronics Automated Solutions Ltd.), to Utron, a fellow subsidiary of the Company whose shares are held by a trustee for the Company's shareholders.

On September 6, 2018, the Company filed a petition for the approval of distribution (the "Petition") pursuant to Article 303(a) of the Israeli Companies Law, 5759-1999.

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

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

On October 25, 2018, the Trustee for the debentures (Series 5) notified that the debenture holders (Series 5) do not express any opinion in respect of the Company's motion for approval of distribution, as they were unable to carry out the voting due to absence of required legal quorum. for further details , see Immediate Report from the Bond Trustee dated October 25, 2018, Reference No. 2018-01-097000, which is included herein by reference. Following additional proceedings to obtain the opinion of series 5 debentures holders which failed (for details see section 2.9.1.2 in Chapter B of this Periodic Report), on February 12, 2019, the Board of Directors decided on early repayment, at the Company initiative, of the debentures (Series 5), subject to receipt of approval from the Court for the Company's motion to perform distribution by way of splitting its activity; for additional details, see Immediate Report on an event or matter outside the ordinary course of the corporation's business dated February 13, 2019, Reference No. 2019-01-014346, included herein by reference.

On February 19, 2019 a court verdict was issued approving the distribution subject to Company-initiated early repayment of Series 5 debentures, as detailed above, which will be performed close to the execution of the distribution; for further details, see Immediate Report on an event or matter outside the ordinary course of the corporation's business, dated February 20, 2019, Reference No. 2019-01-015945, included herein by reference.

On February 28, 2019, The Company and Utron published a Split and Listing for Trading Prospectus according to which the split will take place (Reference No. 2019-01-017856); on March 12, 2019, the split entered into effect. Within the framework of the split, each shareholder of the Company received Utron shares at a quantity equal to the quantity of the Company shares which each shareholder held on March 10, 2019 (assuming that the shareholder did not acquire the share on that date), which is the closing date (except for the Company itself, which holds its own dormant shares which

did not grant the Company any right to Utron's shares). For further details, on the splitting procedure and the agreements signed with the Company on this matter, see Chapter 2 and Chapter 8 in the Split and Listing for Trading Prospectus dated February 28, 2019 published by the Company and Utron (Reference No. 2019-01-017856), included herein by reference. For details on the completion of the split see Immediate Report on an event or matter outside the ordinary course of the corporation's business dated March 12, 2019, Reference No. 2019-0102137, included herein by reference. Within this framework, the Company's activity of Automated Solutions was transferred to Utron. Additionally, The Company and Utron entered into agreements to regulate the split and the services and other relations between the companies following the split, as detailed in Section 1.14.6 below. In addition, as mentioned above, the Company undertook to repay all the debentures (series 5) on trading and also transferred the early repayment consideration to a trustee account on the name of the Debentures (Series 5) Trustee, as detailed in Section 1.16 below.

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

During the past two years no investments were made in the capital of the Company, and, to the best of the Company's knowledge, no other material transaction was carried out with the Company's shares by an interested party in the Company.

For details regarding transactions made in 2016 in the Company's shares according to which FIMI Fund (hereinafter, "**FIMI**") became a controlling shareholder in the Company, see Section 1.4 in the Periodic Report for the Year 2016, which was published on March 29, 2017 (Reference No. 207-01-045250) as well as the Company's reports dated March 20, 2016, (Immediate Report exceeding the ordinary course of business whose submission was delayed), dated March 31, 2016 (Report for the General Meeting of Company Shareholders for the approval of the FIMI transaction) and dated May 2, 2016 (amended report for the General Meeting of Company Shareholders for the approval of the FIMI transaction (Reference No. 2016-01-009696, 2016-01-021966, and 2016-01-057655, respectively), included herein by reference. For further details on the outcome of the General Meeting, see Immediate Report on the General Meeting outcome on the approval of a transaction with a controlling shareholder dated May 9, 2016, Reference No. 2016-01-062236, included herein by reference.

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

1.5 Dividend distribution

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

The balance of distributable earnings under the law as at December 31, 2018 and the date of publication of this report is NIS 0 thousand.

On February 23, 2014 the Company's Board of Directors passed a resolution regarding the adoption of a Dividend Distribution Policy as of the date of publication of the Periodic Report for 2013 (for further details see Note 16(C) to the consolidated financial statements for 2018 – Chapter C of this Periodic Report).

The Company did not distribute a dividend for the years 2018 and 2017.

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

Part II – Other Information

1.6 Financial information on the Company's business activities

| | For the year ended December 31 | | |
|--|--------------------------------|----------------|-----------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Revenues: | | | |
| Products | 134,946 | 123,160 | 113,509 |
| Automated Solutions | 66,669 | 61,406 | 35,052 |
| Other | 434 | 436 | 427 |
| Total Revenues* | 202,049 | 185,002 | 148,988 |
| | | | |
| Segment costs: | | | |
| Products – fixed** | 47,379 | 41,331 | 38,383 |
| Products – variable*** | 58,907 | 54,778 | 51,028 |
| Automated Solutions – fixed** | 29,453 | 28,289 | 29,501 |
| Automated Solutions – variable*** | 34,502 | 39,701 | 30,578 |
| Other – variable*** | 509 | 409 | 394 |
| Total **** | 170,750 | 164,508 | 149,884 |
| | | | |
| Segment results: | | | |
| Products | 28,660 | 27,051 | 24,098 |
| Automated Solutions | 2,714 | (6,584) | (25,027) |
| Other | (75) | 27 | 33 |
| Total | 31,299 | 20,494 | (896) |
| | | | |
| Non-attributable expenses | (15,663) | (11,614) | (10,884) |
| | | | |
| Profit (loss) from ordinary activities* | 15,636 | 8,880 | (11,780) |

* Consistent with the financial statements

** Expenses that do not change as a result of changes in the Company's scope of activities

*** Expenses that do change as a result of changes in the Company's scope of activities

**** There are costs shared by the Company's business segments, which are distributed according to the ratio of employees between the segments.

For details on the assets used by the segments, see Note 24 in the consolidated financial statements for 2018 – Chapter C of this Periodic Report.

For an explanation regarding the developments in each of the aforementioned data, see section 2.2 in Chapter B of this Periodic Report.

1.6.1 Disclosure on project performance

Following is a disclosure on material projects in accordance with the Israel Security Authority's directive of March 13, 2017 (hereinafter in this section: "**the Directive**"). A highly material project under the Directive is any of the following:

- The balance of expected revenues from the project represents 10% or more of the corporation's total revenues in the reporting year; or
- Revenues from the project that were recognized in the reporting year represent 10% or more of the corporation's total revenues in that year; or
- The project generates a significant profit or loss, i.e. the gross profit or loss on the project recognized in the reporting year represents 10% or more of the gross profit or loss of the corporation in the reporting year, **and also** 10% or more of the consolidated equity of the corporation in absolute terms (if the corporation has equity in absolute terms that is less than 10% of its total assets, the project will be considered material if the expected gross profit or loss on the project accounts for 5% or more of the corporation's assets on the last day of the reporting period).

The tables present information on highly material projects, as set out above. The data for 2018 and the comparative figures are in respect of those projects only.

Highly material projects

| Project name | Project A | Project B | Project C |
|--|-----------------------------|-----------------------------|-----------------------------|
| Project location | US | US | US |
| Type of project | Autonomous parking facility | Autonomous parking facility | Autonomous parking facility |
| Basis of work | Prime contractor | Prime contractor | Subcontractor |
| Start date | Q1 2017 | Q3 2018 | Q3 2018 |
| Projected finish date | Q2 2020 | Q3 2021 | Q1 2021 |
| Ordering party's option to cancel/terminate the project and compensation mechanism | Exists (*) | Exists (*) | Exists (*) |
| Manner of determining the completion rate | Costs | Costs | Costs |
| Qualitative characterization of project gross profitability | Average and up | Average | Average |
| Cumulative loss recognized | N/A | N/A | N/A |
| Material changes in the profitability rate due to a change of estimate | N/A | N/A | N/A |

- (*) In case of cancellation/termination of the project by the ordering party prior to the start of installation at the customer's site, the ordering party shall compensate the Company for all the costs it incurred or undertook to pay, with the addition of a certain margin.

| Project name | Period | Completion rate | Total estimate of revenues | Cumulative revenues recognized | Expected revenues | Cumulative receivables (advance payments) received |
|-----------------------|----------|-----------------|----------------------------|--------------------------------|-------------------|--|
| USD in thousands (**) | | | | | | |
| Project A | 31.12.18 | 31% | 9,433 | 2,936 | 6,497 | 2,233 |
| | 31.12.17 | 25% | 9,433 | 2,358 | 7,075 | 150 |
| | 31.12.16 | N/A | N/A | N/A | N/A | N/A |
| Project B | 31.12.18 | 2% | 15,725 | 339 | 15,386 | - |
| | 31.12.17 | N/A | N/A | N/A | N/A | N/A |
| | 31.12.16 | N/A | N/A | N/A | N/A | N/A |
| Project C | 31.12.18 | 4% | 9,622 | 358 | 9,264 | 105 |
| | 31.12.17 | N/A | N/A | N/A | N/A | N/A |
| | 31.12.16 | N/A | N/A | N/A | N/A | N/A |

(**) Financial data are presented according to the relevant commercial currency for each project.

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

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

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

The Company's activity includes, as explained above, the activities of the Products segment and the Automated Solutions segment. The Company's management estimates that these two areas of activity are affected by the growing need for application of

automation stemming from the factors explained above – on the one hand, and by the state of the global and local economies and their general impact on the various industries – on the other hand.

Additional trends in the global automation market as reflected in the abovementioned market studies are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China, India and other developing countries, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such plants.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks and their manner of management, see section 1.21 below. For a discussion of information concerning the general environment and external factors relevant to each operating segment separately, see sections 1.9 and 1.10 below.

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

1.8 Overview

As indicated above, in 2017 the Company operated in two business segments: the Products segment and the Automated Solutions segment (until 2016, this business segment was split as detailed in section 1.3 above). Although the Company operated in each segment separately with regard to policy, decision making, budgets, resources and other inputs, there is synergy between these fields within the Company, as well as an ongoing process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competitors, and other areas. Furthermore, all the segments share the use of multiple infrastructures, as detailed in Part IV below.

1.9 Products segment

1.9.1 Structure of the operating segment and changes therein

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part, of the PLC, or its "brain") and the interface components (HMI – Human-Machine Interface) intended to allow the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC, with no prior knowledge of programming required.

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

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

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

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

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

According to the IHS Report for 2017 (hereinafter: "**the IHS Report**"), the global PLC market was estimated at \$8.5 billion in 2017 and is expected to reach \$9.5 billion by 2021. According to the Technavio Report for 2017 (hereinafter: "**the Technavio Report**"), the global PLC market is expected to grow at an average rate of 6% per year during this period.

Most sources similarly identify several trends:

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

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

As stated in section 1.9.8 below, the Company focuses in the Products field on nano, micro, small and medium PLCs (and does not focus on large PLCs), that have, based on the sources cited above, the highest relative growth rates.

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

(c) Geographic breakdown: A study of the geographical distribution of sales of PLCs around the world in recent years, according to the IHS Report, that the US is the market leader in 2017 with a market share of about 17%, followed by China with 16.5% of the market.

In the past few years the PLC market has displayed steady growth, and the various market surveys indicate forecasts for continued growth in this market and its expansion into additional areas, accompanied by tough competition, which is also expected to grow and expand into different areas. ARC, in its surveys over the years, also has anticipated that the PLC market will expand beyond the traditional industry clients (factories and car manufacturers) to providers of overall automation solutions that combine production lines and data collection systems in the field with organizational data and management systems. Pursuant to this, the Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs – the focus of the Company's activities. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics, although the Company is unable to quantify a possible decline in profitability¹), resulting from a decline in market prices of PLCs.

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

The PLC market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards

¹ The information concerning a possible decline in profitability for companies engaged in the PLC field, including Unitronics, is forward-looking information. The principal facts and data serving as a basis for this information are the data presented in a number of market surveys in the field as detailed in sections 1.7 and 1.9.3 above, and in particular the information regarding the anticipated development of the PLC market as well as the competition in this field and the competitors operating therein, and the Company's estimation regarding a possible decline in PLC market prices. The principal factors which may prevent this information from materializing are market growth rates differing from those anticipated, involvement of the main players in this market in a manner differing from that anticipated, and the development of sub-markets in the PLC field coupled with increased professionalism and focus by various producers on their own special niche areas, which could mitigate potential price drops.

miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, and between PLCs and smartphones and tablets – using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in various sizes and the use of touch screens as a means of man-machine communication in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), incorporation of convenient and user-friendly interfaces (such as different-sized color and touch screens) in the body of the PLC, and built-in communications capabilities as detailed in sections 1.9.8.1 and 1.9.10 below.

1.9.5 Critical success factors in the operating segment and changes therein

The Company estimates that the primary success factors in the PLC sector include, among others, the availability of a range of products addressing market demand and trends; functional reliability of the products; competitive prices reflecting appropriate cost-benefit ratios; high standard of service and support, promoting image and customer loyalty; and an extensive distribution infrastructure capable of providing an international response.

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

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

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

The field of industrial PLCs includes PLCs manufactured by different companies, as detailed in section 1.9.13 below. By its nature, a programmable industrial controller requires modification and programming actions that are usually performed by the client or an integrator on his behalf, in order to adapt it to the task it is designated for. It is therefore not possible to point out products that constitute an immediate, direct substitute for the Company's products, and in any event the client has to make adjustments, program, and usually also make electric and mechanical adjustments in order to use other PLCs.

1.9.8 Products and services

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

1.9.8.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinate the range of command, control, and communications operations executed by the PLC. The Company's PLCs also

incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of PLCs (number and type of connectable devices) define their dimensions, as specified in the table below

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

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

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

The main series of PLCs and expansion units manufactured by the Company include alpha numeric nano and micro PLCs (M90 / M91 and Jazz® series) and different-sized graphic PLCs (Samba™, Vision™ and UniStream™ series) with monochromatic or color touch-screens, external expansion and other accessories (such as cables, adapters, etc.).

The Company's PLCs are positioned as advanced technology products among the target audience – control engineers and machine builders. A validation of this is that the Company has been awarded the Engineers' Choice Award by Control Engineering magazine (www.controleng.com) for several years in succession (starting in 2012, a different product each year). This is an annual contest run by one of the most prestigious magazines in the United States in the field of controllers (with above 140,000 subscribers) during which the readers themselves select products divided into several categories from a list of products launched in the same year. In 2018, for example, The Company's PLC from the UniStream™ series, with a multitouch screen, was selected as the Grand winner, having scored the highest number of votes among the overall contesting products in all the categories of that year.

1.9.8.2 Software

The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. The Company's main software programs of this type are U90™ and VisiLogic® which serve PLCs from most of the PLC series of the Company and the Company's UniLogic® software which serves PLCs from the UniStream® series only. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is supposed to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various formats, and adaptation of the display to the varying conditions of the process being controlled (e.g. changing displays according to progression of manufacturing process along an industrial production line).

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

1.9.8.3 Trends and changes – products

The Company's products are focused on the sector of nano PLCs, micro PLCs and small and medium PLCs. This sector is characterized in the market surveys described above as the market segment with the highest growth rate. At the same time, this market segment is highly competitive and prices of products therein are steadily declining (see also section 1.9.3 above).

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

1.9.8.4 Services

Services of the company in the Products segment comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the use of the products and/or troubleshooting. Calls to the support team usually originate from the Company's distributors (see section 1.9.11.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These calls are processed by support staff, with the involvement of the Company's lab, development and marketing staff as necessary.

1.9.9 Revenue breakdown and profitability of products and services

The contribution to the Company's profitability by the different series of the Company's major products shows no material difference between that of one series and another. There were no material changes in the profitability of the Products segment in the years 2016, 2017 and 2018.

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

| | For the year ended December 31 | | |
|---|---------------------------------------|---------------|---------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Revenue from products (*) (amount and percent from consolidated revenues) | (67%) 134,946 | (67%) 123,160 | (76%) 113,509 |
| Gross profit (amount and percent) | (44%) 59,768 | (43%) 52,911 | (42%) 47,862 |

(*) Company products are sold in volumes of tens of thousands of products each year.

1.9.10 New products

During the reported period, the Company has been engaged, and intends to continue engaging, *inter alia*, in activities for the development of additional series of controllers and/or new control products and/or expanding the capabilities and functionalities of the current series of controllers, designated to enable the Company to provide to its customers products and capabilities which are not within the existing product range of the Company, and using technologies that allow more advanced performance². These products, which are in various stages of development (some of them in the initial stages and others in more advanced stages, about to be launched on the market) are planned to include additional products that will allow for the expansion of the product line and were intended to present the Company with new opportunities. During the year 2018, the company launched, *inter alia*, its UnistreamTM7, an extension of the UnistreamTM line, as well as a large variety of Remote IO units.

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

1.9.10.1 Customers

The direct customers of the Products Department are mainly distributors bound to the Company by distribution agreements (see section 1.9.11 below). The end customers are generally manufacturers of PLC-controlled industrial machines or automation solutions implements in a range of various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries and others. These machines or automation solutions are controlled by PLCs and are intended for the automation of defined tasks such as packaging, for specific operations on production lines, etc. The machine manufacturer or the automation solutions implement purchases PLCs suitable for the machine he is producing or the project he is implementing, installs the Company's PLCs in them, and markets it to his customers, who will integrate it in the production line or in other automatic applications that will be controlled and managed by the Company's PLCs. In general, the Company has no direct contact with end customers, who are in

² The information regarding the development of products with dimensions that are not within the Company's existing product range is forward-looking information. The main data serving as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in sections 1.7 and 1.9.3 above, the analysis of market requirements and customer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments regarding the costs of the research and development that would be required to finance the execution of the developments, and also the tough competition existing in the industry, as specified in this Report. The main factors which could cause this information not to materialize are the rates of investment that would be required in these operations, which could significantly overrun the Company's budgets in these subjects, limitations in the ability to commercialize these technologies at competitive market prices, or at all, the absence of the development of markets and a consumer culture suited to using the technologies developed, and the superior financial and technological means available to a considerable part of the Company's rivals, and all of the foregoing in addition to the general risks as set forth in section 1.21 below.

direct contact with the various distributors for customization, installation, warranty, and the like.

- 1.9.10.2 Major customers – During the reporting period, the Company did not have a major customer in the Products segment.

1.9.11 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing and sales network, and via Unitronics Inc., as well as through a chain of distributors comprising about 190 distributors (of which 127 are in the United States) in about seventy countries (including Israel) across Europe, Asia, South and Central America, North America and Africa. In addition, in the United States alone, the Company uses about 11 independent sales representatives to help in representing the company's products and services in front of the distributors and end customers in the United States.

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

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

jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for the settlement of disputes.

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

The Company's distributors may not return products. Under the products' warranty, non-functioning products during the warranty period are either repaired or replaced. It should be noted that in actuality, the quantity of the replaced products is not material (for details on revenue recognition in the Products segment, see Note 2 section (P)(1) to the consolidated financial statements for 2018 – Chapter C of this Periodic Report).

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

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

1.9.12 Order backlog

In general, the order backlog of the Products Department is in line with the nature of activity in this market, which is based primarily on purchases from stock and off-the-shelf from distributors.

| Expected revenue recognition period | Product order backlog as of March 17, 2019 (closest possible date to date of this report) | Product order backlog as of December 31, 2018 | Product order backlog as of December 31, 2017 |
|-------------------------------------|---|---|---|
| NIS in thousands | | | |
| Q1 2018 | --- | --- | 4,854 |
| Q2 2018 | --- | --- | 756 |
| Q3 2018 | --- | --- | 438 |
| Q4 2018 | --- | --- | 982 |
| For 2019 | --- | --- | 570 |
| Q1 2019 | 1,872 | 2,946 | --- |
| Q2 2019 | 2,276 | 967 | --- |
| Q3 2019 | 1,394 | 684 | --- |
| Q4 2019 | 1,185 | 750 | --- |
| For 2020 | 885 | 885 | --- |
| Total | 7,612 | 6,232 | 7,600 |

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business. The backlog mix, in terms of the main products included, is not indicative, and changes constantly, since it reflects specific demand for particular products based on the pace of consumption of various customers and the requirements of different markets that usually dictate this pace. As already mentioned, the nature of the activity in this market is primarily based on inventory and off-the-shelf purchases³.

1.9.13 Competition

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

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

³ The information regarding the expected recognition of order backlog revenue is forward-looking information. The data relating to the forecast are an estimate only, relying on past experience and the planned schedules for the different orders. Changes in the basic assumptions leading to this estimate could significantly change the Company's estimate regarding future recognition of order backlog revenue compared to the data shown above.

- B. Large multinationals dealing primarily in PLCs. Companies included in this group: ABB, Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.
- C. Smaller companies operating in limited geographical regions or dealing in special niche products. This group includes such companies as: Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, and PILZ. In the Company's estimation, its activity in the products segment falls into this category. The Company knows of no other Israeli companies in this category.

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

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

1.9.14 Production capacity

The Company manufactures its products primarily through subcontractors. Subcontractors are responsible for most of the PLC component placement, final assembly, testing, calibration and product packaging activities, and in some cases are also responsible for purchasing components (hereinafter: the "**Turnkey Method**"). In addition, the Company itself assembles, using its staff and its facilities in Airport City, a certain portion of the components of the electrical circuits, and for some of the products, it performs the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out the production is also intended to maintain the possibilities for growth and flexibility in view of the high production capacity, using existing

subcontractors and the ability to add subcontractors as needed (subject to a learning and assimilation curve). As for production operations within the Company, as of the date of this report most of the production capacity is being utilized, but the Company is able to increase its production capacity for these activities as needed, given the possibility of assigning these tasks to unskilled manpower, which is, therefore, relatively available and requires only a short training period.

1.9.15 Fixed assets, real estate and facilities

The Company uses its fixed assets, real estate or facilities specific primarily for its business in the products segment; As part of the split, the Company and Utron have agreed on mutual arrangements and services, which include, inter alia, rights granted to the Company in part of the fixed assets, the real estate and the facilities used by Utron for its business in the Automated Solutions segment (for details, see section 1.12 below).

1.9.16 Research and development

For additional details on products and technologies under development, see section 1.9.10 above. Below are the main details concerning sums expended by the Company during the periods detailed below on R&D activities in the products segment:

| | For the year ended December 31 | | |
|---|--------------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Payroll and benefits | 8,666 | 8,345 | 9,345 |
| Subcontractors | 983 | 1,603 | 2,045 |
| Other expenses | 1,631 | 1,608 | 1,680 |
| Less capitalized expenses recognized as an intangible asset | (7,415) | (8,746) | (9,903) |
| Total | 3,865 | 2,810 | 3,167 |

Overall, the Company spent NIS 11,280 thousand during the reported year (of which NIS 7,415 thousand were recognized as intangible assets) for the development of products and technologies, as specified in section 1.9.10 above. The Company estimates that in 2019, total development expenses in the Products segment will not change materially compared to actual development expenses in this segment in 2018⁴.

From 1992 to 2003, the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the "**Chief Scientist**") participated in the funding of the Company's R&D programs under the Encouragement of Industrial Research and Development Law, 1984 (hereinafter: the "**R&D Law**"). Subject to the support received for the financing of the

⁴ The information concerning the estimated development expenses in the Products segment is forward-looking information. The principal data which serve as a basis for this information are the Company's development programs which are based, *inter alia*, on analysis of market surveys as detailed in sections 1.7 and 1.9.3 above, analysis of market needs and consumers' preferences as reflected in the Company's direct contacts with the markets, technological feasibility, the Company's estimates regarding R&D costs as well as the Company's estimates with respect to the revenues from this segment. The principal factors which may prevent this information from materializing are the actual revenues from the sale of products in 2017, the investments required for such activity, which may significantly exceed the Company's budgets for such matters; restrictions on the Company's ability to commercialize these technologies at competitive market prices or at all; absence of developed markets and a consumer culture suitable for using the technologies being developed; as well as the superior financial and technological means available to a major portion of the Company's competitors – all this in addition to the general risks outlined in section 1.21 of this report.

Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate); receiving approvals regarding changes in holdings and controlling means in the Company; refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas. Total grants approved for the Company based on the R&D programs amounted to NIS 2,473 thousand in respect of which the Company paid to the Chief Scientist up to December 31, 2018, a total of NIS 540 thousand in royalties. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2018, totaled NIS 220 thousand, attributable to programs in respect of which, in management's estimation, royalties are likely to be paid. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.17 Intangible assets

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

1.9.18 Human capital

Until March 2019, the activity of Company staff was split into segments as mentioned above, with workers employed and involved in the two operating segments of the Company, but with some of the Company employees focusing more on a specific segment. As part of the split, employees were transferred between the companies, with the Company and Utron both agreeing on a set of mutual arrangements and services to serve both, as mentioned in in Section 1.14.2 below.

1.9.19 Raw materials, suppliers and subcontractors

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

The Company is dependent on several manufacturers which specialize in the production and supply of a small number of items that represent about 1% of the components in most of its products (representing immaterial purchase quantities from a financial standpoint, in the years 2016, 2017 and 2018), although these are off-the-shelf components that include processors and communication components that could be purchased from suppliers in or outside Israel (primarily Infineon, Atmel, WizNet, Lattice Semiconductors and STMicroelectronics). Although such components may be installed in the Company's PLCs even if they are made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence, the Company enters into annual orders arrangements and in a few cases, into minimum stock retention agreements, with several different suppliers, in order to ensure availability and regular supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual consolidated cost of its raw materials and subcontracting services.

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

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

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

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

Under the agreement, the services rendered by the circuits supplier include component purchases, placement and assembly and in some cases testing and packaging of the finished circuits, in accordance with the detailed instructions of the Company, and under the supervision of the Company, and in accordance with detailed purchase orders based on periodic forecasts relayed to the manufacturing contractor which are updated regularly. As part of its obligations, the circuits supplier provides a 24-month warranty on its work, insures its obligations under the Agreement, while the related intellectual property rights connected with the product are retained by the Company. Payment for the products is based on fixed amounts dependent on the volume of the ordered work and paid on a +30 day basis. Under the agreement with the circuits supplier the Company sells raw materials to the same supplier for the purpose of manufacturing for the Company. The term of agreement is 12 months and the agreement is automatically renewed unless any of parties gives advance notice of termination to the other party. The Company's purchases from the said contractor in 2017, 2018 and in January and February 2019, respectively, amounted to NIS 4,218 thousand, NIS 3,052 thousand and NIS 608 thousand, which constitute 2.3%, 1.5% and about 1.8% of the Company's annual sales turnover. For details, see Note 17 to the consolidated financial statements of 2018 – Chapter C in this Periodic Report. The Company has no dependency on the circuits supplier, and it can also work with other suppliers and move from one supplier to another with no difficulty or substantial differences in cost, although, in the Company's opinion, this would not necessarily serve the best interests of the Company.

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

The Company is not dependent on certain manufacturing subcontractors and the Company may hire other additional contractors for this purpose. However, the replacement of an existing subcontractor may involve delays arising from the learning curve and the implementation of the Company's needs and/or the use of specific manufacturing production components tailored to the needs of the Company (for example, the molds for the casting of the plastic casings of the PLCs). The Company believes that the replacement of the said subcontractor is not expected to result in additional material costs to the Company.

1.9.20 Working capital

1.9.20.1 Inventory

The Company holds, whether itself or through its production contractors, on an ongoing basis about 70-150 days of components and raw materials inventory to meet forecast requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 30-60 days. The Company's policy is generally to hold a finished products inventory based on actual orders or internal forecasts regularly made and updated by the Company. However, and as necessary, the Company may deviate from this policy, mainly when preparing for extraordinary events or in response to the behavior of raw materials markets in the world (for example, in cases of concern over possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management software program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). From time to time the Company examines new means of inventory maintenance, with a view to increasing the finished goods inventory held by the Company, and shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. The Company typically provides a 12-24 months warranty for its products. The Company does not make provisions for warranty due to immateriality (absence of demands and/or demands of insignificant sums).

1.9.21 Environmental issues, risks and management thereof

The Company's activity in this area is not characterized by exposure to environmental risks as the term is defined in section 28 in the First Schedule to the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 1969. However, as stated in section 1.9.2 above, the manufacture and marketing of electronic products is subject in different countries to directives that address the use of certain materials in the manufacture of electronic products and the treatment of electric and electronic equipment waste, including arrangements pertaining to the issue of electronic waste in the EU (the WEEE (Waste Electrical and Electronic Equipment) Directive and the RoHS (Restriction of Hazardous Substances) Directive, which restrict the use of certain substances in electrical and electronic equipment marketed in Europe), as well as the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulations, which

affect the importation of chemicals into the European market and impose the major administrative responsibility and costs of these substances on European importers and exporters. In addition, the Israeli law also contains provisions that affect the use of certain materials in the manufacture of electronic products and the handling of waste of electrical and electronic equipment (including Regulation of the Treatment of Packaging Waste Law and the Law for Environmental Protection for the Environmental Treatment of Electronic Equipment).

So far the Company has not been required to implement the provisions of the WEEE 1 and 2 Directives. Nevertheless, the Company is following the implementation of the directives in the various countries through its distributors, making pinpoint adjustments where required, as well as through professional consultation, participation in conferences and updated professional literature. As of the date of this report, the Company has spent immaterial amounts to comply with the provisions of the directives and does not expect to spend material amounts in the upcoming year for the purpose of compliance with these directives⁵. The Company is unaware of any exposure due to the non-implementation of the WEEE Directives and is unable to quantify this exposure, insofar as it exists.

The Company designs its products in compliance with the aforementioned RoHS Directive of the EU, and has spent immaterial amounts for this purpose; the Company estimates that, as of the date of this report, the Company's products are generally compliant with these provisions. In July 2019, changes in the RoHS directives are expected to enter into effect according to which, four different substances will be added to the list of the six substances restricted for use in electric and electronic equipment which is marketed in Europe. The Company estimates that these changes are not likely to prevent it from complying with the requirements of the said directives and it does not expect to spend material amounts in the upcoming year and/or in subsequent periods for the purpose of compliance with the requirements of these directives⁶.

The REACH regulations are intended to ensure that chemicals/products that are manufactured in and/or imported to the European market are not harmful to public health and to the environment and that any irregularity in the use of certain chemicals is reported. These regulations are not directly applicable to the Company, however, they might be applicable to some of its customers, and therefore the Company is following developments in this matter and studying the aspects and ramifications of these regulations, inter alia, by consulting with advisers, attending conferences and studying up-to-date professional material. In addition, the Company turned to most of the suppliers and manufacturers in

⁵ The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data which served as a basis for this information are: developments currently known to the Company regarding the directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries, changes to the directive's provisions and/or interpretation or lack of cooperation on the distributors' part in realizing the implementation, and the means necessary for the directive's implementation, for which there is no assurance that they will be available to the Company at all or at the scope required for implementation.

⁶ The information concerning Company preparations for complying with the RoHS directive is forward-looking information. The principal data which served as a basis for this information are: the engineering steps in the development and implementation of the directive on which the Company is working as of the date of this report, and the need for continued investments in the R&D expenses, especially with regard to compliance with regulatory requirements, for which there is no assurance that they will be available to the Company at all or in the amounts it needs. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries of the relevant regulatory requirements for each product, completion of the engineering steps needed to complete the implementation, changes to the directive's provisions and/or interpretation, and delays in the compliance of the suppliers of components and arrays with these requirements.

the supply chain, in order to obtain declarations stating their compliance with these regulations.

As of the date of this report, the Company estimates that it will not spend material amounts over the next year on compliance with the REACH regulations⁷.

The Law for the Regulation of Packaging Waste Treatment - 2011 ("The Packaging Law") is designed to reduce the amount of packaging waste, prevent its landfilling and encourage its recycling. The Law sets recycling targets according to the type of material and the year of recycling, all regarding manufacturers with product packaging weights that exceed a certain threshold per year. To the best of the Company's knowledge, the total weight of packaging of the packaged products it sells per year does not reach the threshold set by law, and therefore, is not subject to the obligations thereof and the Company has advised the Ministry of Environmental Protection of the aforesaid. The Company has contracted with a "recognized implementation body" approved by the Ministry of Environmental Protection which is responsible for the compliance of manufacturers and importers with the provisions of the said law. Furthermore, the Company is studying the implications of the law, inter alia, by approaching consultants and using up to day professional study materials. As at the date of this report, the Company estimates that it is not expected to spend material amounts during the upcoming year on compliance with the law⁸.

The Law for Environmental Treatment of Electrical and Electronic Equipment and Batteries, 2012, sets recycling targets according to the year of recycling for importers and manufacturers of electronic equipment. In accordance with this law, the Company recently entered into a contract with a "recognized implementation body" of the Environmental Protection Ministry, which is responsible for the fulfillment of the obligations of manufacturers and importers, as per the provisions of said law. Moreover, the Company is studying the implications of the new law by inquiring with consultants and keeping up with up-to-date professional material. As of the date of this report, the Company does not expect to spend material amounts in the upcoming year for the purpose of compliance with this law⁹.

⁷ The information concerning Company preparations for compliance with the REACH regulations is forward-looking information. The principal data which served as a basis for this information are: the developments known to the Company today regarding the implementation of the regulations, the technical steps required for their implementation, and the Company's cooperation with its suppliers and manufacturers in this matter. The principal factors which may prevent this information from materializing are: changes in the provisions and/or interpretation of the regulations, and delays in compliance of the component and assembly vendors with these regulations.

⁸ The information concerning Company preparations for complying with the provisions the Regulation of Packaging Waste Treatment is forward-looking information. The principal data which served as a basis for this information are: the contract with the "recognized implementation body" and developments known to the Company today pertaining to the implementation of regulations by virtue of said law. The principal factors which may prevent this information from materializing are: changes in the law's provisions and/or interpretation, and delays in the implementation of the collection and recycling processes by the "recognized implementation body" as defined in the law.

⁹ The information concerning Company preparations for complying with the provisions of the Law for Environmental Treatment of Electrical and Electronic Equipment and Batteries is forward-looking information. The principal data which served as a basis for this information are: the contract with the "recognized implementation body" and developments known to the Company today pertaining to the implementation of regulations by virtue of said law. The principal factors which may prevent this information from materializing are: changes in the law's provisions and/or interpretation, and delays in the implementation of the collection and recycling processes by the "recognized implementation body" as defined in the law.

1.9.22 Standards and quality control

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

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

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

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

Compliance with the above standards may be a binding legal requirement for marketing Company products in some of the Company's target markets, while in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its products for complying with these or other standards should they be required, and failure to comply with such standard requirements could limit the Company's ability to market its products in some of its target markets.

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

As of the date of this report, the Company estimates that it will not spend material amounts over the next year on compliance with the provisions of the standards and regulations detailed above¹⁰.

1.9.23 Business objectives and strategy

The Company aspires to position itself as a world leader in the field of control and automation products, in niches and markets in which its products have added value and a relative advantage. These niches include, among others, the fields of nano and micro PLCs, PLCs incorporating a control panel (including use of color displays, which is becoming prevalent in control panels for many systems), small PLCs incorporating communications and network support capabilities, and PLCs supporting decentralized architecture. In target market segmentation (for further details see sections 1.7 and 1.9.3 above), the most prominent are manufacturers of small and medium machines that require economical, advanced and integrated control solutions, as well as constructors of systems that require solutions for remote control and/or data collection by communications. Criteria for evaluating success in achieving these objectives include, among others, number of installations (PLCs sold) every year, rate of penetration (sales) in new and existing countries and regions, customer satisfaction, percentage of repeat sales to these customers, and overall contribution of the Products segment to the Company's profitability.

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

The Company further plans to continue developing and strengthening its international marketing infrastructure, *inter alia* through continued supervision and follow-up of the activity of existing distributors, location of new distributors in new territories or where it is necessary to replace an existing distributor, professional training and instruction for distributors on subjects related to the Company's products, and gathering of relevant information. The Company is likewise examining possibilities for expanding its marketing capabilities by means of additional platforms, including strategic collaborations with entities possessing broad marketing capabilities, which it will be possible to harness also for the marketing of some of its products. There is no assurance regarding the Company's ability to strengthen and develop its marketing infrastructure in the Products segment, and this depends, *inter alia*, on analyses of marketing attributes and markets for Company products conducted by the Company from time to time, and the evolving nature of PLCs as off-the-shelf products and as consumer products, as detailed in this report.

¹⁰ The information concerning the expected costs to the Company regarding compliance to the standards and regulations is forward-looking information. The principal data which served as a basis for this information are: the developments known to the Company today regarding the implementation of the regulations, the technical steps required for their implementation, and the Company's cooperation with its suppliers and manufacturers in this matter. The principal factors which may prevent this information from materializing are: changes in the provisions and/or interpretation of the regulations, and delays in compliance of the component and assembly vendors with these regulations.

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

The Company concurrently plans to continue, from time to time, to examine business opportunities in Israel and worldwide, which would allow expansion of its operations from the financial, marketing and technological aspects. There is no certainty regarding the conditions for the realization of such opportunities and/or whether they will be available to the Company at all.

1.9.24 Development forecast for the coming year

The Products segment has shown continuous growth in revenue during the past four years. In order to continue the growth trend in its operations in the Products segment, the Company will be required to continue investing great amounts in R&D and marketing, so as to be able to offer existing and prospective customers more competitive and efficient products, designed to provide a suitable response to those offered by its competitors. However, there is no assurance that making large investments in development and marketing as aforesaid, will increase or maintain the Company's current pace of sales. For details on the Company's estimates regarding development expenses expected in the products segment in 2019, see section 1.9.16 above.

1.10 Automated Solutions segment

As mentioned above, the Company's operation in the Automated Solutions segment was transferred in March 2019 to its fellow subsidiary Utron. The information described above in this Report refers to the period preceding the split, during which the activity of this segment was carried out by the Company. Accordingly, the descriptions, the assessments, and the forecasts are to be read in this Report, above and below, in relation to this sector as relevant to the Company only as long as the Company was active in the Automated Solutions segment; by the nature of things, once the split has entered into effect, these descriptions, assessments, and/or forecasts of the Company above or below regarding this segment should no longer be regarded as relevant to the Company.

