



## **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.

# Table of Contents

<u>Chapter/ Paragraph</u>	<u>Content</u>	<u>Page</u>
<b>Chapter A</b>	<b>Description of the Company's business (Reg. 8A)</b>	<b>A-1</b>
	<b>Part I- Description of the general development of the Company's business</b>	<b>A-1</b>
1.1	Company's activity and description of its business development	A-1
1.2	Subsidiaries and holding structure diagram	A-2
1.3	Operating segments	A-3
1.4	Investments in the Company's capital and transactions with its shares	A-3
1.5	Dividend distribution	A-5
	<b>Part II- Other information</b>	<b>A-6</b>
1.6	Financial information on the Company's business activities	A-6
1.7	General environment and impact of external factors on the Company's activity	A-8
	<b>Part III- Description of the Company's business by operating segments</b>	<b>A-10</b>
1.8	Overview - synergy between the Company's operating segments	A-10
1.9	Products segment	A-10
1.10	Automated Solutions segment	A-30
1.11	Other Activities	A-48
	<b>Part IV- Matters Related to the Company's Overall Operations</b>	<b>A-49</b>
1.12	Fixed assets, land, facilities, insurance	A-49
1.13	Intangible assets	A-52
1.14	Human resources	A-53
1.15	Investments	A-55
1.16	Financing	A-55
1.17	Taxation	A-57
1.18	Restrictions on and supervision of Company activities	A-57
1.19	Material agreements and cooperation agreements	A-57
1.20	Subsidiaries	A-59
1.21	Discussion of risk factors	A-65
<b>Chapter B</b>	<b>Board of Directors Report On the State of Affairs of the Corporation (Reg. 10 - 10A)</b>	<b>B-1</b>
2.1	Summarized Description of the Corporate and its business environment	B-1
2.2	Analysis of Financial Position	B-1
2.3	Liquidity and financing sources	B-9
2.4	Exposure to market risk and management thereof	B-10
2.5	Projected Cash Flow	B-10
2.6	Report on Liabilities by Maturity Dates (Reg. 9D)	B-10
2.7	Corporate Governance Aspects	B-10
2.8	Disclosure Requirements in Connection with Financial Reporting	B-14
2.9	Specific Disclosure to Debenture Holders	B-15
2.10	Share buyback	B-22

<b>Chapter C</b>	<b>Financial Statements December 31, 2017</b>	<b>C-1</b>
3.1	Independent Auditors' Report	C-2
3.2	Consolidated Statements of Financial Position	C-3
3.3	Consolidated Statements of Profit or Loss	C-5
3.4	Consolidated Statements of comprehensive income	C-6
3.5	Consolidated Statements of Changes in Equity	C-7
3.6	Consolidated Statements of Cash Flows	C-8
3.7	Notes to the Financial Statements	C-10
3.8	Financial data from the consolidated financial statements attributed to the company itself	C-52
 <b>Chapter D</b>	 <b>Additional Details about the Corporation (Reg. 10C - 29A)</b>	 <b>D-1</b>
4.1	List of Investments in Active Subsidiaries and Associates (Reg. 11)	D-1
4.2	Changes in Investments in Active Subsidiaries and in Associates (Reg. 12)	D-1
4.3	Revenues of Active Subsidiaries and Associates (Reg. 13)	D-1
4.4	Trading on the Stock Exchange (Reg. 20)	D-2
4.5	Compensation of interested parties and senior officers (Reg. 21)	D-2
4.5.A	Control of the Corporation (Reg. 21a)	D-6
4.6	Transaction with a Controlling Shareholder (Reg. 22)	D-6
4.7	Holdings of interested parties and Senior Officers (Reg. 24)	D-8
4.8	Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)	D-8
4.9	Register of Shareholders of the Corporation (Reg. 24b)	D-9
4.9.A.	Registered address (Reg. 25A)	D-9
4.10	Directors of the Corporation (Reg. 26)	D-10
4.11	Senior Officers (Reg. 26A)	D-13
4.12	Corporation's Independent Auditor (Reg. 27)	D-14
4.13	Amendment of the Articles or Memorandum of Association (Reg. 28)	D-14
4.14	Recommendations and Resolutions of the Directors and Resolutions of Extraordinary General meeting (Reg. 29)	D-14
4.15	Resolutions of the Company (Reg. 29A)	D-14
 <b>Chapter E</b>	 <b>Statements by the CEO and CFO of the Corporation (Reg. 9b)</b>	 <b>E-1</b>

## **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**

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. The Company, directly and through a wholly-owned subsidiary and second tier subsidiary, 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.

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. For further details regarding the completion of the delisting and listing process, see immediate report dated July 31, 2017 on an event or matter outside the ordinary course of the corporation's business, Reference No. 2017-01-065935, included herein by reference.

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

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.

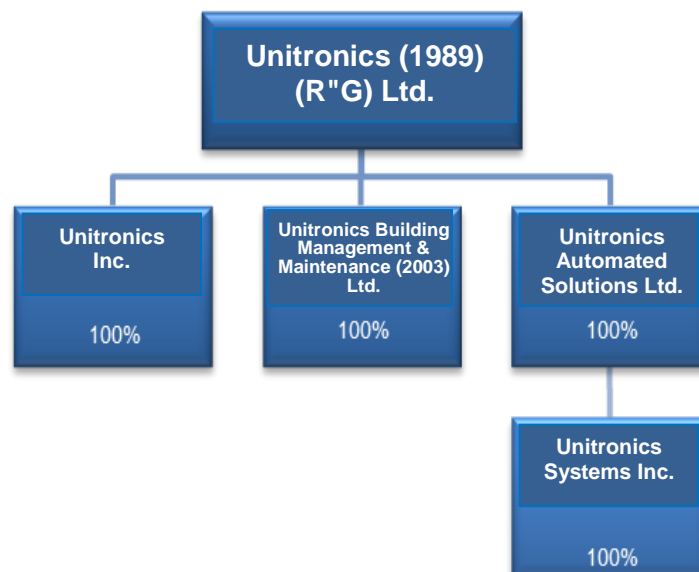
Unitronics Building Management & Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), wholly owned subsidiary of the company, which is primarily engaged in the management and maintenance of the Unitronics Building.

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:



### 1.3 Operating segments

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 in approximately sixty 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.

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

Further to the approval of the General Meeting of Company Shareholders on May 9, 2016 (hereinafter: "**the General Meeting**"), on May 18, 2016 an investment transaction was concluded between the Company and the FIMI Fund (hereinafter, respectively: "**FIMI**" and "**the transaction**"), 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, at a price of NIS 16 per share. Additionally, if the conditions detailed in the investment agreement are fulfilled, the price per share for purposes of the investment will be adjusted and reduced to NIS 14 per share, and the Company will allocate to FIMI up to 535,714 additional shares (hereinafter: "**the additional shares**"), for no added consideration. At the request of the Tel Aviv 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 NIS 0.30 for each additional share actually allocated to FIMI.

Furthermore, as Mr. Haim Shani, the Company's controlling shareholder at the time, serving today as the CEO and a Director of the Company, notified the Company, on May 18, 2016 a transaction was concluded between him and FIMI, in which FIMI purchased from him 3,125,000 shares of the Company 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), at an identical price of NIS 16 per share. Additionally, 446,429 additional shares of the Company held by Mr. Shani were deposited in trust for transfer in the future to FIMI, should the conditions set for the exercise of the price-per-share adjustment mechanism, as described above, be fulfilled. In addition, a shareholder agreement was signed and became effective between Mr. Shani and FIMI, pursuant to which the parties are to cooperate with each other in votes on various issues and regarding the disposition of shares of the Company held by them.

Following the closing of the transaction FIMI holds a total of 50% of the Company's issued share capital, while Mr. Shani holds 22% of the Company's issued share capital and continues to serve as the CEO and a Director of the Company.

Moreover, further to the approval of the General Meeting, on the transaction closing date resolutions of the General Meeting forming part of the terms of the transaction went into effect regarding the following: amendment of Mr. Haim Shani's employment agreement with the Company; amendment of the Company's articles of association; amendment of the Company's Compensation Policy; appointment of Ms. Rivka Granot as an External Director of the Company and approval of her terms of service and employment; appointment of Mr. Amit Ben-Zvi, Mr. Yariv Avisar and Mr. Gillon Beck as Directors of the Company (and Mr. Ben-Zvi as an active Chairman of the Board of Directors of the Company) and approval of the terms of service and employment of Mr. Yariv Avisar and Mr. Gillon Beck as Directors; approval of the terms of service and employment of Mr. Amit Ben-Zvi as an active Chairman of the Board of Directors of the Company.

For further details regarding the transaction with FIMI, see the Company's reports dated March 20, 2016, March 31, 2016 and May 2, 2016 (Reference Nos. 2016-01-009696, 2016-01-021966 and 2016-01-057655, respectively), included herein by reference. For further details regarding the results of the General Meeting, see immediate report dated May 9, 2016 on the results of a meeting to approve a transaction with a controlling shareholder, Reference No. 2016-01-062236.

Apart from the transaction described above, 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.

## **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, 2017 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 immediate report dated February 23, 2014 on an event or matter outside the ordinary course of the corporation's business, Reference No. 2014-01-044944, included herein by reference, and Note 17 to the consolidated financial statements for 2017 – Chapter C of this Periodic Report).

In the absence of retained earnings available for distribution by law, there is no dividend distribution for 2017.

## **Part II – Other Information**

### **1.6 Financial information on the Company's business activities**

	<b>For the year ended December 31</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
	<b>NIS in thousands</b>		
<b><u>Revenues:</u></b>			
Products	123,160	113,509	109,059
Automated Solutions	61,406	35,052	49,681
Other	436	427	409
<b>Total Revenues*</b>	<b>185,002</b>	<b>148,988</b>	<b>159,149</b>
<b><u>Segment costs:</u></b>			
Products – fixed**	41,331	38,383	35,131
Products – variable***	54,778	51,028	50,071
Automated Solutions – fixed**	28,289	29,501	23,237
Automated Solutions – variable***	39,701	30,578	27,852
Other – fixed **	-	-	-
Other – variable***	409	394	396
<b>Total ****</b>	<b>164,508</b>	<b>149,884</b>	<b>136,687</b>
<b><u>Segment results:</u></b>			
Products	27,051	24,098	23,857
Automated Solutions	(6,584)	(25,027)	(1,408)
Other	27	33	13
<b>Total</b>	<b>20,494</b>	<b>(896)</b>	<b>22,462</b>
Non-attributable expenses	(11,614)	(10,884)	(9,127)
<b>Profit (loss) from ordinary activities*</b>	<b>8,880</b>	<b>(11,780)</b>	<b>13,335</b>

\* 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 25 in the consolidated financial statements for 2017 – 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 2017 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	Prime contractor
Start date	Q1 2017	Q4 2017	Q3 2017
Projected finish date	Q4 2019	Q4 2019	Q3 2019
Ordering party's option to cancel/terminate the project and compensation mechanism	Exists (*)	Exists (*)	Exists (*)
Manner of determining the completion rate	Engineering stage of completion	Engineering stage of completion	Engineering stage of completion
Qualitative characterization of project gross profitability	Average and up	Average	Average and up
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	31.12.17	25%	9,433	2,358	7,075	150
	31.12.16	N/A	N/A	N/A	N/A	N/A
	31.12.15	N/A	N/A	N/A	N/A	N/A
Project B	31.12.17	25%	6,908	1,727	5,181	350
	31.12.16	N/A	N/A	N/A	N/A	N/A
	31.12.15	N/A	N/A	N/A	N/A	N/A
Project C	31.12.17	25%	4,857	1,214	3,643	0
	31.12.16	N/A	N/A	N/A	N/A	N/A
	31.12.15	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 – synergy between the Company's operating segments**

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 Technavio Report for 2016 (hereinafter: "**the Technavio Report**"), the global PLC market was estimated at \$12.60 billion in 2015 and is expected to reach \$15.61 billion by 2018 and \$18.14 billion by 2020 (an average growth rate of 7.56% per year).

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. According to the Technavio Report, the motor vehicle industry led in the use of PLCs in 2015.
- (c) Geographic breakdown: A study of the geographical distribution of sales of PLCs around the world in recent years, according to different sources, shows that Asia and the Pacific countries lead in purchases of industrial PLCs.

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 profitability<sup>1</sup>), 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

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<sup>1</sup> 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:

<b>Traditional classification</b>	<b>Nano PLCs</b>	<b>Micro PLCs</b>	<b>Small PLCs</b>	<b>Medium PLCs</b>
<b>Alternative classification</b>	<b>Smart Relays</b>	<b>Compact PLCs</b>		<b>Modular PLCs</b>
<b>Major relative advantages</b>	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
<b>Major industrial applications</b>	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 six different models of the Company's products have been awarded the Engineers' Choice Award by Control Engineering magazine ([www.controleng.com](http://www.controleng.com)) in the last six years (2012-2017). 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 2017, for example, a Samba™ Series PLC was selected as the winner in the Hardware-Integrated HMI controllers' category.

#### 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 2015, 2016 and 2017.

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		
	2017	2016	2015
	NIS in thousands		
Revenue from products (*) (amount and percent from consolidated revenues)	(67%) 123,160	(76%) 113,509	(69%) 109,059
Gross profit (amount and percent)	(43%) 52,911	(42%) 47,862	(43%) 46,601

(\*) 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 performance<sup>2</sup>. 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 to include larger and/or more advanced products. During the year 2017, the company launched, *inter alia*, Unistream 5, an extension of the award-winning Unistream line. Unistream 5 combines compact design, built-in inputs and outputs (all-in-one) and advanced protocol support for new industry requirements (Industry 4.0).

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 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.

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<sup>2</sup> 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.

#### 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 160 distributors (of which 100 are in the United States) in about sixty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa. In addition, the Company uses in the United States about 15 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 2017 – 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 20, 2018 (closest possible date to date of this report)	Product order backlog as of December 31, 2017	Product order backlog as of December 31, 2016
NIS in thousands			
Q1 2017	---	---	5,769
Q2 2017	---	---	984
Q3 2017	---	---	412
Q4 2017	---	---	985
For 2018	---	---	475
Q1 2018	2,997	4,854	---
Q2 2018	3,160	756	---
Q3 2018	837	438	---
Q4 2018	1,613	982	---
For 2019	664	570	---
<b>Total</b>	<b>9,271</b>	<b>7,600</b>	<b>8,625</b>

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business. The backlog mix, in terms of the main products included, is not indicative, and changes constantly, since it reflects specific demand for particular products based on the pace of consumption of various customers and the requirements of different markets that usually dictate this pace. As already mentioned, the nature of the activity in this market is primarily based on inventory and off-the-shelf purchases<sup>3</sup>.

### 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.

<sup>3</sup> 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: B&R Industrial Automation, ABB, Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.
- C. Smaller companies operating in limited geographical regions or dealing in special niche products. This group includes such companies as: Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, and PILZ. In the Company's estimation, its activity in the products segment falls into this category. The Company knows of no other Israeli companies in this category.

The Company knows of no statistical knowledge that can serve as a basis regarding the consumption and/or sales of PLCs in Israel, and thus is unable to assess the size of the local market, its own share in the local market and/or its own share relative to other PLC manufacturers/distributors in Israel. As regards its share in the global market, the Company assesses, based on widely accepted international market studies in the industry, including the ARC and Technavio reports, that, its share in the global PLC market stands at below one percent.