1.10.1 Structure of the segment and changes therein

The Automated Solutions segment comprises logistics projects and parking projects. Logistics projects include the design and construction of automated warehouses, distribution centers with automatic elements (such as an automated warehouse), and conveying systems integrated in the organization's logistics system (below: "**Logistic solutions**"). This segment has developed considerably in recent years, as part of the overall development trend in supply chain management and the succession of logistics activities from the supplier to the end consumer. An additional reason for the increased demand in this segment in recent years is the need for increased efficiency, both in terms of the methods and means of storage and retrieval, and in terms of the savings in the space and time required for storage and retrieval, which generally accompany the transition to automated logistics systems and distribution centers.

Autonomous parking projects are based on robotic and mechanized systems designed to offer efficient and cost-effective parking solutions the increasing need for parking spaces

in real estate projects. There has been a global awakening of interest in the field in the recent years, with the exponential growth in the number of vehicles, crowded parking conditions in urban areas and soaring land prices. An autonomous parking facility is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs, while simultaneously improving the driver's personal security and safety and enhancing his driving experience. Autonomous parking facilities are considered "green" and environment-friendly solutions due to their reduced energy consumption and emission of exhaust gases (the vehicles are conveyed from and returned to the parking space with the engine turned off, without the need for artificial lighting – a factor that reduces the carbon footprint of an autonomous parking facility).

1.10.2 Legislative restrictions, standards and special constraints applicable to the segment

The Company's logistics projects and certain of the components of the systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, wind resistance, lifting devices, electrical installations, safety standards and transport standards. In addition, there are at present specific Israeli standards for parking projects which are based on international standards. In addition, activity in this field is subject to general guidelines and standards in different parts of the world, relating to additional areas that are included in and/or relevant to the systems segment. For further details, see section 1.10.21 below.

1.10.3 Changes in scope of sector operations, its profitability, developments in the segment's markets and changes in the characteristics of its customers

For each logistic project the Company competes against several companies from Israel and international companies that are leaders in their field. The market in Israel is relatively small and several competitors contending for the few projects executed in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems are designed to handle, are expected, in the Company's opinion, to increase the number of projects carried out in Israel in this area, including the number of projects to be implemented by the Company¹¹.

The Company's installations base in Israel, which the Company estimates to be wide as compared to its competitors, could assist the Company in providing more efficient service and technical support.

¹¹ The information concerning a possible growth in the number of projects to be implemented in the Logistics Solutions segment in Israel, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems automated parking systems are designed to handle, will impact on the demand in this field. The principal factors which may prevent this information from materializing are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia*, for reasons of cutting expenses and/or changes in inventory maintenance and/or management policy and/or delay or absence of market recognition of the advantage of automated logistic systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from materializing, such as the Company's inability to compete with its rivals, and the other risk factors enumerated in section 1.21 below.

The need for vehicle parking solutions has apparently existed since the invention of the automobile. According to the International Organization of Motor Vehicle Manufacturers (OICA), more than 97 million vehicles were manufactured in 2017 alone, an increase of about 2.4%, compared to the corresponding period last year, and forecasts put the annual production of vehicles by 2018 at more than 100 million vehicles worldwide. According to a survey conducted by IPI in 2015¹², the trends that have the biggest impact on the parking industry include: the rise in the integration of technologies and automation to improve efficiency and scale back the operating costs of parking systems, green and sustainable parking solutions; a growing transition toward innovative technologies to improve access, service and security. A similar survey conducted in 2018 indicated that the integration of technologies and automation to improve efficiency and scale back the operating costs of parking systems, green and sustainable parking solutions is one of the most prominent trends in this area¹³ and interest in automated parking systems has increased.

The direct customers of automated parking systems are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both), or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector. Recent years have seen an awakening of interest in this field, due to the trends in the parking industry in general, as noted above, as well as the crowded parking conditions in urban areas, the ever-growing number of vehicles and soaring land prices.

1.10.4 Technological changes which could have a material impact on the segment

Logistics and parking projects are characterized by frequent technological developments, introduction of new products and technologies and changes in market needs and requirements. The developments in the control and automation industry described above also affect conveying equipment and systems, concurrent with developments in the field of motion technologies and materials technologies. The Company is in the process of adapting the systems which it constructs and/or upgrades to the requirements of the market and to the technological changes taking place in it. Parking projects, for example, must have the ability to interface with electric vehicles, and in the future with autonomous cars, as well as application-based remote-control capabilities.

1.10.5 Entry/exit barriers and critical success factors in the segment and changes therein

In the Company's opinion, the major entry barriers for competitors implementing logistics projects include the knowledge and experience required for analysis and design of logistics systems within organizations; the duration of sale processes for systems due, among other things, to the conservative nature of the target markets for such systems; complex software systems for warehouse and parking facility management; local operational and engineering ability to support project construction; control technologies for conveying

<http://www.parking.org/2016/02/11/tpp-2015-09-2015-emerging-trends-in-parking/>¹²
https://www.parking.org/wp-content/uploads/2018/05/0509_2018_Emerging-Trends_blue_printPages.pdf¹³

systems within such systems; and the required support and maintenance infrastructure in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers are the commitments of companies operating in this sector to complete system construction projects, in accordance with signed contracts, and their commitment to provide service for the constructed systems pursuant to annual service contracts.

The Company estimates that the key success factors include the knowledge and experience accumulated in the area of design and construction of such systems; the range of solutions on offer that meet market needs and trends; the functional reliability of the various components including the software and control systems being offered and the high level of service and support that build-up a reputation and customer loyalty.

1.10.6 Substitutes for the products of the Company and changes therein

Substitutes to the Company's products in the Automated Solutions segment include similar products manufactured by the Company's competitors as well as use of non-automated alternatives such as human-operated warehouses and conventional parking solutions without automated systems.

1.10.7 Structure of Competition in the Sector and changes therein

1.10.7.1 – Automated Logistic Systems

The global automated logistic systems market is characterized by the active presence of many companies, the majority are European, and some are from the US and the far East.

Some of these companies are large corporation, well-established in the field and have been operating in this sector for decades; some are perceived as technological market leaders with annual revenue volumes of billions of dollars. The competitors can be classified into three main groups: the first comprises handling equipment manufacturers; the second group, which includes the Company, comprises integration companies using handling equipment manufactured by others and implementing different projects by integrating different systems and machines while designing the required application for each customer and using software and control tools to implement the application; the third group comprises companies which manufacture the equipment and also execute projects and application while combining activities from the first and second groups (system manufacture and integration).

1.10.7.2-Autonomous parking facilities

The global autonomous parking facilities market is growing and developing; most of the companies in this sector emerged from the mechanized (not necessarily autonomous) parking facilities business sector, primarily various types of parking replicators as well as manual and semi-automated mechanical devices. The North American market is divided into two groups: manufacturers (local and/or foreign companies) of competing systems operating directly in the market, and representatives of foreign companies promoting the sales of these

companies. The first group, to which the Company belongs, has a relative advantage in contacts with customer because it can demonstrate capabilities and flexibility higher than the second group, which makes it easier for the customer and other related parties (financial, etc.) to decide on contractual engagement.

The first group (manufacturers) includes four main companies which operate in the North-American market (including the Company) and the second group (representatives) includes about ten main companies.

As this market segment develops, there is a trend indicating that customers contract with manufacturers that can provide a turnkey solution, offering all or most of the components of the systems, including support and maintenance services, can prove that they have demonstrated execution capabilities, and are financially solid, such as the Company.

Unlike the logistics segment, in the parking segment the Company is not aware of the involvement of large global companies.

1.10.8 Products and services

1.10.8.1 Logistic Systems

Logistics projects do not include shelf products, but are rather focused on delivering various services, primarily design, construction and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers (as detailed below).

The Company's services include design and engineering of the logistic systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage, the Company also offers maintenance services for these systems based on framework agreements or on service calls (where contracting for the provision of maintenance services is separate, and thus the consideration for these services is not part of the consideration for the installation of the systems themselves). In this area the company markets its warehouse management software, UniStock™, designed to allow control, command and management of the manual and/or automated warehouse systems (software which is referred to in the industry as Warehouse Management System – WMS), including the management of inventories, orders, issues and distribution, and also the operation and synchronization of the movements of automated conveyance systems and the handling of terminals (software which is referred to in the industry as Material Flow Control – MFC). The software is marketed under licenses, mainly as part of projects for the construction of logistics systems that the company is constructing, but also as stand-alone products.

The main components of these systems include the following: (a) Storage and retrieval components (a mechanical controlled and computerized system, generally comprising dedicated customized cranes installed on dedicated rails, that perform the storage, retrieval and transport tasks); (b) A shelving system installed along either or both sides of the crane rails; (c) Conveying systems for transporting the loads to and from the automated storage system; (d) Material handling systems, designed to perform missions such as sorting, gathering, palleting, etc; (e) High-speed automated gathering systems for small items; (f) Command and control systems for the mechanical components of the system, including PLCs, sensors and control software. Sometimes these components also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

In recent years, these services have usually been provided to customers in Israel (see section 1.10.8 below). The Company generally provides these services as a chief contractor, in projects in which it serves as the integrator of all the system assemblies (shelving, conveyors, cranes, etc.), electrical systems, installation of the PLCs, the software and hardware, under a direct contract with the customer-user. In such cases the Company contracts with subcontractors for the execution of tasks related to the system assemblies, other than the software and PLCs, which are directly handled by the Company. In certain cases the Company operates as a subcontractor for specified tasks only, mainly those related to the management software, the electrical systems and the supply and installation of PLCs in the system for which service is provided.

1.10.8.2 Autonomous Parking facilities

An autonomous parking facility project is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs, while simultaneously improving the driver's personal security and safety and enhancing his driving experience. The parking process in an autonomous parking facility is similar to the storage and retrieval of goods in an automated logistics system (automated warehouse). In an autonomous parking facility, the driver drives the vehicle into a parking compartment (or bay) which receives the vehicle and, after the vehicle occupants have gotten out, transports the vehicle and stores it in the most suitable vacant space available in the facility. Subsequently, upon demand, the system returns the vehicle to the reception compartment (bay).

Like the automated logistics systems described above, robotic parking systems generally include the following components: (a) conveyance elements (controlled computerized mechanical systems, such as trolleys for horizontal conveyance of the vehicles and lifts for vertical conveyance, which perform the vehicle storage, retrieval and conveyance operations); (b) shelving systems (metal and concrete or another combination of materials) for storage (parking) of the vehicle; (c) entry and exit compartments (or bays) through which the vehicle which is to be parked enters the facility and from which the driver picks up his vehicle; (d) control systems for controlling all of the system's mechanical elements, including regulators, sensors and control software. The components sometimes also include infrastructure elements such as foundations, shell, ceiling and other structural elements.

In this segment, the Company focuses on the provision of various services, primarily planning, engineering, construction and maintenance of customized robotic parking facilities. As well, the Company engages in the development, engineering and production of the conveyance, control and software components for these facilities.

The company has developed an advanced proprietary technology designed to increase parking density and enhance the efficiency of the use of parking garages, which is based on a system of robotic units developed at the Company, an array of trolleys and automatic elevators and computer control programs that are intended to allow efficiency in the operation of the robotic systems and the storage time or the retrieval of a vehicle from the parking space in an average of approximately two minutes. The Company believes that the technology which it has developed will make it possible, for the first time, to achieve these advantages at an overall cost which is lower than the cost of conventional parking garages, taking into consideration all of the costs for the developer.

The company believes that the advantages of its system include, among other things: an overall savings in investment, an environmentally friendly system, reduced electricity consumption, reduction of the emission of pollutants by the vehicles moving around the parking garage, particularly quiet activity, lessening of the need to dig beneath the groundwater line, lower maintenance costs and adjusted access for disabled persons for the entire parking garage. In addition, the system offers a high level of convenience and safety for drivers using the parking garage.

The Company also develops and markets, as a single suite together with the robotic parking facilities built by it, an Automated Parking Management System (APMS) which enables automatic command, control and management of autonomous parking facilities, including management of the admission, parking and delivery of vehicles, as well as operation and synchronization of the movements of automatic conveying systems.

In the real estate market of North America, the Company has identified a need for parking solutions which will promote real estate development in city centers, and for which the conventional parking solutions do not provide a suitable response. In addition, the Company has identified a need for flexible parking solutions, providing for current parking needs yet having enough flexibility to accommodate future changes (such as charging an electric vehicle, interfacing with autonomous car, etc).

1.10.9 Trends and changes

The Company's services for logistics systems have in recent years focused mainly on the Israeli market. The Company has no statistical data and/or market studies pertaining to this field in Israel. Based on its recent years' experience in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses and logistics centers reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs and availability, transportation considerations and the distance of the distribution centers from population centers, could strengthen the penetration of automated logistics technologies in the Israeli market.

There are many companies operating in the automated logistics systems market, some of which do not have independent systems of their own for technical support and customer service (unlike the Company, as detailed below), a factor which helps them to compete with the Company's prices, given the lower cost basis and at times lower profit targets. The combination of these factors could have a detrimental effect on the Company's ability to compete in this sector and could harm the Company's revenues and profits in the field of logistics solutions and in general.

The Company is in different stages of reviewing the possibility of taking part in additional automated warehouse construction projects in Israel and worldwide. In view of the marked distance between the Company and its overseas customers, the Company faces a challenge combining availability and quality response to service calls with continuous operation vis-à-vis the customer. To meet that challenge, the Company is examining the possibility to use its capabilities in the automated warehouse projects where the Company has local presence, as in the US, in a manner that will allow the Company to overcome the distance from customer limitation, as far as availability and quality response to service calls, availability of Company engineers for ongoing and close work with customers are concerned. This review is in its preliminary stages and have not yet led to actual projects.

Several years ago, the Company began using its abilities, developments and years of experience in the design, construction and maintenance of complex conveying systems and advanced control systems (implemented in the logistics systems), also in the field of autonomous parking facilities. This field calls for tools, methods and systems very much like those required for logistics systems. In both the fields of logistics systems and autonomous parking facilities, the Company reuses various modules (mechanical modules, control modules and software modules) which are suited to the system's requirements and thus allow the Company to integrate and combine components in the design and construction stages.

The Company estimates, based on the trends described above, that various macroeconomic considerations, including the cost of land, manpower costs, transportation and environmental considerations, and the need to improve drivers' welfare, could serve to entrench automated parking technologies worldwide. However, the pace of penetration of automated parking systems and their acceptance by building

developers, local authorities and city drivers worldwide is still unknown and the Company is unable at this stage to estimate it.

One of the main characteristics of this activity is the relatively higher financial value contained in a small number of onetime service transactions. This creates higher exposure to volatility in sales and profitability value.

1.10.10 Revenue and profit breakdown

The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to the profitability of the Company's projects in the Automated Solutions segment varies from one transaction to another, especially in accordance with the Company's status as a principal contractor (which is usually characterized by a higher financial value and lower profitability, mainly due to the need for subcontractors) or as a subcontractor (which is usually characterized by a lower financial value and higher profitability, mainly due to the use of its own resources), and on the particular technical and functional requirements of each specific transaction, as well as on the results of negotiations with the entities ordering the service in each particular case.

Below are details of the consolidated revenues and gross profit of the Company in the Automated Solutions segment for the periods indicated:

| | For the year ended December 31 | | |
|---|---------------------------------------|--------------|-----------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Automated Solutions (amount and percent from consolidated revenues) | (33%) 66,669 | (33%) 61,406 | (24%) 35,052 |
| Gross profit (amount and percent) | (4%) 13,869 | (4%) 2,440 | (-45%) (15,951) |

1.10.11 Customers

1.10.11.1 Logistic Systems

The direct customers for logistics systems projects are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces, government companies or local authorities), that need an automatic warehouse, automatic dispatch systems and/or automatic logistics centers, and which contract with the Company for acquiring a single system. Customers for this projects generally retain the Company's services for designing a single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system after it is handed over for commercial use. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site (installed by the Company or by third parties). The Company's services for the logistic systems are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases, the party contracting with the Company is the chief contractor hired by Pauschale specific tasks only, such as the design of the system or the installation of PLCs in the system.

The Company services in the logistic systems sector are usually provided based on Phauschale agreements which are tailored to the customer's needs, and usually contain a list of detailed and defined tasks, technical and functional specifications with which the system should comply, timetable (usually ranging between 9 to 18 months for system construction, based on the system's complexity and on other data, which vary from case to case) and payments schedule per predefined landmarks which usually require signature on agreement, design, production, shipping, assembly, system control testing, system integration and first trial run (payment rate for each of the project landmarks varies for project to project). Payment terms vary from project to project, and often range between 7 to 30 days from date of each landmark completion. According to these agreements, the Company is usually required to provide guarantees (usually bank guarantees) to ensure the execution of its obligations.

1.10.11.2 Autonomous Parking Facilities

The direct customers of parking projects are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both) or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector.

In addition, the Company undertakes to train the customer's employees to operate the system, and provides a 12-month warranty period for the major components of the system assemblies (or for longer periods subject to the inclusion of the warranty price in the cost of the system), which generally includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for and a commitment to spare parts availability subject to its signature, and in accordance with the terms of the service agreement.

Parking customers usually retain the Company to design and build a new autonomous parking facility at the customer's site and to service and support the facility following its delivery for commercial use. In certain cases, the Company is retained to service, improve, upgrade or enhance an existing facility (which was installed by the Company or by third parties) at the customer's site. The Company's services in the autonomous parking facilities field are provided at present mainly in North America (United States) and in Israel, but are also offered to customers in other parts of the world.

The parking facilities that have been and presently are being built by the Company include parking garages in North America (mainly in New York, New Jersey and Los Angeles).

The Company's services in the autonomous parking facilities area are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the robotic parking facility that is being constructed will be required to meet (such as capacity and output), timetables (mostly ranging from 24 to 36 months for the planning, production, construction and operation of the robotic parking system, depending on the timetables for the different construction stages, the complexity of the facility and other factors that differ from case to case) and installment payments according to the progress in work. Under

these agreements, the Company is generally required to furnish bank guarantees to secure performance of its obligations. As of the report publication date, the Company provided bank guarantees as detailed above totaling NIS 0.1 million.

The Company typically provides a 12 months warranty for major components of the robotic parking facilities, which generally also includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

The reporting period was not a major customer in the area of the solutions.

1.10.12 Marketing and distribution

The Company operates in Israel and in the United States through in-house marketing and sales teams, comprising a number of employees handling relations with prospective customers, providing engineering and commercial responses to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas.

If necessary, marketing activities in certain regions are sometimes carried out with the assistance of independent sales agents (finders), who receive a sales commission in the event that their marketing activities mature into a binding commercial agreement between the Company and the customer.

1.10.13 Order backlog

Selling the services of the Automated Solutions segment involves a long sales cycle, which requires considerable time and resources, including participation in tenders and presentations, along with other participants, with the services rendered over a period (9-18 months for logistic systems and 24-36 months for autonomous parking facilities), depending on system complexity. Below are data on binding agreements for the services of the Automated Solutions segment that were not yet recognized as revenue in the financial statements for the following periods:

| Expected revenue recognition period | Performance agreements in the Automated Solutions segment as of March 17, 2019 (the closest possible date to date of this report) | Performance agreements in the Automated Solutions segment as of December 31, 2018 | Performance agreements in the Automated Solutions segment as of December 31, 2017 |
|-------------------------------------|---|---|---|
| | NIS in thousands | | |
| Q1 2018 | --- | --- | 11,615 |
| Q2 2018 | --- | --- | 22,682 |
| Q3 2018 | --- | --- | 23,477 |
| Q4 2018 | --- | --- | 22,510 |
| For 2019 | --- | --- | 57,709 |
| Q1 2019 | 5,815 | 17,659 | --- |
| Q2 2019 | 20,422 | 22,588 | --- |
| Q3 2019 | 33,901 | 24,962 | --- |
| Q4 2019 | 38,653 | 24,140 | --- |
| 2020, and onwards | 157,839 | 106,848 | --- |
| Total | 256,630 | 196,197 | 137,993 |

Differences in the reported order backlog between 2017 and 2018 stem from the rate of receipt of orders for the execution of new projects in the ordinary course of the Company's business, as well as from changes in milestone schedules of current projects¹⁴.

1.10.14 Competition

The construction of automated logistics systems involves the integration of different disciplines including, among others, mechanical and engineering design, construction (including foundations, shell and other construction components), supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities that take part in the construction of the system. In the construction of logistics systems in Israel, the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of industrial systems, mainly automated warehouses and logistics systems, including companies such as Dematic, Knapp, Swisslog, SSI Schaefer and System Logistics. In the field of warehouse management software systems the Company has several Israeli competitors, including a company from the Matrix Group and in recent years, local branches of international companies such as Red Prairie, Mantis S.A. and others. The autonomous parking facilities main competitors are larger and more established companies (such as companies from the Automation Group, LTV, Woehr, Westfalia and others), with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales resources, as well as a recognized name in the market. These competitors are able to respond before the Company to

¹⁴ The information concerning recognition of order backlog revenue is forward-looking information. The data relating to the forecast are an estimate only, relying on past experience and the planned schedules for the different orders. Changes in these basic assumptions leading to this estimate could significantly change the Company's estimate regarding to recognition of future order backlog revenue compared to the data shown above.

changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively.

The Company competes and plans to continue competing with its rivals, primarily on the basis of the quality and innovation of its products and services versus its rivals' solutions (including product functionality, flexibility and performance, standard of technical support and customer service offered by the Company). The Company believes it holds advantage over its main rivals in this segment, by the access it has to the full array of technologies applied in its autonomous parking facilities, including mechanical design, propulsion, energy, control and software systems. In addition, the Company has a relatively large number of autonomous parking facilities, operative and/or under construction in the North American market, and in the Company's opinion it is regarded as a well-known player in the global market in general, and in the North American market in particular. Although the Company has no knowledge of any official market survey or other public information on its positioning and market share in the US, the Company estimates that it ranks among the market leaders in the American autonomous parking lots segment, whereas its global market share is negligible.

The Company cannot, at the present time, make any assessment regarding the size of the local market and its share therein, nor does it have any statistical data on which to base itself in this matter. At the same time, the Company's customer base in the field of installations in Israel, which the Company estimates as broader relative to its competitors, includes customers in a wide range of sectors. In addition, the Company cannot make any assessment regarding the size of its market share in the global market, although, in its opinion, the share is negligible.

1.10.15 Production capacity

In the Automated Solutions segment, production capacity is in fact the Company's ability to implement projects on the scope and within the schedule ordered, and is primarily based upon the Company's in-house staff. This staff deals primarily with design, engineering, development (mechanics, electricity, control and software), production, assembly, installation and project management, with the Company hiring and training new staff as necessary, in accordance with agreements for the construction and/or maintenance of systems which are signed from time to time.

Another operation carried out concurrently is the manufacture of mechanical assemblies by subcontractors. The use of subcontractors for such tasks is intended to ensure quality production by contractors specializing in mechanical assembly production processes, and is also intended to allow for growth and flexibility, given the high production capacity of the existing subcontractors and the possibility of bringing in more subcontractors as needed (subject to a learning and assimilation curve as detailed below). For further details on subcontractors, see section 1.10.18 below.

The sale processes of projects in this segment take months and sometimes even years. Even after signing the agreement to set up the system, the initial stages are characterized by planning involving engineers from the Company's constant staff. Therefore, the

Company usually has sufficient time to prepare for the project's execution stages, which require additional staff and the use of subcontractors. As of the date of this report, the Company uses a large part of this production capacity in relation to existing agreements for the construction of systems in the Automated Solutions segment.

1.10.16 Fixed assets, real estate and facilities

Unitronics Solutions leases a building in Airport City for its automated solutions operations. Apart from this and for purposes of this operating segment, the Company also makes use of fixed assets and facilities which serves the products segment as well (for details see section 1.12 below). As part of the split, the Company and Utron have both entered into mutual agreements to regulate services and other relations, including use of real estate and fixed assets, as detailed in section 1.14.6 below.

1.10.17 Human capital

Until March 2019, the activity of Company staff was split into segments as mentioned above, with workers employed and involved in all aspects of Company operation, but with some of the Company employees focusing more on a specific segment (for details see section 1.14 below). As part of the split, employees were transferred between the companies, with the Company and Utron both agreeing on a set of mutual arrangements and services to serve both companies, as mentioned in Section 1.14.2 below.

1.10.18 Raw materials, suppliers and subcontractors

For the performance of some of the tasks in accordance with agreements with various customers (mainly the supply and installation of cranes, rails, conveyors and shelving) the Company generally hires subcontractors. The principal terms of the agreements with the subcontractors are, in most cases, an adoption of the Company's commitments under the agreement with the customer (back-to-back), with respect to the system's components supplied by the subcontractor.

In addition, the Company usually links the payment currency and the date of payment of the consideration to the subcontractors to the currency and date on which the Company receives payment from the various customers for the specific component that was supplied by the subcontractor (back-to-back). In other words, the consideration is usually transferred to the subcontractor only after and subject to receipt of the relevant payment from the customer.

For parking projects, the Company is a party to several nonexclusive agreements with a number of subcontractors for the manufacture of mechanical assemblies, for amounts which are insignificant for the Company. The Company is not bound by any framework arrangement with them, hiring their services according to need and on an ad-hoc basis. The usual trade terms between the Company and the production subcontractors include open credit without guarantees, payment terms: net 60 EOM, and predetermined lead time (weeks or months according to complexity of production).

In 2017 and 2018 the Company had no major subcontractors for automated solutions.

The Company is not dependent on particular subcontractors for production and can hire for this purpose other additional contractors. Nevertheless, replacing an existing

subcontractor with a new one could involve delays stemming from a learning and assimilation curve with respect to the Company's needs and/or use of unique production components customized to the Company's needs. The Company's assessment is that replacing a subcontractor would not result in a very significant increase in costs.

1.10.19 Research and development

Below are main details of amounts spent by the Company on development activities during the periods specified below for the automated solutions segment:

| | Year Ended December 31 | | |
|---|-------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Payroll and related expenses | 1,556 | 4,124 | 4,504 |
| Materials and subcontractors | 46 | 483 | 959 |
| Other expenses | 1,388 | 889 | 1,261 |
| Net of capitalized expenses recognized as an intangible asset | (2,103) | (3,919) | (4,804) |
| Total | 887 | 1,577 | 1,920 |

Overall, the Company spent NIS 2,989 thousand during the reporting year (of which NIS 2,102 thousand were recognized as intangible assets) for the development of products and technologies as detailed in section 1.10.4 above.

The Company foresees a continued decrease in development activity in this segment involving the development of components (modules, transport elements, software and control elements), due to completion of the development of key components of the autonomous parking system¹⁵.

1.10.20 Working capital

1.10.20.1 Inventory and inventory of works in progress: The Company does not maintain significant inventories in the systems segment. During the performance of a project, an inventory of works in progress is recorded, which reflects the rate of progress of the project relative to actual expenses. As of 2018, with the implementation of IFRS 15, the method for measuring progress in projects changed to input method, and accordingly, accrued costs are recognized directly in the profit and loss statements.

¹⁵ The information regarding total anticipated development expenses related to the parking solutions is forward-looking information. This information is drawn primarily from the Company's development plans based, *inter alia*, on an analysis of market needs and consumer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments of development costs needed to fund development work, as well as Company estimates of anticipated revenues in this segment. Major factors that could prevent this information from materializing are actual revenues generated by Company sales of parking solutions in 2018, the amount of the required investments in this activity, which could considerably overrun the Company budgets designated for this purpose, limitations on the ability to commercialize these technologies at competitive market prices or at all, lack of development of markets and consumer culture suited to the use of the developed technologies, the superior financial and technological means available to a substantial part of the Company's competitors, all this in addition to the general risks detailed in section 1.21 below.

1.10.20.2 Warranty: The Company typically provides a 12 months warranty for major system components in the Automated Solutions segment.

1.10.21 Standards and quality control

The Company's activities for logistics systems, including in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses and control systems comply with the requirements of ISO 9001, 2008 edition. Certain components of the systems constructed by the Company in this segment are designed in accordance with various applicable standards, including Israeli Standards IS 413 relating to earthquakes, and IS 414 relating to wind resistance (regarding the structure of the warehouse and the shelves array); standards concerning hoisting facilities such as IS 1202 (hoisting facilities – steel cables, for cranes and elevators); and standards pertaining to electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system for delivery to the customer. Also in force in Israel are specific standards (FEM standards) for the conveying systems sector, laid down by the European conveying equipment manufacturers association, which address, among other issues, the functionality of facilities and systems.

In the field of parking solutions there is an Israeli standard, IS5437, which is based on the European standard EN14010. In addition, this activity is subject to general directives and standards in different parts of the world, in areas such as construction (standards relating to earthquakes, safety at construction and work sites, local directives, licensing and permits, etc.), mechanical and electrical facilities (standards relating to safety, lift facilities, electrical facilities, conveyance facilities, etc) and transportation (safety standards, local directives, licensing and permits, etc.). The compliance of the Company's systems with the requirements of these standards is checked as necessary, generally by professional inspectors independent of the Company, who test each system individually, as part of the process for completing the system for delivery to the customer. Apart from the foregoing, the Company is not aware of additional standards in this area.

Compliance with certain standards could be a binding legal requirement for marketing the Company's services in some of the Company's target markets, while in others it may be a market requirement even though there is no formal legal requirement. There is no certainty that the Company will manage to meet the requirements applicable to its services in order to be compliant with these standards or others if called for, and failure to comply with such standard requirements may limit the Company's ability to market its services in some of its target markets.

1.10.22 Business objectives and strategy

The Company aims to position itself as a global leader in the area of autonomous parking facilities, and to expand its operations in this industry both in Israel and abroad, through the export of its capabilities and technologies. Measurements for the evaluation of success in realizing these goals include, among others, the number of installations (autonomous parking facilities constructed with the company participation) per year in Israel and abroad, quantity and volume of technology sales and management products to customers

and other entities outside Israel with which the Company collaborates in its operations in this sector, satisfaction of Company customers and business entities with which it interacts, and the overall contribution of the parking solutions segment to the Company's profitability.

In order to achieve these targets, the Company is acting to continually upgrade its proprietary robotic parking systems, including the electro-mechanical and robotic transport components and the management and control systems, while the Company is examining the possibility of turning some of its activities in this sector into the sales of designated robotic products for this sector (off-the-shelf) without the direct intervention of the Company in the establishment of the projects, based on an ongoing analysis of market trends, as well as the responses of customers and business entities with which it interacts. There is no certainty that the Company will actually be able to improve existing products and develop new ones in the area of parking solutions, this depends, among other things, on an analysis of market needs and customer preferences, as expressed in the Company's firsthand dealings with the markets, technological feasibility, costs of potential developments, as well as the competition in the sector, as described in this annual report.

In addition, the Company is planning to continue developing and bolstering its international marketing setup in the field of autonomous parking facilities – at first, primarily in North America and Israel and then in other countries. There is no certainty that the Company will actually be able to develop and bolster its international marketing setup in this segment, this depending, among other things, on analyses of marketing characteristics and attributes of the markets for the Company's services, conducted periodically by the Company, and on the lengthy, complex selling process of these services, as explained in this annual report. In addition, the Company is examining possibilities to expand marketing options of its systems using additional platforms, including strategic alliances with parties who possess extensive marketing capabilities which can be used for the marketing of the Company's manufactured systems. There is no certainty as to the Company's ability to succeed in developing such collaborations, as mentioned above and this depends, among other things, in analyses of marketing and market characteristics for the Company's systems. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and the world, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty that the conditions for such opportunities will materialize and/or whether such opportunities will even present themselves to the Company.

In addition, The Company aims to position itself as a leader in the field of logistics solutions in Israel, and to create a base of installations that will enable it to expand its operations in this area abroad. Measurements for the evaluation of success in realizing these goals include, among others, the number of installations (facilities constructed with its participation) per year, satisfaction of customers and business entities with which it interacts and the overall contribution of the Automated Solutions segment to the Company's profitability.

In order to achieve these targets, the Company is acting to upgrade the management and control software of the logistics systems, based on an ongoing analysis of market trends, market surveys conducted from time to time, as well as the responses of customers and business entities with which it interacts. There is no certainty that the Company will

actually be able to improve existing products and develop new ones in the area of logistics solutions, and this depends, among other things, on an analysis of market needs and customer preferences, as expressed in the Company's firsthand dealings with the markets, technological feasibility, costs of potential developments, as well as the competition in the sector, as described in this report.

1.10.23 Development forecast for the coming year

To enable continued sales in the Automated Solutions segment, the Company must invest in marketing, sales promotion and personnel training, so that it can offer existing and prospective customers services designed to provide a suitable solution, which are more competitive and more efficient than those offered by its competitors.

To enable continued sales in the autonomous parking sector and increase production capacity, the Company needs to invest substantial amounts in development, marketing, sales promotion and personnel training, so that it can offer existing and prospective customers products and services designed to provide a suitable solution, which are more competitive and more efficient than those offered by its competitors.

In the Company's assessment, the continued growth in sales and in the scope of production in this sector is likely to improve the gross profitability of this sector beyond existing profitability in the parking sector or in the logistics solutions sector, and to bring the gross profit closer to the profitability that exists in the Products segment. There is no certainty regarding the Company's ability to actually improve existing products and to develop new products in the parking solutions sector and, accordingly, to improve the gross profit of this segment.

The Company plans to continue its marketing activity and market penetration efforts with respect to autonomous parking facilities, with the aim of increasing awareness of the advantages of these parking solutions with the intention of expanding the sales in its target markets in this segment.

1.10.24 Environmental protection, environmental risks and management thereof

On the whole, the Company's activity in this segment is not characterized by exposure to environmental risks, as this term is defined in section 28 of the First Schedule to the Securities Regulations (Details of Prospectus and Draft Prospectus – Structure and Format), 1969.

However, the Company sometimes is required, in the framework of agreements with customers, to execute and integrate automated logistics systems that may also include construction aspects ("**projects including construction**"). In these cases, the Company undertakes to comply with environmental protection requirements, as prescribed by the environmental ministry, the local authorities and the relevant statutes and bylaws, for the purpose of receiving building permits for the construction of projects including construction for those customers. The Company is also required, during the construction of projects including construction, to comply with the requirements of the law and the authorities pertaining to environmental management of, and removal of earth and debris

from, construction sites, and it is likewise required, on the completion of construction, to prove compliance with said environmental requirements in order to receive an occupancy certificate for those customers.

For the execution of the construction works in projects including construction the Company enters into agreements with subcontractors that engage in construction. The terms of the agreements with these subcontractors are usually back to back with the terms of the Company's agreement with the customer, with respect to the content the subcontractor is to provide, including handling of and responsibility for the relevant environmental aspects.

As of the report publication date and in view of the foregoing, the Company is of the opinion that its activity in the field of automated solutions, does not expose it to environmental risks that have or could have a significant impact on it.

1.11 Other activities

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

| | For the year ended December 31 | | |
|--|---------------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Revenues from Unitronics Management operations | 434 | 436 | 427 |

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

1.12 Fixed assets, land, facilities and insurance

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

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

The Company's rights in Unitronics Building serve as collateral to secure the financing for the acquisition of its rights in the Unitronics Building together with additional financing provided to the Company, all as set forth below in section 1.16 of this report. The balance of the amortized cost of the Company's floors as of December 31, 2018 amounted to NIS 13,854 thousand. For its current operations, the Company uses the entire space on the Company floors at Unitronics Building. The other floors at Unitronics Building (floors 2-4) (hereinafter: "**the private floors**") are leased from ILA by a company controlled by Mr. Haim Shani, a controlling shareholder of the Company (jointly with FIMI Fund), serving as the CEO and a Director of the Company, and his wife Ms. Bareket Shani (hereinafter: "**the lessor**"), and are leased to third parties, except for approximately 1,000 sq.m that were leased to the Company as detailed in section 1.12.2 below. The rights in the private floors were acquired about one month prior to the acquisition of the Company's rights in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its rights in the Company floors, at a price per square meter using the same pricing basis as used by the Company to acquire its rights.

- 1.12.2 Unitronics Building– lease from the controlling shareholder: In addition to the Company floors, which are used in their entirety by the Company, the Company leases from the lessor space on the private floors, based on its variable needs from time to time, at the same terms under which space is leased on the private floors to third parties, which also reflect lease terms prevailing at Airport City in general. As at the date of this report, and in accordance with an agreement which was approved in the General Meeting of the Company's Shareholders dated July 15, 2018, the Company leases 1,022 sq.m as of January 1, 2018, as well as 30 parking spaces for a lease period that ends on August 1, 2021, subject to the Company's right to adjust the required leased space to its needs from time to time, under the same terms (providing the leased space will not exceed 1,022 sq.m) and also to end the lease at any time with prior notice of three months, all according to the decision of the Company's Audit Committee. Under the terms of the lease agreement, the rent is set at NIS 75 per sq.m per month, a monthly total of NIS 76,650, linked to the CPI of June 2009 and a monthly total of NIS 117,481 plus maintenance service fees, parking spaces and linkage to abovementioned CPI differentials. For details on past space leased by the Company at the Unitronics Building and on lease terms under previous agreements, see Report on the Convening of a General Meeting of the Company's Shareholders which was published on May 30, 2018 (Reference No. 2018-01-053395), included herein by reference and also see section 4.6.2 in Chapter D of this Periodic Report.
- 1.12.3 In June 2015 Unitronics Solutions signed a lease agreement (hereinafter in this section: "**the agreement**") with a third party unrelated to the Company and/or to interested parties therein (hereinafter in this section: "**the lessor**"), in connection with part of a building in Airport City with a total area of 3,413 sq.m as well as 47 parking spaces (hereinafter in this section: "**the leased premises**"), in consideration for monthly rent of NIS 40 per sq.m during the first two and a half years of the agreement and NIS 42 per sq.m for the remainder of the lease period (plus management fees of NIS 6 per sq.m) (excluding VAT and linkage to the CPI) and NIS 300 per parking space. Under the agreement, the leased premises were placed at the disposal of Unitronics Solutions starting from August 2015 for construction works to adapt the building to its needs. In accordance with the agreement, Unitronics Solutions is paying rent on the building since January 2016. The agreement is

effective from June 1, 2015 to December 31, 2020 with an extension option for a further five years subject to the terms stipulated in the agreement. The leased premises primarily serve the Automated Solutions segment.