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

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

#### 1.9.14 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 has no fixed assets, real estate or facilities specific to the products segment, and it uses its fixed assets, real estate and facilities (including rented space) for its business in the two operating segments (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:

	<b>For the year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS in thousands</b>		
Payroll and benefits	8,345	9,345	10,434
Subcontractors	1,603	2,045	1,576
Other expenses	1,608	1,680	1,937
Less capitalized expenses recognized as an intangible asset	(8,746)	(9,903)	(10,847)
<b>Total</b>	<b>2,810</b>	<b>3,167</b>	<b>3,100</b>

Overall, the Company spent NIS 11,556 thousand during the reported year (of which NIS 8,746 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 2018, total development expenses in the Products segment will not change materially compared to actual development expenses in this segment in 2017<sup>4</sup>.

<sup>4</sup> 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.

From 1992 to 2003, the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the "**Chief Scientist**") participated in the funding of the Company's R&D programs under the Encouragement of Industrial Research and Development Law, 1984 (hereinafter: the "**R&D Law**"). Subject to the support received for the financing of the Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate); receiving approvals regarding changes in holdings and controlling means in the Company; refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas. Total grants approved for the Company based on the R&D programs amounted to NIS 2,473 thousand in respect of which the Company paid to the Chief Scientist up to December 31, 2017, a total of NIS 500 thousand in royalties. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2017, 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

As mentioned above, the activity of Company staff is split into segments, 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 (for details see section 1.14 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 2015, 2016 and 2017), 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 (hereinafter in this section: "**the agreement**") with a manufacturing contractor for turnkey work, who is a third party unrelated to the Company or interested parties therein. Under the agreement, the manufacturing contractor serves as a subcontractor for the manufacture and supply of inventory of the Company's turnkey products and/or electronic assemblies. Under the agreement, the manufacturing contractor performs most of the component purchases, placement and assembly followed by the testing and packaging of the finished products, 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 manufacturing contractor 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. The Company is entitled to terminate the agreement, for any reason, by giving 90 days' prior written notice to the manufacturing contractor. Under the agreement with the manufacturing contractor the Company sells raw materials to the manufacturing contractor for the purpose of manufacturing for the Company. For details, see Note 18 to the consolidated financial statements for 2017 – Chapter C of this Periodic Report.

The Company's payments to the manufacturing contractor accounted in 2017 and 2016, respectively, for 29% and 31% of the total consolidated expenses of the Company for raw materials and subcontractors during these periods.

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 45-90 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.

1.9.20.2 Warranty: 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 directives<sup>5</sup>. 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. The Company estimates that 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 directives<sup>6</sup>.

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

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<sup>5</sup> 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.

<sup>6</sup> 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.

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 regulations<sup>7</sup>.

The Law for the Regulation of Packaging Waste Treatment 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 will continue to monitor the total weight of packaging of the packaged products it sells each year to ensure compliance with the law.

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 law<sup>8</sup>.

#### 1.9.22 Standards and quality control

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.

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<sup>7</sup> 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.

<sup>8</sup> 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.

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 above<sup>9</sup>.

#### 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

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<sup>9</sup> 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.

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.

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 three 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 2018, see section 1.9.16 above.

## **1.10 Automated Solutions segment**

### **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. 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 in the field of autonomous parking facilities. 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 a autonomous parking facility), a factor that also impacts this business segment and its growth.

### **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 1.10.18 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 Company<sup>10</sup>.

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, and advance its prospects of being chosen to implement new projects of this type in the future.

Referring to parking projects, 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 85 million vehicles were manufactured in 2013 alone (an increase over 2012), and forecasts put the annual production of vehicles by 2018 at more than 100 million vehicles worldwide. According to data of the OICA, global sales in the first half of 2016 already crossed the 45 million mark (<http://www.oica.net/wp-content/uploads//total-sales-2016-Q2.pdf>), while based on estimates, there are more than 650 million vehicles on the road today (<http://oica.net/wp-content/uploads/press-release-press-conference-20120307.pdf> and <http://www.worldometers.info/cars>). The International Parking Institute ("IPI") estimates that revenues in the parking industry in the US alone stood at 25 to 30 billion dollars in 2013.

According to a survey conducted by IPI in 2015 (<http://www.parking.org/2016/02/11/tpp-2015-09-2015-emerging-trends-in-parking/>), 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; increasing interest in automated parking systems, and instruction programs offered to entrepreneurs, architects and traffic consultants in various frameworks by international organizations.

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.

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<sup>10</sup> 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.

#### 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. The Company works on the development, design and construction and/or upgrading of parking facilities, according to the requirements and technological changes in the different disciplines. Building a robotic parking facility involves various disciplines, including mechanical and engineering design, construction (including foundations, shell and other building components), planning, production, supply and installation of mechanical and/or robotic conveyance systems, development and installation of electricity and control systems, development and installation of software systems and coordination between all those participating in the construction of the facility.

#### 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 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.

In the field of parking solutions, the main entry barriers the knowledge and experience required for the analysis and design of parking facilities according to requirements, the duration of sale processes, due in large measure to the conservative nature of the target markets for these facilities (which traditionally are not technology-oriented), the need to interface with existing payment and collection systems, as well as the need for support and maintenance systems to provide the level of service and availability required for such facilities. In the Company's estimation, the main exit barriers are the Company's undertaking to complete parking facility construction projects in accordance with signed agreements and commitments to service the parking facilities built by it in accordance with signed service agreements.

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 Products and services

##### 1.10.6.1 Logistic Systems

Logistics projects not include products (other than custom software for management of logistic systems, as explained below), but rather are 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 includes 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 Company improved the Gateway Connector component which enables connecting to the SAP-EWM module (an advanced SAP warehouse management system). This is a generic development and therefore will be compatible with a variety of SAP-EWM-based projects, facilitating an expansion of activity in such projects.

The Company adapts its warehouse management software systems to maximize the performance of new systems that have recently come on the market, such as multi-shuttle systems as well as adaptations relating to cloud data management.

These software packages, which operate in the MS Windows environment and which were developed using the DotNet technologies, client–server architecture and/or website interfaces (web-based and also web services) are planned to provide support in several languages (including Hebrew) and to communicate with ERP systems or organizational management or billing systems. These software programs may be installed and applied as is, just like any other application software, without requiring any changes to the software in order to adapt it to any unique needs, however, they may also be customized to meet defined and special needs of each customer.

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.

#### 1.10.6.2 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.

Unitronics 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.

Unitronics 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.

These software packages operate in the Microsoft Windows environment, under client-server architecture and/or Web-based interfaces, and are designed to support multiple languages (including Hebrew) and to communicate with various management or billing systems. These software programs can be installed and implemented as is, like any other application program, without the need for software modifications to accommodate special needs, but it is also possible to adapt them to the specific and unique needs of each customer.

#### 1.10.7 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. One of the significant characteristics of this activity is the relatively large financial scope of a limited number of orders for what is characterized as one-off services. This creates a high exposure to volatility of sales volumes and profitability in the field of logistics solutions (in line with changes in the pace of progress), and in general, to the influence of a relatively small number of projects slated to be implemented at any given time.

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 various stages of exploring possibilities for joining other projects for the construction of automated warehouses in Israel and worldwide, which have not yet matured.

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.

### 1.10.8 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		
	2017	2016	2015
	NIS in thousands		
Automated Solutions (amount and percent from consolidated revenues)	(33%) 61,406	(24%) 35,052	(31%) 49,681
Gross profit (amount and percent)	(4%) 2,440	(-45%) (15,951)	(19%) 9,334

### 1.10.9 Customers

#### 1.10.9.1 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 the end user to integrate an entire system, who subcontracts to the Company to perform specific tasks only, such as the design of the system or the installation of PLCs in the system. The Israeli customers of the Company's Logistic systems include the Strauss Group, the Israel Electric Corporation, Graffiti, Rafael, Caesarea Electronics, Maman, Teva, Tnuva, MIS, Maadanot, Coca Cola Israel (The Central Bottling Company), Leiman Schlissel, Home Center, Carmel Frenkel, Shalam Packaging Solutions, Pelephone Communications, Scoop Metals, Colmobile, the Israeli Air Force, the Israel Aircraft

Industry, Klil Industries, Clalit Health Services, a Defense Ministry facility, Intel, Milco Industries and others.