- 1.12.4 Unitronics Inc.: The subsidiary Unitronics Inc. leases from a third party unrelated to the Company and/or to interested parties therein office space in Quincy, near Boston, Massachusetts, with a total area of 2,363 square feet (219 sq.m), leased until March 31, 2021 at annual rent of \$56,000.
- 1.12.5 Unitronics Systems: The second-tier subsidiary Unitronics Systems leases office space in Continental Plaza, 401 Hackensack Avenue Suite 503, New Jersey, 07601 a total area of about 4,257 square feet (about 395 sq.m) for a term of five and a half years, starting in April 2018, from a third party unrelated to the Company and/or to interested parties therein with option to extend the lease term to additional term of five and a half years.

The annual rent fees vary during the lease term, starting from a total of \$ 27 per square feet, during the first year of lease and up to a total of \$ 29.5 (in annual terms) for the last five months of the lease period.

1.12.6 Insurance

The Company and its subsidiaries are insured under an insurance policy which, in the Company's opinion, provides it with adequate insurance coverage, as follows:

1.12.6.1 Property insurance

The Company carries extended fire insurance, providing insurance coverage against accepted fire insurance risks, including earthquake and other natural disasters, burglary as well as an extension for "Money All Risks" insurance cover.

1.12.6.2 Consequential damage insurance

The Company carries consequential damage insurance, which defines fixed expenses and net income, plus miscellaneous expenses and an indemnity period of 9 months.

1.12.6.3 Third party insurance

The Company carries liability insurance for bodily injury and/or property damage to third parties, with coverage of up to \$5,000,000 per event and in all for injuries/damages liable to be incurred during the insurance period.

1.12.6.4 Officers liability insurance

For details, see section 4.5.8 in Chapter D of this Periodic Report.

1.12.6.5 Combined professional and product liability insurance

The Company has combined professional and product liability insurance with a limit of liability of USD 10 million per event and in all.

1.12.6.6 Insurance of subsidiaries in the US

The US subsidiaries (Unitronics Inc. and Unitronics Systems) carry separate insurance coverage from that of the Company. This insurance includes, among others, office contents insurance for \$300,000; general liability insurance for a limit of liability of \$1,000,000 per event and \$2,000,000 in all; employer's liability and employee's compensation insurance for NIS 1,000,000 in respect of accidental bodily injury, \$1,000,000 per employee in respect of bodily injury caused by illness, and \$1,000,000 in all in respect of bodily injury caused by illness, total limit of liability up to \$1,000,000; product liability insurance in an amount of \$2 million per event and in all; umbrella insurance in an amount of \$13 million per event and in all; professional liability insurance (architects and engineers) in an amount of \$2 million per event and in all; and also extended liability in respect of bodily injury and/or property damage from vehicles owned and/or leased by the Company in the US, in an amount of \$1 million per event and in all for the insurance period.

1.12.6.7 Other miscellaneous insurance

The Company also carries other miscellaneous insurance, including contractor insurance, employer's liability insurance, employee fidelity insurance, combined product liability and professional liability insurance, import/export shipment insurance, mechanical breakdown insurance, electronic equipment insurance, terrorism insurance and goods-in-transit insurance.

1.12.6.8 In management's opinion, the Company is not underinsured and its insurance conditions are consistent with those of companies of similar type and size.

1.12.7 Geographical regions

For data on Company operations and noncurrent assets related to overall Company operations by geographical regions, see Note 24 to the consolidated financial statements for 2018 – Chapter C of this Periodic Report.

1.13 Intangible assets

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

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

1.13.2 Patents and patent applications

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

In recent years the Company has also filed various patent applications in respect of certain technological features developed by it in connection with the Company's operations, involving robotic parking systems. These applications were filed in the US, China and Europe. The knowledge accumulated in the field of robotic parking systems and the patents in this field are owned by Unitronics Solutions which manufactures the relevant equipment. As of the date of this report, a number of patents have been registered, mainly in the field of autonomous parking facilities, and additional applications are also in the stages of registration.

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

1.13.3 Trademark registration

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

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

1.13.4 Internet domain names

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

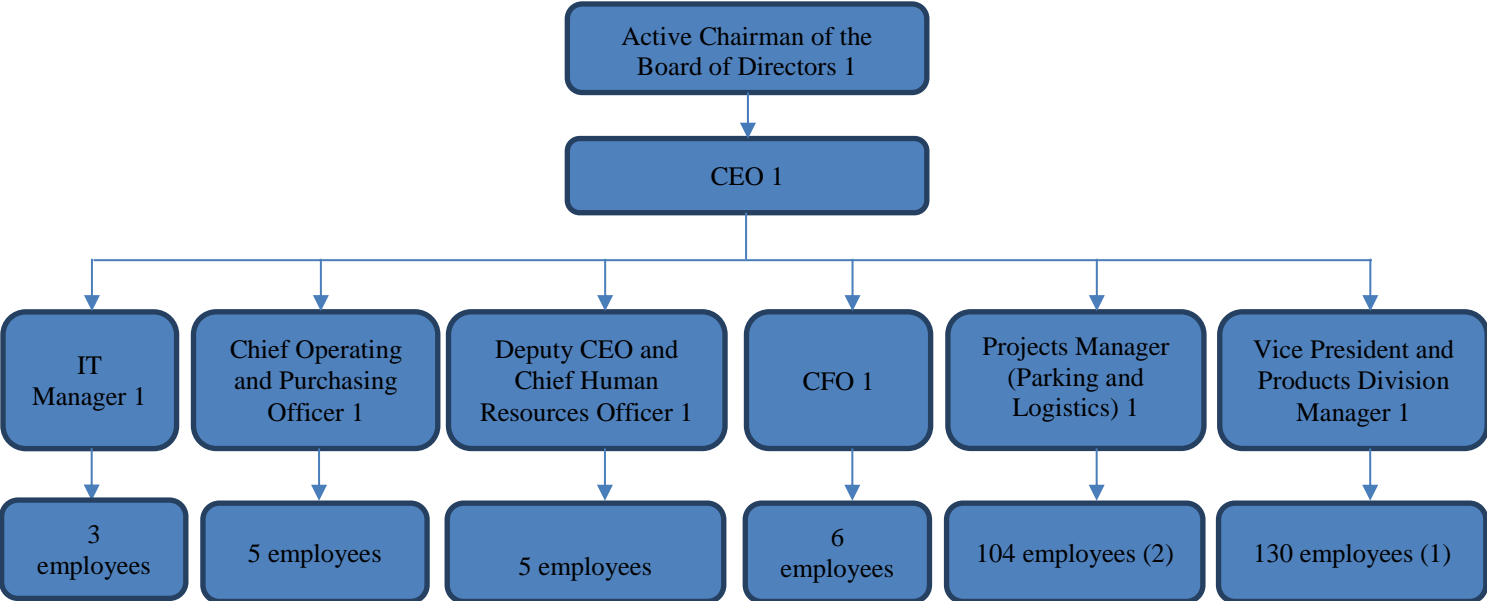
1.13.5 For details on the Company's investments in its intellectual property, see Note 9 to the consolidated financial statements for 2018 – Chapter C of this Periodic Report.

1.14 Human resources

1.14.1 Organizational structure: before the split, Mr. Amit Ben Zvi served as the chairman of the Company Board of Directors, whereas Mr. Haim Shani, a controlling shareholder of the Company (jointly with FIMI Fund), served, before the split, as the Company CEO. In order to align the management structure to the required operation after the split is completed, the Company plans to appoint the following office holders: Mr. Amit Ben Zvi will serve after the split as a Joint Chairman of the Company Board, Mr. Haim Shani is planned to serve as Active Chairman of the Company Board, and Mr. Amit Harari, who served before the split as the Products Division's VP and Director, is planned to serve as the Company CEO.

Several senior professional executives report to the CEO, as per the chart below, in charge of professional operations and management. Before the split, the Company's commercial operations were carried out by the Products Division and the Projects Division, each headed by a senior professional executive or executive team, reporting to the CEO, as well as through its active subsidiaries and second-tier subsidiaries.

The Company's organizational chart and staff headcount, before the split, are as follows:

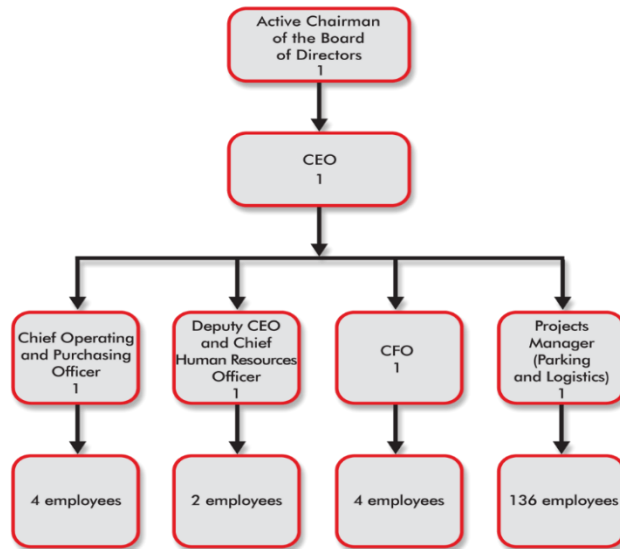


(1) Including 19 employees in a US subsidiary

(2) Including 21 employees in a US subsidiary

(*) On January 1, 2017, the Company transferred 15 employees with all their rights pursuant to the tax authorities' approval to the subsidiary Unitronics Automatic Solutions Ltd.

Following the split according to which the Company's operation in the Automated Solutions sector was transferred to Utron, there have been changes in the Company's organizational structure. This chart presents the organizational structure after the split.



1.14.2. Company staff and composition: Before the split, the Company and its subsidiaries (in Israel and abroad) had a staff of 260 employees, as set out in the diagram above.

The breakdown of employees of the Company and its subsidiaries in Israel by occupation on the relevant dates was as follows:

| Occupation | Staff headcount | | | |
|--|---|-------------------|-------------------|-------------------|
| | Close to the report date (March 10, 2019) | December 31, 2018 | December 31, 2017 | December 31, 2016 |
| Sales and Marketing | 12 | 13 | 12 | 10 |
| Research and development | 33 | 64 | 57 | 58 |
| Administration | 17 | 27 | 24 | 22 |
| Manufacturing, logistics and quality assurance | 59 | 77 | 71 | 56 |
| Integration and support | 9 | 40 | 34 | 30 |
| Total | 130 | 221 | 198 | 176 |

The number of employees in subsidiaries until the split:

| | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|----------------------|-------------------|-------------------|-------------------|
| Unitronics Inc. | 19 | 24 | 15 |
| Unitronics Solutions | 81 | 70 | 48 |
| Unitronics Systems | 21 | 16 | 29 |

| | | | |
|-----------------------|------------|------------|-----------|
| Unitronics Management | - | - | - |
| Total | 121 | 110 | 92 |

In 2018, there were no significant changes in the Company's staff in the different segments, as set out above, except as indicated in the above table in this section.

As part of the split, 12 head office employees were transferred to Utron, keeping continuity of employment rights pursuant to the tax authorities' approval; additionally, Unitronics Solutions and Unitronics Systems' employees, who were part of the Company and its investee companies' staff are no longer Company employees or employees of investee companies. In accordance with the abovementioned, as at the publication date of this Report, the Company employs only 119 people. The breakdown of employees of the Company and its subsidiaries in Israel by occupation on the report publication date is as follows:

| Occupation | Staff headcount as at March 10, 2019 |
|--|---|
| Sales and Marketing | 12 |
| Research and development | 33 |
| Administration | 17 |
| Manufacturing, logistics and quality assurance | 59 |
| Integration and support | 9 |
| Total | 130 |

Breakdown of employees in the Company's subsidiaries, after the split:

| | March 17, 2019 |
|-----------------------|----------------|
| Unitronics Inc. | 21 |
| Unitronics Management | - |
| Total | 21 |

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

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

The Company has no stock option plan for employees. Stock options are granted, if granted, by the Board of Directors of the Company, based on recommendations made by management, subject to the Company's compensation policy.

1.14.4 Officers and senior management

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

In 2013, the Company adopted a Company officers' Compensation Policy pursuant to Amendment No. 20 to the Companies Law. In October 2016 the Company revised and reapproved the Compensation Policy, in accordance with the requirements of the law. For details see section 4.5.2 in Chapter D of this Periodic Report.

For details on the terms of employment of the Company's senior officers, see section 4.5 in Chapter D of this Periodic Report.

1.14.5 The Company's investment in training and instruction

The Company provides in-house training for staff of the different departments, primarily in the field of work safety. This training is given by the Company's Chief Safety Officer at the Company's facilities, as part of his job duties and within the cost of his salary. As part of its international marketing operations and support for its distributors, the Company also holds conferences and provides professional training for distributors and regional sales staff.

1.14.6 Service arrangements between the Company and Utron:

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

1.15 Investments

As of the date of this report and in the relevant reporting periods, the Company had no investments in investees, partnerships and ventures other than its subsidiaries. As mentioned above, in August 2018, an investment agreement was signed between the

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

1.16 Financing

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

| Credit type | As of December 31, 2018 | | | As of December 31, 2017 | | |
|------------------------------------|---------------------------------|---------------|-------------------------|---------------------------------|---------------|-------------------------|
| | Credit amount, NIS in thousands | Interest rate | Effective interest rate | Credit amount, NIS in thousands | Interest rate | Effective interest rate |
| Long-term bank credit (EUR) (*) | 2,325 | LIBOR+ 3.41% | LIBOR+ 3.41% | 2,595 | LIBOR+ 3.41% | LIBOR+ 3.41% |
| Debentures (Series 4) (CPI-linked) | 22,643 | CPI+ 5.4% | CPI+ 6.25% | 33,180 | CPI+ 5.4% | CPI+ 6.25% |
| Debentures (Series 5) (unlinked) | 27,442 | 5.8% | 6.59% | 29,284 | 5.8% | 6.59% |

(*) The loan were provided to the Company by Bank Leumi Israel Ltd. (hereinafter: "Bank Leumi") on July 6, 2011 (a loan for EUR 1 million), in connection with the purchase of real estate in Tirat Yehuda in the Modi'in District Industrial area which was sold in 2014. On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by way of charge to Bank Leumi, as security for the loans from Bank Leumi (which were provided to the Company in 2005 and in 2011). Further thereto, on May 1, 2008 two first pledges were created on the contractual lease rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008. On January 2015 pledges on the rights of the Company in the Unitronics Building were recorded in the Land Registration Bureau to secure the aforesaid loan. Under the terms of the loans, the loans are repayable over 14 years, with the addition of interest at LIBOR + 3.41%.

As of December 31, 2018 and as of the date of publication of the report, the Company has unused confirmed credit facilities totaling NIS 900 thousand (excluding credit for financing the acquisition of the Company's rights in the Company floors and in capitalized lease rights in a real estate property, as described above and performance bonds). Although as of the date of this report the Company is not aware of any limitation, there is no certainty that these credit facilities will be renewed or that the Company will be granted alternative

credit facilities under similar terms or at all. Furthermore, credit instruments between the Company and some Israeli banks stipulate that the bank's consent is required in case of certain changes in the composition of the Company's shareholders.

The Company has undertaken not to create a floating charge on any of its assets in favor of any third party without the prior written consent of Bank Leumi Israel Ltd.

Under the 2013 Shelf Offering Report and the 2014 Shelf Offering Report, as defined in section 1.19 below, the Company has undertaken, *inter alia*, to comply with financial covenants, to create a charge on deposits in the amount of the periodic interest (with respect to debentures (Series 4) only, as prescribed in the trust deed for debentures (Series 4), and not to create additional charges on its assets beyond those existing on the date of signature of the trust deed for debentures (Series 4) and the trust deed for debentures (Series 5) (hereinafter, jointly: "**the deed**"), in favor of any third party, without the prior written consent of the trustee, except for charges on real estate and/or equipment acquired by the Company after the date of signature of the deed, the charging of which shall only serve to secure repayment of the financing provided for the acquisition of the charged asset (for further details see sections 1.19.3 and 1.19.5 below).

As of December 31, 2018 and the date of the report, the Company believes it is in compliance with all the restrictions imposed on it in connection with credit facilities granted by third parties.

As part of the split and in line with the Court's judgement on the split matter, the Company undertook to perform early repayment at Company's initiative of debentures (Series 5) and has also deposited on March 12, 2019 the consideration received from the early repayment at a trust account on the name of the debentures (series 5) trustee. For details on the early repayment of the debentures see Immediate Reports on an event or matter outside the ordinary course of the corporation's business which were published by the Company on February 21, 2019, Reference No. 2019-01-016308, and on March 12, 2019, Reference No. 2019-01-021013, and which are included in this Report by reference. For the purpose of funding the repayment, the Company took out two loans from a bank corporation at a sum total of NIS 30 million. For details on these loans, see Immediate Report published by the Company on March 3, 2019, Reference No. 2019-001-018444, included in this Report by reference.

1.17 Taxation

For details on the tax laws applying to the Company and its subsidiaries, see Note 23 to the Company's consolidated financial statements for 2018 – Chapter C of this Periodic Report.

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

1.18 Restrictions on and supervision of Company activities

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

The Unitronics Automated Solutions operations in the leased building in Airport City which serves the Automated Solutions segment must a business license under the Business Licensing Law, 1968.

Unitronics Solutions has a business license according to the law.

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

- 1.18.3 Standards: For details, see sections 1.9.22 and 1.10.21 above.

1.19 Material agreements and cooperation agreements

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

- 1.19.2 2013 Shelf Offering Report: On January 24, 2013 the Company published, pursuant to a shelf prospectus issued on February 23, 2011 (as amended again on January 20, 2013 and on March 4, 2013) (hereinafter: "**2011 Shelf Prospectus**"), a shelf offering report (hereinafter: "**2013 Offering Report**"), under which the public was offered up to NIS 53,125,000 par value of debentures (Series 4) of the Company, at 100% of their par value, linked (principal and interest) to the consumer price index of December 2012 (published on January 15, 2013). For the full text of the Offering Report, see report dated January 24, 2013, Reference No. 2013-01-021699. For further details on the 2013 Offering Report and the Company's undertakings thereunder, see section 2.9.1.1 in Chapter B of this Periodic Report.

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

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

the Company's undertakings thereunder, see section 2.9.1.2 in Chapter B of this Periodic Report.

- 1.19.5 Trust deed for debentures (Series 5): On September 10, 2014, the Company entered into an agreement with Hermetic Trust (1975) Ltd. (in this section: the "**Trustee**") to serve as Trustee for the debentures (Series 5) offered under the 2014 Shelf Prospectus and the 2014 Offering Report. The trust deed includes provisions as to the Trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the Trustee, replacement of the Trustee and the expiry of the Trustee's term.

As mentioned above, within the framework of the split, and in accordance with the Court's verdict on the split matter, the Company undertook to perform early repayment at Company's initiative of debentures (Series 5). For further details, see section 1.16 above.

- 1.19.6 Restructuring agreement: in September 2018, the Company and Utron entered into restructuring agreement whereby, subject to certain conditions, all the assets and liabilities of Unitronics Solutions will be transferred from the Company to Utron. For details see section 8.3 in the Split and Listing for Trade Prospectus dated February 28, 2019 which the Company and Utron published, (Reference No. 2019-01-017856), included herein by reference.

- 1.19.7 To fund the early repayment at Company's initiative of debenture (series 5), which constituted a condition to the split execution, the Company took two loans from a bank corporation at a sum total of NIS 30 million. For details on these loans, see Immediate Report published by the Company on March 3, 2019, Reference No. 2019-001-018444, included in this Report by reference.

1.20 Subsidiaries

1.20.1 Unitronics Building Management & Maintenance (2003) Ltd.

1.20.1.1 General Description

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

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

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

1.20.1.3 Registered and issued capital; the Company's share

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

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

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

1.20.1.5 Loans, credit, guarantees, investments in the Company

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

1.20.1.6 Holders of more than 25% of the share capital

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

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

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

1.20.1.8 Directors and senior officers in Unitronics Management

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

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

1.20.1.9 Profit/(loss) of Unitronics Management

For information regarding profit (loss) of Unitronics Management, see the table in section 1.20.4.8 below.

1.20.2 **Unitronics Inc.**

1.20.2.1. General description

Unitronics Inc. was incorporated on June 25, 2001, as a wholly owned subsidiary of the Company. Unitronics Inc. is primarily engaged in the marketing and distribution of products from the Products segment of the Company and its service activities in the United States, and operates a network of about 127 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts (As stated in section 1.12.4 above), where most of the activities of the Products segment are carried out in the US.

1.20.2.2 Registered and issued capital, the Company's share

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

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

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

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

The equity deficiency of Unitronics Inc. as of December 31, 2018 amounts to NIS 8,918 thousand. The balance of the current debt of Unitronics Inc. to the Company as of December 31, 2018 amounts to NIS 9.4 million. In addition, the Company issued to Unitronics Inc. capital notes for a total of NIS 12 million, unlinked and with no interest, as set forth in Note E(3) to the Special Report pursuant to Regulation 9C in Chapter C of this Periodic Report.

1.20.2.5 Holders of more than 25% of the share capital

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

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

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

1.20.2.7 Directors and senior officers in Unitronics Inc.

Mr. Amit Ben-Zvi serves as Chairman of the Board, Mr. Haim Shani serves as President and Ms. Bareket Shani, Mr. Shani's wife, serves as Corporate Secretary at Unitronics Inc. For details on the distribution of Mr. Shani's remuneration between the Company and Unitronics Inc., see section 4.5.3 in Chapter D of this Periodic Report.

1.20.3 **Unitronics Automated Solutions Ltd.**

1.20.3.1 General description

Unitronics Solutions is engaged in the development, design, marketing, production, construction and maintenance of automated installations in the Automated Solutions segment (autonomous parking facilities as well as logistic systems), including construction of new systems and/or upgrading and servicing of existing systems, as well as maintenance services for these systems on the basis of framework agreements or pursuant to service calls. The subsidiary's services are provided to customers in and outside Israel.

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

1.20.3.2 Registered and issued capital, the Company's share

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

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

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

As of the date of this report, the cost to the Company of the shares of Unitronics Solutions held by the Company is NIS 116,320.

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

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

1.20.3.5 Holders of more than 25% of the share capital

As of the date of this report, and since its incorporation, Unitronics Solutions is wholly owned and controlled by the Company.

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

During the periods reported in this report, Unitronics Solutions paid the Company interest and management fees for services provided to it by the Company which include management and administration services (see section 1.20.4.8 below). For details on the service agreements between the Company and Utron, within the framework of the split, which are also relevant to Unitronics Solutions upon completion of split, see Chapter 8 in the Split and Listing for Trade Prospectus dated February 28, 2019, published by the Company and Utron, (Reference No. 2019-01-017856), included herein by reference.

1.20.3.7 Directors and senior officers in Unitronics Solutions

Before the split, Mr. Haim Shani and Mr. Amit Ben Zvi served as Unitronics Solutions' directors and Mr. Josef Ratsabi serves as CEO. For details regarding changes in the Board of Directors and in Unitronics Solutions' management after the split, see Chapter 8 in the Split and Listing for Trade Prospectus dated February 28, 2019, published by the Company and Utron, (Reference No. 2019-01-017856), included herein by reference.

1.20.4 **Unitronics Systems Inc. (a subsidiary of Unitronics Solutions)**

1.20.4.1. General description

Unitronics Systems was incorporated on March 19, 2012 as a wholly owned subsidiary of the Company, and it is active since July 10, 2012. In November 2014 the Company sold its entire holdings in Unitronics Systems to the subsidiary Unitronics Solutions for the par value of the shares.

Unitronics Systems is engaged primarily in coordinating the Company's activity in the Parking Solutions segment in the US and North America. The offices of Unitronics Systems are located in Fort Lee, New Jersey (see section 1.12.5 below).

As mentioned above, as part of the split, all the shares of Unitronics Solutions which were held by the Company before the split were transferred to the Utron. As a result of the above, as of the split date, Unitronics Systems ceased to be a second-tier subsidiary of the Company.

1.20.4.2 Registered and issued capital, the Company's share

As of the date of this report, the registered share capital of Unitronics Systems is \$1, divided into 1,000 shares of \$0.001 par value, all of which are held by Unitronics Solutions.

1.20.4.3 Cost of the shares of Unitronics Systems to Unitronics Solutions and the carrying price in the books of Unitronics Solutions

As of the date of this report, the cost to Unitronics Solutions of the shares of Unitronics Systems held by Unitronics Solutions is \$1.

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

The equity deficiency of Unitronics Systems as of December 31, 2018 amounts to NIS 12 million. The balance of the current debt of Unitronics Systems to Unitronics Solutions as of December 31, 2018 amounts to NIS 2.5 million.

1.20.4.5 Holders of more than 25% of share capital

Prior to the split, Unitronics Systems was owned and wholly controlled by Unitronics Solutions.

1.20.4.6 Management fees, interest, dividend and other payments – Unitronics Systems

During the periods reported in this report, Unitronics Systems did not pay and did not undertake to pay Unitronics Systems any management fees, interest or dividend. For details regarding service agreements between the Company and Utron, within the framework of the split, which are also relevant to Unitronics Inc. upon completion of split, see Chapter 8 in the Split and Listing for Trade Prospectus dated February 28, 2019, published by the Company and Utron, (Reference No. 2019-01-017856), included herein by reference.

1.20.4.7 Directors and senior officers in Unitronics Systems

Mr. Amit Ben-Zvi serves as Chairman of the Board, Mr. Haim Shani serves as President and Ms. Bareket Shani, Mr. Shani's wife, serves as Corporate Secretary at Unitronics Systems.

1.20.4.8 Profit (loss) before and after tax, dividend, management fees and interest income from the subsidiaries.

| | Year ended December 31, 2018 | | | |
|---------------------------------|---------------------------------|------------------------------|--------------------------|-----------------|
| | Unitronics Systems (*) | Unitronics Solutions (**) | Unitronics Management | Unitronics Inc. |
| | NIS in thousands | | | |
| Profit (loss) before tax | 715 | (7,215) | (75) | 3,608 |
| Profit (loss) after tax | 637 | (7,363) | (75) | 3,608 |
| Dividend | - | - | - | - |

| | | | | |
|------------------------|---|-------|---|---|
| Management fees | - | 880 | - | - |
| Interest Income | - | 3,093 | - | - |

| | Year ended December 31, 2017 | | | | Year ended December 31, 2016 | | | |
|-------------------------------------|---------------------------------|---------------------------------|-------------------------------|--------------------|---------------------------------|---------------------------------|-------------------------------|--------------------|
| | Unitronics Systems (*) | Unitronics Solutions (**) | Unitronics Manage- ment | Unitronics Inc. | Unitronics Systems (*) | Unitronics Solutions (**) | Unitronics Manage- ment | Unitronics Inc. |
| | NIS in thousands | | | | | | | |
| Profit (loss) before tax | (6) | (15,472) | 26 | (1,690) | (227) | (30,069) | 38 | 668 |
| Profit (loss) after tax | (6) | (15,472) | 26 | (1,690) | (227) | (30,069) | 38 | 668 |
| Dividend | - | - | - | - | - | - | - | - |
| Management fees | - | 880 | - | - | - | 880 | - | - |
| Interest income | - | 2,719 | - | - | - | 2,059 | - | - |

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

(*) Moves to split, is wholly owned by Unitronics Solutions. The data shown above is taken from the books of Unitronics Solutions.

(**) Including Unitronics Systems' share in the losses of Unitronics Solutions.

1.21 Discussion of risk factors

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

| Type of risk | Nature of risk | Estimated extent of influence on the Company |
|--------------------|--|--|
| Macro risks | <i>Exposure to market risks:</i> The Company is exposed to fluctuations in interest rates, in exchange rates and in the consumer price index. For details see Note 26 to the consolidated financial statements for 2018 – Chapter C of this Periodic Report. | Medium |
| | <i>Exposure to strikes in Israeli ports:</i> Strikes in Israel's seaports and/or airports could delay the import of raw materials used by the Company (including logistics system components) and/or the export abroad of Company products, thereby disrupting the supply times to which the Company is committed, which is liable to cause the Company expenses and/or harm its reputation. | Low |
| | <i>Competition:</i> The Company is exposed to competition by companies whose resources and reputation surpass those of the | High |

| Type of risk | Nature of risk | Estimated extent of influence on the Company |
|-----------------------------|--|--|
| Sector-related risks | Company as set forth in section 1.9.13 (in relation to the Products segment) and section 1.10.11 (in relation to the Automated Solutions segment), as set forth above. | |
| | <i>Standards:</i> The Company is exposed to risks arising from the failure of its products or services to comply with certain standard requirements as set forth in sections 1.9.21, 1.9.22 and 1.10.18 above. | Medium |
| | <i>Raw materials:</i> The Company is exposed to risks arising from temporary shortages in electronic components worldwide and limited allocations of components by component manufacturers, in cases of excess demand, as set forth in section 1.9.19 above. | Medium |
| | <i>Project costs estimates:</i> In the Automated Solutions segment the Company determines the amount of the consideration, inter alia, as a derivative of the expected costs plus a margin that it expects to receive and facilitating the receipt of an order. However, the Company is exposed to errors in the estimates of the calculation of project costs, among other things, from changes and improvements in development, procurement and production, which could impair the profitability of the company, and even cause loss and affect the Company's financial results, as detailed in sections 1.6.1 and 1.10.9. | Medium |
| | <i>Penetration of the autonomous parking facilities:</i> The Company is exposed to risks arising from its activity in this field and the pace of implementation of the proposed solutions by global competitors, as set forth in section 1.10.5. | Medium |
| | <i>Cyber threats</i> – the Company is exposed to risks emanating from the use of a large variety of IT systems and various communications components, when some of these systems include internet connection and/or internet cloud. The Company uses different means to protect these systems, starting with fire wall, through encryption devices and software/hardware protections intended to prevent hacking or malware disruptions. The use of such protections proved in the past to be reliable and effective, as a rule, and the systems implemented by the Company has not been adversely affected by malicious activity such that were described above. Nevertheless, there is no guarantee that these means and devices will continue to protect in the future against hacking and disruption attempts. Such hacking or disruptions may adversely affect the Company's results. | |
| | <i>Development of new technologies and/or products:</i> The Company is exposed to the risks involved in the development of new products and/or technologies, of which the success of their development or marketing is doubtful as set forth in sections | Low |

| Type of risk | Nature of risk | Estimated extent of influence on the Company |
|--------------------------------------|---|--|
| | 1.9.4 and 1.9.16 (in relation to the Products segment) and 1.10.4 and 1.10.16 (in relation to the Automated Solutions segment) above. | |
| Risks specific to the Company | <i>One-off projects:</i> A significant portion of the Company's revenues stem from a small number of material one-off transactions, consistent with the nature of activity in the Automated Solutions segment, as set forth in section 1.10.9 above. | Medium |
| | <i>Dependence on the Israeli market:</i> The Company's logistic systems activity is dependent on the Israeli market, which tends more than overseas markets to be affected by macro risks and the sector-related risks described above, and in which the demand for projects is lower than in parallel global markets. | Medium |
| | <i>Rate of receipt of new projects:</i> The Company is exposed to risks arising from volatility in the rate of receipt of new projects, which characterizes the Automated Solutions segment, as set forth in section 1.10.10. | Medium |
| | <i>Leverage:</i> The Company has commitments for the repayment of loans, <i>inter alia</i> in respect of the issuance of debentures (Series 3) pursuant to the Shelf Prospectus and Offering Report, in respect of the issuance of debentures (Series 4) pursuant to the Amended Shelf Prospectus and the 2013 Offering Report, , in respect of the debentures (Series 5) pursuant to the 2014 Shelf Prospectus and the 2014 Offering Report, including undertakings to comply with financial covenants, and in respect of loans as set forth in section 1.16 above. The Board of Directors determined in its resolution that the Company has a strong cash flow and is able to meet its commitments, including repayment of the loans and the debentures (Series 4) and (Series 5). Nevertheless, if the Company's assessments regarding its financial soundness prove erroneous, there is a possibility, though unlikely, that the Company will be unable to meet the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (<i>inter alia</i> for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite its financial soundness, to comply with the loan repayment terms in the future. The balance of the Company's liabilities for repayment of external loans as of December 31, 2018 totals NIS 52 million, as set forth in section 1.16 above. | low |
| | <i>Unregistered intellectual property:</i> The Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks arising from the non-registration of | Low |

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

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

The Board of Directors of the Company is pleased to submit the Board of Directors' Report on the State of Affairs of the Company for the year ended December 31, 2018 (hereinafter: "the reporting period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Regulations").

2.1 Summarized Description of the Corporation and Its Business Environment

Until March 2019 the Company had two operating segments as detailed in section 1.3.2 in Chapter A of this Periodic Report and in note 24 of the consolidated financial statements for 2018 - Chapter C of this Periodic Report: the Products segment (for details see section 1.9 in Chapter A of this Periodic Report) and the Automated Solutions segment (for details see section 1.10 in Chapter A of this Periodic Report). As stated in section 1.3 in Chapter A of this Periodic Report, subsequent to the report period the Company's automated solutions operation was transferred to Utron Ltd., an affiliate subsidiary.

2.2 Analysis of Financial Position

2.2.1 Statement of Financial Position

| | As of December 31 | | Board of Directors Explanation for the Changes |
|----------------|-------------------------|---------|--|
| | 2018 | 2017 | |
| | <u>NIS in thousands</u> | | |
| Current assets | 126,656 | 144,354 | <p>The change is mainly attributable to the following items:</p> <p>An increase of NIS 3,116 thousand in cash and cash equivalents.</p> <p>A decrease of NIS 3,501 thousand in trade receivables and in income receivable.</p> <p>An increase of NIS 3,661 thousand in inventory, mainly in the Products segment, as against a decrease of NIS 20,209 thousand in short-term deposits.</p> |
| | | | |

| | As of December 31 | | Board of Directors Explanation for the Changes |
|--|--------------------------|----------------|---|
| | 2018 | 2017 | |
| | NIS in thousands | | |
| Non-current assets | 82,302 | 89,120 | The decrease is mainly attributable to the intangible assets in the amount of NIS 5,357 thousand and a decrease of NIS 1,403 thousand in property and equipment. |
| | | | |
| Total assets | 208,958 | 233,474 | |
| | | | |
| Current liabilities | 60,127 | 72,952 | The decrease in current liabilities is mainly attributable to a decrease in the balance of trade payable and liabilities in the amount of NIS 12,616 thousand due a decline in accrued expenses for projects, and a NIS 1,000 thousand decline in trade payables, mainly in the Products segment. |
| | | | |
| Non-current liabilities | 52,367 | 66,158 | The change is mainly attributable to a decrease of NIS 12,838 thousand in debentures following the fourth principal payment (of six) on debentures (Series 4) during the first quarter of 2018, and the fourth principal payment (of nine) on debentures (Series 5) during the third quarter of 2018. |
| | | | |
| Equity attributable to shareholders of the Company | 96,464 | 94,364 | The increase in the Company's equity is mainly attributable to other comprehensive income in the amount of NIS 11,319 thousand net of the effect of adopting IFRS 15 in the amount of NIS 9,219 thousand. The Company's total equity as of December 31, 2018 represents 46% of its total assets versus 40% as of December 31, 2017. |
| | | | |
| Total liabilities and equity | 208,958 | 233,474 | |

The working capital of the Company at December 31, 2018 and December 31, 2017 was NIS 66,529 thousand and NIS 71,402 thousand, respectively. The decrease in working capital of the company is due to decrease in current assets of the company and the initial implementation of Standard IFRS15.

2.2.2 Analysis of Financial Position by Operating Segments

As described above, the Company's main commercial activity was carried until 2019 in two business/operating segments: the products segment and the automated solutions segment.

2.2.2.1 Products segment

| | As of December 31 | | Board of Directors Explanation for the Changes |
|-------------|--------------------------|-------------|---|
| | 2018 | 2017 | |
| | NIS in thousands | | |
| Assets | 100,785 | 93,395 | The increase in assets is mainly attributable to an increase in inventory following the transfer of part of the production from subcontractors to the Company, as well as an increase in trade receivables. |
| | | | |
| Liabilities | 22,449 | 22,318 | The decrease is mainly due to a decline in trade payables. |

2.2.2.2 Automated Solutions segment

| | As of December 31 | | Board of Directors Explanation for the Changes |
|-------------|--------------------------|-------------|---|
| | 2018 | 2017 | |
| | NIS in thousands | | |
| Assets | 51,520 | 66,048 | The decrease is due to a decrease in revenue due to the implementation of accept IFRS 15 as described in Note 20 to the financial statements. |
| | | | |
| Liabilities | 12,236 | 31,699 | The decrease is due to a decrease in revenue due to the implementation of accept IFRS 15 as described in Note 20 to the financial statements. |

2.2.2.3 Assets and liabilities not attributable to a specific operating segment

| | As of December 31 | | Board of Directors Explanation for the Changes |
|-------------|--------------------------|-------------|--|
| | 2018 | 2017 | |
| | NIS in thousands | | |
| Assets | 56,600 | 74,033 | The decrease is mainly due to a decline in total deposits. |
| | | | |
| Liabilities | 77,618 | 83,093 | The decrease is mainly due to payments on debentures (Series 4 and 5). |

2.2.3 Operating Results

2.2.3.1 Below is a summary of the quarterly consolidated statements of profit and loss for 2018 (Reg. 10A)

| | 1-3/2018 | 4-6/2018 | 7-9/2018 | 10-12/2018 | 1-12/2018 |
|---|-------------------------|----------|----------|------------|-----------|
| | NIS in thousands | | | | |
| Revenues | 44,734 | 50,942 | 49,333 | 57,040 | 202,049 |
| Cost of revenues | 29,730 | 32,211 | 31,960 | 34,585 | 128,486 |
| Gross profit | 15,004 | 18,731 | 17,373 | 22,455 | 73,563 |
| Gross profit margin | 33.5% | 36.8% | 35.2% | 39.4% | 36.4% |
| Development expenses, net | 1,071 | 1,479 | 1,126 | 1,077 | 4,753 |
| Selling and marketing expenses | 7,314 | 7,679 | 7,105 | 8,788 | 30,886 |
| General and administrative expenses | 4,786 | 5,265 | 5,737 | 6,354 | 22,142 |
| Other expenses | - | - | - | 146 | 146 |
| Profit from ordinary activities | 1,833 | 4,308 | 3,405 | 6,090 | 15,636 |
| Financing expenses, net | (808) | (534) | (642) | (330) | (2,314) |
| Profit before tax benefit (taxes on income) | 1,025 | 3,774 | 2,763 | 5,760 | 13,322 |
| Tax benefit (taxes on income) | (560) | (1,732) | (1,050) | 235 | (3,107) |
| Profit (loss) for the period | 465 | 2,042 | 1,713 | 5,995 | 10,215 |

Revenues

The Company's revenues in 2018 increased by 9% compared to 2017. Most of the increase is attributable to the products segment which grew by 10% and from the automated solutions which increased by 9%.

Gross profit

Gross profit margin in 2018 was 36% compared with 30% in 2017.

Product segment gross margin was stable, ranging from 43% to 44% per year during a similar report last year.

In the Automated Solutions segment the average gross profit margin for 2018 was 21% compared to 4% in 2017. The main factor contributing to the improvement was a streamlining and reducing production costs in the area of automatic solutions.

Financing expenses, net

The main differences in net financing expenses between the quarters of 2018 derive from an increase in financing income from exchange rate differentials as a result of an increase in the dollar's exchange rate in 2018 and a decrease in borrowing costs in respect of debentures.

| | As of December 31 | | | Board of Directors Explanation for the Changes |
|---------------------------------------|-------------------|-------------------|-------------------|--|
| | 2018 | 2017 | 2016 | |
| | NIS in thousands | | | |
| Revenues | 202,049 | 185,002 | 148,988 | The increase in revenues in 2018 compared to 2017 is mainly attributable to an increase in revenues generated both in the Automated Solutions segment and in the Products segment in the amount of NIS 5,236 thousand and NIS 9,651 thousand respectively. The increase in 2017 compared to 2016 was mainly attributable to an increase in revenues generated both in the Automated Solutions segment and in the Products segment in the amount of NIS 26,354 thousand and NIS 11,786 thousand respectively. |
| Cost of revenues | 128,486 | 129,622 | 117,042 | |
| Gross profit (gross profit margin) | 73,563 (36.4%) | 55,380 (29.9%) | 31,946 (21.4%) | The changes in gross profit margins are mainly due to the change in the mix of revenues from the different operating segments in each of the years (the gross profit margin in each of the operating segments is different). For details and explanations regarding the change in the gross profit margins in the Company's operating segments see the analysis of business results by operating segments in section 2.2.4 below. |
| Development expenses, net | 4,753 | 4,387 | 5,087 | The increase in development expenses in 2018 as compared to 2017 stems from an increase in R&D expenses relating to Products compared to a decrease in the R&D expenses relating to Solutions. In addition, in 2018 there was a NIS 1,331 thousand decrease in research and development costs capitalized to products. |
| Selling and marketing expenses | 30,886 | 25,905 | 24,381 | In each of the years 2018 and 2017 there was an increase in selling and marketing expenses compared to the previous year, mainly attributable to an increase in these expenses in the Products segment intended to support the Company's business plans in this segment. |
| General and administrative expenses | 22,142 | 16,195 | 14,243 | The increase in general and administrative expenses in 2018 compared to 2017 results from consulting expenses in respect of a prospectus and an increase in payroll expenses. The increase in general and administrative expenses in 2017 compared to 2016 is mainly attributable to reclassification of employees to Unitronics Solutions headquarters due to growth in activity in the Automated Solutions segment. |

| | As of December 31 | | | Board of Directors Explanation for the Changes |
|--|-------------------|---------|----------|--|
| | 2018 | 2017 | 2016 | |
| | NIS in thousands | | | |
| Other expenses | 146 | 13 | 15 | The main increase derives from a capital loss in respect of asset disposals. |
| Profit (loss) from ordinary activities | 15,636 | 8,880 | (11,780) | |
| Financing expenses, net | 2,314 | 5,671 | 5,476 | The low financing expenses in 2018 are mainly attributable to a decrease in debenture financing costs and revaluation differences due to an increase in the dollar's exchange rate in 2018. In 2017, the Company recognized financing expenses in respect of revaluation of an option provided to the Fimi Foundation in 2016. |
| Profit (loss) before tax benefit (taxes in income) | 13,322 | 3,209 | (17,256) | |
| Tax benefit (taxes on income) | (3,107) | (2,173) | 246 | Tax expenses in the reporting year are mainly attributed to current tax expenses, taxes in respect of previous years and changes in deferred taxes. In 2016, the tax benefit was recorded as a result of a loss before tax. Current tax expenses are calculated taking into account the tax benefits to which the Company is entitled (as detailed in Notes 23.C. and 23s.D. to the consolidated financial statements for 2018 – Chapter C of this Periodic Report). |
| Profit (loss) for the year | 10,215 | 1,036 | (17,010) | |

2.2.3.2 Revenues by operating segments

| | As of December 31 | | | Board of Directors Explanation of Changes |
|--------------------------------------|-------------------|---------|---------|--|
| | 2018 | 2017 | 2016 | |
| | NIS in thousands | | | |
| Operating segment | | | | |
| Products | 134,946 | 123,160 | 113,509 | The increase in revenues in 2018 compared to 2017 in the Products segment is mainly a result of increased marketing activity in several selected markets around the world, as well as the launch of |
| Percentage of total Company revenues | 67% | 67% | 76% | |
| Automated Solutions | 66,669 | 61,406 | 35,052 | The increase in revenues from the Automated Solutions Segment in 2018 as compared to 2017 stems from an increase in the number and value of projects in process in the US. The increase in revenues from the Automated Solutions Segment in 2017 as compared to 2016 stems from an increase in the number and value of projects in process in the US. |
| Percentage of total Company revenues | 33% | 33% | 24% | |

The increase in revenues in the Automated Solutions segment in 2018 compared to 2017 stems from an increase in the number and scope of projects in process on USA.

The increase in revenues in the Automated Solutions segment in 2017 compared to 2016 stems from an increase in the number and scope of projects in process. The segment is characterized by volatility of revenues, due to changes in the rate of receipt of new projects and in the actual rate of progress in projects in the segment (for further details see section 1.10.10 in Chapter A of this Periodic Report).

2.2.4 Analysis of Business Results by Operating Segments

Following are details of the results of the different segments:

| | As of December 31 | | | Board of Directors Explanation of Changes |
|--------------------------|-------------------|---------|----------|--|
| | 2018 | 2017 | 2016 | |
| | NIS in thousands | | | |
| Operating Segment | | | | |
| Products | 28,660 | 27,051 | 24,098 | <p>The results of this segment increased in 2018 compared to 2017, mainly from an increase in sales.</p> <p>The results of this segment increased in 2017 compared to 2016, mainly due to an increase in revenues and improvement in the gross profit margin (despite an increase in marketing expenses in this segment).</p> |
| Automated Solutions | 2,714 | (6,584) | (25,027) | <p>In 2018, the segment shifted to operating profit, was due to higher operating efficiency and an increase in the volume of operations.</p> <p>The decrease in the operating loss of this segment in 2017 is attributable, in the Company's estimation, to an increase in revenues, as detailed in section 2.2.3.2 above.</p> |

2.3 Liquidity and Financing Sources

As of December 31, 2018, 2017 and 2016, the balance of cash, cash equivalents, marketable securities and bank deposits of the Company totaled NIS 37,826 thousand, NIS 54,919 thousand and NIS 70,904 thousand, respectively. Following are explanations for the changes in cash flows:

| | As of December 31 | | | Board of Directors Explanation of Changes |
|----------------------------------|-------------------|---------|----------|--|
| | 2018 | 2017 | 2016 | |
| | NIS in thousands | | | |
| Cash flow – operating activities | 5,682 | 8,942 | (172) | The positive cash flow in 2018 is mainly attributable to the profit for the year excluding depreciation and amortization and trade receivables and income receivable. The positive cash flow in 2017 is mainly attributable to the profit for the year excluding depreciation and amortization. The negative cash flow in 2016 was mainly due to the loss for the year excluding depreciation and amortization. |
| Cash flow – investing activities | 9,892 | 11,757 | (50,701) | Cash provided by investing activities in 2018 and in 2017 resulted primarily from the withdrawal of bank deposits, net of investment in development assets. Cash used in investing activities in 2016 mainly comprised an investment of the consideration for a share allocation to FIMI Fund in short-term and long-term deposits as well as an investment in development assets and in fixed assets, offset by the sale of marketable securities. |
| Cash flow – financing activities | (13,328) | (9,760) | 46,513 | Cash used for financing activities in 2018 and 2017 comprised payments on debentures and on bank loans. Cash provided by financing activities in 2016 resulted from a share allocation to FIMI Fund, offset by payments on debentures (Series 4 and 5) and on bank loans. |

As of December 31, 2018 and as of the reporting date, the Company had unused confirmed credit facilities available for operating activities totaling NIS 900 thousand. The Company has a credit-card framework in the amount of NIS 560 thousand. The Company turns from time to time to the financial institutions to receive credit lines according to its needs.

In addition, the Company has arrangements with financial institutions in Israel and the US for the provision of Surety Bonds to secure the payment of obligations of the Company and its subsidiaries in projects carried out in the Automated Solutions segment. For further details see Note 15.B. of the Company's financial statements for 2018 – Chapter C of this Periodic Report.

2.4 Subsequent events

- A. On January 11, 2019 the Company, through a second-tier subsidiary Unitronics Systems Inc. (hereinafter – "**Unitronics Systems**"), entered into an agreement with an US-domiciled customer for the construction of an automated parking garage in the City of New York, US, for the amount of USD 13.5 million (approx. NIS 50 million). For additional details see Immediate Report on the Construction of an Automated Parking Garage in the US dated January 13, 2019 (reference no: 2019-01-004144), which is included herein by way of reference.
- B. On February 10, 2019 Unitronics Systems entered into three agreement with US-domiciled customers for the construction of automated parking garages in the City of New York, US, for the total amount of USD 4.8 million (approx. NIS 17.5 million). For additional details see Immediate Report on the Construction of an Automated Parking Garage in the US dated February 11, 2019 (reference no: 2019-01-013797), which is included herein by way of reference.
- C. On February 12, 2019 the Company's board of directors adopted a resolution to make an early redemption, initiated by the Company, of Series 5 debentures. On February 19, 2019 a court verdict was issued approving the distribution subject to Company-initiated early redemption of Series 5 debentures. For additional details see Immediate Report on Conditional Early Redemption of Series 5 Debentures dated February 13, 2019 (reference no: 2019-01-014346), and Immediate Report on Court Decision to Approve Distribution dated February 20, 2019 (reference no.: 2019-01-015945) which are included herein by way of reference.
- D. On March 3, 2019 the Company took out two loans from a banking corporation in the total amount of NIS 30 million to finance the redemption of Series 5 debentures, as detailed above. For additional details see Immediate Report on Receipt of a Bank Loan dated March 3, 2019 (reference no: 2019-01-018), and Immediate Report on Court Decision to Approve Distribution dated February 20, 2019 (reference no.: 2019-01-018444) which is included herein by way of reference.

2.5 Projected Cash Flow

The Board of Directors of the Company determined, after reviewing the warning signs set forth in Regulation 10(b)(14) of the Regulations pertaining to the disclosure of projected cash flow for financing the repayment of corporate liabilities, that none of the warning signs is applicable, that the Company is not experiencing liquidity difficulties and that it is able to meet its obligations, including full repayment of obligations in respect of debentures (Series 4 and 5). The Board of Directors performs such a review every quarter, along with the approval of the quarterly financial statements published by the Company.

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

For details of the Company's liabilities by maturity dates, as of December 31, 2018, see Immediate Report T-126 dated March 27, 2018, issued by the Company simultaneously with the publication of this report and included herein by reference.

2.7 Corporate Governance Aspects

2.7.1 Details on the Company's Internal Auditor

(a) The Company's internal auditor is CPA Ronen Leibovitz, who has held this position since May 2017. Up to his resignation in May 2017, the position of internal auditor was held by CPA Eyal Horowitz. CPA Leibovitz's appointment was approved at meetings of the Audit Committee and Board of Directors of the Company on May 28, 2017, on which date CPA Horowitz's resignation went into effect. To the best of the Company's knowledge, CPA Leibovitz complies with the provisions of section 146(b) of the Companies Law and the provisions of section 8 of the Internal Audit Law, 1992 (hereinafter: "**the Internal Audit Law**"). CPA Leibovitz's qualifications for his position as the Company's internal auditor are his education as a CPA and his involvement in auditing as a CPA and as an internal auditor of public companies since 1994. The internal auditor was appointed after the Audit Committee and the Board of Directors reviewed his experience and track record in internal auditing of other public companies, considering, *inter alia*, the type and size of company as well as the scope and complexity of its operations.

The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge –with affiliated entities.

(b) CPA Leibovitz is not an employee of the Company and provides internal auditing services to the Company as an external entity through RSM Schief, Hazenfratz and Associates (whose offices are located at 52 Menachem begin Street, Tel Aviv), which has an internal auditing department and the employees of which are skilled in various disciplines including internal auditing.

(c) The officer in charge of the Company's internal auditor in organizational terms is the Chairman of the Board of Directors, while the Chairman of the Audit Committee is the professional authority and the person who instructs the internal auditor with regard to the subjects for the internal audit.

(d) The work plan and the considerations in its preparation: The audit work plan of the Company is an annual plan whereby the considerations in its determination are mainly: (1) proposals of the internal auditor; (2) proposals of members of the Audit Committee and Board of Directors of the Company, based on, among others, the proposals of the internal auditor, internal audit subjects in past years, the recommendations of the Company's legal advisor and issues discussed at regular meetings of the Audit Committee and Board of Directors of the Company; (3) the

size of the Company, its organizational structure and the nature and scope of its business activities; and (4) the risk survey conducted by the Company and the required adjustments, as necessary. The Audit Committee discusses and approves the annual work plan and the issues to be reviewed by the internal auditor, and those issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to whether to deviate from the original plan in order to review data he has discovered by chance during the execution of the work plan. If the internal auditor decides to conduct a comprehensive review of an issue or area not included in the list of issues approved by the Audit Committee for the annual or periodic work plan, he recommends to the Chairman of the Audit Committee to amend the plan, and the latter raises the matter for discussion and approval during Audit Committee meetings. The audit program relates from time to time and if necessary also the company's overseas operations.

- (e) During the reporting period, 130 hours were spent by the internal auditor and his staff on internal auditing of the Company in Israel. The Board of Directors believes that this number of hours is consistent with the activity reviewed by the auditor. The auditor is allowed flexibility in shifting hours from one issue to another. Also, since his work is carried out on a regular and continuous basis, the internal auditor can shift hours from one year to the next to enable suitable in-depth and exhaustive coverage of the reviewed issues at his discretion. Furthermore, the scope of employment of the internal auditor is determined each year together with the approval of the work plan, taking into consideration, *inter alia*, and the scope of the work plan for the relevant year, its complexity and the sensitivity of the issues reviewed during that year.

| | 2018 | 2017 |
|--|------|------|
| Hours spent on internal audit of the Company with respect to its operations in Israel. | 130 | 120 |
| Hours spent on internal audit of investee companies with respect to their operations in Israel. | - | - |
| Hours spent on internal audit of the Company and investee companies with respect to their operations overseas. | - | - |

- (f) The internal auditor, pursuant to his notice to the Company dated March 14, 2019, performs the internal audit in accordance with generally accepted professional standards, as stated in section 4(b) of the Internal Audit Law, 1992, which are based on the professional standards for internal auditing of the Israeli Institute of Internal Auditors (IIA Israel). In the Board of Directors' opinion, the internal auditor meets the requirements stipulated by the above standards, having regard to the internal auditor's professional aptitude and skills, the duration of his employment by the Company, his familiarity with the Company, and the manner in which he prepares and submits the audits and presents their findings to the Company.
- (g) Review of material transactions: The internal auditor did not review the material transactions, as the term is defined in section 5(f) of the Fourth Schedule to the

Regulations, which the Company executed during the reporting period, including the process of their approval.

- (h) All documents and information requested by the internal auditor, including with respect to operations of subsidiaries, are provided to him as stipulated by section 9 of the Internal Audit Law, and he is allowed free access to such information, including continuous, unmediated access to Company information systems, including financial data.
- (i) Below are the dates on which a written report on the internal auditor's findings was submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held on the reports by the Audit Committee and/or Board of Directors of the Company:

| Issue | 2018 reports | 2017 reports |
|---|---------------------|---------------------|
| Report No 1: | | |
| Date of submission of internal auditor's report | March 11, 2019 | March 5, 2018 |
| Date of discussion by Audit Committee | March 21, 2019 | March 22, 2018 |
| Date of discussion by Board of Directors | March 27, 2019 | March 25, 2018 |

- (j) The Board of Directors believes that the scope, nature and continuity of the activity and work plan of the Company's internal auditor are reasonable, considering the size of the Company, its organizational structure and the nature and scope of its business activities, and that they allow for the fulfillment of the objectives of the internal audit.
- (l) The internal auditor's fee for services rendered for 2018 amounted to NIS 26 thousand. The internal auditor is paid an hourly rate of NIS 200. In the Board of Directors' opinion, the remuneration of the internal auditor does not influence his professional judgment, considering, *inter alia*, the Board of Directors' impression of the manner in which he performs the internal audit work at the Company, the level of detail, accuracy and depth of the audit findings submitted by him to date, as well as the amount of his overall income relative to his fee as the Company's internal auditor, to the best of the Company's knowledge.

2.7.2 Directors Having Accounting and Financial Skills

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

For details on directors having accounting and financial skills, see section 4.10 in Chapter D of this Periodic Report.

2.7.3 Independent directors

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

2.7.4 Donations policy

The Company has no policy regarding charitable donations.

In 2017 the Company donated NIS 50 thousand (amounts which are not material to the Company).

2.7.5 Disclosure Regarding Fee of Independent Auditors

The accountant of the Company and its subsidiaries in Israel and the United States is BDO Ziv Haft (up to November 29, 2017 – jointly with Amit, Halfon, CPAs, whose tenure ended on that date pursuant to a resolution of the General Meeting of Company Shareholders of October 20, 2016).

The fee of the Company's accountants for the services provided to the subsidiaries is determined based on the scope of work required to render the services. The accountants' fee with respect to Unitronics (1989) (R"G) Ltd. is determined by the Board of Directors of the Company under the authority vested in it by the General Meeting of Company Shareholders which appointed the accountants.

Below are details of the total remuneration to which the Company's independent auditors are entitled in respect of audit and other services:

| CPA | Company to which service was rendered | Nature of service | 2018 NIS in thousands | 2018 work hours | 2017 NIS in thousands | 2017 work hours |
|--------------------------------------|---|---|------------------------------|------------------------|------------------------------|------------------------|
| Amit, Halfon, CPA, Ramat Gan, Israel | Unitronics (1989) (R"G) Ltd. and its subsidiaries | Audit services, audit-related services and tax services | - | - | 107 | 555 |

| CPA | Company to which service was rendered | Nature of service | 2018 NIS in thousands | 2018 work hours | 2017 NIS in thousands | 2017 work hours |
|--------------------------------------|---|---|-----------------------|-----------------|-----------------------|-----------------|
| Amit, Halfon, CPA, Ramat Gan, Israel | Unitronics (1989) (R"G) Ltd. and its subsidiaries | Consulting services | - | - | 20 | 45 |
| BDO Ziv Haft, Tel Aviv, Israel | Unitronics (1989) (R"G) Ltd. and its subsidiaries | Audit services, audit-related services and tax services | 359 | 2,380 | 252 | 2,343 |
| BDO Ziv Haft, Tel Aviv, Israel | Unitronics (1989) (R"G) Ltd. and its subsidiaries | Shelf Prospectus and Split- Utrpon Ltd. | 356 | 1,944 | - | - |

2.8 Disclosure Requirements in Connection with Financial Reporting

2.8.1 Critical accounting estimates:

For details on the critical accounting estimates used in the financial statements, see Note 2 (Accounting Policy) to the consolidated financial statements for 2018 – Chapter C of this Periodic Report.

2.9 Specific Disclosure to Debenture Holders

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

Listed below are key data on the Company's outstanding debentures as of the report publication date:

2.9.1.1 Debentures (Series 4)

| (1) | Security | Debentures (Series 4) |
|-----|--|---|
| A | Issue date | January 2013 |
| B | Total par value upon issuance | 53,125,000 |
| C | Par value as of the report date | 22,312,500 |
| D | Par value in accordance with linkage terms – as of the report date | 22,737,963 |
| E | Accumulated interest as of the report date | 510,492 |
| F | Liability carrying amount as of the report date | 22,642,852 |
| G | Market value | 23,695,852 |
| H | Interest type and description | 5.4% annual interest |
| I | Payment dates of the principal balance | Two unequal annual installments payable on January 31 of each year from 2019 to 2020 (inclusive), at the following rates by years in chronological order: |

| (1) | Security | Debentures (Series 4) |
|-----|---|---|
| K | Interest payment dates | (a) 21% of the principal (b) 21% of the principal. ¹ Every January 31 and July 31 from January 31, 2019s up to (and including) January 31, 2020 |
| L | Details of principal and interest linkage | Principal and interest linked to the consumer price index Base index – December 2012 index, without hedging |
| L | Are debentures convertible | Not convertible |
| M | Is corporation entitled to early redemption | Entitled (for details regarding the terms of realization of the right of the Company to carry out early redemption, see section 12 of the Shelf Offering Report dated January 24, 2013, Reference No. 2013-01-021699) (hereinafter: "2013 Offering Report") |
| N | Is payment of obligation guaranteed by deed of trust | No |
| O | Is this liability material to the Company | Yes |
| (2) | Trustee for debenture series with trust company; contact information of trustee | Mishmeret Trust Services Ltd. 48 Menachem Begin St., Tel Aviv 66184 Tel. 03-6374352, Fax 03-6374344 Email: ramis@mtrust.co.il |

(3+4) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained in the deed of trust for debentures (Series 4); the Company was not in breach of any obligation or condition set forth in the deed of trust, and there was no cause for declaring the debentures immediately due and payable.

(5) A meeting of debenture holders (Series 4) which was convened for July 16, 2015, and which, in the absence of a quorum, adopted resolutions in an adjourned meeting on July 20, 2015, approval was given for the extension of the trustee's term of office up to the full and final payment of debentures (Series 4). For further details see immediate report on the results of a meeting of the holders of debentures (Series 4) dated July 28, 2015, Reference No. 2015-01-083988, include herein by reference.

On October 7, 2018, a meeting of the holders of debentures (Series 4 and Series 5) convened for deliberation and consultation regarding the Company's motion for approval of distribution by way of spin-off of the automated solutions division to a new company. On October 10, 2018, a meeting of Series 4 debenture holders decided to instruct the trustee not to oppose the Company's distribution by way of spin-off of its business activity. For additional details see Immediate Report on Information provided in a Debenture Holder Meeting dated October 7, 2018 (reference no.: 2018-01-089152) and Immediate Report on the Results of a

¹On January 31, 2018 the Company paid the forth of six installments of principal on debentures (Series 4). For further details see immediate report on the status of the corporation's capital and securities registers and changes therein, dated January 31, 2018, Reference No. 2018-01-009519, included herein by reference.

Meeting dated October 10, 2018 (reference no.: 2018-01-095265) which are included herein by way of reference.

- (6) On February 12, 2013, a pledge on deposit monies in a bank account was registered with the Companies Registrar, in an amount equal to the semi-annual interest on debentures (Series 4), to secure the payment of interest on the debentures. As long as the Company has an outstanding balance of debentures (Series 4), the Company and any subsidiary (existing on the date of signature of the trust deed and any additional subsidiary formed or acquired up to the date of repayment of all debentures (Series 4), if at all) shall not create any general floating charge on its assets, in favor of any third party, without the prior written consent of a simple majority of the Meeting of the debenture holders. It should be emphasized that the Company and/or any subsidiary shall be entitled to create specific charges of any rank on all or part of their property, including cash and cash equivalents, in favor of financing entities providing financing for the purchase of any asset or equipment against specific charges of any rank, including a floating charge on any specific asset/s, and *inter alia* for the purchase of building construction services, including for the purpose of replacing financing entities that hold specific charges on the date of the offering report with other entities, without need of the consent of the Meeting of holders of debentures (Series 4).

Under the terms of issue of the debentures (Series 4) the Company assumed, *inter alia*, the following obligations:

- Dividend distribution - The Company has undertaken that during the period in which the debentures (Series 4) are outstanding, it will not distribute a dividend that exceeds 30% of the net annual (calendar) profit accrued during this period, attributed to the shareholders of the Company in accordance with the audited consolidated financial statements of the Company, the last statements published prior to the date of the decision of the Company to distribute the dividend, unless the Company has received the prior consent of the holders of the debentures (Series 4) passed by a special resolution at a meeting of debenture holders convened in accordance with the provisions of the Second Schedule to the deed of trust of debentures (Series 4). For further details regarding the above limitations, see section 11.1 of the 2013 Offering Report).
- The ratio of the net financial debt to net CAP –The Company has undertaken that from the date of the listing for trading of the debentures (Series 4) and for as long as there are debentures (Series 4) outstanding, the ratio of the net financial debt of the Company to the net CAP of the Company (solo), in accordance with its audited or reviewed (as applicable) consolidated financial statements (solo) relating to the financial statements of the Company as of June 30 and December 31, shall not exceed 80%. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate

specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, 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, as from the date of the additional breach until the end of the deviation period. If the previously mentioned deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 85%, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding the above limitation, see section 11.2 of the 2013 Offering Report.

- The net financial debt to EBITDA – The Company has undertaken that from the date of the listing for trading of the debentures (Series 4) and for as long as there are debentures (Series 4) outstanding, the ratio of the net financial debt of the Company to the EBITDA of the Company in accordance with its audited or reviewed (as applicable) (consolidated) financial statements, relating to the financial statements of the Company as of June 30 and December 31, shall not exceed 10. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, 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, as from the date of the breach until the end of the additional deviation period. If the aforesaid deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 12, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding the above limitation, see section 11.3 of the 2013 Offering Report.
- Equity limitation - The equity of the Company under the audited or reviewed (as applicable) financial statements (solo) of the Company relating to the solo financial statements of the Company as of June 30 and December 31 shall be no less than NIS 20,000,000. If the Company deviates from this undertaking at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 4) on next interest payment date following the publication of the last financial reports indicating the deviation, shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the duration of the deviation period. If the Company deviates from this undertaking on the date following the date of the previous examination 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, as from the date of the breach until the end of the additional deviation period. If the previously mentioned deviation is discovered on two consecutive examinations in a manner so that the equity is less than NIS 15,000,000, then this deviation shall constitute cause for

demanding immediate repayment of the outstanding balance of the debentures (Series 4). For further details regarding the above limitations, see section 11.4 of the 2013 Offering Report.

- The undertaking of the Company to refrain from creating pledges - The Company has undertaken not to pledge all of its property with general floating charge and to act so that all of its subsidiaries (at the date of the signing of the deed of trust) and any additional subsidiary of the Company that shall be established or acquired up to the date of full repayment of the debentures (Series 4), (if any), and will not create a pledge as aforesaid. For details regarding the above limitations, see section 11.5 of the 2013 Offering Report.

The Company shall be entitled (but not obligated), at its sole discretion, to make an early redemption, in full or part, of the debentures (Series 4) pursuant to certain conditions and restrictions as set forth in the Amended Shelf Prospectus (as defined in section 1.20.2 in Chapter A of this Periodic Report) and in the 2013 Offering Report.

Upon the occurrence of certain events, and under certain conditions, the trustee of debentures (Series 4) may declare the debentures immediately due and payable. Among the applicable events, the following can be included in brief: a material deterioration in the business of the Company where there is a real threat that the Company will be unable to repay the debentures on time; the imposition of an attachment on the assets of the Company, the performance of an execution against the assets of the Company, the appointment of a liquidator or a temporary or permanent receiver of the assets of the Company, which were not removed and / or canceled within 45 days; the sale of the main assets of the company; If Mr. Haim Shani ceases to be a controlling shareholder in the Company, directly or indirectly, without having received the approval of the holders of the debentures (Series 4) for the transfer of control; a fundamental breach of the terms of the debentures and deed of trust (Series 4) which is not corrected within 14 days from the date that the trustee advised the Company of the breach; a breach of any of the financial covenants set forth in section 11 of the 2013 Offering Report, in which it is explicitly stated that the breach thereof is cause for immediate repayment. For details regarding the reasons available to the trustee that constitute grounds for the immediate repayment of debentures (Series 4), see section 18.1 of the 2013 Offering Report.

2.9.1.2 Debentures (Series 5)

| (1) | Security | Debentures (Series 5) |
|-----|---|---|
| A | Issue date | September 2014 |
| B | Total par value upon issuance | 40,000,000 |
| C | Par value as of the report date | 28,000,000 |
| D | Par value in accordance with linkage terms – as of the report date | 28,000,000 |
| E | Accumulated interest as of the report date | 547,315 |
| F | Liability carrying amount as of the report date | 27,442,274 |
| G | Market value | 30,766,400 |
| H | Interest type and description | 5.8% fixed annual interest |
| I | Payment dates of the principal balance | Five unequal annual installments payable on August 28 of each year from 2019 to 2023 (inclusive), at the following rates by years in chronological order: (a) 5% of the principal, (b) 5% of the principal, (c) 20% of the principal (d) 20% of the principal, (e) 20% of the principal. |
| K | Interest payment dates | Every February 28 and August 31 from February 28, 2019 up to (and including) August 31, 2023 |
| L | Details of principal and interest linkage | Unlinked |
| L | Are debentures convertible | Not convertible |
| M | Is corporation entitled to early redemption | Entitled (for details regarding the terms of realization of the right of the Company to carry out early repayment, see section 8.4 of the Shelf Offering Report dated September 10, 2014, Reference No. 2014-01-155406) (hereinafter: " 2014 Offering Report ") |
| N | Is payment of obligation guaranteed by deed of trust | No |
| O | Is this liability material to the Company | Yes |
| (2) | Trustee for debenture series with trust company; contact information of trustee | Hermetic Trust Services (1975) Ltd. 113 Hayarkon St., Tel Aviv Tel. 03-5274867, Fax 03-5271736 Email: hermetic@hermetic.co.il |

(3+4) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained in the deed of trust debentures (Series 5); **the Company was not in breach of any obligation or condition set forth in the deed of trust, and there is no cause for declaring the debentures (Series 5) immediately due and payable.**

On October 7, 2018, a meeting of the holders of debentures (Series 4 and Series 5) convened for deliberation and consultation regarding the Company's motion for approval of distribution by way of spin-off of the automated solutions division and its transfer to a new company. On October 22, 2018, in the absence of a quorum for the opening of a debenture holders meeting (Series 5), both on its original date and on the date of the adjourned meeting, the Trustee for Series 5 debentures published a notice on the results of the votes, whereby the debenture holders do not express any opinion regarding the Company's motion to the court to approve a distribution. On February 15, 2019, a meeting of debenture holders (Series 5) decided, without actually convening, **to instruct the trustee not to oppose the Company's distribution of dividend in kind by way of spin-off and transfer of its business activity to a new company, although such distribution does not comply with the distribution limitations set forth in Appendix 5 of the Trust Deed for Debentures (Series 5).** As part of this resolution, the debenture holders instructed the Trustee not to take action to call the debentures (Series 5) for immediate repayment.

For additional details see Immediate Report on Information provided in a Debenture Holder Meeting dated October 7, 2018 (reference no.: 2018-01-089152), Immediate Report by the Trustee for the Debentures dated October 22, 2018 (reference no.: 2018-01-09767) and Immediate Report on the Results of a Meeting dated February 7, 2019 (reference no.: 2018-01-013284) which are included herein by way of reference.

Under the terms of issue of debentures (Series 5) the Company assumed, *inter alia*, the following obligations:

- Dividend distribution – The Company has undertaken that during the period in which the debentures (Series 5) are in circulation, it will not distribute a dividend, as this term is defined in the Companies Law 1999, that exceeds 30% of the net annual (calendar) profit in the last calendar year ended prior to implementation of the distribution, attributed to the shareholders of the Company in accordance with the audited consolidated financial statements of the Company, the last statements published prior to the date of the decision of the Company to distribute the dividend, unless the Company has received the prior consent of the holders of the debentures (Series 5) passed by a special resolution at a meeting of debenture holders convened in accordance with the provisions of the Second Schedule to the deed of trust of the debentures (Series 5). For further details regarding the above limitations, see section 1 of Appendix 5 to the deed of trust of debentures (Series 5) published as part of the 2014 Offering Report).
- The ratio of the net financial debt to net CAP –The Company has undertaken that from the date of the listing for trading of the debentures (Series 5) and for as long as there are debentures (Series 5) outstanding, the ratio of the net financial debt of the Company to the net CAP of the Company (solo), in accordance with its audited or reviewed (as applicable) consolidated financial statements (solo), relating to the

financial statements of the Company as of June 30 and December 31, shall not exceed 70%. If the Company deviates from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the additional breach until the end of the deviation period. If the previously mentioned deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 75%, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitation, see section 2 of Appendix 5 to the deed of trust of debentures (Series 5) published as part of the 2014 Offering Report.

- Equity limitation - The equity of the Company under the audited or reviewed (as applicable) financial statements (solo) of the Company relating to the solo financial statements of the Company as of June 30 and December 31 shall be no less than NIS 25,000,000. If the Company deviates from this undertake, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on next interest payment date following the publication of the last financial reports indicating the deviation, shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the duration of the deviation period. If the Company deviates from this undertaking on the date following the date of the previous examination the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the previously mentioned deviation is discovered on two consecutive examinations in a manner so that the equity is less than NIS 20,000,000, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitations, see section 3 of Appendix 5 to the deed of trust of debentures (Series 5) published as part of the 2014 Offering Report.
- The net financial debt to EBITDA – The Company has undertaken that from the date of the listing for trading of the debentures (Series 5) and for as long as there are debentures (Series 5) outstanding, the ratio of the net financial debt of the Company to the EBITDA of the Company in accordance with its audited or reviewed (as applicable) consolidated financial statements relating to the 12 month period preceding the date of examination shall not exceed 10. An examination of the compliance of the Company to the ratio of the net financial debt to EBITDA shall be carried out twice every calendar year, on the date of publication of the financial statements as of June 30 and December 31 of each year. If the Company deviates

from this undertaking, at the time of any examination, the interest rate payable by the Company to the holders of the debentures (Series 5) on the date of the next payment following the date of the deviation shall be increased by 0.5% per annum only, above the interest rate specified in the tender, and this for the period of the deviation. If the Company deviates from this undertaking on the date following the date of the previous examination, the interest rate payable by the Company to the holders of the debentures (Series 5) shall be increased by an additional 0.5% per annum above the previous interest rate, as from the date of the breach until the end of the additional deviation period. If the aforesaid deviation is discovered on two consecutive examination dates in a manner so that this ratio is equal to or higher than 12, then this deviation shall constitute cause for demanding immediate repayment of the outstanding balance of the debentures (Series 5). For further details regarding the above limitation, see section 4 of Appendix 5 to the deed of trust of debentures (Series 5) published as part of the 2014 Offering Report.

- The undertaking of the Company to refrain from creating pledges - The Company has undertaken not to pledge all of its property with general floating charge and to act so that all of its subsidiaries (at the date of the signing of the deed of trust) and any additional subsidiary of the Company that shall be established or acquired up to the date of full repayment of the debentures (Series 5), (if any), and will not create a pledge as aforesaid. For details regarding the above limitations, see section 5 of Appendix 5 to the deed of trust of debentures (Series 5) published as part of the 2014 Offering Report.

The Company shall be entitled (but not obligated) to perform, at its sole discretion, early repayment in full or part of the debentures (Series 5) with certain terms and limitations as set forth in the 2014 Shelf Prospectus (as defined in section 1.20.4 in Chapter A of this Periodic Report) and in the 2014 Offering Report.

Upon the occurrence of certain events, and under certain conditions, the trustee of debentures (Series 5) may declare the debentures immediately due and payable. Among the applicable events, the following can be included in brief: A material deterioration in the business of the Company compared to the situation of the Company on the date of the issue and there is a real threat that the Company will be unable to repay the debentures on time; The debentures were not paid on time or another material undertaking provided in favor of the holders was not fulfilled; The Company did not publish a financial statement that it is required to publish by law, within 30 days of the last day from which it is required to publish the statement; The debentures have been delisted; There is a real threat the Company will not be able to fulfill its material obligations to the holders; The Company has terminated or has announced its intention to terminate its payments; The Company has breached one of the financial covenants specified in Appendix 5 of the deed of trust debentures (Series 5) published under the 2014 Offering Report, in which it is explicitly stated that the breach thereof is cause for immediate repayment. For details on the reasons available to the trustee that constitute grounds for immediate repayment of debentures (Series 5), see section 8 of the 2014 Offering Report.

On February 12, 2019, the Company's board of directors adopted a resolution to approve a Company-initiated early redemption of debentures; see note 29 of the consolidated financial statements, Immediate Report regarding a Conditional Early Redemption of Series 5 Debentures dated February 13, 2019 (reference no: 2019-01-014346), Immediate Report regarding a Conditional Early Redemption of Series 5 debentures dated February 21, 2019 (reference no: 2019-01-016308), Supplementary Report regarding Early Redemption dated March 12, 2019 (reference no.: 2019-01-020493) and Immediate Report regarding Payment of Early Redemption dated March 12, 2019 (reference no.: 2091-01-021013), which are included herein by way of reference.

2.10 Share Buyback – As of the reporting date, the Company has no buyback plans in effect.

Amit Ben-Zvi, Chairman of
The Board of Directors

Haim Shani, Director and
Chief Executive Officer

March 27, 2019

UNITRONICS (1989) (R"G) LTD

**Consolidated
Financial Statements
December 31, 2018**

Unitronics (1989) (R"G) Ltd

Consolidated Financial Statements

December 31, 2018

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

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as of December 31, 2018 and 2017 and the consolidated statements of profit or loss, comprehensive Income (loss), changes in equity and cash flows for each of the three years ended December 31, 2018. These consolidated financial statements are in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2018 and 2017 and the results of operations, changes in equity and cash flows of them for each of the three years ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRS) and Israeli Securities Regulations (Annual Financial Statements), 2010.