The Company's services in the logistic systems area are provided pursuant to customer-tailored agreements, and generally include a list of defined and detailed tasks, technical and functional specifications which the system being constructed will be required to meet, timetables (generally ranging from 9 to 18 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and installment payments according to the progress in work. Under these agreements, the Company is generally required to provide guarantees (mostly bank guarantees) to secure performance of its obligations.

#### 1.10.9.2 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 defined periods.

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 1 million.

The Company typically provides a 12-24 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.

**Major customer:** Ten percent or more of the Company's revenues for the periods detailed below derives from customer ordering logistic system that entered into a one-off transaction with the Company.

Below is the pro-rata share of these customer in the revenues of the Automated Solutions segment and in the Company's total revenues:

	For the year ended December 31					
	2017		2016		2015	
	% of total revenues					
	From sales of the Automated Solutions segment	From total Company sales	From sales of the Automated Solutions segment	From total Company sales	From sales of the Automated Solutions segment	From total Company sales
Major customer A	1.8%	0.6%	4.5%	0.6%	46.7%	10.3%

Pursuant to an agreement signed on May 13, 2012 between the Company and the above unrelated third party customer, the Company undertook to design, supply, set up and install an automated logistics system in Israel (hereinafter in this section: "**the Project**"). The Project is valued at NIS 56 million, an amount considered material to the Company and having an impact on the Company's revenues and profits. The payments in this project were made according to progress in the execution of milestones in the Project. The Project was completed in the course of 2015.

To secure the fulfillment of its liabilities under the Project, the Company has undertaken to provide bank guarantees and to an agreed compensation in certain cases, at progressive rates.

The Company recognized revenues from this project in its financial statements based on the percentage of completion method, with the percentage of completion determined based on the completion of engineering stages in the Project.

#### 1.10.10 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. The Company's agreements with such finders confer in some cases exclusive rights to distribute the Company's autonomous parking facilities in defined territories, subject to compliance with sales targets and for limited periods (usually one year) renewable subject to meeting specified minimum sales or subject to the Company's discretion in the event that the distributor fails to meet the specified minimum sales.

#### 1.10.11 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 20, 2018 (the closest possible date to date of this report)	Performance agreements in the Automated Solutions segment as of December 31, 2017	Performance agreements in the Automated Solutions segment as of December 31, 2016
	NIS in thousands		
Q1 2017	---	---	7,372
Q2 2017	---	---	5,147
Q3 2017	---	---	8,380
Q4 2017	---	---	6,215
For 2018	---	---	15,627
Q1 2018	11,615	11,615	---
Q2 2018	22,682	22,682	---
Q3 2018	23,477	23,477	---
Q4 2018	22,510	22,510	---
For 2019	57,709	57,709	---
<b>Total</b>	<b>137,993</b>	<b>137,993</b>	<b>42,786</b>

Differences in the reported order backlog between 2016 and 2017 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 projects<sup>11</sup>.

<sup>11</sup> 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.

#### 1.10.12 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 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). Nevertheless, there is no certainty that the markets or existing or prospective customers will regard the Company's services as more worthwhile than those of its competitors. Similarly, there is no certainty that its competitors will not offer products and services that make the Company's services less competitive.

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.

There is no certainty that existing or potential markets or customers will regard the Company's services as more worthwhile than those of its competitors. Similarly, there is no certainty that its competitors will not offer services that make the Company's services less competitive.

#### 1.10.13 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 1.10.16 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.

#### 1.10.14 Fixed assets, real estate and facilities

The Company 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).

#### 1.10.15 Human capital

The activity of the Company's staff is divided into segments, as explained above, with all employees engaged and involved in all aspects of the Company's activity, but focusing primarily on matters concerning their own specific segment (for details see section 1.14 below).

#### 1.10.16 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 2016 and 2017 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.

#### 1.10.17 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		
	2017	2016	2015
	NIS in thousands		
Payroll and related expenses	4,124	4,504	7,189
Materials and subcontractors	435	959	8,070
Other expenses	937	1,261	1,185
Net of capitalized expenses recognized as an intangible asset	(3,919)	(4,804)	(13,208)
Total	1,577	1,920	3,236

Overall, the Company spent NIS 5,496 thousand during the reporting year (of which NIS 3,919 thousand were recognized as intangible assets) for the development of products and technologies as detailed in section 1.10.6 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 robotic parking system<sup>12</sup>.

#### 1.10.18 Working capital

1.10.18.1 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.

1.10.18.2 Warranty: The Company typically provides a 12-24 months warranty for major system components in the Automated Solutions segment.

#### 1.10.19 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.

Compliance with the above standards is a binding legal requirement for marketing Company services in some of the Company's target markets, and in other markets it is a

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<sup>12</sup> 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.

market requirement, although not a 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 the provisions of said standards could limit the Company's ability to market its services in some of its target markets. As of the date of this report, the Company is unaware of failure to comply with the standards applicable to its systems as described above.

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.

#### 1.10.20 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. 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.

#### 1.10.21 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, mainly in North America and Israel.

#### 1.10.22 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:

	<b>For the year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS in thousands</b>		
Revenues from Unitronics Management operations	436	427	409

## **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, 2017 amounted to NIS 14,330 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 the lease ends August 1, 2018, subject to the Company's right to end the lease at any time with prior notice of three months, according to the decision of the Company's Audit Committee. Under these lease terms, and according to its needs, the Company leased until December 31, 2016, 1,106 sq.m of office space in Unitronics Building 936 sq.m as of January 1, 2017 untill August 31, 2017, 1,106 sq.m as of September 1, 2017 until December 31, 2017, and 1,022 sq.m as of January 1, 2018, as well as 30 parking spaces. Under the terms of the lease agreement, the rent is set at NIS 74 per sq.m per month, linked to the CPI of June 2009 (plus management fees payable to ACL at NIS 4.5 per sq.m per month, linked to the CPI of October 1999, and management fees at NIS 12.96 per sq.m per month, linked to

the CPI of March 2015, payable to Unitronics Management, which provides management and maintenance services for Unitronics Building). The rent for the parking spaces is NIS 350 per parking space, linked to the CPI of June 2009. Total cost of the lease for the Company under the lease agreement in 2017 was an average of NIS 110 thousands per month (according to the linkage terms detailed above). As from January 1, 2018, monthly rental fees are expected to amount to an average of NIS 116 thousand per month. For further details on the approval of the lease agreement between the Company and its controlling shareholders, 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, 2019 at annual rent of \$59,000.
- 1.12.5 Unitronics Systems: The second-tier subsidiary Unitronics Systems leases from a third party unrelated to the Company and/or to interested parties therein office space in Fort Lee, NJ with a total area of 2,470 square feet (230 sq.m) at annual rent of USD 39,000. The lease agreement was terminated on October 31, 2015. The second-tier subsidiary is continuing to lease the office space on a monthly basis at the same terms.

#### 1.12.6 Insurance

The Company and its subsidiaries in Israel (except for the subsidiaries in the US – see section 1.12.6.6 below) 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 4.5.9 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 \$10 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 25 to the consolidated financial statements for 2017 – 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 in the US on certain aspects of its WilCo™ technology, another patent relating to the IO units connection as well as two registered patents in the US on certain control and management features of automated (robotic) 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 estimates that actual registration of a patent could take from three to five years. At the same time, there is no certainty that the applications applied by the Company will be recognized or granted within the aforementioned timeframe.