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

March 27, 2019

Tel Aviv | Jerusalem | Haifa | Beer Sheva | Bene Berak | Kiryat Shmona | Petach Tikva | Modiin Illit | Nazareth Illit | Eilat
+972-3-6386868 | +972-2-6546200 | +972-4-8680600 | +972-77-7784100 | +972-73-7145300 | +972-77-5054906 | +972-77-7784180 | +972-8-9744111 | +972-4-6555888 | +972-8-6339911

Head Office: Amot BDO House, 48 Menachem Begin Road, Tel Aviv 6618001, ISRAEL Email: bdo@bdo.co.il Our Site: www.bdo.co.il

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

| | | <u>December 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|-------------------------------|----------------------------|------------------------------------|------------------------------------|
| <u>Note</u> | <u>NIS, (in thousands)</u> | | |
| <u>Current assets</u> | | | |
| Cash and cash equivalents | 3 | 37,826 | 34,710 |
| Restricted cash | 15B(3),(4) | 613 | 998 |
| Short-term deposits in banks | | - | 20,209 |
| Accounts receivable - Trade | 4 | 35,244 | 51,124 |
| Contract assets | 7 | 12,379 | - |
| Accounts receivable-Other | 5 | 4,569 | 3,233 |
| Other financial assets | 26G | 49 | 68 |
| Inventory | 6 | 35,976 | 32,315 |
| Inventory - work in progress | | - | 1,697 |
| | | <u>126,656</u> | <u>144,354</u> |
| <u>Non-current assets</u> | | | |
| Long-term deposits | | 269 | 327 |
| Property and equipment, net | 8 | 20,835 | 22,238 |
| Intangible assets, net | 9 | 61,198 | 66,555 |
| | | <u>82,302</u> | <u>89,120</u> |
| | | <u>208,958</u> | <u>233,474</u> |

Amit Ben Zvi
Chairman of the Board of Directors

Haim Shani
Director and Chief
Executive Officer

Eitan Alon
Chief Financial Officer

Approved: March 27, 2019

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

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

| | | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|-------------|------------------------------|------------------------------|
| | <u>Note</u> | <u>NIS, (in thousands)</u> | |
| <u>Current liabilities</u> | | | |
| Current maturities of long-term loans | 10A | 358 | 346 |
| Current maturities of bonds | 10B | 13,106 | 12,647 |
| Accounts payable - Trade | | 21,823 | 22,823 |
| Other financial liabilities | 26G | 414 | 94 |
| Liability in respect of construction contracts liabilities | | 3,467 | - |
| Other | 11 | 20,959 | 37,042 |
| | | <u>60,127</u> | <u>72,952</u> |
| <u>Non-current Liabilities</u> | | | |
| Loans from the banks | 12 | 1,967 | 2,249 |
| Bonds | 13 | 36,979 | 49,817 |
| Liabilities for benefits to employees, net | 14 | 2,242 | 2,545 |
| Liability for share purchase option | 26E | 6,872 | 6,910 |
| Deferred taxes | 23H | 4,307 | 4,637 |
| | | <u>52,367</u> | <u>66,158</u> |
| <u>Contingent liabilities, mortgages, guarantees and commitments</u> | | | |
| | 15 | | |
| <u>Equity</u> | | | |
| Share capital | 16 | 427 | 427 |
| Share premium | | 104,513 | 104,513 |
| Capital reserve from translation of foreign operations | | (1,598) | (2,437) |
| Company shares held by the company | | (7,042) | (7,042) |
| Reserve from a transaction with a controlling party | | 104 | 104 |
| Retained (loss) profit | | 60 | (1,201) |
| | | <u>96,464</u> | <u>94,364</u> |
| | | <u>206,958</u> | <u>233,474</u> |

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

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

| | | For the year ended December 31, | | |
|---|--------|------------------------------------|---------|----------|
| | | 2018 | 2017 | 2016 |
| | Note | NIS, (in thousands) | | |
| Revenues | 24B(1) | 202,049 | 185,002 | 148,988 |
| Cost of revenues | 17 | 128,486 | 129,622 | 117,042 |
| Gross profit | | 73,563 | 55,380 | 31,946 |
| Development expenses, net | 18 | 4,753 | 4,387 | 5,087 |
| Selling & marketing expenses | 19 | 30,886 | 25,905 | 24,381 |
| General & administrative expenses | 20 | 22,142 | 16,195 | 14,243 |
| Other expenses | | 146 | 13 | 15 |
| Operating profit (loss) | | 15,636 | 8,880 | (11,780) |
| Financing incomes | 21A | 2,816 | 942 | 943 |
| Financing expenses | 21B | 5,130 | 6,613 | 6,419 |
| Profit (loss) before tax benefit (taxes on income) | | 13,322 | 3,209 | (17,256) |
| Tax benefit (taxes on income) | 23K | (3,107) | (2,173) | 246 |
| Profit (loss) for the year | | 10,215 | 1,036 | (17,010) |
| Basic profit (loss) per 1 ordinary share NIS 0.02 par value | 25 | 0.743 | 0.075 | (1.379) |
| Diluted profit (loss) per 1 ordinary share NIS 0.02 par value | | 0.712 | 0.075 | (1.379) |

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

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of comprehensive income (loss)

| | For the year ended December 31, | | |
|---|------------------------------------|---------|----------|
| | 2018 | 2017 | 2016 |
| | NIS, (in thousands) | | |
| Profit (loss) for the period | 10,215 | 1,036 | (17,010) |
| <u>Other comprehensive income (loss)</u> <u>(after tax)</u> | | | |
| <u>Items that will not be classified</u> <u>afterwards to profit or loss:</u> | | | |
| Remeasurement gain (losses) from defined benefit plans | 340 | (70) | 61 |
| <u>Items that will be reclassified to profit</u> <u>or loss in the future if certain</u> <u>conditions are met:</u> | | | |
| Adjustments arising from translating financial statements of foreign operations | 764 | (2,646) | (379) |
| Other comprehensive income (loss) for the year | 1,104 | (2,716) | (318) |
| Total comprehensive income (loss) for the year | 11,319 | (1,680) | (17,328) |

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

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

| | <u>Share capital</u> | <u>Share premium</u> | <u>Capital reserve from translation of foreign operations</u> | <u>Company shares held by the company</u> | <u>Reserve from a transaction with a controlling party</u> | <u>Retained earnings (loss)</u> | <u>Total</u> |
|--|----------------------|----------------------|---|---|--|---------------------------------|---------------|
| | NIS, in thousands | | | | | | |
| Balance at January 1, 2016 | 352 | 50,588 | 588 | (7,042) | 104 | 14,782 | 59,372 |
| Loss for the year | - | - | - | - | - | (17,010) | (17,010) |
| Other comprehensive income (loss) for the year | - | - | (379) | - | - | 61 | (318) |
| Total comprehensive loss | - | - | (379) | - | - | (16,949) | (17,328) |
| Private placement of shares | 75 | 53,925 | - | - | - | - | 54,000 |
| Balance at December 31, 2016 | 427 | 104,513 | 209 | (7,042) | 104 | (2,167) | 96,044 |
| Net profit for the year | - | - | - | - | - | 1,036 | 1,036 |
| Other comprehensive loss for the year | - | - | (2,646) | - | - | (70) | (2,716) |
| Total comprehensive income (loss) | - | - | (2,646) | - | - | 966 | (1,680) |
| Balance at December 31, 2017 | 427 | 104,513 | (2,437) | (7,042) | 104 | (1,201) | 94,364 |
| Cumulative effect of the initial implementation of IFRS 15 | - | - | 75 | - | - | (9,294) | (9,219) |
| Net profit for the year | - | - | - | - | - | 10,215 | 10,215 |
| Other comprehensive loss for the year | - | - | 764 | - | - | 340 | 1,104 |
| Total comprehensive income | - | - | 764 | - | - | 10,555 | 11,319 |
| Balance at December 31, 2018 | 427 | 104,513 | (1,598) | (7,042) | 104 | 60 | 96,464 |

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

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

| | For the year ended December 31, | | |
|---|------------------------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| | NIS, (in thousands) | | |
| <u>Cash flows - operating activities</u> | | | |
| Profit (loss) for the year | 10,215 | 1,036 | (17,010) |
| Adjustments necessary to show the cash flows from operations (Appendix A) | (4,533) | 7,906 | 16,838 |
| Cash flows provided by (used in) operating activities | 5,682 | 8,942 | (172) |
| <u>Cash flows - investing activities</u> | | | |
| Sale of marketable securities, net | - | - | 14,392 |
| Purchase of property and equipment | (832) | (1,421) | (4,832) |
| Sale of property and equipment | - | - | 64 |
| Investment in long-term deposits in banks | - | - | (20,000) |
| Sale of (Investment in) short-term deposits in banks | 20,000 | 25,000 | (25,000) |
| Repayment of restricted cash | 386 | 1,069 | 185 |
| Repayment (Investment) in other long-term deposits, net | - | (14) | 21 |
| Investment in intangible assets | (9,662) | (12,877) | (15,531) |
| Cash flows provided by (used in) investing activities | 9,892 | 11,757 | (50,701) |
| <u>Cash flows - financing activities</u> | | | |
| Repayment of long-term loans | (354) | (1,094) | (1,160) |
| Repayment of bonds | (12,974) | (8,666) | (10,680) |
| Private placement of shares and stock option | - | - | 58,353 |
| Cash flows provided by (used in) financing activities | (13,328) | (9,760) | 46,513 |
| Translation differences in respect of foreign operations cash balances | 870 | (1,986) | (780) |
| Change in cash and cash equivalents | 3,116 | 8,953 | (5,140) |
| Cash and cash equivalents at beginning of year | 34,710 | 25,757 | 30,897 |
| Cash and cash equivalents at end of year | 37,826 | 34,710 | 25,757 |

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

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

| | For the year ended December 31, | | |
|---|------------------------------------|----------|---------|
| | 2018 | 2017 | 2016 |
| | NIS, (in thousands) | | |
| <u>Appendix A - Adjustments necessary to show the cash flows from operations</u> | | | |
| <u>Income and expenses not involving cash flows:</u> | | | |
| Loss from marketable securities, net | - | - | 100 |
| Depreciation and amortization | 17,100 | 17,265 | 16,901 |
| Changes in liabilities for benefits to employees, net | 36 | 118 | 223 |
| Revaluation of cash balances in foreign currency | (234) | 14 | 522 |
| Capital loss | 146 | 13 | 23 |
| Deferred taxes | (330) | 395 | (339) |
| Reevaluation of deposits in banks | 209 | (62) | (147) |
| Reevaluation of long-term loans and bonds | 679 | 130 | (308) |
| Reevaluation of other financial assets | 342 | 396 | 136 |
| Reevaluation of share purchase option | (38) | 2,013 | 544 |
| <u>Changes in assets and liabilities:</u> | | | |
| Decrease (increase) in trade receivables and accrued income | (6,556) | (29,768) | 3,870 |
| Increase in revenues receivable in respect of construction contracts | (12,379) | - | - |
| Decrease (increase) in accounts receivable - other | (1,223) | 261 | 20 |
| Decrease (increase) in inventory | (3,231) | (7,045) | (3,416) |
| Decrease (increase) in inventory - work in progress | - | (1,097) | 2,963 |
| Increase (decrease) in accounts payable - trade | (1,078) | 3,222 | (2,199) |
| Increase (decrease) in accounts payable - other | (1,443) | 22,051 | (2,055) |
| Increase in liabilities in respect of construction contracts | 3,467 | - | - |
| | (4,533) | 7,906 | 16,838 |
| <u>Appendix B - Additional information on cash flows regarding operating activities</u> | | | |
| Cash paid during the year for: | | | |
| Interest | 3,338 | 3,933 | 4,565 |
| Taxes on income | 2,450 | 1,710 | 54 |
| Cash received during the year for: | | | |
| Interest and dividend | 255 | 176 | 245 |

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

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

Note 1 - General

- A. Unitronics (1989) (R"G) Ltd. (hereinafter - The Company) was incorporated in August 1989. In 1999, the company completed an initial public offering of ordinary shares on the Euro. NM in Belgium (Euronext). In 2004 the company completed a public offering of ordinary shares on the Tel-Aviv stock exchange. On July 30, 2017, the Company completed the process of delisting its shares from trading on the stock exchange in Brussels, Belgium, see Note 16G below. The Company is held jointly held by the FIMI opportunity Funds and Mr. Haim Shain, see note 16E below. On August 19, 2018, the Company's board of directors decided to examine the move to spin off one of the Company's operating segments (hereinafter – "**the spinoff**") by means of a prospectus for the spinoff and listing of shares on the Tel Aviv Stock Exchange Ltd. (hereinafter – "**the Prospectus**" and "**Utron**", respectively), such that the Company will transfer its automated solutions segment to Utron Ltd. (hereinafter – "**Utron**"), a fello subsidiary whose shares are held by a trustee for the Company's shareholders.

On February 28, 2019, the Company and Utron published a prospectus for the spinoff and listing of shares for trading, pursuant to which the spinoff was carried out. On March 12, 2019 the spinoff was completed.

- B. The Group (the Company and it's subsidiaries, see section C below) designs, develops, manufactures, markets and supports Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems. The Group also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized logistics systems, mainly automated warehouses and distribution centers. In addition, the Company designs, develops, manufactures, constructs and maintains mechanized systems for automated parking solutions regarding the split of the solutions activity, see section A above.
- C. Details of the subsidiaries, their activities and the rate of holdings therein:
1. The company holds 100% of the equity and control of Unitronics Inc. (hereinafter - Unitronics Inc.) Unitronics Inc was established in the United States of America by the company and commenced its operations in June 2001. Unitronics Inc. is mainly engaged in marketing, sale and distribution of company's products in U.S.
 2. The company holds 100% of the equity and control of Unitronics building management and maintenance (2003) Ltd. (hereinafter "Unitronics management"). Unitronics management was established in 2003 by the company and commenced its operations in January 2004. Unitronics management manages and maintains the building which the company is located in.
 3. The company holds 100% of the equity and control of Unitronics Automated Solutions Ltd. (hereinafter - "Unitronics Solutions"). Unitronics Solutions was established by the company in the last quarter of 2011 and coordinates the automated solutions activities. In November 2014 the Company sold its wholly owned subsidiary Unitronics Systems Inc. (hereinafter - "Unitronics Systems") to Unitronics Solutions in exchange to the par value of the shares of Unitronics Systems. Since then Unitronics Solutions holds 100% of the equity and control of Unitronics Systems. Unitronics Systems was established in May 2012 and commenced its operations in the last quarter of 2012. Unitronics Systems is mainly engaged in parking solutions activity in U.S. and North America.

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

Note 2 - Significant Accounting Policies

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

A. Basis of presentation of the financial statements

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

The Company's financial statements were prepared on the basis of cost, excluding derivative and financial instruments, which are measured at fair value through the statement of profit or loss (see section (E) below), and employee benefit liabilities which are measured in accordance with the provisions of IAS 19 (see section (O) below).

Consolidated financial statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

B. Assumptions and estimates

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Development costs

Development costs are discounted in accordance with the accounting principles set forth in section (L) below. In order to determine the amounts earmarked for discounting, management estimates, inter alia, the cash flows expected to result from the asset and the expected period of benefits. See additional information in note 9.

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

Note 2 - Significant Accounting Policies (cont'd)

Contracts with customers

Up to and including December 31, 2017, income and costs from work under construction contract were recognized according to the completion rate based on engineering completion. As of January 1, 2018, the Company estimates the rate of completion on the basis of costs incurred by the Company in relation to the total projected costs in the project (method based on inputs). The total cost of completing each project is estimated based on estimates of costs of materials, labor costs, performance of subcontractors, etc. as detailed in section O below.

Deferred taxes

Assets (liabilities) in respect of deferred taxes are recognized in accordance with section (N) below. Calculation of deferred taxes (liabilities) is based on assumptions and estimates, inter alia, for temporary differences between the amounts included in the financial statements and amounts taken into account for tax purposes, and it is based at the tax rate expected to apply at the date of realization.

C. Functional currency and foreign currency

1. Functional currency and presentation currency

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

The functional currency was determined separately for each subsidiary; and according to this currency, the financial condition and results of operations of the subsidiaries are measured. When the functional currency of the subsidiary is different from that of the Company, the subsidiary comprises foreign operations, where the data in the financial statements are translated, in order to include them in the Company's financial statements as follows:

- a. Assets and liabilities on every balance sheet date (including comparative figures) are translated according to the closing rates of exchange on every reporting date.
- b. Revenues and expenses for all periods are presented in the statement of profit or loss (including comparative figures) are translated according to the average rates of exchange in all of the presented periods; but in those cases where there were significant fluctuations in the rates of exchange, revenues and expenses were translated according to the rates of exchanges that existed on the dates of the translations themselves.
- c. Share capital, capital reserves and other capital movements are translated according to the rates of exchanges on the date of their creation.
- d. The retained earnings balance is translated based on the opening balance translated according to the rates of exchange at that time, and the relevant additional movements during the period, translated as mentioned in clauses (b) and (c) above.
- e. All translation differences created are classified as a separate item in shareholders' equity, in the capital reserve "Adjustments from translation of financial statements of foreign operations".

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

On realizing the net investment, translation differences included in the framework of the capital reserve, as mentioned above, are recorded in the statement of profit or loss.

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

Note 2 - Significant Accounting Policies (cont'd)

C. Functional currency and foreign currency (cont'd)

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on their first recognition at the rate of exchange on the date of the transaction. After initial recognition financial assets and liabilities denominated in foreign currency are translated to shekels on every balance sheet date according to the rates of exchange on every reporting date. Rate of exchange differences are posted to the statement of profit or loss. Non-monetary assets and liabilities are translated to shekels according to the rate of exchange on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at their fair value are translated to shekels according to the rate of exchange on the date on which the fair value was determined.

D. Cash and cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

E. Financial instruments

IFRS 9, which was published in July 2014, changes the accounting treatment of financial instruments on three aspects: classification and measurement, impairment of financial assets and hedge accounting (the accounting treatment of recognition and derecognition remained unchanged). IFRS supersedes IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 of the International Financial Reporting Interpretations Committee "Reassessment of Embedded Derivatives". The adoption of the Standard does not have a material impact on the financial statements.

The following is the new accounting policy since January 1, 2018 as a result of the initial application of IFRS 9:

1. Financial assets

Financial assets were classified to one of the measurement groups prescribed by IFRS 9, based on the Company's business model for the management of financial assets and based on the characteristics of the contractual cash flows of the financial asset – financial assets (debt instruments) at amortized cost, financial assets (equity or debt instruments) at fair value through profit and loss.

a. Financial assets at fair value through profit or loss

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

b. Debt instruments at amortized cost

Debt instruments that are managed based on the Company's business model, which is to hold the financial assets in order to collect the contractual cash flows, and contractual terms of these assets provide entitlement at defined times to cash flows, which are only payments of principal and interest, were initially measured at fair value plus directly attributable transaction costs, except for trade receivables that were initially measured at the transaction price. After initial recognition, these assets were measured at amortized cost. Loans and receivables are included in this group. After initial recognition, loans are measured based on their terms at amortized cost plus directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

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

Note 2 - Significant Accounting Policies (cont’d)

E. Financial instruments (cont’d)

2. Financial liabilities

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

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

a. Financial liabilities measured at amortized cost

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

b. Financial liabilities at fair value through profit or loss

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

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

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

3. Derecognition of financial instruments

a. Financial assets

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

b. Financial liabilities

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

4. Impairment of financial assets

The company measures expected credit losses on trade receivable, debt instruments at amortized cost and assets in respect of contracts with customers. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weightings.

At the end of each reporting period, the Company assessed whether the credit risk of a financial instrument has risen significantly since the initial recognition date by comparing the probability of a default on the reporting date with the probability of a default at initial recognition. The Company considers a financial asset in default when it is not expected that the borrower will meet all its payment obligations to the Company or when contractual payments are 90-days past due. In addition, the Company assumes that the credit risk of a financial instrument has not risen significantly from the date of initial recognition, if the Company determined at the end of the reporting period that there is a low risk of a default occurring on the financial instrument during its expected life, the borrower has a strong ability to fulfill its contractual cash flow obligations in the near term and adverse changes in the business and economic conditions in the longer term will not necessarily diminish the borrower's ability to fulfill the said obligations. Expected credit losses did not have a material impact on the financial statements.

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

Note 2 - Significant Accounting Policies (cont’d)

F. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

The cost of the inventory is determined as follows:

- Raw materials and packaging - by the weighted moving average method.
- Goods in process - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses, less completion costs.
- Finished goods - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses.

The Company periodically examines the condition of the inventory and its age, and makes provisions for slow-moving inventory accordingly. During certain periods where production is above or below the normal (standard) output, the cost of inventory does not include other fixed and overhead costs, over and above those required for normal output. Unloaded costs, as stated, are recorded as an expense in the statement of profit or loss during the period in which they accrued. Furthermore, the cost of inventory does not include exceptional amounts of cost of materials, labor, and others resulting from inefficiency.

G. Operating turnover period

The Group has two operational cycles. The operational turnover of the solutions sector is more than a year and generally lasts two to three years, and the operating cycle of the products segment is one year.

H. Treasury shares

Company shares held by the Company are recognized at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

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

Note 2 - Significant Accounting Policies (cont’d)

I. Leases

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17 - “Leases”.

1. Operating lease

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss over the lease term.

2. Financial lease

Leasing agreements where all the risks and benefits connected with ownership of the leased asset have been transferred to the Company - are classified as financial leasing. The leased asset is measured at the beginning of the lease period at the lower of fair value of the leased asset or at the present value of the minimum leasehold payments. A liability for leasehold payments is presented at its present value when the leasehold payments are allocated between financial expenses and repayment of the liability for the leasing, by the effective interest method.

After initial recognition, the leased asset is handled according to the accounting principles prevailing regarding this asset (see section (J) below).

With regard to the implementation of IFRS 16 as of January 1, 2019, see section V below.

J. Fixed assets

Fixed assets are measured at cost, including direct attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

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

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

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

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

Note 2 - Significant Accounting Policies (cont’d)

K. Intangible assets

Intangible assets which are purchased separately are measured on initial recognition at cost plus the direct acquisition costs. After initial recognition, intangible assets are presented at cost less accumulated amortization and less losses from accrued impairment in value.

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

Software

Acquired licenses for computers software are recognized as an asset according to the acquisition costs and related costs. Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Research and development expenses

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if the following is provable:

- a. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b. Management's intention to complete the intangible asset and use or sell it.
- c. The ability to use or sell the intangible asset.
- d. How the intangible asset will generate probable future economic benefits.
- e. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f. The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. The asset is amortized over its useful life. Testing of impairment is performed annually over the period of the development project.

Other development costs, which do not meet the conditions above, are recognized as expenses when it is incurred. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date. Capitalized development expenses are recognized as an intangible asset. Amortization shall begin when the asset is available for use and is calculated at equal annual rates by the straight-line method over the useful lifespan of the asset.

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

Amortization

Intangible assets are depreciated on a straight-line basis.

The useful lifespan of intangible assets is as follows:

| | <u>Years</u> |
|----------------------|--------------|
| Software | 3 |
| Patents and licenses | 3 |
| Development costs | 5-7 |

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

Note 2 - Significant Accounting Policies (cont’d)

L. Impairment of non-financial assets

The Company evaluates the need to record an impairment of non-financial assets, except inventory, assets due to Construction Contracts, and deferred taxes, whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognized in profit or loss.

M. Taxes on income

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes

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

2. Deferred taxes

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

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

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future.

Also, deferred taxes on deductible timing differences arising from investments in investees are recognized only when reversal of the timing difference is expected in the foreseeable future and taxable income is expected against which it will be possible to utilize the temporary differences.

Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

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

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

Note 2 - Significant Accounting Policies (cont'd)

N. Liabilities due to employee benefits

The Group has a number of benefits to employees plans:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

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

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

Furthermore, the company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements of the net liability are recognized in other comprehensive income in the period in which they occur.

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

Note 2 - Significant Accounting Policies (cont'd)

O Revenue recognition

IFRS 15 "Revenues from Contract with Customers" (hereinafter – "IFRS 15") replaced the existing guidelines regarding recognition of revenues that existed until December 31, 2017 regarding the recognizing revenues from contracts with customers.

The Company elected to implement the provisions of IFRS 15 retrospectively without restating prior periods, but by recognizing the cumulative effect of retroactive implementation as an adjustment to the opening balance of retained earnings (or other component of equity, as applicable) as of January 1, 2018.

IFRS 15 introduces a five-step model that will apply to revenue recognition:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when the entity satisfies a performance obligation over time or at a point in time.

Below is the new accounting policy applied with respect to revenue recognition:

The Company recognizes revenue from contracts with customers, as specified below, on the date of the transfer of control of the goods or services to the customers in an amount which the Company expects to be entitled to for those goods or services.

Revenue from the sale of products – the Company recognizes revenue from the sale of products on the delivery date since this is the date on which control is transferred to the customer.

Revenue from services - the Company recognizes revenue from services over time since the customer simultaneously receives and consumes the benefits provided to it by the Company. Revenue from services from is incurred on the basis of accrual, over the period of the service agreement.

Revenue from works under construction contracts – the Company recognizes revenue from construction contracts over time, since the Company's performance create or improve an asset which throughout the construction period is controlled by the customer. The Company's judgment that the customer controls the asset materially affects the timing of recognition of revenues from these contracts, and it relies on the fact that the customer has legal ownership and physical possession of the asset. Revenues over time are recognized by the percentage of completion method which, until the first adoption of IFRS 15 up to and including December 2017, was measured based on the costs incurred by the Company in relation to the total estimated costs of the project (an input-based method), except for certain legal costs, costs incurred as a result of significant inefficiency and costs incurred which are not proportional to the Company's progress in satisfying its performance obligation, since the Company believes that the input method more adequately presents the manner of transferring control of the goods and services. In cases where the Company cannot reasonably measure the outcome of the contract, but it is expected that the incurred costs are recoverable and the Company recognizes revenue in the amount of the costs incurred ("the zero profit presentation"). The typical terms of payment in the projects are based on milestones established on the date of signing the contract and are mainly based on the pace of progress. For this reason, the Company is not expected to recognize assets and liabilities in respect of contracts in significant amounts in relation to these contracts.

In addition, pursuant to the provisions of the Standard, the items set forth below have been added to the statement of financial position (in accordance with the provisions of the Standard, comparative figures have not been reclassified):

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

Note 2 - Significant Accounting Policies (cont'd)

O. Revenue recognition (cont.):

1. Income receivable in respect of construction contracts – were previously presented under "Accounts receivable - Trade" and are now presented under "Accounts receivable - Trade" or "Contract assets", as applicable.
2. Advances from customers and unearned income in respect of construction contracts – were previously presented under "Accounts payable - Trade" and are now presented under "Contract liabilities".

Below is the cumulative effect of the first-time application of the Standard on the affected items in the statement of financial position as of January 1, 2018:

| | As of January 1, 2018 | | |
|--------------------------------|-------------------------------------|--|----------------------------|
| | In line with the previous policy | Effect of the application of IFRS 15 | Pursuant to the IFRS 15 |
| | NIS in thousands | | |
| Accounts receivable - Trade | 51,124 | (28,419) | 22,705 |
| Contract assets | - | 3,777 | 3,777 |
| Inventory of works in progress | 1,697 | (1,697) | - |
| Accounts payable - Trade | (37,042) | 27,149 | (9,893) |
| Contract liabilities | - | (10,029) | (10,029) |
| Total equity | (94,364) | 9,219 | (85,145) |

Below is the required disclosure with regard to amounts recognized in the current reporting period following the application of IFRS 15 and the amounts that would have been recognized in the current reporting period if the previous policy, prior to the implementation of IFRS 15, would have been applied:

Effect on the statement of financial position:

| | As of December 31, 2018 | | |
|--------------------------------|-------------------------------------|--|----------------------------|
| | In line with the previous policy | Effect of the application of IFRS 15 | Pursuant to the IFRS 15 |
| | NIS in thousands | | |
| Accounts receivable - Trade | 67,392 | (32,148) | 35,244 |
| Contract assets | - | 12,379 | 12,379 |
| Inventory of works in progress | 3,152 | (3,152) | - |
| Accounts payable - Trade | (39,853) | 18,894 | (20,959) |
| Contract liabilities | - | (3,467) | (3,467) |
| Total equity | (103,958) | 7,494 | (96,464) |

Below is the effect on the statement of income for the period ended on December 31, 2018 assuming the previous policy with respect of revenue recognition would continue to be applied in the current reporting period:

| | For the period ended on December 31, 2018 | | |
|-----------------------|---|--|----------------------------|
| | In line with the previous policy | Effect of the application of IFRS 15 | Pursuant to the IFRS 15 |
| | NIS in thousands | | |
| Income | 194,440 | 7,609 | 202,049 |
| Cost of income | 124,300 | 4,186 | 128,486 |
| Gross profit | 70,140 | 3,423 | 73,563 |
| Profit for the period | 6,792 | 3,423 | 10,215 |

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

Note 2 - Significant Accounting Policies (cont’d)

P. Discounts to customers

Current discounts to customers are included in the financial statements on their granting and are recorded to the revenues.

Q. Earnings (loss) per share

Earnings (loss) per share are calculated according to the number of ordinary shares. Basic earnings per share includes only shares that actually exist during the period and potential ordinary shares (for example convertible bond and warrants) are included only when calculating diluted earnings per share, should their effect dilute the earnings per share when their conversion reduces earnings per share or increases the loss per share from continuing operations. In addition, convertible securities converted during the period are included in the diluted earnings per share, only till the date of conversion, and from that date the shares issued as a result of the conversion are included in basic earnings per share. The company’s share in the subsidiaries’ profits is calculated according to the company’s share in the subsidiaries’ earning per share multiplied by the number of shares held by the company.

R. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

S. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

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 which use inputs that are not based on observable market data).

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

Note 2 - Significant Accounting Policies (cont'd)

T. Disclosure of new IFRSs in the period prior to their application:

IFRS 16 "Leases" (hereinafter – "IFRS 16")

IFRS 16, which was published in January 2016, supersedes IAS 17 "Leases" and the interpretations published with respect thereto. IFRS 16 changes the accounting treatment of leases by the lessee while the accounting treatment regarding the lessor remains mostly unchanged.

IFRS 16 cancels the classification of leases by the lessee as either financing or operating and stipulates that a lessee will recognize in the statement of financial position an asset for the right-of-use and a financial liability for leasing fees in respect of all leases except for leases whose period does not exceed 12 months and leases in which the underlying assets have a low value (for which the Standard provides a relief whereby the lessee is permitted to apply an accounting policy which is similar to the current accounting policy for operating leases).

In accordance with IFRS 16, for the contract to constitute a lease arrangement (or contain a component of a lease arrangement), the contract must provide the lessee with the right to control the use of the identifiable during a certain period of time against the receipt of consideration. A company can choose to apply an accounting policy for the entire group of underlying assets, which will not distinct between lease components and services components in the contract, but rather all the components in the contract will be accounted for as one arrangement that constitutes a lease.

A lease liability shall be measured upon initial recognition at the current value of lease payment which are not paid on the date of commencement of the lease, discounted by the interest rate in the lease, unless this rate cannot be easily determined, then the lease shall be measured by the lessee's incremental interest rate. An asset for the right-of-use shall be measured upon initial recognition in the amount of the lease liability, with the addition of any lease payments paid to the lessor on or prior to the date of commencement of the lease (net of any lease incentives from the lessor), initial direct costs attributable to the lease contract as well as estimated costs for dismantling and rehabilitation of the asset by the lessee.

In the statement of financial position the assets for right-of-use, unless they are presented separately, shall be presented in the item in which the underlying assets would have been presented if they had been owned b the lessee. Lease liabilities shall be presented in accordance with the provisions of IAS 1" Presentation of Financial Statements", including the ration between current and non-current. Amortization expenses in respect of the right-of-use asset as well as interest expenses in respect of the lease liability shall be recognized in profit or loss. Payments in respect of the outstanding principal of the lease liability shall be classified as financing activity in the statement of cash flows while payments in respect of the interest on the lease liability shall be classified in accordance with the Company's policy on the classification of interest payments (as operating activity or financing activity). Short-term lease payments, payments for leases of low-value assets and variable lease payments that were not included in the measurement of the lease liability, shall be classified as operating activity.

IFRS 16 also defines a change in the leasing conditions and determines when it is accounted for as a new and separate lease, and it adds new provisions regarding the accounting treatment of sale and re-lease transactions.

IFRS 16 is to be implemented for financial statements for annual periods commencing on or after January 1, 2019. Early adoption is permitted provided the entity also applies IFRS 15 "Revenue from Contracts with Customers".

The accounting treatment pursuant to IFRS 16 with regarding to lessees is to be applied retrospectively in one of the two following ways:

- Restatement of prior period; or
- Recognition of the cumulative effect of the retroactive implementation as adjustment to the opening balance of retained earnings (or another component of equity, as applicable) for the period in which the standard is initially applied, subject to certain requirements and reliefs provided by the Standard.

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

Note 2 - Significant Accounting Policies (cont'd)

T. Disclosure of new IFRSs in the period prior to their application (cont.):

IFRS 16 "Leases" (hereinafter – "IFRS 16") (cont.):

As a result of the application of IFRS 16, the Company will recognize assets for the right-of-use and liabilities in respect of leases in the amount of NIS 20.6 million. The range of discount rates used to measure liabilities in respect of leases is between 3.1% and 4.7%. At the same time, the Company plans to choose the practical relief, on the basis of each separate lease, not to recognize assets for the right-of-use and liabilities in respect of leases for contracts whose lease period ends within 12 months from the date of initial implementation. The expected implementation of IFRS 16 in 2019 in lieu of IAS 17, subject to existing lease arrangements as of December 31, 2018 and the data known as of this date, will increase the EBITDA by NIS 5 million (Profit before interest, taxes, depreciation and amortization). The effect without the split activity will result in an increase of NIS 1.8 million in EBITDA (Profit before interest, taxes, depreciation and amortization) for 2019.

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| | NIS, (in thousands) | |
| Note 3 - Cash and cash equivalents | | |
| Israeli currency | 20,178 | 13,535 |
| Foreign currency | 17,648 | 21,175 |
| | 37,826 | 34,710 |

Note 4 – Accounts receivable - Trade

Related to construction contracts (*):

| | | |
|------------------------------|--------|--------|
| Open accounts | 10,621 | 2,402 |
| Accrued income | - | 26,859 |
| | 10,621 | 29,261 |
| Others | 24,858 | 22,006 |
| | 35,479 | 51,267 |
| Provision for doubtful debts | (235) | (143) |
| | 35,244 | 51,124 |

(*) See note 7 below.

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

| | Past due trade receivables | | | | Total |
|----------------------|----------------------------|---------------------|------------------------------|----------------------------------|--------|
| | Receivables not yet due | 30 days past due | 30 to 60 days past due | More than 60 days past due | |
| | NIS (in thousands) | | | | |
| December 31, 2018 | 24,577 | 5,236 | 2,732 | 2,699 | 35,244 |
| December 31, 2017(*) | 21,815 | 1,778 | 247 | 425 | 24,265 |

(*) Reclassified

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

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|---|
| | NIS, (in thousands) | |
| Note 5 – Other accounts receivable | | |
| Government institutions | 2,276 | 2,034 |
| Prepaid expenses | 1,360 | 851 |
| Other | 933 | 348 |
| | 4,569 | 3,233 |
| Note 6 - Inventory | | |
| Materials and Packaging | 14,658 | 12,336 |
| Work in process | 12,717 | 13,720 |
| Finished products | 8,601 | 6,259 |
| | 35,976 | 32,315 |
| Note 7 – Contract assets and liabilities | | |
| A. Contract assets and liabilities | | |
| Revenues recognized | 58,604 | 62,522 |
| Net of revenues received | (49,692) | (*) (35,674) |
| | 8,912 | 29,250 |
| <u>Presented in the statement of financial position under:</u> | | |
| Accrued income | - | (*)26,859 |
| Contract assets | 12,379 | - |
| Liabilities for construction contracts | - | 11 |
| Contract liabilities | 3,467 | - |
| (*) Reclassified | | |
| B. Assets in respect of contracts with customers | | |
| | | For the year ended on December 31 2018 |
| | | NIS in thousand |
| Balance as of January 1, 2018 | | - |
| Cumulative effect as of January 1, 2018 of the first-time implementation of IFRS 15 | | 3,777 |
| Revenue recognized during the reporting period | | 49,833 |
| Transfer from assets in respect of contracts with customers to trade receivable | | (40,742) |
| Adjustments from translating financial statements of foreign operations | | (489) |
| Balance as of December 31, 2018 | | 12,379 |

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

Note 7 – Construction contracts (cont.):

C. Liabilities in respect of contracts with customers

For the year ended
on December 31
2018

NIS in thousand

| | |
|---|---------------------|
| Balance as of January 1, 2018 | - |
| Cumulative effect as of January 1, 2018 of the first-time implementation of IFRS 15 | 10,029 |
| Advance payments received | 1,533 |
| Revenue recognized during the reporting period | (8,771) |
| Adjustments from translating financial statements of foreign operations | 676 |
| Balance as of December 31, 2018 | <u><u>3,467</u></u> |

Note 8 - Property and equipment, net

| | Land and Buildings (*) | Leasehold improvements | Machinery and Equipment | Motor vehicles | Office furniture and Equipment | Total |
|---|---------------------------------|---------------------------|-------------------------------|-------------------|---|---------------|
| | <u>NIS (in thousands)</u> | | | | | |
| Cost | | | | | | |
| Balance as at January 1, 2017 | 22,266 | 7,000 | 5,604 | 869 | 3,710 | 39,449 |
| Acquisitions and investments | 301 | 380 | 591 | - | 149 | 1,421 |
| Disposals during the year | - | - | (523) | (13) | - | (536) |
| Exchange differences | - | - | - | (6) | (141) | (147) |
| Balance as at December 31, 2017 | 22,567 | 7,380 | 5,672 | 850 | 3,718 | 40,187 |
| Acquisitions and investments | 142 | 116 | 370 | 21 | 183 | 832 |
| Disposals during the year | - | - | (238) | (15) | (404) | (657) |
| Exchange differences | - | - | - | (4) | 52 | 48 |
| Balance as at December 31, 2018 | <u>22,709</u> | <u>7,496</u> | <u>5,804</u> | <u>852</u> | <u>3,549</u> | <u>40,410</u> |
| Accumulated depreciation | | | | | | |
| Balance as at January 1, 2017 | 8,112 | 1,216 | 4,601 | 286 | 2,272 | 16,487 |
| Depreciation during the year | 502 | 725 | 460 | 124 | 254 | 2,065 |
| Disposals during the year | - | - | (523) | - | - | (523) |
| Exchange differences | - | - | - | - | (80) | (80) |
| Balance as at December 31, 2017 | 8,614 | 1,941 | 4,538 | 410 | 2,446 | 17,949 |
| Depreciation during the year | 522 | 729 | 482 | 128 | 254 | 2,115 |
| Disposals during the year | - | - | (229) | - | (310) | (539) |
| Exchange differences | - | - | - | (1) | 51 | 50 |
| Balance as at December 31, 2018 | <u>9,136</u> | <u>2,670</u> | <u>4,791</u> | <u>537</u> | <u>2,441</u> | <u>19,575</u> |
| Net book value as at December 31, 2018 | <u>13,573</u> | <u>4,826</u> | <u>1,013</u> | <u>315</u> | <u>1,108</u> | <u>20,835</u> |
| Net book value as at December 31, 2017 | <u>13,953</u> | <u>5,439</u> | <u>1,134</u> | <u>440</u> | <u>1,272</u> | <u>22,238</u> |

(*) The building is located in Kiriya Sde Hateufa, near the David Ben Gurion Airport, on land leased from the government (Minhal). The land is leased from August 23, 2000 for a period of 49 years and has been capitalized (91%). Including net book value of capitalized direct borrowing costs amounted to NIS 531 thousands as at December 31, 2018 (as at December 31, 2017 amounted to NIS 547 thousands).