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

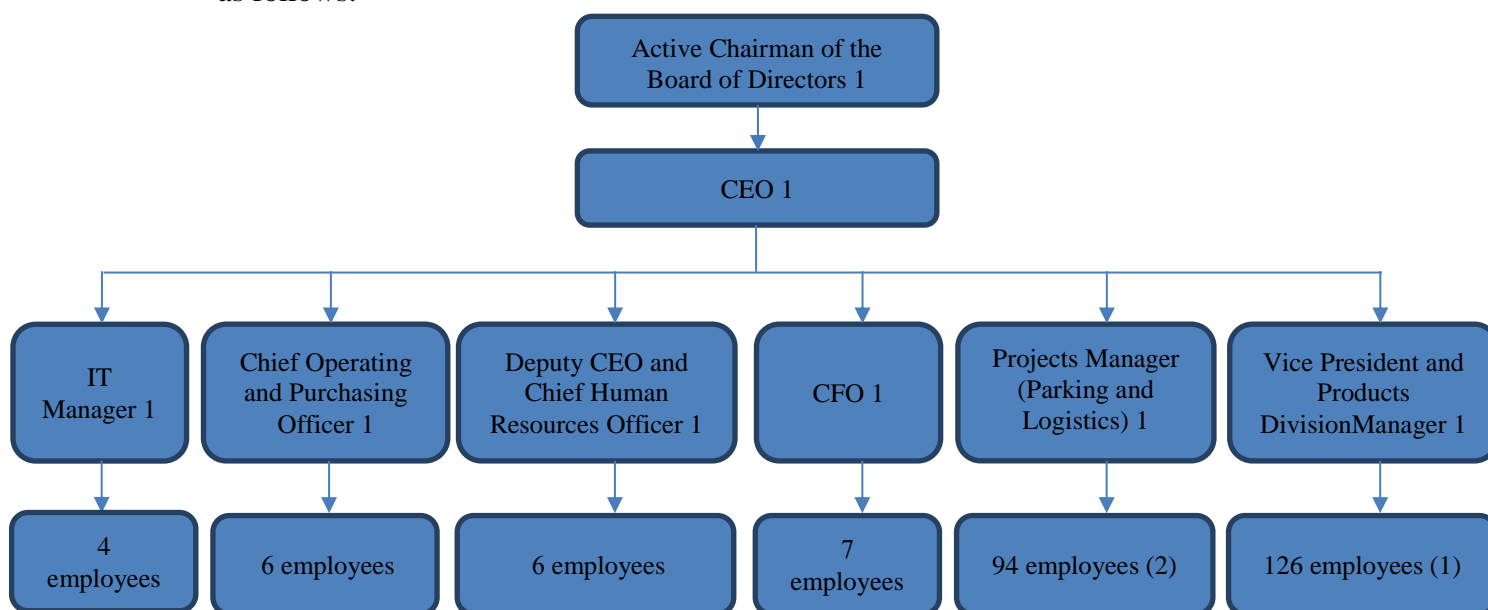
The Company has acquired rights to use domain names (including domain names with various country TLDs) in which it presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communicating with existing and potential customers.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

1.13.5 For details on the Company's investments in its intellectual property, see Note 9 to the consolidated financial statements for 2017 – Chapter C of this Periodic Report.

### 1.14 Human resources

1.14.1 Organizational structure: Mr. Amit Ben Zvi serves as active chairman of the board of directors of the Company, Mr. Haim Shani, a controlling shareholder of the Company (jointly with FIMI Fund), serves as Company CEO. Several senior professional executives report to the CEO, as per the chart below, in charge of professional operations and management. The Company's commercial operations are carried out by the Product Department and the Projects Department, 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 as of the date of this report are as follows:



(1) Including 21 employees in a US subsidiary

(2) Including 22 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.

1.14.2. Company staff and composition: As of the publication date of this report, the Company and its subsidiaries (in Israel and abroad) have a staff of 251 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 19, 2018)	December 31, 2017	December 31, 2016	December 31, 2015
Sales and Marketing	13	12	10	12
Research and development	57	57	58	65
Administration	29	24	22	22
Manufacturing, logistics and quality assurance	78	71	56	55
Integration and support	31	34	30	50
<b>Total</b>	<b>208</b>	<b>198</b>	<b>176</b>	<b>204</b>

The number of employees in subsidiaries and second-tier subsidiaries:

	December 31, 2017	December 31, 2016	December 31, 2015
Unitronics Inc.	24	15	15
Unitronics Solutions	70	48	47
Unitronics Systems	16	29	17
Unitronics Management	-	-	-
<b>Total</b>	<b>110</b>	<b>92</b>	<b>79</b>

In 2017, 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.

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.

### 1.15 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.

### 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, 2017			As of December 31, 2016		
	Credit amount, NIS in thousands	Interest rate	Effective interest rate	Credit amount, NIS in thousands	Interest rate	Effective interest rate
Long-term bank credit (USD) (*)	-	-	-	419	LIBOR+ 2.02%	LIBOR+ 2.02%
Long-term bank credit (EUR) (*)	2,595	LIBOR+ 3.41%	LIBOR+ 3.41%	3,237	LIBOR+ 2.02%- 3.41%	LIBOR+ 2.02%- 3.41%
Debentures (Series 4) (CPI-linked)	33,180	CPI+ 5.4%	CPI+ 6.25%	39,519	CPI+ 5.4%	CPI+ 6.25%
Debentures (Series 5) (unlinked)	29,284	5.8%	6.59%	31,123	5.8%	6.59%

(\*) The loans were provided to the Company by Bank Leumi Le-Israel Ltd. (hereinafter: "**Bank Leumi**") on December 29, 2005 (a loan for EUR 1,015,000 and a loan for USD 1,200,000), in connection with lease rights in Unitronics Building, and fully repaid as of December 31, 2017 (for further details see section 1.13.1 above), and 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 three loans. Under the terms of the loans, the loans are repayable over 12-14 years, with the addition of interest at LIBOR + 2.02% to 3.41%.

As of December 31, 2017 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 Le-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, 2017 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.

## **1.17 Taxation**

For details on the tax laws applying to the Company and its subsidiaries, see Note 24 to the Company's consolidated financial statements for 2017 – Chapter C of this Periodic Report.

## **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 Company's operations in the leased building in Airport City which serves the Automated Solutions segment require a business license under the Business Licensing Law, 1968. The Company is acting to obtain a business license as required by law. As of the date of the report, all the required approvals were submitted to the local authority and the fee was paid. The Company is awaiting the receipt of the business license.

- 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 Ministry of Defense: The Company is a recognized supplier to the Israeli Ministry of Defense as a manufacturer, distributor and service provider in the Automated Solutions segment, as of November 25, 2002.
- 1.18.4 Standards: For details, see sections 1.9.22 and 1.10.18 above.

## **1.19 Material agreements and cooperation agreements**

- 1.19.1 The agreements listed in section 1.4 and in section 1.10.9 above are material agreements 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.
- 1.19.6 Restructuring agreement: On March 15, 2015, the Board of Directors of the Company approved a restructuring agreement (hereinafter: "**the Restructuring Agreement**") with Unitronics Solutions, whereby the Company is to transfer to Unitronics Solutions its activities in the Logistics Solutions segment, including the design, construction and maintenance of computerized storage and/or logistics systems, mainly automated warehouses and automated distribution centers. The Restructuring Agreement was signed on March 29, 2015, and it was agreed in the framework thereof that the restructuring would be effective as of April 1, 2015, subject to receipt of the required approvals as specified in the Restructuring Agreement. Details of the assets, rights and obligations to be transferred to Unitronics Solutions within the framework of the transferred activities have yet to be finalized between the parties. However, as part of the Restructuring Agreement, the Company and Unitronics Solutions agreed to complete the missing details regarding the composition of the assets, rights and obligations from time to time, as required and by

mutual agreement, subject to all the approvals required by law. The Board of Directors of the Company authorized the Company's management to perform any act needed, in management's judgment, to implement the process (for further details see immediate report dated March 15, 2015 on an event or matter outside the ordinary course of the corporation's business, Reference No. 2015-01-501688, included herein by reference). The Company intended the restructuring to be implemented as a transfer exempt from income tax in accordance with Part 2E of the Israeli Income Tax Ordinance and subject to the conditions set out therein. Accordingly, the validity of the Restructuring Agreement was made conditional, *inter alia*, upon the receipt of a pre-ruling from the Tax Authority (hereinafter: "**pre-ruling**"). In the course of 2015 the Company did in fact receive a pre-ruling from the Tax Authority, but it chose to postpone the implementation of the restructuring, and as an outcome also the date of application of the pre-ruling, which consequently did not take effect. In January 2016 the Company reapplied to the Tax Authority for an amended pre-ruling, updating the factual information in light of the time that had passed since the submission of the original application as well as the Company's intention to update the effective date of the restructuring to January 1, 2016. In the course of 2016 the Company was issued an amended pre-ruling, but it has requested the tax authorities to delay its implementation while it examines other alternatives.