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

Note 9 - Intangible assets, net

| | <u>Patents and Licenses</u> | <u>Software</u> | <u>Development costs</u> | <u>Total</u> |
|---|-------------------------------------|-----------------|------------------------------|----------------|
| | <u>NIS (in thousands)</u> | | | |
| Cost | | | | |
| Balance as at January 1, 2017 | 1,523 | 2,335 | 118,684 | 122,542 |
| Additions – created internally | - | - | 12,666 | 12,666 |
| Additions - purchased | 123 | 88 | - | 211 |
| Disposals during the year | - | (16) | - | (16) |
| Balance as at December 31, 2017 | <u>1,646</u> | <u>2,407</u> | <u>131,350</u> | <u>135,403</u> |
| Additions – created internally | 99 | 46 | 9,517 | 9,662 |
| Disposals during the year | - | (801) | - | (801) |
| Balance as at December 31, 2018 | <u>1,745</u> | <u>1,652</u> | <u>140,867</u> | <u>144,264</u> |
| Accumulated amortization | | | | |
| Balance as at January 1, 2017 | 1,109 | 1,782 | 51,040 | 53,931 |
| Amortization during the year | 259 | 218 | 14,456 | 14,933 |
| Disposals during the year | - | (16) | - | (16) |
| Balance as at December 31, 2017 | <u>1,368</u> | <u>1,984</u> | <u>65,496</u> | <u>68,848</u> |
| Amortization during the year | 190 | 226 | 14,556 | 14,972 |
| Disposals during the year | - | (754) | - | (754) |
| Balance as at December 31, 2018 | <u>1,558</u> | <u>1,456</u> | <u>80,052</u> | <u>83,066</u> |
| Net book value as at December 31, 2018 | <u>187</u> | <u>196</u> | <u>60,815</u> | <u>61,198</u> |
| Net book value as at December 31, 2017 | <u>278</u> | <u>423</u> | <u>65,854</u> | <u>66,555</u> |

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

Note 9 - Intangible assets, net (cont'd)

amortization expenses

Intangible assets amortization is classified to the statement of Profit or Loss as follows:

| | For the year ended December 31, | | |
|-----------------------------------|---------------------------------|--------|--------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Cost of revenues | 14,668 | 14,568 | 14,304 |
| Development expenses, net | 63 | 58 | 25 |
| Selling & marketing expenses | 22 | 22 | 14 |
| General & administrative expenses | 219 | 285 | 243 |
| | 14,972 | 14,933 | 14,586 |

Note 10 - Current maturities of non-current liabilities

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| | NIS (in thousands) | |
| A. Current maturities of non-current loans: | | |
| Linked to the EURO | 358 | 346 |
| | 358 | 346 |
| B. Current maturities of bonds: | | |
| Linked to the CPI | 11,261 | 10,805 |
| Not linked | 1,845 | 1,842 |
| | 13,106 | 12,647 |

Note 11 - Accounts payable - other

| | | |
|---|--------|--------|
| Employees and institutions in respect of salaries | 5,776 | 4,731 |
| Provision for vacation | 2,041 | 1,988 |
| Accrued expenses | 11,629 | 29,061 |
| Provision for loss | 281 | 987 |
| Liabilities for construction contracts (*) | - | 11 |
| Advances from costumers | 16 | 41 |
| Other | 1,216 | 223 |
| | 20,959 | 37,042 |

(*) See note 7 above.

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

Note 12 - Loans from banks

A. Consisting of the following:

| | <u>Annual Interest Rates %</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|-----------------------------|--|------------------------------|------------------------------|
| | | <u>NIS (in thousands)</u> | |
| Long-term loans from banks: | | | |
| Linked to the EURO | Libor+ 3.41 | 2,325 | 2,595 |
| Less current maturities | | <u>(358)</u> | <u>(346)</u> |
| | | <u>1,967</u> | <u>2,249</u> |

B. Mortgages - see note 15B.

Note 13 - Bonds

General

- A. On January 24, 2013 the Company published a Shelf Offer Report ("2013 Offer Report") in the framework of which the public was offered NIS 53,125,000 par value of bonds (Series 4) of the Company, which were issued at 100% of their par value; the bonds are linked (principal and interest) to the consumer price index for the month of December 2012 (which was published on January 15, 2013). The bonds will be repayable (principal) in six (6) annual unequal installments, which will be paid on January 31 of each of the years of 2015 - 2020 (inclusive), as detailed in 2013 Offer Report. The bonds (Series 4) will bear interest for the unpaid balance of the bonds (Series 4) which will be paid in semi-annual equal installments as from July 31, 2013. The proceeds (gross) from the bonds allotted in accordance with 2013 Offer Report, aggregate NIS 53,125,000 (in total 53,125 bond units (Series 4) were allotted, the annual rate of interest that the bonds bear was set in the tender at 5.4%. The annual effective interest rate is 6.25%.

On January 17, 2013, in the framework of 2013 Offer Report, the Company engaged in a trust deed for the bonds (Series 4) (hereinafter – "the Trust Deed") according to which it undertook, inter alia, to meet financial covenants of a ratio of the financial debt to net CAP which will not exceed 80% and the ratio of financial debt to EBITDA which will not exceed 10, and a condition that shareholders' equity will not be less than NIS 20 million, including setting a mechanism for updating the interest for exceptional periods from the financial covenants agreed, and circumstances which are grounds for immediate repayment, and all as detailed in the Trust Deed.

An examination whether the Company meets its financial covenants will be made twice a year in every calendar year on the date of publishing the financial statements as at June 30 and December 31, as long as the bonds exist and are in circulation. The first report to be examined will be the financial statements as at June 30, 2013. As of December 31, 2018 the Company meets its financial covenants.

In addition, the Company undertook to pledge a deposit in an amount of the semi-annual interest on the bonds in favor of the bond holders (Series 4) (See note 15.B.4).

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

Note 13 - Bonds (cont'd)

General

- B. On September 10, 2014, the Company published a Shelf Offer Report ("2014 Offer Report") in the framework of which the public was offered NIS 40,000,000 par value of bonds (Series 5) of the Company, which were issued at 100% of their par value. The bonds will be repayable (principal) in nine (9) annual unequal installments, which will be paid on August 31 of each of the years of 2015 – 2023 (inclusive), as detailed in 2014 Offer Report. The bonds (Series 5) will bear interest for the unpaid balance of the bonds (Series 5) which will be paid in semi-annual equal installments as from March 1, 2014. The proceeds (gross) from the bonds allotted in accordance with 2014 Offer Report, aggregate NIS 40,000,000 (in total 40,000 bond units (Series 5) were allotted), the annual rate of interest that the bonds bear was set in the tender at 5.8%. The annual effective interest rate is 6.59%.

The Company has designated all proceeds of the offering to perform an early redemption of debentures (Series 3) in circulation, under the repayment terms of this series.

In the framework of 2014 Offer Report, the Company engaged in a trust deed for the bonds (Series 5) on September 10, 2014 (hereinafter – "the Trust Deed") according to which it undertook, inter alia, to meet financial covenants of a ratio of the financial debt to net CAP which will not exceed 70% and the ratio of financial debt to EBITDA which will not exceed 10, and a condition that the equity will not be less than NIS 25 million, including setting a mechanism for updating the interest for exceptional periods from the financial covenants agreed, and circumstances which are grounds for immediate repayment, and all as detailed in the Trust Deed.

An examination as to whether the Company meets its financial covenants will be made twice a year in every calendar year on the date of publishing the financial statements as at June 30 and December 31, as long as the bonds exist and are in circulation. The first report to be examined will be the financial statements as at December 31, 2014. As of December 31, 2018 the Company meets its financial covenants.

On February 12, 2019, the Company's Board of Directors decided to carry out early repayment at the initiative of the Company for Debentures (Series 5) in order to complete the split of operations see Note 29.

Composition:

| | December 31, 2018 | December 31, 2017 |
|-------------------------|------------------------------|------------------------------|
| | NIS (in thousands) | |
| Series 4 | 22,738 | 33,436 |
| Less discount, net | (95) | (256) |
| | 22,643 | 33,180 |
| Less current maturities | (11,261) | (10,805) |
| | 11,382 | 22,375 |
| Series 5 | 28,000 | 30,000 |
| Less discount, net | (558) | (716) |
| | 27,442 | 29,284 |
| Less current maturities | (1,845) | (1,842) |
| | 25,597 | 27,442 |
| | 36,979 | 49,817 |

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

Note 14 - Liabilities for benefits to employees, net

A. Post-employment benefits:

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

B. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

C. Defined benefits plans:

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

D. Plan liabilities, net

| | December 31, | |
|-----------------------------|--------------------|---------|
| | 2018 | 2017 |
| | NIS (in thousands) | |
| Defined benefit liabilities | 7,501 | 7,628 |
| Fair value of plan assets | (5,259) | (5,083) |
| Net liabilities | 2,242 | 2,545 |

Note 15 - Contingent Liabilities, Mortgages, guarantees and commitments

A. Contingent liabilities

- The Company received Government grants from the Chief Scientist at the Ministry of Industry in research and development programs which the company carried.
The Company is committed to pay royalties in rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants.

The total grants less royalties paid at December 31, 2018 amount to NIS 1,940 thousands. The liability in respect of royalties to the Government at December 31, 2018 amounts to NIS 185 thousands relating to projects that the company's management assumes royalties payments.

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

Note 15 - Contingent Liabilities, Mortgages, guarantees and commitments (cont'd)

B. Mortgages and guarantees

1. As security for the Company's obligations to a bank, a first lien was recorded on the Company's contractual rights under lease agreements dated August 23, 2000 between it and the Israel Lands Administration. The remaining depreciated cost of the Company's share in Unitronics House which is pledged as security for these loans, amounts to NIS 13,854 thousands as of December 31, 2018.
2. According to building rental agreement from June 2015 in Kiriat Sde Hateufa (Airport City), the subsidiary Unitronics Automated put a bank guarantee amount of NIS 934 thousands.
3. As at December 31, 2018, the company and the subsidiaries gave performance guarantees to customers in the total amount of NIS 95 thousands.
In addition, the Company provided a guarantee in the amount of NIS 420 thousands.
4. In the context of the Company's engagement in a Trust Deed for the bonds (Series 4) it undertook, inter alia, to pledge a deposit in favor of the bondholders for the amount of the semi – annual interest payments of the bonds (Series 4).
5. As of the reporting date, a foreign insurance company issued Surety bond in the amount of up to USD 60 million to secure the payment of Unitronics Systems's liabilities for the execution of projects in the amount of USD 60 million. As of 31.12.2018 approximately USD 15 million have been utilized.

C. Commitments

1. In June 2015 Unitronics Solutions entered into a lease agreement for a building in Airport City valued at NIS 2 million annually, for the period until the end of 2020 with an extension option for 5 additional years.
2. In January 2018, Unitronics Systems entered into a rental agreement in connection with the structure used for its operations in the United States, which is in effect from April 2018 to October 2023, in the amount of \$ 115,000 per annum, with an option for an additional 5 years.
3. On February 15, 2018, the Company, through Unitronics Systems, signed two agreements with an American customer unrelated to the Company or interested parties therein for the construction of two autonomous parking lots in adjacent buildings in New York City, USA, for a total of \$ 6.9 million (approximately NIS 24.5 million).on November 1, 2018 the Company signed, through Unitronics Systems, an agreement with the project developer for the possibility of freezing the project. The freezing of the project had no effect on the financial statements as of September 30, 2018, nor is it expected to affect the results of the project as a whole, since in the framework of the freeze agreement, the project initiator undertook to pay adequate compensation.
4. On May 17, 2018, the Company signed an agreement with an Israeli customer for the establishment of an autonomous storage system at the customer's site for the amount of NIS 12.5 million plus VAT.
5. On June 21, 2018, the Company, through Unitronics Systems Inc., signed an agreement with an American customer unrelated to the Company or interested parties therein for the construction of an autonomous parking garage in a building located in Boston, USA, for a total of approximately \$ 4.2 million (approximately NIS 15 million).
6. On July 15, 2018, a lease agreement was approved with a company controlled by Mr. Haim Shani, CEO and controlling shareholder of the Company (jointly with FIMI Foundation) and Mrs. Bareket Shani, Mr. Shani's wife, for a 3-year period commencing from August 1, 2018, pursuant to Section 275(A) of the Companies Law.
7. On August 1, 2018, the Company, through Unitronics Systems Inc., signed an agreement with an American customer for the construction of an autonomous parking garage in a building located in Houston, USA, for a total of approximately \$ 15.7 million (approximately NIS 57.7 million).

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

Note 15 - Contingent Liabilities, Mortgages, guarantees and commitments (cont'd)

C. Commitments (cont.):

8. On September 14, 2018, the Company, through Unitronics Systems Inc., signed an agreement with an American customer for the construction of an autonomous parking garage in a building located in Boston, USA, for a total of approximately \$ 10.1 million (approximately NIS 36 million).
9. On December 12, 2018, the Company signed an agreement with Orien S.M. Ltd. for the construction of an autonomous storage system at the customer's site in Israel for a total of approximately NIS 13 million plus VAT.
10. For an agreement signed subsequent to the date of the statement of financial position, see Note 29 below.
11. Below are the future minimum lease payments in respect of non-cancellable operating leases:

| | <u>As of December 31</u> |
|---|--------------------------|
| | <u>2018</u> |
| | <u>NIS in thousand</u> |
| Total future minimum lease payments in respect of non-cancellable operating leases: | |
| In the first year (current maturities) | - |
| In the second year | 4,884 |
| After the second year | 4,506 |
| Total | <u><u>2,507</u></u> |
| | <u><u>11,897</u></u> |

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

Note 16 - Share Capital

A. Composition of share capital

| | <u>December 31, 2017 and 2018</u> | |
|--|-----------------------------------|-------------------|
| | <u>Number of shares</u> | |
| | <u>Authorized</u> | <u>Issued</u> |
| Ordinary shares of NIS 0.02 par value each | <u>100,000,000</u> | <u>15,428,504</u> |

B. As at December 31, 2018 and 2017, the Company held 1,676,192 shares, representing 10.86% as of December 31, 2018 and 2017 of the Company's issued share capital, which were purchased for a total amount of NIS 7,042 thousands.

C. Dividend Distribution policy

On February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of approval and publication of the financial statements for December 31, 2013. Under the policy the Company is to distribute to its shareholders, from the net profit attributable to the shareholders based on the Company's annual audited consolidated financial statements (not including earnings deriving from asset revaluation) (hereinafter: "the profit"), a dividend at the rate of 33% of the profit in excess of NIS 3 million, subject, inter alia, to statutory provisions and to the Company's financing requirements and business plans and its obligations to the holders of Series 4 and 5 debentures (the Company undertook in the deed of trust for Series 4 and 5 debentures not to pay a dividend amounting to more than 30% of the annual (calendar) net profit, as long as there are outstanding debentures. The dividend distribution is subject to a resolution of the Company's Board of Directors.

No dividend was distributed for the 2018 and 2017 fiscal years.

D. Managing the Company's capital

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

The Company is working to achieve a return on capital at the level acceptable in the branch and in the field of operations in the markets in which the Company operates. This return can be subject to changes according to the market factors in the branch and in the Company's business environment. The Company is not subject to any demands regarding minimum capital required or achieving a certain level of return on capital. However, the company has a minimum capital requirement as part of a trust deed for debentures (series 4) and for debentures (series 5) described in Note 13.

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

Note 16 - Share Capital (cont.):

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

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

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

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

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

Note 17 - Cost of revenues

| | For the year ended December 31, | | |
|--|--|----------------|----------------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Materials consumed and subcontractors (*) | 84,315 | 84,128 | 67,343 |
| Payroll and related benefits | 31,829 | 29,284 | 26,436 |
| Changes in work in process and finished products | (6,822) | (4,290) | 1,130 |
| Depreciation and amortization | 15,652 | 15,568 | 15,153 |
| Management and Maintenance costs | 508 | 407 | 391 |
| Other expenses | 3,004 | 4,525 | 6,589 |
| | <u>128,486</u> | <u>129,622</u> | <u>117,042</u> |

(*) According to the agreements from 2010 and 2011 the Company is buying and selling inventories of raw materials to subcontractors for manufacturing for the company. The sell of inventories is at cost price, without gross profit. Since the significant benefits and risks for the inventories is not being transferred to the subcontractors, materials costs are decreased from proceeds from sales of raw materials sold to the subcontractors. In 2018 the proceeds from sales of raw materials amounted to about NIS 4.6 million (in 2017 and 2016 they amounted to NIS 5.2 and 5.6 million, Respectively).

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

Note 18 - Development expenses, net

| | | | |
|---|----------------|-----------------|-----------------|
| Salaries and related benefits | 10,222 | 12,469 | 13,849 |
| Subcontractors | 1,086 | 2,087 | 3,383 |
| Other expenses | 2,962 | 2,497 | 2,562 |
| Less - capitalized expenses to Intangible assets | <u>(9,517)</u> | <u>(12,666)</u> | <u>(14,707)</u> |
| | <u>4,753</u> | <u>4,387</u> | <u>5,087</u> |

Note 19 - Selling and marketing expenses

| | | | |
|---|---------------|---------------|---------------|
| Salaries and related benefits | 16,834 | 13,018 | 12,115 |
| Travel and marketing | 677 | 468 | 336 |
| Exhibits, advertising and other expenses | <u>13,375</u> | <u>12,419</u> | <u>11,930</u> |
| | <u>30,886</u> | <u>25,905</u> | <u>24,381</u> |

Note 20 - General and administrative expenses

| | | | |
|--|---------------|---------------|---------------|
| Salaries and related benefits | 12,312 | 8,969 | 6,898 |
| Office rent, maintenance and communications | 2,867 | 2,554 | 2,463 |
| Depreciation and amortization | 534 | 616 | 589 |
| Professional services | 2,592 | 1,675 | 2,204 |
| Allowance for doubtful | 92 | 30 | 113 |
| Other expenses | <u>3,745</u> | <u>2,351</u> | <u>1,976</u> |
| | <u>22,142</u> | <u>16,195</u> | <u>14,243</u> |

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

Note 21 - Financing income (expenses)

| | For the year ended December 31, | | |
|---|------------------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| A. <u>Financing income</u> | | | |
| Profit from hedge transactions, net | - | 49 | 735 |
| Embedded derivatives | 38 | - | - |
| Erosion of long-term loans from banks | - | - | 47 |
| Net profit from changes in exchange rates | 2,739 | 713 | - |
| Others | 39 | 180 | 161 |
| | 2,816 | 942 | 943 |
| B. <u>Financing expenses</u> | | | |
| Financing cost relating to bonds | 3,579 | 4,138 | 4,512 |
| Loss from hedging transactions, net | 1,036 | - | - |
| Loss from change in exchange rates, net | - | - | 741 |
| Embedded derivatives | - | 2,013 | 544 |
| Others | 515 | 462 | 622 |
| | 5,130 | 6,613 | 6,419 |
| C. <u>Classification of financing income (expenses) according to financial instruments</u> | | | |
| Financial assets at fair value through the statement of operations | (1,036) | 50 | 733 |
| Financial liabilities measured at reduced cost | (3,720) | (4,267) | (4,465) |
| Financial liabilities measured at fair value through the statement of operations | 38 | (2,013) | (544) |

Note 22 - Interested and related parties

1. Transactions with interested and related parties:

| | For the year ended December 31, | | |
|--|------------------------------------|-------|-------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Salaries and related benefits (*) | 1,836 | 1,829 | 1,662 |
| Bonus interested parties | 1,630 | 260 | - |
| Chairman of the Board of Directors' remuneration | 647 | 796 | 416 |
| Other directors' remuneration (**) | 373 | 362 | 357 |
| Rental expenses and management fees | 1,200 | 1,155 | 1,285 |
| (*) Number of recipients | 2 | 2 | 2 |
| (**) Number of recipients | 6 | 6 | 8 |

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

Note 22 - Interested and related parties (cont'd)

2. Directors and officers Insurance

The company insured the liability of the directors and executives in accordance with the provision of the law. The policy covers the liability of the directors and executives of the company up to 7.5 million US dollars.

- 3 The annual general meeting of the Company's shareholders (the "AGM") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders. In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company (jointly with the FIMI Fund) and his wife.
4. Mr. Haim Shani is entitled to an annual bonus in respect of each calendar year commencing 2005, and as long as he is employed as CEO of the Company, at a rate of 7.5% of the pre-tax profit for that year. Starting from the closing date of the FIMI investment transaction (as approved on March 29, 2016 by the Company's Compensation Committee and Board of Directors, and subsequently, on May 9, 2016, by the General Meeting of Company Shareholders), the bonus is subject to a cap of NIS 1.14 million (linked to the known CPI on May 9, 2016, the closing date of the FIMI investment transaction) (hereinafter: "the future bonuses"). The future bonuses will be calculated each year anew (and not cumulatively), without taking losses into account, and will be paid within 30 days of the date of approval of the financial statements by the Company's Board of Directors for each calendar year as aforesaid and affirmation by the Company's Compensation Committee that their terms are consistent with the Company's Compensation Policy and the terms of Mr. Shani's employment agreement.
5. The Company is bound by personal employment agreements with Mr. Haim Shani [a controlling shareholder (jointly with the FIMI Fund) and a Director] and with Ms. Bareket Shani (Mr. Shani's wife, who is also a Director) (hereinafter in this section: "the employment agreements"), according to which Mr. Shani serves as Company CEO and Ms. Shani serves as Deputy CEO and Chief Human Resources Officer. Under the employment agreements, the monthly salary of the controlling shareholders stands at NIS 60,000 and NIS 30,000, respectively. The salary of the controlling shareholders is linked to the CPI, such that as of January 2012, and at the beginning of each year, an amount equal to the percentage of change in the past year's CPI is to be added to their salary. The employment agreements were approved by the Compensation Committee and the Board of Directors on March 29, 2016, and subsequently on May 9, 2016 by the General Meeting of Company Shareholders. The employment agreements are in force for a period of three years up to May 9, 2019.
6. As part of the FIMI Fund investment transaction in the Company, Mr. Amit Ben-Zvi was appointed as a paid active Chairman of the Board of Directors. Starting from the transaction closing date, Mr. Ben-Zvi is entitled, for his service as active Chairman of the Board of Directors of the Company, to annual compensation equal to 55% of the cost to the employer for the Company CEO position, plus VAT and expenses. The compensation is paid to Mr. Ben-Zvi quarterly for services provided to the Company in the previous calendar quarter.
7. In July 2018, the Board of Directors of the Company and the Audit Committee approved the renewal of a lease agreement between the Company and the company controlled by Mr. Shani and Ms. Shani under conditions that are not different from the terms of the previous agreement of July 2015 regarding rental of an area of 1,022 square meters and 30 parking spaces. For an additional three years commencing August 1, 2018. See additional information in note 15 c' (6).

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

Note 23 - Taxes on Income

A. Industrial company

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

B. Tax rates applicable to the company

The Israeli corporate income tax rates for the years 2016, 2017, 2018 and ahead are 25%, 24% and 23%, Respectively.

The Company's activity in the logistics warehouses area is subject to a corporate tax rate and the Company's activity in the products segment is entitled to tax benefits as detailed below.

C. Approved Enterprise / beneficiary Enterprise

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

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

D. Amendment to the Encouragement of Capital Investments Law, 1959 (Amendments 71 and 73)

In 2013, Amendment 71 to the Encouragement of Capital Investments Law (hereinafter - the Amendment) was published, which states that the rate of tax on preferred income from a preferred enterprise is 16% (in Development Area A - 9%).

In addition, the amendment provides that if a dividend is distributed to an individual or a foreign resident from the profits of the preferred enterprise as stated above, a tax of 20% will apply.

In May 2017, the Company notified the Tax Authority of a transition to the application of the Amendment from the 2017 tax year.

In May 2017, the Company notified the Tax Authority of a transition to the application of the Amendment from the 2017 tax year.

In December 2016, Amendment No. 73 to the Law for the Encouragement of Capital Investments came into force, setting out special tax benefit tracks for technological enterprises: "preferred technological enterprise" and "special preferred technological plant". In June 2017, the Encouragement of Capital Investments Regulations (Preferred Technology Income and Capital Gain for a Technological Enterprise), 5767 - 2017 were published, which determine the rules required for the implementation of these tracks: Starting in 2017, the corporate tax rate applicable to a preferred technological enterprise: - 7.5%, the rest of the country - 12%, and a special special technological enterprise: 6%.

In the estimation of the Company's management, the Company is entitled to preferred income benefits from a preferred technological enterprise.

The balances of deferred taxes included in the financial statements as at December 31, 2018 are computed according to the tax rates whose legislation was actually completed as of the reporting date and therefore include the aforementioned changes, to the extent that they are relevant to the Company.

E. The Company has final tax assessments up to and including 2012.

F. The subsidiaries, Unitronics Inc. and Unitronics Systems is taxed under US tax laws and not entitled to benefits pursuant to the Encouragement of Industry (Taxes) Law, 1969. The Federal tax rate applicable to the subsidiary ranges between 15% and 35%; the state tax law applicable to the subsidiary Unitronics Inc. in the State of Massachusetts is 8.75% and to the subsidiary Unitronics Systems in the State of New Jersey ranges between 6.5% and 9%.

In 2017, a US tax reform was approved effective as of 2018, the main consequences of which are Corporate tax fell to 21%.

G. The carryforward losses for tax purposes as at December 31, 2018, for which deferred tax assets were not recognized as their utilization in the foreseeable future is not probable (only in respect of subsidiaries) amounts to NIS 114 million.

H. Deferred tax attributed to the company

| | Statements of financial position | | Statements of income | | |
|-------------------------------------|---|--------------|--------------------------------|--------------|--------------|
| | December 31, | | Year ended December 31, | | |
| | 2018 | 2017 | 2018 | 2017 | 2016 |
| | NIS in thousands | | | | |
| <u>Deferred tax liabilities:</u> | | | | | |
| Property, plant and equipment | 531 | 439 | (92) | (45) | (30) |
| Other financial assets | - | - | - | 63 | (59) |
| Marketable securities | - | - | - | - | 32 |
| Intangible assets | 5,280 | 5,465 | 185 | (554) | (85) |
| | <u>5,811</u> | <u>5,904</u> | <u>93</u> | <u>(536)</u> | <u>(142)</u> |
| <u>Deferred tax assets:</u> | | | | | |
| Carry forward tax losses | - | - | - | - | (89) |
| Inventory | 324 | 313 | 11 | (56) | 369 |
| Other financial liabilities | 739 | 435 | 304 | 342 | 87 |
| Employee benefits | 441 | 519 | (78) | (141) | 114 |
| | <u>1,504</u> | <u>1,267</u> | <u>237</u> | <u>145</u> | <u>481</u> |
| Deferred tax income (expenses), net | | | <u>330</u> | <u>(391)</u> | <u>339</u> |
| Deferred tax liabilities, net | <u>4,307</u> | <u>4,637</u> | | | |

The deferred taxes are presented at the Statements of financial position as follows:

| | | |
|-------------------------|--------------|--------------|
| Non-current liabilities | <u>4,307</u> | <u>4,637</u> |
|-------------------------|--------------|--------------|

Notes to the Consolidated Financial Statements

Note 23 - Taxes on Income (cont'd)

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

| | Statements of income | | |
|--|--------------------------------|-------------|-------------|
| | Year ended December 31, | | |
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Remeasurement gain (loss) from defined benefit plans | 62 | 5 | (11) |
| | | | |
| J. <u>Taxes on income included in profit or loss:</u> | | | |
| Current tax | (2,331) | (1,782) | - |
| Previous year tax | (1,106) | - | (93) |
| Deferred tax income (expenses), see Section I above. | 330 | (391) | 339 |
| | (3,107) | (2,173) | 246 |
| | | | |
| K. <u>Theoretical tax:</u> | | | |
| Profit (loss) before taxes on income | 13,322 | 3,209 | (17,256) |
| Statutory tax rate | 23% | 24% | 25% |
| Tax computed at the statutory tax rate | 3,064 | 770 | (4,314) |
| Increase in taxes resulting from non-deductible expenses | 79 | 68 | 64 |
| Temporary differences and losses for tax purposes where deferred taxes were not recognized | 1,449 | 3,398 | 7,268 |
| Benefit in privileged tax rate | (2,591) | (2,052) | (3,331) |
| Taxes in respect of previous years | 1,106 | - | 93 |
| Other | - | (11) | (26) |
| Taxes on income (tax benefit) | 3,107 | 2,173 | (246) |

Note 24 - Operative segments

A. General

1. The group defined the Chairman of the Board of Directors and the Company's CEO who makes the strategic decisions as the chief operating decision maker, of the Group. The Chairman and the CEO reviews the internal reports of the Group in order to evaluate performance and allocate resources and determines the operating segments based on these reports.

The Chairman and the CEO examine the segment's operating performance on the basis of measuring operating income, this measurement basis is not affected by one-time expenses in the operating segments, such as the costs of structural change and an impairment in the value of assets, where the impairment in value results from a single one time event. Interest revenues and expenses are not included in the results in each of the operating segments examined by senior management.

2. The company and its subsidiaries operate in two main operative segments.

- Design, development, manufacture and marketing of PLC's - Programmable Logic Controllers systems (hereinafter "Products segment").
- Design, development, manufacture, marketing, construction and maintenance of autonomous parking facilities and logistic systems. (hereinafter - "Automated Solutions segment").

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

Note 24 - Operative segments (cont'd)

A. General (cont'd)

3. Segment revenues and expenses include income and expenses arising from the operating activities of these segments, which are directly attributable to the operating segments as well as a pro-rata share of the Company's expenses in respect of all the segments, which can be allocated on a reasonable basis.
4. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other.
5. The revenues of the Company and its subsidiaries can also be classified geographically.

B. Report on operative segments

| | For the year ended December 31, | | |
|---|--|-------------|-------------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| 1. Revenues | | | |
| Products | 134,946 | 123,160 | 113,509 |
| Automated Solutions | 66,669 | 61,406 | 35,052 |
| Other | 434 | 436 | 427 |
| Total revenues | 202,049 | 185,002 | 148,988 |
| 2. Segment results and adjustment to the profit (loss): | | | |
| Products | 28,660 | 27,051 | 24,098 |
| Automated Solutions | 2,714 | (6,584) | (25,027) |
| Other | (75) | 27 | 33 |
| Unallocated corporate expenses | (15,663) | (11,614) | (10,884) |
| Operating profit (loss) | 15,636 | 8,880 | (11,780) |
| Unallocated corporate financing expenses, net | (2,314) | (5,671) | (5,476) |
| Tax benefit (taxes on income) | (3,107) | (2,173) | 246 |
| Profit (loss) for the year | 10,215 | 1,036 | (17,010) |

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

Note 24 - Operative segments (cont'd)

3. Segment assets

| | December 31, | |
|------------------------------|--------------------|---------|
| | 2018 | 2017 |
| | NIS (in thousands) | |
| Products | 100,785 | 93,395 |
| Automated Solutions | 51,520 | 66,048 |
| Other | 53 | 65 |
| Unallocated corporate assets | 56,600 | 73,966 |
| Consolidated total assets | 208,958 | 233,474 |

4. Segment liabilities

| | | |
|-----------------------------------|---------|---------|
| Products | 22,449 | 24,318 |
| Automated Solutions | 12,236 | 31,699 |
| Other | 191 | 169 |
| Unallocated corporate liabilities | 77,618 | 82,924 |
| Consolidated total liabilities | 112,494 | 139,110 |

5. Cost of long-term purchase of assets

| | For the year ended December 31, | | |
|-------------------------------------|------------------------------------|--------|--------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Products | 7,786 | 9,107 | 9,968 |
| Automated Solutions | 2,385 | 4,556 | 9,607 |
| Unallocated capital expenditure | 323 | 635 | 788 |
| Investment cost in long-term assets | 10,494 | 14,298 | 20,363 |

6. Depreciation and amortization

| | | | |
|---|--------|--------|--------|
| Products | 10,116 | 9,968 | 9,990 |
| Automated Solutions | 6,255 | 6,543 | 6,204 |
| Unallocated depreciation and amortization | 729 | 754 | 707 |
| Total depreciation and amortization | 17,100 | 17,265 | 16,901 |

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

Note 24 - Operative segments (cont'd)

B. Geographical information

1. Revenues (according to the client's location)

| | For the year ended December 31, | | |
|--------------------------|------------------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| Israel | 36,012 | 26,420 | 31,013 |
| Europe | 59,880 | 55,308 | 51,553 |
| United States of America | 89,856 | 87,644 | 52,251 |
| Other destinations | 16,301 | 15,630 | 14,171 |
| | 202,049 | 185,002 | 148,988 |

| | For the year ended On December 31, 2018 | | | | | Total |
|--------------------------|--|-----------|---------|-----------------|---------|---------|
| | Products | Logistics | | Parking Garages | | |
| | | Project | Service | Project | Service | |
| Israel | 7,117 | 12,379 | 11,577 | 4,446 | 59 | 35,578 |
| Europe | 59,880 | - | - | - | - | 59,880 |
| United States of America | 51,648 | - | - | 36,308 | 1,900 | 89,856 |
| Other destinations | 16,301 | - | - | - | - | 16,301 |
| | 134,946 | 12,379 | 11,577 | 40,754 | 1,959 | 201,615 |

2. Non-current assets used by the segment (based on the assets' location)

| | December 31, 2018 | December 31, 2017 |
|---------------------------------------|----------------------|----------------------|
| | NIS (in thousands) | |
| | Israel | 81,733 |
| North America | 569 | 513 |
| Consolidated total non-current assets | 82,302 | 89,120 |

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

Note 25 – Profit (loss) per share

| | For the year ended December 31, | | |
|---|------------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| | NIS (in thousands) | | |
| | 2018 | 2017 | 2016 |
| <u>Profit (loss) used to calculate the basic earnings per share (NIS in thousand)</u> | 10,215 | 1,036 | (17,010) |
| Calculation of the diluted earnings per share – the profit attributable to holders of the Company's ordinary shares with the effect on the profit assuming conversion of the options (NIS in thousands) | (38) | - | - |
| <u>Profit (loss) used to calculate the diluted earnings per share (NIS in thousand)</u> | 10,177 | 1,036 | (17,010) |
| <u>Weighted average of amounts of shares used to calculate the earnings per share (No. of shares)</u> | | | |
| Basic | 13,752,312 | 13,752,312 | 12,334,504 |
| Weighted average of number of shares used to calculate the earnings per share | 13,752,312 | 13,752,312 | 12,334,504 |
| With the addition of options | 535,714 | - | - |
| <u>Adjusted weighted average number of ordinary shares used to calculate the diluted earnings per share</u> | 14,288,026 | 13,752,312 | 12,334,504 |

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

Note 26 - Financial Instruments

A. Classification of financial asset and financial liabilities

| | December 31, 2018 | December 31, 2017 |
|---|------------------------------|------------------------------|
| | NIS, (in thousands) | |
| <u>Financial assets at fair value through profit or loss</u> | | |
| Forward contracts on foreign currency | 49 | 68 |
| <u>Financial assets measured at amortized cost</u> | | |
| Loans and receivables | 37,520 | 73,375 |
| <u>Financial liabilities at fair value through profit or loss</u> | | |
| Forward contracts on foreign currency | 414 | 94 |
| Liability for share purchase option | 6,872 | 6,910 |
| <u>Other financial liabilities at amortized cost</u> | | |
| Financial liabilities measured at amortized cost | 93,445 | 121,252 |

B. Financial Risk factors

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

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

1. Market Risks

a. Currency and Index risks

1. Most of the engagements that the Company had in the Automated Solutions segment are generally linked to the US dollar or the Euro. In addition a considerable part of the Company's sales in the products field are dominated or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Company.
2. The Company's policy is that the Company's contracts with and payments to subcontractors and suppliers with respect to projects in the Logistics Solutions and Parking Solutions segments, as set out above, are stated in or linked to the US dollar or the euro. Accordingly, changes in the dollar/shekel and euro/shekel exchange rates could subject the Company to exposure.

However, it should be noted that a degree of protection is provided by the Company's policy in the Automated Solutions segments to match the linkage currency in contracts with subcontractors to the linkage currency in contracts with customers.
3. The Company has bonds linked to the CPI index, and therefore changes in consumer price index can create an exposure for the Company.
4. The Company has loans in Euro, and therefore changes in the rate of exchange of Euro against the NIS can create an exposure for the Company.

b. Interest risks

The company has loans denominated in US dollar and in Euro, with variable interest in a spread from Libor. Changes in the rates of interest are likely to affect the company's business results.

2. Credit Risks

As at December 31, 2018 the company had trade account receivables and other account receivables amounting to approximately NIS 49,899 thousands. The company does not predict material credit risks in respect of trade account receivables, deposits and other account receivables.

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

Note 26 - Financial Instruments (cont'd)

B. Financial Risk factors (cont'd)

3. Liquidity risks

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

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

The following table presents the contractual maturities dates of the financial liabilities (including interest payments):

December 31, 2018:

| | <u>Book Value</u> | <u>1st year</u> | <u>2nd year</u> | <u>3rd year</u> | <u>4th year</u> | <u>5th year and after</u> | <u>Total expected cash flow</u> |
|-------------------------------------|-------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|---------------------------------|
| <u>NIS, (in thousands)</u> | | | | | | | |
| Trade payables | 21,823 | 21,823 | - | - | - | - | 21,823 |
| Accounts payable - other | 20,959 | 20,959 | - | - | - | - | 20,959 |
| Forward contracts | 414 | 414 | - | - | - | - | 414 |
| Liability for share purchase option | 6,872 | - | - | - | 6,872 | - | 6,872 |
| Loans from banks | 2,325 | 423 | 412 | 401 | 390 | 928 | 2,554 |
| Bonds | 50,085 | 15,878 | 15,149 | 9,392 | 8,928 | 8,464 | 57,811 |
| | <u>102,478</u> | <u>59,497</u> | <u>15,561</u> | <u>9,793</u> | <u>16,190</u> | <u>9,392</u> | <u>110,433</u> |

December 31, 2017:

| | <u>Book Value</u> | <u>1st year</u> | <u>2nd year</u> | <u>3rd year</u> | <u>4th year</u> | <u>5th year and after</u> | <u>Total expected cash flow</u> |
|---|-------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|---------------------------------|
| <u>NIS, (in thousands)</u> | | | | | | | |
| Accounts payable - trade | 22,823 | 22,823 | - | - | - | - | 22,823 |
| Accounts payable - other | 37,042 | 37,042 | - | - | - | - | 37,042 |
| Forward contracts | 94 | 94 | - | - | - | - | 94 |
| Liability for share purchase option (*) | 6,910 | - | - | - | - | 6,910 | 6,910 |
| Loans from banks | 2,595 | 422 | 411 | 401 | 390 | 1,281 | 2,905 |
| Bonds | 62,464 | 16,216 | 15,769 | 15,046 | 9,392 | 17,392 | 73,815 |
| | <u>131,928</u> | <u>76,597</u> | <u>16,180</u> | <u>15,447</u> | <u>9,782</u> | <u>25,583</u> | <u>143,589</u> |

(*) Repayment by way of issue of shares.

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

Note 26 - Financial Instruments (cont'd)

C. Fair value

The following table presents the balances in the financial statements and the fair value of financial instruments which are not presented in the financial statements according to their fair value which there is a substantial difference between the carrying amount to fair value:

| | Book value | | Fair value | |
|-----------------------------------|---------------------|--------|--------------|--------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | NIS, (in thousands) | | | |
| <u>Financial liabilities (1)</u> | | | | |
| Bonds - linked to the Israeli CPI | 23,154 | 33,930 | 23,696 | 35,597 |
| Bonds - not linked | 27,990 | 29,781 | 30,766 | 35,556 |

(1) The fair value is based on stock market value as at the balance sheet date.

The balance in the financial statements of cash and cash equivalents, marketable securities, clients, debtors and receivables, forward contracts, loans from banks, obligations to suppliers and other payables are compatible to their fair values or by it.

D. Classification of financial instruments at fair value rating

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

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

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

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

| | Level 1 | Level 2 | Level 3 |
|---|---------------------|---------|---------|
| | NIS, (in thousands) | | |
| <u>As at December 31, 2018:</u> | | | |
| <u>Financial assets measured at fair value</u> | | | |
| Forward contracts on foreign currency | - | 49 | - |
| <u>Financial liabilities measured at fair value</u> | | | |
| Forward contracts on foreign currency | - | 414 | - |
| Liability for share purchase option | - | - | 6,872 |
| <u>As at December 31, 2017:</u> | | | |
| <u>Financial assets measured at fair value</u> | | | |
| Forward contracts on foreign currency | - | 68 | - |
| <u>Financial liabilities measured at fair value</u> | | | |
| Forward contracts on foreign currency | - | 94 | - |
| Liability for share purchase option | - | - | 6,910 |

During the years 2018 and 2017 there were no transitions between levels.

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

Note 26 - Financial Instruments (cont'd)

E. Adjustment for fair value measurements that classified as Level 3 on fair value hierarchy of financial instruments

| | Financial liabilities at fair value that classified to profit or loss | |
|--|--|-------|
| | 2018 | 2017 |
| | <u>NIS, (in thousands)</u> | |
| Beginning of period | 6,910 | 4,897 |
| Total net loss (profit) recognized in profit or loss | (38) | 2,013 |
| Balance at December 31 | 6,872 | 6,910 |

F. Liability for share purchase option

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 evaluator.

The economic model prepared on May 18, 2016 (the date of completing the transaction) established an estimate for the liability of NIS 4,353 thousand. This estimate was updated on the date of the reporting date to NIS 6,872 thousand.

The fair value of the price adjustment mechanism is the expected future value of the additional shares which will be allotted to FIMI (should they be 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 that FIMI will receive at the time of the sale of all the acquired shares.

The future values of the acquired shares are estimated using the binomial model and are 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 figure used in the measurement of the unforeseeable fair value is the standard deviation. 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 Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

F. Liability for share purchase option (cont'd)

| | For the year ended December 31, | |
|--|------------------------------------|-------|
| | 2018 | 2017 |
| | <u>Profit (loss)</u> | |
| | <u>NIS, (in thousands)</u> | |
| <u>Sensitivity analyses for changes in the Underlying Asset:</u> | | |
| 10% increase | 128 | (12) |
| 10% decrease | 315 | 485 |
| 20% increase | 54 | 267 |
| 20% decrease | 720 | 700 |
| <u>Sensitivity analyses for changes in the standard deviation:</u> | | |
| 5% increase | 307 | 500 |
| 5% decrease | (80) | (219) |
| 10% increase | 797 | 799 |
| 10% decrease | (158) | (304) |

G. Forward contracts and options

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

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

Note 26 - Financial Instruments (cont'd)

H. Sensitivity analyses for changes in market factors

| | For the year ended December 31, | |
|--|------------------------------------|-------|
| | 2018 | 2017 |
| | Profit (loss) | |
| | <u>NIS (in thousands)</u> | |
| <u>Sensitivity analyses for changes in the USD exchange rate:</u> | | |
| 5% increase in the exchange rate | 2,503 | 686 |
| 5% decrease in the exchange rate | (2,503) | (686) |
| <u>Sensitivity analyses for changes in the Euro exchange rate:</u> | | |
| 5% increase in the exchange rate | 653 | (458) |
| 5% decrease in the exchange rate | (653) | 458 |

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

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

Note 27 - Changes in liabilities deriving from financing activities

| | 2018 | | | |
|---|----------------------------|----------|-----------------------------|--|
| | Loas from Banks | Bonds | Share purchase option | Total cash flow from finance activities |
| | <u>NIS, (in thousands)</u> | | | |
| Balance as of January 1 | 2,595 | 62,464 | 6,910 | - |
| Repayment of bonds | - | (12,974) | - | (12,974) |
| Repayment of long-term loans | (354) | - | - | (354) |
| Total changes from cash flows from financing activities | (354) | (12,974) | - | (13,328) |
| Exceange rate differences | 84 | - | - | |
| Reevaluation of share purchase option | - | - | (38) | |
| Reevaluation of bonds | - | 595 | - | |
| Balance as of December 31 | 2,325 | 50,085 | 6,872 | (13,328) |

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

Note 27 - Changes in liabilities deriving from financing activities (cont.):

| | 2017 | | | Total cash flow from finance activities |
|--|--------------------|---------------|-----------------------------|---|
| | Loas from Banks | Bonds | Share purchase option | |
| NIS, (in thousands) | | | | |
| Balance as of January 1 | 3,656 | 70,642 | 4,897 | - |
| Repayment of bonds | - | (8,666) | - | (8,666) |
| Repayment of long-term loans | (1,094) | - | - | (1,094) |
| Total changes from cash flows from financing activities | (1,094) | (8,666) | - | (9,760) |
| Exceange rate differences | 33 | - | - | |
| Reevaluation of share purchase option | - | - | 2,013 | |
| Reevaluation of bonds | - | 488 | - | |
| Balace as of December 31 | <u>2,595</u> | <u>62,464</u> | <u>6,910</u> | <u>(9,760)</u> |

Note 28 - information about investee companies

| | Holding rate as at December 31, 2018 and 2017 | | |
|---|--|---------------------------------------|---|
| | Country of incorporation | Shares conferring voting rights | Shares conferring rights to profits |
| Unitronics Inc. | USA | 100% | 100% |
| Unitronics building management and maintenance (2003) Ltd. | Israel | 100% | 100% |
| Unitronics automated solutions Ltd. | Israel | 100% | 100% |
| Unitronics Systems Inc.(*) | USA | 100% | 100% |

(*) Held by Unitronics Automated Solutions Ltd.

Note 29 - Subsequent events

1. On January 11, 2019, the Company, through Unitronics Systems, 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 approximately US \$ 13.5 million (approximately NIS 50 million).
2. On February 10, 2019, Unitronics Systems entered into three agreements with American customers for the construction of autonomous parking lots in New York City, in exchange for a total sum of approximately US \$ 4.8 million (approximately NIS 17.5 million).
3. On February 12, 2019, the Company's Board of Directors passed a resolution for early redemption at the initiative of the Company for debentures (Series 5).
4. On March 3, 2019, in order to finance the repayment of debentures (Series 5) the Company took out two bank loans in the total amount of NIS 30 million. A loan of NIS 10 million for a period of five years with an option for early repayment, prime interest plus less than one percent per annum, interest payments and principal on a quarterly basis A loan of NIS 20 million, a prominent loan for a period of two years, For early repayment, plus prime interest plus one percent per annum with interest payments on quarterly basis.

UNITRONICS (1989) (R"G) LTD

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

December 31, 2018

Unitronics (1989) (R"G) Ltd

Special report under Regulation 9C

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

Following the financial data and separate financial information attributed to the company itself from the consolidated financial statements of the Group of at December 31, 2018 published in the periodic reports (hereinafter - the consolidated financial statements), presented in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied on the disclosure of the financial data described in Note 2 to the consolidated financial statements.



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

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

We have audited the separate financial information presented in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter - the "Company") as of December 31, 2018 and 2017 and for each of the three years ended December 31, 2018 which included in the Company's periodic report. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on this separate financial information based on our audit.

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

In our opinion, the separate financial information as of December 31, 2018 and 2017 and for each of the three years ended December 31, 2018 is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

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

March 27, 2019

Tel Aviv | Jerusalem | Haifa | Beer Sheva | Bene Berak | Kiryat Shmona | Petach Tikva | Modiin Illit | Nazareth Illit | Eilat
+972-3-6386868 | +972-2-6546200 | +972-4-8680600 | +972-77-7784100 | +972-73-7145300 | +972-77-5054906 | +972-77-7784180 | +972-8-9744111 | +972-4-6555888 | +972-8-6339911

Head Office: Amot BDO House, 48 Menachem Begin Road, Tel Aviv 6618001, ISRAEL Email: bdo@bdo.co.il Our Site: www.bdo.co.il

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Unitronics (1989) (R"G) Ltd

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

| | | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|-----------------------------------|------------------------------|------------------------------|
| | <u>Additional information</u> | <u>NIS, (in thousands)</u> | |
| <u>Current assets</u> | | | |
| Cash and cash equivalents | A | 23,366 | 24,082 |
| Restricted deposit | | 613 | 901 |
| Short-term deposits in banks | | - | 20,209 |
| Accounts receivable - | | | |
| Trade | B | 19,541 | 15,429 |
| Income receivable for construction contract | | 4,194 | - |
| Other | B | 3,188 | 2,055 |
| Other financial assets | B | 49 | 68 |
| Accounts receivable - other - Subsidiaries | F(3) | 9,432 | 12,989 |
| Inventory | | <u>30,645</u> | <u>27,401</u> |
| | | <u>91,028</u> | <u>103,134</u> |
| <u>Non-current assets</u> | | | |
| Long-term deposits | | 115 | 112 |
| Property and equipment, net | | 15,591 | 16,462 |
| Loans and capital notes to subsidiaries less surplus of liabilities over assets associated with subsidiaries | F(3)(b) | 46,650 | 36,621 |
| Intangible assets, net | | <u>42,351</u> | <u>44,274</u> |
| | | <u>104,707</u> | <u>97,469</u> |
| | | <u>195,735</u> | <u>200,603</u> |

Amit Ben Zvi
Chairman of the Board of Directors

Haim Shani
Director and Chief
Executive Officer

Eitan Alon
Chief Financial Officer

Approved: March 27, 2019

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

Unitronics (1989) (R"G) Ltd

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

| | | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|---|-----------------------------------|------------------------------|------------------------------|
| | <u>Additional information</u> | <u>NIS, (in thousands)</u> | |
| <u>Current liabilities</u> | | | |
| Current maturities of non-current loans | | 358 | 346 |
| Current maturities of bonds | | 13,106 | 12,647 |
| Accounts payable - | | | |
| Trade | | 17,566 | 20,011 |
| Liability in respect of construction contracts | | 1,278 | - |
| Other | C1 | 14,645 | 7,425 |
| Other financial liabilities | | 414 | 94 |
| | | <u>47,367</u> | <u>40,523</u> |
| <u>Non-current liabilities</u> | | | |
| Loans from the banks | | 1,967 | 2,249 |
| Bonds | | 36,979 | 49,817 |
| Liabilities for benefits to employees, net | | 1,779 | 2,103 |
| Liability for share purchase option | C2 | 6,872 | 6,910 |
| Deferred taxes | D | 4,307 | 4,637 |
| | | <u>51,904</u> | <u>65,716</u> |
| <u>Equity</u> | | | |
| Share capital | | 427 | 427 |
| Share premium | | 104,513 | 104,513 |
| Capital reserve from translation of foreign operation | | (1,598) | (2,437) |
| Company shares held by the company | | (7,042) | (7,042) |
| Reserve from a transaction with a controlling party | | 104 | 104 |
| Retained earnings | | 60 | (1,201) |
| | | <u>96,464</u> | <u>94,364</u> |
| | | <u>195,735</u> | <u>200,603</u> |

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

Unitronics (1989) (R"G) Ltd

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

| | <u>Additional information</u> | <u>For the year ended December 31,</u> | | |
|---|-----------------------------------|--|---------------------|------------------------|
| | | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| | | <u>NIS, (in thousands)</u> | | |
| Revenues | | 100,600 | 87,504 | 78,626 |
| Revenues from subsidiaries | F1 | <u>38,146</u> | <u>34,234</u> | <u>31,263</u> |
| Total revenues | | 138,746 | 121,738 | 109,889 |
| Cost of revenues | | <u>85,743</u> | <u>76,636</u> | <u>72,227</u> |
| Gross profit | | 53,003 | 45,102 | 37,662 |
| Development expenses, net | | 3,865 | 2,810 | 3,167 |
| Selling & marketing expenses | | 12,404 | 10,532 | 9,463 |
| General & administrative expenses | | 14,481 | 10,427 | 8,917 |
| General & administrative expenses to subsidiaries | F1 | 738 | 745 | 800 |
| | | <u>146</u> | <u>-</u> | <u>-</u> |
| Operating profit | | 21,369 | 20,588 | 15,315 |
| Financing incomes | F1 | 3,178 | 3,661 | 3,003 |
| Financing expenses | | <u>4,925</u> | <u>6,878</u> | <u>6,501</u> |
| Profit after financing, net | | 19,622 | 17,371 | 11,817 |
| The Company's share of subsidiaries losses | | <u>6,378</u> | <u>14,162</u> | <u>29,073</u> |
| Profit (loss) before tax benefit (taxes on income) | | 13,244 | 3,209 | (17,256) |
| Tax benefit (taxes on income) | E7 | <u>(3,029)</u> | <u>(2,173)</u> | <u>246</u> |
| Profit (loss) for the year attributed to the company's shareholders | | <u><u>10,215</u></u> | <u><u>1,036</u></u> | <u><u>(17,010)</u></u> |

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

Unitronics (1989) (R”G) Ltd

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

| | For the year ended December 31, | | |
|---|------------------------------------|----------------|-----------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
| | <u>NIS, (in thousands)</u> | | |
| profit (loss) for the year attributed to the company’s shareholders | <u>10,215</u> | <u>1,036</u> | <u>(17,010)</u> |
| Other comprehensive income (loss) (after tax) | | | |
| <u>Items that will not be classified afterwards to profit or loss:</u> | | | |
| Remeasurement gain (losses) from defined benefit plans | 340 | (70) | 61 |
| <u>Items that will be reclassified to profit or loss in the future if certain conditions are met:</u> | | | |
| Adjustments arising from translating financial statements of foreign operations | <u>764</u> | <u>(2,646)</u> | <u>(379)</u> |
| Other comprehensive income (loss) for the year attributed to the company’s shareholders | <u>1,104</u> | <u>(2,716)</u> | <u>(318)</u> |
| Total comprehensive profit (loss) for the year attributed to the company’s shareholders | <u>11,319</u> | <u>(1,680)</u> | <u>(17,328)</u> |

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

Unitronics (1989) (R"G) Ltd

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

| | For the year ended December 31, | | |
|---|------------------------------------|-----------------|-----------------|
| | 2018 | 2017 | 2016 |
| | <u>NIS, (in thousands)</u> | | |
| <u>Cash flows - operating activities</u> | | | |
| Profit (loss) for the year attributed to the company's shareholders | 10,215 | 1,036 | (17,010) |
| Adjustments necessary to show the cash flows from operations (Appendix A) | <u>11,277</u> | <u>20,788</u> | <u>41,652</u> |
| Cash flows provided by operating activities of the company | 21,492 | 21,824 | 24,642 |
| Cash flows used in operating activities from transactions with subsidiaries | <u>(162)</u> | <u>(3,300)</u> | <u>(14,463)</u> |
| Cash flows provided by (used in) operating activities | <u>21,330</u> | <u>18,524</u> | <u>10,179</u> |
| <u>Cash flows - investing activities</u> | | | |
| Sale of (investment in) marketable securities, net | - | - | 14,392 |
| Purchase of property and equipment | (564) | (894) | (233) |
| Investment in long-term deposits in banks | - | - | (20,000) |
| Investment in short-term deposits in banks | 20,000 | 25,000 | (25,000) |
| Repayment from restricted deposit | 288 | 190 | 185 |
| Repayment (investment) in long-term deposits | 17 | 82 | 60 |
| Investment in intangible assets | <u>(7,486)</u> | <u>(8,825)</u> | <u>(10,468)</u> |
| Cash flows provided by (used in) investing activities | 12,255 | 15,553 | (41,064) |
| Cash flows provided by investing activities from transactions with subsidiaries | <u>(21,132)</u> | <u>(19,228)</u> | <u>(20,226)</u> |
| Cash flows provided by (used in) investing activities | <u>(8,877)</u> | <u>(3,675)</u> | <u>(61,290)</u> |
| <u>Cash flows - financing activities</u> | | | |
| Repayment of long-term loans | (354) | (1,094) | (1,160) |
| Repayment of bonds | (12,974) | (8,666) | (10,680) |
| Private placement of shares and share purchase option | - | - | 58,353 |
| Cash flows provided by (used in) financing activities | <u>(13,328)</u> | <u>(9,760)</u> | <u>46,513</u> |
| Translation differences on cash and cash equivalents | <u>159</u> | <u>(64)</u> | <u>(525)</u> |
| Change in cash and cash equivalents | (716) | 5,025 | (5,123) |
| Cash and cash equivalents at beginning of year | <u>24,082</u> | <u>19,057</u> | <u>24,180</u> |
| Cash and cash equivalents at end of year | <u>23,366</u> | <u>24,082</u> | <u>19,057</u> |

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

Unitronics (1989) (R"G) Ltd

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

| | For the year ended December 31, | | |
|--|------------------------------------|---------------|---------------|
| | 2018 | 2017 | 2016 |
| | NIS, (in thousands) | | |
| <u>Appendix A - Adjustments necessary to show the cash flows from operations</u> | | | |
| <u>Income and expenses not involving cash flows:</u> | | | |
| Company's share at losses of subsidiaries | 6,378 | 14,162 | 29,073 |
| Depreciation and amortization | 10,694 | 10,753 | 10,931 |
| Loss from marketable securities, net | - | - | 100 |
| Changes in liabilities for benefits to employees, net | (324) | 93 | 223 |
| Capital loss | 146 | - | - |
| Deferred taxes | (330) | 395 | (339) |
| Revaluation of foreign currency cash balances | (159) | 64 | 525 |
| Reevaluation of deposits in banks | 209 | (62) | (147) |
| Reevaluation of long-term loans and bonds | 679 | 130 | (308) |
| Reevaluation of embedded derivatives | 339 | 396 | 76 |
| Reevaluation of share purchase option | (38) | 2,013 | 544 |
| <u>Changes in assets and liabilities:</u> | | | |
| Decrease (increase) in accounts receivable - trade | (4,112) | (4,100) | 5,115 |
| Increase in revenues receivable in respect of construction contracts | (4,194) | - | - |
| Increase in accounts receivable - other | (1,153) | (85) | (317) |
| Decrease (increase) in inventory | (3,244) | (7,619) | 444 |
| Increase in liability in respect of construction contracts | 1,278 | - | - |
| Increase (decrease) in accounts payable - trade | (2,445) | 4,799 | (1,763) |
| Increase (decrease) in accounts payable - other | 7,553 | (151) | (2,505) |
| | <u>11,277</u> | <u>20,788</u> | <u>41,652</u> |

Appendix B - Additional information on cash flows regarding operating activities

Cash paid during the year for:

| | | | |
|-----------------|--------------|--------------|--------------|
| Interest | <u>3,338</u> | <u>3,933</u> | <u>4,565</u> |
| Taxes on income | <u>2,450</u> | <u>1,710</u> | <u>54</u> |

Cash received during the year for:

| | | | |
|-----------------------|------------|------------|------------|
| Interest and dividend | <u>255</u> | <u>176</u> | <u>245</u> |
|-----------------------|------------|------------|------------|

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

Unitronics (1989) (R"G) Ltd

Additional information

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

| | <u>Foreign currency</u> | | <u>Israeli currency</u> | <u>Total</u> |
|----------------------------|-------------------------|-------------|-------------------------|--------------|
| | <u>US Dollar</u> | <u>Euro</u> | <u>Not linked</u> | |
| <u>NIS, (in thousands)</u> | | | | |
| <u>December 31, 2018:</u> | | | | |
| Cash and cash equivalents | 2,566 | 2,189 | 18,611 | 23,366 |
| <u>December 31, 2017:</u> | | | | |
| Cash and cash equivalents | 10,124 | 1,642 | 12,316 | 24,082 |

- B. Disclosure of financial assets attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries)

1. The following is a classification of the substantial investments to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

| | <u>December 31,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|--|------------------------------------|------------------------------------|
| <u>NIS, (in thousands)</u> | | |
| <u>Financial assets at fair value through profit and loss:</u> | | |
| Foreign currency forward contracts | 49 | 68 |
| <u>Financial assets at reduced cost:</u> | | |
| Loans and receivables | 21,579 | 15,945 |
| | <u>21,628</u> | <u>16,013</u> |

2. The expiration date of the predicted essential investment by groups of financial instruments according to IAS 39 attributed to parent company is up to a year.

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

| | | |
|---|--------|--------|
| <u>Financial liabilities at fair value through the statement of operations:</u> | | |
| Forward contracts on foreign currency | 414 | 94 |
| Liability for share purchase option | 6,872 | 6,910 |
| <u>Other financial liabilities at reduced cost:</u> | | |
| Financial liabilities measured at reduced cost | 82,821 | 91,035 |

Unitronics (1989) (R"G) Ltd

Additional information

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

1. Liability for share purchase option

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 evaluator.

The economic model prepared on May 18, 2016 (the date of completing the transaction) established an estimate for the liability of NIS 4,353 thousand. This estimate was updated on the date of the report.

The fair value of the price adjustment mechanism is the expected future value of the additional shares which will be allotted to FIMI (should they be 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 that FIMI will receive at the time of the sale of all the acquired shares.

The future values of the acquired shares are estimated using the binomial model and are 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 figure used in the measurement of the unforeseeable fair value is the standard deviation.

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

Additional information

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

2. Liability for share purchase option (cont'd)

| | Financial liabilities at fair value that classified to profit or loss | |
|---|--|--------------|
| | <u>2018</u> | <u>2017</u> |
| | <u>NIS, (in thousands)</u> | |
| Beginning of period | | |
| Total net loss recognized in profit or loss | 6,910 | 4,897 |
| Balance at December 31 | <u>(38)</u> | <u>2,013</u> |
| | <u>6,872</u> | <u>6,910</u> |

2. Forward contracts and options

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

Unitronics (1989) (R"G) Ltd

Additional information

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

3. Liquidity risk attributed to the parent company

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

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

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

| | Book value | 1st year | 2nd year | 3rd year | 4th year | 5th year and after | Total |
|--|-----------------------|----------------------------|----------------------------|--------------------------------|----------------------------|--|----------------|
| NIS, (in thousands) | | | | | | | |
| December 31, 2018: | | | | | | | |
| Accounts payable - trade | 17,566 | 17,566 | - | - | - | - | 17,566 |
| Accounts payable - other | 14,645 | 14,645 | - | - | - | - | 14,645 |
| Forward contracts on foreign currency | 414 | 414 | - | - | - | - | 414 |
| Liability for share purchase option | 6,872 | - | - | - | 6,872 | - | 6,872 |
| Loans from banks | 2,325 | 423 | 412 | 401 | 390 | 928 | 2,554 |
| Bonds | 50,085 | 15,878 | 15,149 | 9,392 | 8,928 | 8,464 | 57,811 |
| | <u>91,907</u> | <u>48,926</u> | <u>15,561</u> | <u>9,793</u> | <u>16,190</u> | <u>9,392</u> | <u>99,862</u> |
| December 31, 2017: | | | | | | | |
| Accounts payable - trade | 20,011 | 20,011 | - | - | - | - | 20,011 |
| Accounts payable - other | 7,425 | 7,425 | - | - | - | - | 7,425 |
| Forward contracts on foreign currency | 94 | 94 | - | - | - | - | 94 |
| Liability for share purchase option | 6,910 | - | - | - | - | 6,910 | 6,910 |
| Loans from banks | 2,595 | 422 | 411 | 401 | 390 | 1,281 | 2,905 |
| Bonds | 62,464 | 16,216 | 15,769 | 15,046 | 9,392 | 17,392 | 73,815 |
| | <u>99,499</u> | <u>44,168</u> | <u>16,180</u> | <u>15,447</u> | <u>9,782</u> | <u>25,583</u> | <u>111,160</u> |

Unitronics (1989) (R" G) Ltd

Additional information

D. Disclosure of taxes on income attributed to the company

1. Tax laws applicable to the company:

a. Industrial company

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

b. Tax rates applicable to the company

The Israeli corporate income tax rates for the years 2016, 2017, 2018 and ahead are 25%, 24% and 23%, respectively.

The Company's activity in the logistics warehouses area is subject to a corporate tax rate and the Company's activity in the products segment is entitled to tax benefits as detailed below.

c. Approved / preferred Enterprise

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

The balance of the profits of an approved / beneficiary, undistributed enterprise for which no tax has been paid, according to the Company's tax returns up to and including 2016, amounts to NIS 38 million.

Insofar as a dividend is distributed from these profits, the Company will be liable to tax at the rate of 25% and the recipients of the dividend will be liable to tax at a rate of 15%.

d. The Encouragement of Capital Investments Law (Amendment 71 and 73)

In 2013, Amendment 71 to the Encouragement of Capital Investments Law (hereinafter - the Amendment) was published, which states that the rate of tax on preferred income from a preferred enterprise is 16% (in Development Area A - 9%).

In addition, the amendment provides that if a dividend is distributed to an individual or a foreign resident from the profits of the preferred enterprise as stated above, a tax of 20% will apply.

In May 2017, the Company notified the Tax Authority of a transition to the application of the Amendment from the 2017 tax year.

In 2017, Amendment No. 73 to the Law for the Encouragement of Capital Investments (hereinafter - "the New Amendment") was published, which determines, inter alia, a tax benefit track for a preferred technological enterprise. The preferential tax rate on preferred income from a preferred technological plant as defined in the new amendment will be 12% as of 2017 (in development area A - 7.5%). On preferred profits of a preferred technological enterprise originating in preferred technological income distributed as dividends will be taxed at a rate of 20%.

In the estimation of the Company's management, the Company is entitled to preferred income benefits from a preferred technological enterprise.

The balances of deferred taxes included in the financial statements as at December 31, 2018 are computed according to the tax rates whose legislation was actually completed as at the reporting date and therefore include the aforementioned changes, to the extent that they are relevant to the Company.

2. The Company has final tax assessments for all years up to 2012.

Unitronics (1989) (R" G) Ltd

Additional information

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

4. Deferred tax attributed to the company

| | Statements of financial position | | Statements of income | | |
|-------------------------------------|---|--------------|--------------------------------|--------------|--------------|
| | December 31, | | Year ended December 31, | | |
| | 2018 | 2017 | 2018 | 2017 | 2016 |
| | NIS in thousands | | | | |
| <u>Deferred tax liabilities:</u> | | | | | |
| Property, plant and equipment | 531 | 439 | (92) | (45) | (30) |
| Other financial assets | - | - | - | 63 | (59) |
| Marketable securities | - | - | - | - | 32 |
| Intangible assets | 5,280 | 5,465 | 185 | (554) | (85) |
| | <u>5,811</u> | <u>5,904</u> | <u>93</u> | <u>(536)</u> | <u>(142)</u> |
| <u>Deferred tax assets:</u> | | | | | |
| Carry forward tax losses | - | - | - | - | (89) |
| Inventory | 324 | 313 | 11 | (56) | 369 |
| Other financial liabilities | 739 | 435 | 304 | 342 | 87 |
| Employee benefits | 441 | 519 | (78) | (141) | 114 |
| | <u>1,504</u> | <u>1,267</u> | <u>237</u> | <u>145</u> | <u>481</u> |
| Deferred tax income (expenses), net | | | <u>330</u> | <u>(391)</u> | <u>339</u> |
| Deferred tax liabilities, net | <u>4,307</u> | <u>4,637</u> | | | |

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

| | Statements of income | | |
|--|--------------------------------|-------------|-------------|
| | Year ended December 31, | | |
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Remeasurement gain (loss) from defined benefit plans | <u>62</u> | <u>5</u> | <u>(11)</u> |

6. Taxes on income included in profit or loss:

| | | | |
|--|----------------|----------------|------------|
| Current tax | (2,331) | (1,782) | - |
| Taxes in respect of previous years | (1,028) | - | (93) |
| Deferred tax income (expenses), See Section 4 above. | 330 | (391) | 339 |
| | <u>(3,029)</u> | <u>(2,173)</u> | <u>246</u> |

Unitronics (1989) (R"G) Ltd

Additional information

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

7. Theoretical tax:

| | For the year ended December 31, | | |
|---|--|--------------|--------------|
| | 2018 | 2017 | 2016 |
| | NIS in thousands | | |
| Profit (loss) before tax benefit (taxes on income) | 13,244 | 3,209 | (17,256) |
| Statutory tax rate | 23% | 24% | 25% |
| Tax computed at the statutory tax rate | 3,046 | 770 | (4,314) |
| Increase in taxes resulting from non-deductible expenses | 79 | 68 | 64 |
| Temporary differences and losses for tax purposes where deferred taxes were not recognized | 1,449 | 3,398 | 7,268 |
| Benefit from privileged tax rate | (2,591) | (2,052) | (3,331) |
| Previous year tax | 1,028 | - | 93 |
| Other | 18 | (11) | (26) |
| Taxes on income (tax benefit) | <u>3,029</u> | <u>2,173</u> | <u>(246)</u> |

Unitronics (1989) (R"G) Ltd

Additional information

F. Capital notes, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

| | For the year ended December 31, | | |
|-----------------------------------|--|---------------|---------------|
| | 2018 | 2017 | 2016 |
| | (in thousands) | | |
| | NIS | | |
| Revenues | <u>38,146</u> | <u>34,234</u> | <u>31,263</u> |
| General & administrative expenses | <u>738</u> | <u>745</u> | <u>800</u> |
| Financing incomes | <u>3,093</u> | <u>2,719</u> | <u>2,060</u> |

2. Engagements with subsidiaries

- a. The consolidated company Unitronics Inc. was established by the Company in 2001 to market, sell and distribute the company's products and to operate projects in the United States. The consolidated company acquires products and services from the company and sells these products and services to its customers.
- b. The consolidated company Unitronics building management and maintenance (2003) Ltd. was established by the Company in 2003 in order to manage and maintain the companies building. The company pays to the consolidated company management and maintenance fees for the area used by the company.
- c. The consolidated company Unitronics Automated Solutions Ltd. (hereinafter - "Automated Solutions") was established in the fourth quarter of 2011 to coordinate the marketing activities, planning, construction and maintenance of automated parking systems.

On October 2011, within the decision to centralize activities in parking solutions, the Company transferred to Automated solutions, assets not essential and an allocation of shares in subsidiaries.

On March 2012 the company signed an agreement with Automated Solutions, effective from October 1, 2011 (hereinafter – "the effective date"), in which the Company will provide credit lines to Automated Solutions and services through the executive and operations departments. For such services Automated Solutions will be charged from the effective date and in each quarter according to mechanisms defined in the agreement.

On November 2014 the Company sold its entire stake in Unitronics Systems Inc. to Automated Solutions in exchange to the par value of Unitronics Systems Inc. Since then Automated Solutions holds 100% of the equity and control of Unitronics System Inc.

Unitronics System Inc. was established on May 2012 to coordinate the activities of the Logistics Solution and / or parking solutions segment in the U.S. and / or North America, and began operations in the last quarter of 2012.

Unitronics (1989) (R”G) Ltd

Additional information

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

3. Capital notes, guarantees and balances

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

In addition, there is ongoing balance of the subsidiary Unitronics Inc. as at December 31, 2018 in the amount of approximately NIS 9.2 million (approximately NIS 12.8 million as at December 31, 2017).

- b. On December 31, 2018 the company committed not to repay NIS 119.8 million, from the ongoing balance to subsidiary Automated Solutions before January 1, 2019 (NIS 118 million as at December 31, 2017).
- c. As at December 31, 2018, the Company provided a guarantee in favor of the Customs in the amount of approximately NIS 420 million.
- d. As of December 31, 2018 there is ongoing balance of the subsidiary Unitronics building management and maintenance (2003) Ltd. in the amount of approximately NIS 240 thousand (approximately NIS 179 thousand as at December 31, 2017).

Chapter D – Additional Details about the Corporation (Reg. 10C - 29A)

4.1 List of Investments in Active Subsidiaries and Associates (Reg. 11)

Below are details of the Company's investments in active subsidiaries and associates at the date of the statement of financial position:

| Subsidiary | Class of share | No. of shares | Total par value | Value of shares in the financial statement |
|---|-----------------------|---------------|-----------------|--|
| Unitronics Building Management and Maintenance (2003) Ltd. | Ordinary – NIS 1 | 1,000 | NIS 1,000 | NIS 1,000 |
| Unitronics Inc. (foreign company) | Ordinary – US\$ 0.01 | 1,000 | US\$ 10 | US\$ 10 |
| Unitronics Automated Solutions Ltd. | Ordinary – NIS 0.01 | 11,632,000 | NIS 116,320 | NIS 116,320 |
| Unitronics Systems Inc. (foreign company) (held by Unitronics Automated Solutions Ltd.) | Ordinary – US\$ 0.001 | 1,000 | US\$ 1 | US\$ 1 |

| Subsidiary | Value in the separate financial statement of the corporation, attached to the Company's financial statements | Percentage of Company's holdings in capital, in voting rights and in the power to appoint directors, out of total issued shares |
|--|--|---|
| | NIS in thousands | |
| Unitronics Building Management and Maintenance (2003) Ltd. | (304) | 100% |
| Unitronics Inc. (foreign company) | 4,205 | 100% |
| Unitronics Automated Solutions Ltd. | (77,043) | 100% |
| Unitronics Systems Inc. (foreign company) (*) | (**) (16,987) | 100% |

(*) Held by Unitronics Automated Solutions Ltd.

(**) In the books of Unitronics Automated Solutions Ltd.

(***) In March 2019, Unitronics Automatic Solutions Ltd. was transferred to all of its operations and assets, including its holdings in Unitronics Systems Inc., to Sister Utron Ltd., as part of the Company's split. For further details, see section 1.3.2 in Chapter A of the Periodic Report.

4.2 Changes in Investments in Active Subsidiaries and in Associates (Reg. 12)

There was no change in the Company's investments in subsidiaries and in associates during the reporting period except as detailed below:

In August 2018, an investment agreement was signed between the Company and Unitronics Solutions, according to which any amount transferred and transferred from the Company to Unitronics Solutions as of 1.1.2018 was used and will be used as receipts of the Company at the expense of an investment in the share capital of Unitronics Solutions, which will be converted into the share capital of Unitronics Solutions adjacent to the split. During 2018, the Company

invested NIS 23,578 thousand in proceeds on account of shares in Unitronics Solutions, as well as NIS 1,604 thousand from December 31, 2018 until the Split Date, which were converted as aforesaid, close to the split into share capital and premium of solutions. In addition to the date of the split, a loan of NIS 120,081 thousand was converted into solutions for share capital and premium solutions.

4.3 Revenues of and from Active Subsidiaries and Associates (Reg. 13)

For details of the comprehensive income of the Company's active subsidiaries and associates in the last reporting year ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation – see section 1.20.4.8 in chapter A of this Periodic Report.

4.4 Trading on the Stock Exchange (Reg. 20)

During the reporting year not stopped the Israeli stock market trading in securities issued by the Company.

For details on the continuation of the company's connection, the agreement makes a market with Bursa services and investments in Israel E. B. E. Ltd., see report from the Day 6 September 2018, Reference No. 2018-01-083002, report from 31 October 2018, reference No. 2018-01-098506 and report from January 1, 2019, Reference No. 2019-01-000145, which is hereby built on the path of reference.