## **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.

1.201.1.6 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 100 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts, 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, 2017 amounts to NIS 8,389 thousand. The balance of the current debt of Unitronics Inc. to the Company as of December 31, 2017 amounts to NIS 12.8 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.

#### 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.

#### 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, 2017, the balance of the debt of Unitronics Solutions to the Company stands at NIS 118 million, classified as long term. On December 31, 2017, the Company gave Unitronics Solutions an undertaking not to call in the balance of the long-term debt before January 1, 2019. Furthermore, as of the date of the report, the Company issued guarantees in favor of a customer as security for Unitronics Solutions' undertakings in agreements for the construction of projects in the sum of NIS 865 thousand.

#### 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).

#### 1.20.3.7 Directors and senior officers in Unitronics Solutions

Mr. Haim Shani serves as sole director of Unitronics Solutions and Mr. Josef Ratsabi serves as CEO.

#### 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.

##### 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, 2017 amounts to NIS 8.3 million. The balance of the current debt of Unitronics Systems to Unitronics Solutions as of December 31, 2017 amounts to NIS 7.6 million.

##### 1.20.4.5 Holders of more than 25% of share capital

As of the date of this report, Unitronics Systems is 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.

##### 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.

	<b>Year ended December 31, 2017</b>			
	Unitronics Systems (*)	Unitronics Solutions (**)	Unitronics Management	Unitronics Inc.
	<b>NIS in thousands</b>			
<b>Profit (loss) before tax</b>	(6)	(15,472)	26	(1,690)
<b>Profit (loss) after tax</b>	(6)	(15,472)	26	(1,690)
<b>Dividend</b>	-	-	-	-
<b>Management fees</b>	-	880	-	-
<b>Interest Income</b>	-	2,719	-	-

	<b>Year ended December 31, 2016</b>				<b>Year ended December 31, 2015</b>			
	Unitronics Systems (*)	Unitronics Solutions (**)	Unitronics Manage- ment	Unitronics Inc.	Unitronics Systems (*)	Unitronics Solutions (**)	Unitronics Manage- ment	Unitronics Inc.
	<b>NIS in thousands</b>							
<b>Profit (loss) before tax</b>	(227)	(30,069)	38	668	(5,140)	(17,448)	14	(881)
<b>Profit (loss) after tax</b>	(227)	(30,069)	38	668	(5,140)	(17,448)	14	(881)
<b>Dividend</b>	-	-	-	-	-	-	-	-
<b>Management fees</b>	-	880	-	-	-	720	-	-
<b>Interest income</b>	-	2,059	-	-	-	1,530	-	-

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.

(\*) The company 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
<b>Macro risks</b>	<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 27 to the consolidated financial statements for 2017 – 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
<b>Sector-related risks</b>	<i>Competition:</i> The Company is exposed to competition by companies whose resources and reputation surpass those of the 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.	High
	<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 1.10.7.	Medium
	<i>Penetration of the autonomous parking facilities:</i> The Company is exposed to risks arising from its activity in this field and the	Medium

Type of risk	Nature of risk	Estimated extent of influence on the Company
	pace of implementation of the proposed solutions by global competitors, as set forth in section 1.10.5.	
	<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 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.	Low
<b>Risks specific to the Company</b>	<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 1.10.8 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>Dependence on founder and controlling shareholder:</i> The Company has significant dependence on the continuing services of Mr. Haim Shani as set forth in section 4.5.3 in Chapter D of this Periodic Report.	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	low

Type of risk	Nature of risk	Estimated extent of influence on the Company
	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, 2017 totals NIS 65 million, as set forth in section 1.16 above.	
	<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 those items of intellectual property in respect of which applications were filed and are pending (for details see section 1.13 above).	Low
	<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, 2017 (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**

The Company is engaged in two operating segments, as detailed in section 1.3 in Chapter A of this Periodic Report and in Note 25 to the consolidated financial statements for 2017 – 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, until the end of 2016 the Company reported activities in the Parking Solutions segment and in the Logistics Solutions segment 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.

### **2.2 Analysis of Financial Position**

#### **2.2.1 Statement of Financial Position**

	As of December 31		Board of Directors Explanation of Changes
	2017	2016	
	NIS in thousands		
Current assets	144,354	106,066	The change is mainly attributable to the following items: An increase of NIS 8,953 thousand in cash and cash equivalents. An increase of NIS 27,877 thousand in trade receivables and in income receivable, mainly in the Automated Solutions segment. An increase of NIS 6,974 thousand in inventory, mainly in the Products segment, as against a decrease of NIS 4,861 thousand in short-term deposits.

	As of December 31		Board of Directors Explanation of Changes
	2017	2016	
	NIS in thousands		
Non-current assets	89,120	112,011	The decrease is mainly attributable to the realization of long-term deposits in the amount of NIS 20,077 thousand and a decrease of NIS 2,056 thousand in intangible assets.
Total assets	233,474	218,077	
Current liabilities	72,952	45,705	The increase is mainly attributable to an increase of NIS 20,467 thousand in accounts payable in respect of expenses payable for projects, an increase of NIS 4,369 thousand in current maturities of debentures, and an increase of NIS 3,145 thousand in trade payables, mainly in the Products segment.
Non-current liabilities	66,158	76,328	The change is mainly attributable to a decrease of NIS 12,547 thousand in debentures following the third principal payment (of six) on debentures (Series 4) during the first quarter of 2017, and the third principal payment (of nine) on debentures (Series 5) during the third quarter of 2017. On the other hand, the Company recorded an increase of NIS 2,013 thousand on the revaluation of the option given to FIMI Fund as part of the adjustment mechanism on its investment in the Company. For more details see note 27.F. to the financial statements – Chapter C of this Periodic Report.
Equity attributable to shareholders of the Company	94,364	96,044	The decrease in equity of the Company is mainly a result of an increase of NIS 2,646 thousand in the negative capital reserve for translation adjustments for foreign operations. The Company's total equity as of December 31, 2017 represents 40% of its total assets versus 44% as of December 31, 2016.
Total liabilities and equity	233,474	218,077	

The working capital of the Company at December 31, 2017 and December 31, 2016 was NIS 71,402 thousand and NIS 60,361 thousand, respectively. The increase in working capital is mainly attributable to an increase in current assets of the Company.

## 2.2.2 Analysis of Financial Position by Operating Segments

As described above, the Company's main commercial operations are carried out 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 of Changes
	2017	2016	
	NIS in thousands		
Assets	93,395	81,505	The increase in assets is mainly attributable to an increase in inventory following the transfer of a part of the production from subcontractors to the Company, as well as an increase in trade receivables.
Liabilities	24,318	17,747	The increase is mainly due to higher trade payables.