4.5 Compensation of Interested Parties and Senior Officers (Reg. 21)

4.5.1 Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reporting year, as recognized in the financial statements for the reporting year, including with regard to retirement terms, for each of the five officers receiving the highest pay from among the senior officers serving in the Company or a company under its control (the three senior officers with the highest compensation in the corporation, whose compensation was provided in connection with their position in the corporation itself, are among the following five officers):

| Name | Position | Employment | Stake in corporate capital | Salary (NIS thousands) | Bonus (NIS thousands) | Share-based payment, management fees, consulting fees, commission, interest, rent and other | Total (NIS thousands) |
|-------------------|--|------------|----------------------------|------------------------|-----------------------|---|-----------------------|
| Mr. Haim Shani | CEO and Director (2) (3) | 100% | 22.72% (1) | 1,176 | 1,052 | - | 2,228 |
| Mr. Yair Goldberg | Marketing VP of a subsidiary in the US | 100% | | 959 | 255 | - | 1,214 |
| Mr. Amit Harari | VP and Manager Products Division (3) | 100% | | 646 | 264 | - | 910 |
| Ms. Bareket Shani | Deputy CEO and Chief Human Resources Officer | 100% | | 660 | - | - | 660 |
| Mr. Eitan Alon | Chief Financial Officer (4) | 100% | | 621 | - | - | 621 |

| | | | | | | | |
|--------------------------------------|--|--|--|-------|-----|---|-------|
| Other directors who are not officers | | | | 1,020 | 578 | - | 1,598 |
|--------------------------------------|--|--|--|-------|-----|---|-------|

- (1) As of December 31, 2018.
- (2) For details regarding rent paid by the Company to a company controlled by Haim Shani and Bareket Shani for the rental of space on the private floors of the Unitronics House, see section 1.12.2 in Chapter A of this report.
- (3) As stated in Section 4.1 above, in March 2019 the Company's split took effect, as stated in Section 1.3 of Chapter A of the Periodic Report. Mr. Haim Shani, the controlling shareholder of the Company (in partnership with the FIMI Fund), who served as the Company's CEO and as a director prior to the split, is scheduled to serve as the active chairman of the Company after the split. Mr. Amit Ben-Zvi, who served as a member of the board of directors of the Company, is scheduled to serve as chairman of the Company's Board of Directors after the split. Mr. Amit Harari, who served as a divisional vice president and head of the company's product division, is scheduled to serve as CEO after the split.
- (4) Including the salary of an active chairman of the board of directors in the amount of approximately NIS 1,225 thousand. Mr. Amit Ben-Zvi, who served as a member of the board of directors of the Company, is scheduled to serve as chairman of the Company's Board of Directors after the split.

4.5.2 Compensation policy – On October 20, 2016 the Annual General Meeting of Company Shareholders approved a revised compensation policy for Company officers (hereinafter: "**the Compensation Policy**") (for the text of the approved Compensation Policy see Immediate Report on the Convening of a Meeting, dated September 14, 2016, reference number 2016-01-123325, included herein by reference). As of the date of this report the terms of office and employment of all the Company's officers conform to the Compensation Policy. The Company does not intend to apply the Compensation Policy to employees of the Company who are not Company officers.

4.5.3 Mr. Haim Shani and Ms. Bareket Shani – The Company is bound by personal employment agreements with Mr. Haim Shani (controlling shareholder of Company (jointly with the FIMI Fund) and a Director) and with Ms. Bareket Shani (Mr. Shani's wife, who also serves as a Board member) (hereinafter in this section: "**the Employment Agreements**"). In accordance with the Employment Agreements, Mr. Shani serves as Company CEO, responsible for the management of the Company's entire business, and Ms. Shani serves as Deputy CEO and Chief Human Resources Officer, both holding full-time jobs. As stated in Section 4.5.1 above, after the split, Mr. Shani is scheduled to serve as Acting Chairman of the Board of Directors of the Company.

Under the Employment Agreements, as approved on March 29, 2016 by the Company's Compensation Committee and Board of Directors, and subsequently, on May 9, 2016, by the General Meeting of Company Shareholders (for further details see Immediate Report on Results of a Meeting, dated May 9, 2016, reference number 2016-01-062236, included herein by reference), Mr. Shani's salary is NIS 60,000 per month and Ms. Shani's salary is NIS 30,000 per month. The salary is linked to the Consumer Price Index, such that as of January 2012, and each year, an amount equal to the percentage of change in the past year's CPI is to be added to their salary. The base index for the purpose of calculating the amount of linkage added in January 2012 was the known index for March 2011 published on April 15, 2011. The Employment Agreements are in force for a period of three years up to May 9, 2019.

Mr. Shani's salary is split such that a part of the overall wage is paid by a subsidiary wholly owned by the Company, Unitronics Inc., and the remainder is paid by the Company, in respect of his services as CEO of the Company, such that said split does not

add to the cost of wages to the Company (consolidated with the subsidiary) compared to the cost of wages to the Company without the split.

In addition to the salary specified above, Mr. Shani and Ms. Shani are entitled to the following benefits from the Company: (a) standard social benefits, such as executive insurance; (b) study fund; (c) use of Company car (without determining a specific car category) and expense reimbursement; and (d) annual 30-day vacation, which may be accumulated during the following two years of employment.

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

Termination of Mr. Shani's employment agreement requires the approval of a simple majority of the Board of Directors and prior notice of at least six months. Mr. Shani may terminate his employment agreement for any reason, subject to three months' notice. As for Ms. Shani, each party may terminate the agreement subject to two months' notice, and the Company would be required to provide a material explanation for the termination, if initiated by it.

On March 21, 2019 the Compensation Committee affirmed that the payment of a bonus of NIS 1,052 thousand to Mr. Haim Shani in respect of 2018, per the terms described above, is in accordance with the Company's Compensation Policy and Mr. Shani's employment agreement. On March 27, 2019 the Board of Directors affirmed that the compensation paid to Mr. and Ms. Shani (including the aforesaid bonus payment to Mr. Shani) is consistent with the Company's Compensation Policy, is fair and reasonable compensation for the essential services of Mr. and Ms. Shani and is accepted in companies with a volume of activity similar to that of the Company.

- 4.5.4 Mr. Yair Goldberg – In May 2007 an employment agreement (hereinafter in this section: "**the Agreement**") was signed between a subsidiary in the US and Mr. Yair Goldberg. The Agreement was made for an unspecified period and stipulates that either party thereto may terminate it at any time by 60 days' prior notice in writing. Effective January 1, 2013 Mr. Goldberg is entitled to an annual bonus for meeting qualitative targets, in an amount not exceeding US\$ 176 thousand. The Agreement also provides that Mr. Goldberg is entitled to the following fringe benefits: pension fund, study fund and the use of a company car. The provisions of the Agreement further entitle Mr. Goldberg to social benefits (vacation days, sick days and convalescence pay). Mr. Goldberg serves as Vice President of Marketing for a US subsidiary.

- 4.5.5 Mr. Amit Harari – In August 2012, an employment agreement was signed (in this section, "**The Agreement**") between the Company and Mr. Amit Harari. The agreement was drawn up for an indefinite period, and it was determined that each party may terminate it at any time, by providing prior written notice in accordance with the times prescribed by law. As of January 1, 2012, Mr. Harari is entitled to an annual bonus in respect of meeting quantitative and qualitative targets in an amount not to exceed NIS 375 thousand, subject to the Company's remuneration policy, and Mr. Harari is entitled to the following benefits: pension insurance, Mr. Harari is also entitled to social benefits (leave days, sick days and convalescence pay). Mr. Harari holds the position of Deputy General Manager and Head of the Company's Products Division. As stated in Section 4.5.1 above, after the split, Mr. Harari is scheduled to serve as CEO of the Company.
- 4.5.6 Mr. Eitan Alon – In October 2017, an employment agreement was signed (in this section, "the Agreement") between the Company and Mr. Eitan Alon. The agreement was drawn up for an indefinite period and it was determined that each party may terminate it at any time, by giving advance notice of 60 days in advance and in writing. As of January 1, 2018, Mr. Alon is entitled to an annual bonus in respect of meeting quantitative and qualitative targets in an amount not exceeding NIS 75 thousand, subject to the Company's remuneration policy, and that Mr. Alon is entitled to the following benefits: pension insurance, In addition, Mr. Alon is entitled to social benefits (vacation days, sick days and convalescence pay) by virtue of the agreement, and Mr. Alon serves as CFO of the Company.
- 4.5.7 Mr. Amit Ben Zvi – As part of the FIMI Fund investment transaction in the Company, Mr. Amit Ben-Zvi was appointed as a paid active Chairman of the Board of Directors. Starting from the transaction closing date, Mr. Ben-Zvi is entitled, for his service as active Chairman of the Board of Directors of the Company, to total annual compensation equal to 55% of the cost of the Company CEO position to the employer, plus VAT and expenses. After the split of the Company and the changes in manpower that will take effect in its wake, Mr. Ben Zvi salary will be paid to the chairman of the Company's active board of directors The remuneration is paid to Mr. Ben Zvi on a quarterly basis for the services provided to the Company in the previous calendar quarter As stated in paragraph 4.5.1 above, After the split, Mr. Ben Zvi is scheduled to serve as Co-Chairman of the Company's Board of Directors.
- 4.5.8 According to a resolution of the Company's Audit Committee and Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's External Directors and Directors who do not serve as Company officers are entitled to annual compensation and attendance fees at the "fixed amount" specified in the Second and Third Schedule to the Companies Regulations (Rules on Compensation and Expenses of External Directors), 2000 (hereinafter: "**the Compensation Regulations**"), and in accordance with the relevant rating of the Company's capital.

In accordance with the Company's Compensation Policy, the compensation and expense reimbursement of Directors who are not Company officers is identical to the compensation and expense reimbursement paid to External Directors of the Company. On March 28, 2017 the Board of Directors, pursuant to the approval of the Compensation Committee on March 23, 2017, approved an adjustment to the compensation of Directors who are not officers or External Directors of the Company, so that it equals the compensation of the Company's External Directors, which was adjusted for 2017 following an increase in the Company's equity, in accordance with the Compensation

Regulations. For further details see Immediate Report on an Event or Matter Outside the Ordinary Course of the Corporation's Business, dated March 28, 2017, reference number 2017-01-026266, included herein by reference.

- 4.5.9 The Company has a directors and officers liability insurance policy for a limit of liability of \$7,500,000 (seven and a half million US dollars) per event and in total, in respect of damages that could occur during the insurance period (plus reasonable legal defense costs in Israel beyond the limit of liability and legal expenses abroad within the limit of liability) (hereinafter: "**the Policy**"). The Company's deductible for insurance claims is between \$7,500 and \$35,000 per event, based on the type of insured event and claim location. The Policy includes a run-off coverage extension for a period of 84 months for an officer who ended his term of office, as long as the Policy is in force or has been renewed.

In accordance with the Compensation Policy and pursuant to its terms, on May 28, 2017 the Company's Board of Directors, pursuant to the approval of the Balance Sheet, Compensation and Audit Committee on May 24, 2017, approved the purchase of a directors and officers liability insurance policy for the period beginning on May 18, 2017 and ending on May 17, 2018, on the terms set forth above, and decided in addition to insure, on the terms of the Policy, the directors and officers of the Company who are not controlling shareholders of the Company or their relatives, as well as the directors and officers of the Company who are controlling shareholders of the Company or their relatives (for details see Immediate Report on a Transaction with a Controlling Shareholder or with a Director Which Does Not Require the Approval of the General Meeting, dated May 29, 2017, reference number 2017-01-045265, included herein by reference).

On May 24, 2018, the Company's Board of Directors approved, after receiving the approval of the Balance Sheet Committee, the Company's remuneration and audit of May 24, 2018, to approve the renewal and extension of the Company's Directors and Officers Liability Insurance Policy, pursuant to the existing conditions, effective from May 17, 2018, And to approve the purchase of directors 'and officers' liability insurance policy in the Company with increased insurance coverage for a period of 12 months from June 1, 2018 to May 31, 2019, in accordance with the Company's remuneration policy. In addition, the Committee decided, subject to the approval of the Board of Directors, to insure, in accordance with the terms of the new policy, the directors and officers of the Company who are not the controlling shareholder of the Company or its relative, as well as the directors and officers who are the controlling shareholders of the Company or its relative. The main terms of the policy are as follows: insurance coverage for one event and total for damages that may occur during the insurance period in the amount of \$ 7,500,000 (seven million dollars and five hundred thousand US dollars) (plus reasonable legal defense expenses in Israel and abroad), the Company's deductible For claims is between \$ 7,500 to \$ 35,000 per case, depending on the type of insurance event and place of claim. On March 27, 2019, the Company's Board of Directors approved, after receiving the approval of the Balance Sheet Committee, the Company's remuneration and audit of March 21, 2019, to renew the existing policy for a period of 12 months until May 31, 2020. For further details, see immediate report on a transaction with a controlling shareholder A director who does not require the approval of the general meeting of March 28, 2019, published concurrently with this report.

- 4.5.10 For details on payments made during the reporting period to interested parties employed by the Company (including related payments), see section 4.5.3 above.

4.5.A Control of the Corporation (Reg. 21A)

The controlling shareholders of the corporation are the FIMI Fund and Mr. Haim Shani. For more details about Mr. Shani, see section 4.10 below.

4.6 Transactions with Controlling Shareholders (Reg. 22)

Below are details, to the best of the Company's knowledge, regarding each transaction with the controlling shareholders of the Company or which the controlling shareholders of the Company have a personal interest in its approval, entered into by the Company in 2018 or at a date after the end of 2018 until the date of this Periodic Report, or still in effect as of the date of this Periodic Report:

Other transactions which are not enumerated in section 270(4) of the Companies Law

4.6.1 Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for the floors of the Unitronics Building. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems in the Unitronics Building (contacting various suppliers in case of malfunction and/or for servicing and/or periodic testing, as per the manufacturer's/ supplier's instructions), as well as services of cleaning, pest control, gardening and security (via subcontractors) (hereinafter: "**the Management Services**"). In return for these services, Unitronics Management charges monthly management fees at a rate of NIS 12.96 (as updated in 2018 following the approval of the new agreement of lease of areas in the Unitronics Building from the controlling shareholders, Mr. Haim Shani and Ms. Bareket Shani, as set forth in section 4.6.2 below; linked to the index of March 2015) per square meter of each tenant's space in the Unitronics Building, and in addition charges separately for electricity consumption according to readings of separate meters of the Company and for the other tenants of the Unitronics Building (who share the expense, pro-rated to the area used by each tenant).

In accordance with a resolution of the Audit Committee and the Board of Directors from May 2003, Unitronics Management also provides maintenance services to the other areas in the Unitronics Building which are not used by the Company and are leased by a private company wholly owned by Mr. Haim Shani and Ms. Bareket Shani, provided that: (a) Unitronics Management provides equal services to all the tenants of the Unitronics Building, which are similar to the services provided by other management companies in the vicinity of the Unitronics Building; and (b) the effect of providing such services on the profitability, assets or liabilities of Unitronics remains immaterial. According to the resolution of the Company's Board of Directors, any deviation from the above resolutions requires the Board's approval and any other approval mandated by law. There is no written contract between the Company and Unitronics Management, and Mr. and Ms. Shani, with regard to the management services. In practice, Mr. and Ms. Shani require the tenants leasing the private floors (including the Company – see section 4.6.2 below) to pay the full management fees charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by the Company (other than consumption of electricity, for which each tenant is charged according to a separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,172 thousand, NIS 1,180 thousand and NIS 1,247 thousand for the years 2018, 2017 and 2016, respectively; of which NIS 709 thousand, NIS 845 thousand and NIS 822 thousand, respectively, were paid by the Company, and NIS 463 thousand, NIS 435 thousand and NIS 425 thousand, respectively, by third parties.

Since 2003, the management services provided by Unitronics Management have been discussed, from time to time, at meetings of the Audit Committee and the Board of Directors, *inter alia* as part of the discussions regarding the approval of the agreement of lease of space in the Unitronics Building to the Company by the controlling shareholders, Mr. Haim Shani and Ms. Bareket Shani (as specified in section 4.6.2 below), and most recently in May 2018, but at times also not as part of the discussions regarding the approval of the aforementioned agreement. These discussions also included an examination of the management fees compared to other buildings in Airport City, and it was found that the management fees are at market conditions.

- 4.6.2 The company has an agreement with a supplier circuits controlled by FIMI, the controlling shareholder. For details, see section 1.9.19.4 in Chapter A of the Period Report.
- 4.6.3 For details regarding the acquisition of a policy for the insurance of directors and officers of the Company, see Clause 4.5.8 above.

Transactions Enumerated in Section 270(4) of the Companies Law

- 4.6.4 On July 15, 2018 the General Meeting of Company Shareholders approved an agreement of lease of space in the Unitronics Building in Airport City from a company controlled by Mr. Haim Shani, a controlling shareholder of the Company, and Ms. Bareket Shani, his wife, for a further period of three years beginning on August 1, 2018 (the date of expiration of the previous lease agreement), in accordance with section 275(a) of the Companies Law. For details of the reasons of the Compensation Committee and the Board of Directors for approving the aforesaid transaction as well as further details on the leased premises and the lease agreement, see section 1.12.2 in chapter A of this Periodic Report

as well as Immediate Report on a Transaction between a Company and Its Controlling Shareholder, dated May 30, 2018, reference number 2018-01-053776, and the summons of a meeting dated May 30, 2018, reference no. 2018-01-053395, which is hereby included by way of reference.

- 4.6.5 For details of transactions between the Company and its controlling shareholders or transactions which the controlling shareholders have a personal interest in their approval, as specified in section 270(4) of the Companies Law, entered into by the Company in 2018 or at a date after the end of 2018 until the date of this Periodic Report, or still in force at the date of this Periodic Report, see section 1.4 in chapter A of this Periodic Report (regarding the FIMI Fund investment transaction and the service of Mr. Amit Ben-Zvi as Chairman of the Board of Directors of the Company), section 1.12.2 in chapter A of this Periodic Report (regarding the lease agreement with a company controlled by Mr. and Ms. Shani), section 4.5.3 above (regarding the employment agreements of Mr. and Ms. Shani) and section 4.15.1 and section 4.5.7 Below (regarding the issue of letters of indemnification and exemption to Mr. and Ms. Shani).

Negligible Transactions

- 4.6.6 During the reported period the Company did not carry out any negligible transactions (as defined in the Company's Negligible Transactions Procedure of August 30, 2012) with controlling shareholders or in which controlling shareholders have a personal interest, and the Company is not a party to such negligible transactions. For further details on the Company's Negligible Transactions Procedure see Immediate Report on an Event or Matter outside the Ordinary Course of the Corporation's Business, dated August 30, 2012, reference number 2012-01-225675, included herein by reference.

As stated in Chapter A of this report, until March 2019, the Company operated in two main areas of activity, the products sector and the automated solutions sector. As of March 2019, the Company is active in the products sector only, and its operations in the automatic solutions sector were transferred to Sister, Utron Ltd. (hereinafter - "Utron"), a company owned by the Company's shareholders (on the split date) in which some of the Company's officers serve as officers. In Section 1.3.2 of Chapter A of the Periodic Report, the Company and Utron entered into agreements as described below:

Transactions with controlling shareholders

In September 2018, the Company entered into a split agreement with Utron whereby all of the assets and liabilities of the Company's automated solutions operation, including the Company's shares in Unitronics Solutions, will be transferred to Utron, subject to the approval of the Tax Authority and the completion of a public offering under a prospectus. This prospectus was published by the Company and Utron on February 28, 2019 (reference no: 2019-01-017856). As part of the splitting process, agreements were signed in which the parties undertook to provide different services to each other throughout the transition period until completion of the transfer of said assets and liabilities.

In February 2019, the Company and Utron entered into service agreements that came into force upon completion of the public offering as stated above. In these agreements, a system of mutual services was arranged between the parties on various subjects, including financial and accounting services, legal services, human resources services, information system services and other general

services. The agreements will be in effect for five years, with each party having the right to terminate them or service by virtue thereof by prior written notice.

To Utron has two projects in the field of parking solutions in the US, which prior to completion of the split were executed by Unitronics Inc. ("INK"), a subsidiary of the Company, and since these agreements can't be assigned to Utron, in February 2019, And the liabilities of Inc pursuant to the said agreements until their completion date.

In the framework of the Company's operations, three Inc employees are employed in the automated solutions sector due to regulatory constraints in the US In February 2019, an agreement was signed between Ink and Unitronics Systems, a company held by Unitronics Solutions (hereinafter: "Systems"), whereby employees will continue to be employed through Inc. will pay the services to Systems, and the fees of these employees and of an accountant that will provide services to Systems, shall be paid by Inc when Systems will bear the cost of their back-to-back employment. The agreement shall be valid for five years from the date of completion of the public offering, the party has the right to terminate the agreement by prior written notice.

In February 2019, Systems entered into an agreement with Inc, which came into force upon completion of the public offering as stated above. Under the agreement, Systems will provide Inc with administrative and accounting services through two employees whose salaries will be paid by Systems, and will not be charged back-to-back. The agreement will be valid for five years, with each party having the right to terminate it by prior written notice.

In February 2019, an agreement was signed between the Company and Utron, according to which Utron leases to the Company a sublease space at a price paid by Utron to the landlord with the addition of overhead costs. The agreement is back to back against the agreement of Utron with the landlord, including the date of termination. In addition, each party has the right to terminate the agreement by prior written notice.

As part of the execution of projects in the field of automated parking solutions in the US, Systems is sometimes required: (1) to give a Surety Bond to secure its undertaking to complete a project at the cost of the cost. The agreement between the Company and Utron, each party has the right to cancel the Company's guarantee in advance and in writing, with the right to cancel the Company's liability only for the balance of the unused letter of commitment, (2) to receive an undertaking to secure the execution of projects, The Company has undertaken to enter the shoes of System for the execution of the project Which the Company will not be able to perform, and to compensate the Customer for any damage and expense to which Systems is liable under the agreement provided that Systems has breached the Agreement.

Upon completion of the aforementioned public offering, the letters of protest entered into effect whereby the Company undertook to convert into a loan capital that was granted to Unitronics Solutions by June 30, 2018, in the amount of NIS 120 million.

Non - exceptional transactions

In February 2019, an agreement was signed between the Company and Utron, according to which Utron will purchase from time to time products manufactured by the Company according to a fixed price and known in advance, according to which the Company sells the products to its distributors, as updated from time to time. The agreement will be in effect for 10 years, with each party having the right to terminate it in advance and in writing.

In February 2019, an agreement was signed between the Company and Utron whereby the Company will enter into a product insurance agreement and professional liability for it and for Utron, with each company benefiting from the policy for its products and the professional responsibility of its employees. According to the agreement, Utron will bear a smooth share of back-to-back insurance against the terms of the Company's engagement with the insurance company. The agreement entered into force upon completion of the public offering as stated above and will be in effect for five years, with each party having the right to terminate it with advance and written notice.

Negligible Transactions

The Company grants two private companies wholly owned by Hadera Paper Ltd., a company that to the best of the Company's knowledge is controlled by the FIMI Fund, the controlling shareholder in the Company, maintenance services for two logistic warehouses the services are performed in the normal course of business, at market conditions and negligible amounts. As part of the transfer of the assets and liabilities of the automated solutions activity.

For further details regarding all the interested party transactions listed above, see chapter 8 of the prospectus, a split and listing for trading dated February 28, 2019, published by the company and Utron (reference no. : 2019-01-017856), which is hereby included by way of reference.

The nature of the personal interest of the controlling shareholder

Being sister companies, the Company and Utron are controlled by the same controlling shareholders - Mr. Haim Shani and Keren Fimi. Hence, they have a personal interest in the existence of any transactions described above. In addition, after the split, Mr. Shani serves as active chairman of the board of directors of the Company and as CEO and director of Utron and Mr. Ben Zvi serves as Chairman of the Board of Directors of the Company and as Chairman of the Board of Directors of Utron.

4.7 Holdings of Interested Parties and Senior Officers (Reg. 24)

For details regarding shares and other securities of the Company or of a subsidiary or related company of the Company held by any interested party in the Company as of the report publication date, see Immediate Report on the Holdings of Interested Parties and Senior Officers, dated January 2, 2019 (reference number 2019-01-000940), included herein by reference.

4.8 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.8.1 Registered and Issued Capital

For details regarding registered and issued capital see Note 16 to the consolidated financial statements for 2018 – chapter C of this Periodic Report.

4.8.2 Convertible Securities

As part of the FIMI Fund investment transaction in the Company, the Company granted the FIMI Fund an option to purchase, at certain terms, up to 535,714 additional ordinary shares of the Company, for no added consideration. For further details see section 1.4 in chapter A of this Periodic Report.

4.9. Register of Shareholders of the Corporation (Reg. 24B)

For details on the register of Company shareholders as of the date of publication of this Periodic Report, see Immediate Report dated January 31, 2019 (reference number 2019-01-009172), included herein by reference.

4.9. A Registered Address (Reg. 25A)

Registered Company Office: Unitronics Building, HaArava Street, Airport City, POB 300, Ben Gurion Airport, 70100

Email: info@unitronics.com

Telephone number: 03-9778888

Fax number: 03-9778877

4.10 Directors of the Corporation (Reg. 26)

| Name, ID number, date of birth, citizenship | Address for court notices | Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No | Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein | Date of commencement of service as a Director of the Company | Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director | According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details) | Does the Company regard the Director as having accounting and financial expertise? |
|--|---|--|--|--|--|--|--|
| Haim Shani 056548142 31/7/1960 Israeli | 20 Bazelet St., Shoham | No; Has professional qualifications | Yes, CEO and Director of the Company until March 2019 and as of that date an active Chairman of the Board of Directors, Director and senior officer in the subsidiaries Unitronics Automated Solutions Ltd. and Unitronics Building Management and Maintenance (2003) Ltd., President of Unitronics Inc., and President of Unitronics Systems Inc. | 20/8/1989 | High school education, from March 2019 he serves as a director and CEO of Utron, President of Unitronics Systems Inc. | Yes, husband of Ms. Bareket Shani, a Director and officer of the Company (see details below) | No |
| Bareket Shani 0581366311 30/6/1963 Israeli | 20 Bazelet St., Shoham | No; Has professional qualifications | Yes, Deputy CEO and Chief Human Resources Officer, Director of Unitronics Building Management and Maintenance (2003) Ltd., Corporate Secretary of the subsidiary Unitronics Inc., and Corporate Secretary of the subsidiary Unitronics Systems Inc. | 1/1/1999 | Academic. B.Sc. in Industrial Engineering and Management from the Technion. Company Secretary Utron and Unitronics Systems Inc. | Yes, wife of Mr. Haim Shani. | No |
| Zvi Livne 010025658 22/7/1947 Israeli | 20 Yohanan Ha- Sandlar St., Haifa | No; Audit, Compensation and Financial Statements Review Committee; Has accounting and financial expertise as well as professional qualifications | No | 8/7/1999 | Academic. BA in Economics and Accounting from Tel Aviv University; MBA from Tel Aviv University; CPA certificate holder. Serves as a financial and commercial consultant to several Israeli companies; senior partner at Ziv, Shifer & Co., CPA; serves as a Director of | No | Yes |

| Name, ID number, date of birth, citizenship | Address for court notices | Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No | Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein | Date of commencement of service as a Director of the Company | Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director | According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details) | Does the Company regard the Director as having accounting and financial expertise? |
|--|------------------------------------|--|--|--|---|--|--|
| | | | | | Unitronics Building Management and Maintenance (2003) Ltd., PML – Particle Monitoring Technologies Ltd. and Alberta Nano Monitoring Systems | | |
| Doron Shinar 054973029 8/12/1957 Israeli | 12 Zlochisti St., Tel Aviv 6299412 | Yes, External Director; Audit, Compensation and Financial Statements Review Committee; Has accounting and financial expertise as well as professional qualifications | No | 16/7/2015 | Academic. LLB from Tel Aviv University. Member of the Israel Bar Association. Serves as a Director of Acidus Ltd. (private company), D. Shinar Holdings Ltd. (private company). Until July 2016 served as a Director of Netz Hotels Ltd. Until June 2015 served as a Director of Leumi Start Ltd. | No | Yes |
| Amit Ben-Zvi 022644744 11/9/1966 Israeli | 98 Yigal Alon St., Tel Aviv 67891 | No; Has accounting and financial expertise as well as professional qualifications | Yes, active chairman of the board of directors of the Company until March 2019, and as of that date a joint chairman of the board of directors; Chairman of the Board of Directors of Utron, Chairman of the Board of Directors of Unitronics Inc., a partner in the FIMI Fund (controlling shareholder in the Company). | 18/5/2016 | Academic. LLB from Tel Aviv University; BA in Accounting from Tel Aviv University. Partner in the FIMI Fund. Director of Hadera Paper Ltd., Dimar Ltd., Mer Ltd. tern Engineering Ltd., Utron Chairman of the Board of Directors of Unitronics Systems Inc., a company owned by Utron. | No | Yes |

| Name, ID number, date of birth, citizenship | Address for court notices | Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No | Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein | Date of commencement of service as a Director of the Company | Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director | According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details) | Does the Company regard the Director as having accounting and financial expertise? |
|--|-----------------------------------|--|---|--|---|--|--|
| Gillon Beck 057382780 16/2/1962 Israeli | 34 Ha-Arazim St., Givat Ada | No; Has accounting and financial expertise as well as professional qualifications | Yes, senior partner in the FIMI Fund (a controlling shareholder of the Company) | 18/5/2016 | Academic. B.Sc. in Industrial and Management Engineering from the Technion; MBA from Bar Ilan University. Senior partner in the FIMI Fund. Director at: Inrom Group, Ham-Let (Israel-Canada) Ltd., Overseas Commerce Ltd., Rivulis Irrigation Ltd., Magal Security Systems, Oxygen and Argon Works Ltd., Beit Shemesh Engineers Holdings (1997) Ltd., Orbit Technologies Ltd., ImageSat International NV, Brad Arosystems Ltd., Carmel Forge Ltd., Aitec Ltd. | No | Yes |
| Yariv Avisar 57418873 24/12/1961 Israeli | Ha-Shahaf St., POB 219, Ein Sarid | No; Has professional qualifications | No | 18/5/2016 | Academic. CEO of SCR, Director of HET, Chairman of the Glokey activist, Director Telfair, Director Moshoniez, Chairman Amiad Water Systems. | No | No |
| Rivka Granot 022652457 4/3/1967 Israeli | 8 Finland St., Haifa | Yes, External Director; Audit, Compensation and Financial Statements Review Committee; Has accounting and financial expertise as well as professional qualifications | No | 18/5/2016 | Academic. BA in Economics and Business Administration from Haifa University; M.Sc. in Business Administration Science from the Technion. Holds an investment portfolio management license. Serves as a Director of ONE1, RoboGroup, Ravad, Danel and KAMAR. | No | Yes |

Below are the rates of attendance of the Directors at meetings of the Board of Directors and its committees in 2018:

| Director | Rate of attendance at meetings of the Board of Directors | Rate of attendance at meetings of the Balance Sheet, Audit and Compensation Committee (for Directors who are members of this committee) |
|---------------|--|---|
| Haim Shani | 100% | - |
| Bareket Shani | 100% | - |
| Zvi Livne | 100% | 100% |
| Doron Shinar | 88% | 100% |
| Amit Ben-Zvi | 100% | - |
| Gillon Beck | 100% | - |
| Yariv Avisar | 100% | - |
| Rivka Granot | 100% | 100% |

4.11 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company whose details were not set forth in section 4.5 above:

| Name, ID number, date of birth | Date on which the officer began his term of office | Position held by the officer in the Company, a subsidiary thereof, a related company thereof or an interested party therein; If the senior officer is an independent authorized signatory of the Company – this fact is to be mentioned | Is the officer an interested party in the Company or related to another senior officer or to an interested party in the Company? | Education and business experience during the past five years |
|--|--|--|--|---|
| Amit Harari 33591843 25/11/76 | 26/10/10 | Vice President and General Manager (field) products until March 2019 and from this date, the company's CEO. | No | Academic, B.Sc. in Industrial Engineering from the Technion, MBA from Tel Aviv University. |
| Eitan Alon 028890515 3/7/72 | 30/11/17 | Chief Financial Officer | No | Academic, BA in Economics and Accounting from Haifa University, MBA from Tel Aviv University, CPA certificate holder. Prior to joining the Company, served as CFO at BMC Software Israel. From March 2019 he also serves as CFO of Utron. |
| Lior Ben-Ezer 039297270 26/4/83 | 14/5/20 18 | Finance Controller | No | Academic education. B.A., Accounting and Economics from the Open University, a certified public Accountant in Israel, M.B. A of Tel-Aviv University. PC Holdings Group Ltd.; CFO AFCON M & E GMBH; The wind farms Simarin & Gilboa Ltd. From March 2019 also serves as a computer for Utron.. |

| Name, ID number, date of birth | Date on which the officer began his term of office | Position held by the officer in the Company, a subsidiary thereof, a related company thereof or an interested party therein; If the senior officer is an independent authorized signatory of the Company – this fact is to be mentioned | Is the officer an interested party in the Company or related to another senior officer or to an interested party in the Company? | Education and business experience during the past five years |
|--|--|--|--|--|
| Ronen Leibovitz 059748327 20/7/65 | 28/5/17 | Internal Auditor of the Company | No | Education BA, Business Administration from the College of Management Academic College, CPA. He is a partner at Crowe Horwath (Israel) (until 2018), CPA at Schiff, Hazenfratz & Co. (in 2018). |
| Daniel Raphael Nygate 13105820 13/12/64 | 10/1/16 | Chief Operating and Purchasing Officer | No | Academic, B.Sc. in Industrial and Management Engineering from Ben Gurion University. Served as CEO of a subsidiary in Israel between 2015-2016 and as VP and Manager of Purchasing at the Company between 2012-2015. On January 10, 2016 was reappointed to the position of VP Operations and Purchasing at the Company. Prior to joining the Company served as Sales Director at Amdocs. |
| Josef Ratsabi 032078164 25/12/74 | 10/1/16 | CEO of a subsidiary in Israel | No | Academic, B.Sc. in Electrical Engineering from the Holon Institute of Technology; MBA in Business Administration from The College of Management. Served as Deputy CEO in a subsidiary in Israel between 2015-2016, as a Division Manager at the Company between 2013-2015 and as a Senior Project Manager at the Company between 2011-2013. From March 2019, he serves as an officer of Utron. |
| Hilit Bar Sorya 33104258 23/8/76 | 22/11/12 | In-House Legal Counsel of the Company | No | Academic, LLB in the Academic Track from The College of Management; MBA with Honors from Heriot-Watt University, Edinburgh Business School, Scotland. Member of the Israel Bar Association since 2002. Business experience: Since February 2011, In-House Legal Counsel, Unitronics; 2009-2011: Attorney and Assistant to CEO at the Davidoff Group. |

4.12 Corporation's Independent Auditor (Reg. 27)

BDO Ziv Haft, CPA – 48 Menachem Begin St., Tel Aviv.

4.13 Amendment of the Articles or Memorandum of Association (Reg. 28)

The Company's Articles were not amended during the period of the report and up to the date of its publication.

For the text of the Articles see Immediate Report on Amendment to Articles, dated May 18, 2016, reference number 2016-01-028896, included herein by reference.

4.14 Recommendations and Resolutions of the Directors and Resolutions of Extraordinary General Meeting (Reg. 29)

During the period of the report and up to the date of its publication: (a) no recommendations or resolutions were issued by the Board of Directors in the matters set out in regulation 29(a) of the Reports Regulations; and (b) no Extraordinary General Meeting of Company Shareholders was held.

On February 12, 2019, the company's board of directors decided to make early revenue, in the company's initiative, the "Lag" (series 5) is subject to the approval of the court for the company's request to carry out a division of the company's activity, as submitted by the company on September 6, 2018 (for details, see a report on contacting the court for approval Division from 6 September 2018, Reference No. 2018-01-083341), according to the section 7.2 of the company's "Bond of Fidelity" (series 5). (For more details, see the report on early maturity conditional in the "Report Series 5" from 13 February 2019, Reference No. 2019-01-014346). On February 19, 2019, a verdict confirming the prior division and maturity of the aforementioned is subject to the actual division. On March 12, 2019, the company transferred the early revenue to a loyalty account for the company's bonds holders (5 series). For more details, see the report on early maturity conditional on the "Report Series 5" On February 21, 2019. Reference No. 2019-01-016308), report on the transfer of the early maturity payment from March 12 (reference number: 2019-01-021013) and supplemental report on early revenue from 12 March 2019 (Reference number: 2019-01-020493), which is hereby built on the path of reference.

The annual general meeting, which took place on 15 July 2018, approved a lease agreement from a company under the control of Mr. Haim Shani (CEO of the company and controlling it jointly with Keren Fimi) and Ms. Barkat II, the wife of Mr. Shani, for a three-year period beginning on August 1, 2018 (date of completion of a previous lease agreement), according to section 275 (a) of the company law. For more details, see "Summons a meeting" from 30 May 2018, reference No. 2018-01-053395, which is hereby built on the path of reference.

4.15 Resolutions of the Company (Reg. 29A)

Below are details regarding provisions of exemption, insurance and undertaking to indemnify officers, in effect as at the date of this Periodic Report, which are subject to the Compensation Policy of the Company (for details see section 4.5.2 above):

4.15.1 The Company's Articles of Association permit the exemption, indemnification and insurance of officers, to the maximum extent permitted by the Companies Law.

Indemnification and exemption: The Company has undertaken towards officers of the Company that the Company would indemnify them, in advance, in specific cases (hereinafter: "**the Determining Events**"), in an amount not exceeding 25% of the Company's equity, as recorded in its financial statements as of the date of the indemnification, for all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of Determining Events, which the Company will receive from time to time under any officers' liability insurance. The list of Determining Events was updated at a later date following the amendment of the letter of indemnification and exemption issued to officers of the Company, including its controlling shareholders. These undertakings of the Company will continue to apply to the benefit of the Company's officers also after the termination of their service with the Company, provided that actions in respect of which the indemnification is granted were performed during the period of their service as officers of the Company. The Company has also undertaken to release its officers, in advance, from any liability for damage due to a breach of the duty of care towards the Company, with certain restrictions.

The Company from time to time renews the validity of the letters of indemnification and exemption of its officers, including the controlling shareholders, and issues letters of indemnification and exemption to new officers that are appointed, in accordance with the requirements of the law.

4.15.2 For details on the insurance of officers of the Company, see section 4.5.8 above.

Unitronics (1989) (R" G) Ltd.

By: Amit Ben-Zvi
 Chairman of the Board of Directors

 Haim Shani
 Director and CEO

March 27, 2009

Chapter E - Statements by the CEO and CFO of the Corporation for 2018

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

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

I, Haim Shani, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2018 ("**the Reports**").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the reports.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 27, 2019

Haim Shani, CEO

Statement by the CFO pursuant to Regulation 9b(d)(2) of the regulations

I, Eitan Alon, certify that:

1. I have reviewed the financial statements and other financial information included in the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2018 ("**the reports**").
2. To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 27, 2019

Eitan Alon, CFO