### 2.2.2.2 Automated Solutions segment

	As of December 31		Board of Directors Explanation of Changes
	2017	2016	
	NIS in thousands		
Assets	66,048	44,705	The increase is mainly due to an increase in income receivable resulting from progress in parking projects.
Liabilities	31,699	12,713	The increase is mainly due to an increase in current liabilities resulting from progress in parking projects.

### 2.2.2.3 Assets and liabilities not attributable to a specific operating segment

	As of December 31		Board of Directors Explanation of Changes
	2017	2016	
	NIS in thousands		
Assets	74,033	91,794	The decrease is mainly due to a decrease in long-term deposits.
Liabilities	83,093	91,319	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 2017 (Reg. 10A)

	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-12/2017
	<b>NIS in thousands</b>				
Revenues	46,915	40,599	45,286	52,202	185,002
Cost of revenues	33,160	29,124	31,618	35,720	129,622
Gross profit	13,755	11,475	13,668	16,482	55,380
Gross profit margin	29.3%	28.2%	30.2%	31.6%	29.9%
Development expenses, net	1,141	1,060	1,024	1,162	4,387
Selling and marketing expenses	6,092	6,050	6,197	7,566	25,905
General and administrative expenses	3,964	3,463	4,177	4,591	16,195
Other expenses	7	6	-	-	13
Profit from ordinary activities	2,551	896	2,270	3,163	8,880
Financing expenses, net	(459)	(2,299)	(1,085)	(1,828)	(5,671)
Profit (loss) before tax benefit (taxes on income)	2,092	(1,403)	1,185	1,335	3,209
Tax benefit (taxes on income)	(987)	(696)	(749)	259	(2,173)
Profit (loss) for the period	1,105	(2,099)	436	1,594	1,036

#### Revenues

The Company's revenues in 2017 increased by 24% over 2016. The increase in revenues is mainly attributable to the Automated Solutions segment.

#### Gross profit

Gross profit margin was 30% in 2017.

In the Products segment the gross profit margin was stable, ranging between 42% and 43% in the reporting period.

In the Automated Solutions segment the average gross profit margin for 2017 stood at 4% (compared to a gross loss in 2016). The main factor contributing to the improvement was an increase in the scope of projects in the segment and stabilization of the technical support system for projects in the US.

#### Financing expenses, net

The main differences in net financing expenses between the quarters in 2017 derive from the revaluation of the liabilities for share options according to an external valuation made on a quarterly basis.

	As of December 31			Board of Directors Explanation of Changes
	2017	2016	2015	
	NIS in thousands			
Revenues	185,002	148,988	159,149	The increase in revenues in 2017 compared to 2016 is mainly attributable to an increase in revenues generated both in the Automated Solutions segment and in the Products segment. The decrease in 2016 compared to 2015 was mainly attributable to a decrease in revenues generated in the Automated Solution segment.
Cost of revenues	129,622	117,042	103,201	
Gross profit (gross profit margin)	55,380 (29.9%)	31,946 (21.4%)	55,948 (35.2%)	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	4,387	5,087	6,336	In each of the years 2017 and 2016, net development expenses (recognized in profit and loss) decreased compared to the previous year, mainly due to a decrease in investments in development in the Automated Solutions segment.  In addition, in 2017 development costs in the amount of NIS 12,666 thousand were capitalized as an intangible asset, compared to NIS 14,707 thousand and NIS 24,055 thousand in 2016 and 2015, respectively. Development costs in 2017 and 2016 decreased in the Automated Solutions segment due to completion of the development of key components of the robotic parking system.
Selling and marketing expenses	25,905	24,381	23,081	In each of the years 2017 and 2016 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	16,195	14,243	13,196	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.  The increase in general and administrative expenses in 2016 compared to 2015 was mainly attributable to office rental and maintenance expenses in an additional building serving primarily for the Automated Solutions segment.

	As of December 31			Board of Directors Explanation of Changes
	2017	2016	2015	
	NIS in thousands			
Other expenses	13	15	-	
Profit (loss) from ordinary activities	8,880	(11,780)	13,335	
Financing expenses, net	5,671	(5,476)	(2,306)	The low financing expenses in 2015 (both compared to 2016 and compared to 2017) are mainly attributable to exceptional financing income due to the weakening of the euro against the shekel in 2015 by approximately 12%, reflected in profit from hedging transactions and erosion of long-term bank credit, net of expenses due to exchange rate differences.
Profit (loss) before tax benefit (taxes in income)	3,209	(17,256)	11,029	
Tax benefit (taxes on income)	(2,173)	246	(1,417)	Tax expenses in the reporting year are mainly attributable to current tax expense and to changes in deferred taxes. Tax expenses in 2016 were mainly attributable to changes in deferred taxes. Tax expenses in 2015 were mainly attributable to current taxes net of changes in deferred taxes. Current tax expenses are calculated taking into account the tax benefits to which the Company is entitled (as detailed in Notes 24.C. and 24.D. to the consolidated financial statements for 2017 – Chapter C of this Periodic Report).
Profit (loss) for the year	1,036	(17,010)	9,612	

### 2.2.3.2 Revenues by operating segments

	As of December 31			Board of Directors Explanation of Changes
	2017	2016	2015	
	NIS in thousands			
Operating segment				
Products	123,160	113,509	109,059	The increase in revenues in 2017 compared to 2016 in the Products segment (net of the effect of the weakening of the dollar by 10% in 2017) is mainly a result of increased marketing activity in several selected markets around the world, as well as the launch of new products.
Percentage of total company revenues	67%	76%	69%	
Automated Solutions	61,406	35,052	49,681	<p>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 1.10.8 in Chapter A of this Periodic Report).</p> <p>The decrease recorded in revenues in this segment in 2016 compared to 2015 was mainly due to a slower rates of progress in projects in process that were in final completion stages and a delay in the execution of new projects in this operating segment despite the actual signing of agreements in respect of those projects.</p>
Percentage of total company revenues	33%	24%	31%	

## 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
	2017	2016	2015	
	NIS in thousands			
Operating Segment				
Products	27,051	24,098	23,857	<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> <p>In 2016 there was no significant change in the results of this segment compared to 2015.</p>
Automated Solutions	(6,584)	(25,027)	(1,408)	<p>The decrease in operating loss in this segment in 2017 is attributable, in the Company's estimation, primarily to an increase in revenues, as detailed in section 2.2.3.2 above.</p> <p>The increase in operating loss in this segment in 2016 compared to 2015 was attributable, in the Company's estimation, primarily to higher fixed expenditures on preparations for an expansion of operations, which in 2016 was not yet reflected in the revenues.</p> <p>The exceptional results of the segment in 2015 were attributable, in the Company's estimation, to a stronger mix (both compared to 2016 and compared to 2017) of projects with high profit margins, as well as a decrease in 2015 in provisions for the expected costs to completion of projects that were completed.</p>

## 2.3 **Liquidity and Financing Sources**

As of December 31, 2017, 2016 and 2015, the balance of cash, cash equivalents, marketable securities and bank deposits of the Company totaled NIS 54,919 thousand, NIS 70,904 thousand and NIS 45,389 thousand, respectively. Following are explanations for the changes in cash flows:

	As of December 31			Board of Directors Explanation of Changes
	2017	2016	2015	
	NIS in thousands			
Cash flow – operating activities	8,942	(172)	18,103	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. The positive cash flow in 2015 was mainly due to the profit for that year, net of cash used to increase the working capital.
Cash flow – investing activities	11,757	(50,701)	(13,841)	Cash provided by investing activities in 2017 resulted primarily from the realization of bank deposits, net of an 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 used in investing activities in 2015 mainly comprised investments in development assets, offset by sales of marketable securities.
Cash flow – financing activities	(9,760)	46,513	(12,544)	Cash used for financing activities in 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. Cash used for financing activities in 2015 comprised payments on debentures and on bank loans.

As of December 31, 2017 and as of the reporting date, the Company had unused confirmed credit facilities available for operating activities totaling NIS 900 thousand. The Company from time to time applies to financial institutions to receive credit facilities, according to its needs. In addition, the Company has arrangements with financial institutions in Israel and the US for the provision of performance guarantees to secure the obligations of the Company and the subsidiaries in projects carried out in the Automated Solutions segment. For further details see Note 16.B. to the Company's financial statements for 2017 – Chapter C of this Periodic Report.

## **2.4 Exposure to Market Risks and Management Thereof**

The Company is not required to make disclosure under Regulation 10(b)(7) of the Regulations.

## **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, 2017, see immediate report T-126 dated March 25, 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 Crowe Horwath Israel, of 12 Abba Hillel Street, Ramat Gan (VAT Number 557943966), 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.
- (e) From time to time, as necessary, the audit plan also addresses the Company's overseas operations. In 2016 the previous internal auditor finished auditing the processes and interactions with subsidiaries (including foreign subsidiaries), and he also examined at the end of the year the implementation of the recommendations of said audit report. The internal auditor also began a report on intangible assets, the preparation of which is continuing into 2017.

- (f) During the reporting period, 120 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.

	2017	2016
Hours spent on internal audit of the Company with respect to its operations in Israel.	120	55
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.	-	62

To date the planned number of annual hours has not been reduced.

- (g) The internal auditor, pursuant to his notice to the Company dated May 29, 2017, 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.
- (h) 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.
- (i) 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.

- (j) 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	2017 reports	2016 reports
Report No 1:		
Date of submission of internal auditor's report	March 5, 2018	May 23, 2016
Date of discussion by Audit Committee	March 22, 2018	August 30, 2016
Date of discussion by Board of Directors	March 25, 2018	August 30, 2016
Report No 2:		
Date of submission of internal auditor's report	-	October 9, 2016
Date of discussion by Audit Committee	-	March 24, 2017
Date of discussion by Board of Directors	-	March 28, 2017

- (k) 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 2017 amounted to NIS 24 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**

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 for making charitable donations.

In 2017 the Company donated NIS 50 thousand, and in 2016 – NIS 20 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, CPA, 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	2017 NIS in thousands	2017 work hours	2016 NIS in thousands	2016 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	279	1,313
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	252	2,343	92	1,072

### **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 2017 – 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	33,203,125
D	Par value in accordance with linkage terms – as of the report date	33,436,208
E	Accumulated interest as of the report date	751,000
F	Liability carrying amount as of the report date	33,180,000
G	Market value	35,597,000
H	Interest type and description	5.4% annual interest
I	Payment dates of the principal balance	Three unequal annual installments payable on January 31 of each year from 2018 to 2020 (inclusive), at the following rates by years in chronological order: (a) 20.5% of the principal (b) 21% of the principal, (c) 21% of the principal. <sup>1</sup>
K	Interest payment dates	Every January 31 and July 31 from January 31, 2018 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: " <b>2013 Offering Report</b> ")
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: <a href="mailto:ramis@mtrust.co.il">ramis@mtrust.co.il</a>

(5+6) 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.

<sup>1</sup>On 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.

- (7) In a meeting of the holders of debentures (Series 4) convened on July 16, 2015, which, in the absence of a quorum, passed 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.
- (8) 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) to perform, at its sole discretion, early repayment in full or part of the debentures (Series 4) in accordance with certain terms and limitations 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 all of the causes available to the trustee 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	30,000,000
D	Par value in accordance with linkage terms – as of the report date	30,000,000
E	Accumulated interest as of the report date	586,000
F	Liability carrying amount as of the report date	29,284,000
G	Market value	35,556,000
H	Interest type and description	5.8% fixed annual interest
I	Payment dates of the principal balance	Six unequal annual installments payable on August 31 of each year from 2018 to 2023 (inclusive), at the following rates by years in chronological order: (a) 5% of the principal, (b) 5% of the principal, (c) 5% of the principal (d) 20% of the principal, (e) 20% of the principal, (f) 20% of the principal.
K	Interest payment dates	Every February 28 and August 31 from February 28, 2018 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: " <b>2014 Offering Report</b> ")
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: <a href="mailto:hermetic@hermetic.co.il">hermetic@hermetic.co.il</a>

(5+6) 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.

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 regarding all of the causes available to the trustee for the immediate repayment of debentures (Series 5), see section 8 of the 2014 Offering Report.

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

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Amit Ben-Zvi, Chairman of  
the Board of Directors

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Haim Shani, Director and  
Chief Executive Officer

March 25, 2018

**UNITRONICS (1989) (R"G) LTD**

**Consolidated Financial  
Statements**

**December 31, 2017**

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

**Consolidated Financial Statements**

**December 31, 2017**

**Table of contents**

**Page**

C-2	Independent Auditors' Report
C-3 - C-4	Consolidated Statements of Financial position
C-5	Consolidated Statements of Profit or Loss
C-6	Consolidated Statements of Comprehensive Income (loss)
C-7	Consolidated Statements of Changes in Equity
C-8 - C-9	Consolidated Statements of Cash Flows
C-10 - C-51	Notes to the Consolidated Financial Statements

**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, 2017 and 2016 and the consolidated statements of profit or loss, the comprehensive Income, the changes in equity and the cash flows for the two years ended December 31, 2017. 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.

The consolidated statements of profit or loss, the comprehensive Income, the changes in equity and the cash flows for each of the two years ended December 31, 2015 were audited by Amit, Halfon Certified Public Accountants (Israel) whose audit opinion dated March 8, 2016 was unqualified.

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, 2017 and 2016 and the results of profit or loss, changes in equity and cash flows of them for the two years ended December 31, 2017, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

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

March 25, 2018

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

		December 31, 2017	December 31, 2016
	Note	NIS, (in thousands)	
<u>Current assets</u>			
Cash and cash equivalents	3	34,710	25,757
Restricted deposit	16B(3),(4)	998	2,121
Short-term deposits in banks	4	20,209	25,070
Accounts receivable -			
Trade	5,8	51,124	23,237
Other	6	3,233	3,525
Other financial assets	27G	68	415
Inventory	7	32,315	25,341
Inventory - work in progress		1,697	600
		144,354	106,066
<u>Non-current assets</u>			
Long-term deposits in banks	4	-	20,077
Long-term deposits		327	361
Property and equipment, net	9	22,238	22,962
Intangible assets, net	10	66,555	68,611
		89,120	112,011
		233,474	218,077

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Amit Ben Zvi  
Chairman of the Board of Directors

\_\_\_\_\_  
Haim Shani  
Director and Chief  
Executive Officer

\_\_\_\_\_  
Eitan Alon  
Chief Financial Officer

Approved: March 25, 2018

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

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

		December 31, 2017	December 31, 2016
	Note	NIS, (in thousands)	
<u>Current liabilities</u>			
Current maturities of long-term loans	11A	346	1,129
Current maturities of bonds	11B	12,647	8,278
Accounts payable -			
Trade		22,823	19,678
Other	12	37,042	16,575
Other financial liabilities	27G	94	45
		<u>72,952</u>	<u>45,705</u>
<u>Non-current Liabilities</u>			
Loans from the banks	13	2,249	2,527
Bonds	14	49,817	62,364
Liabilities for benefits to employees, net	15	2,545	2,352
Liability for share purchase option	27E	6,910	4,897
Deferred taxes	24(9)	4,637	4,188
		<u>66,158</u>	<u>76,328</u>
<u>Contingent liabilities, mortgages, guarantees and commitments</u>			
	16		
<u>Equity</u>			
	17		
Share capital		427	427
Share premium		104,513	104,513
Capital reserve from translation of foreign operations		(2,437)	209
Company shares held by the company		(7,042)	(7,042)
Reserve from a transaction with a controlling party		104	104
Retained loss		(1,201)	(2,167)
		<u>94,364</u>	<u>96,044</u>
		<u>233,474</u>	<u>218,077</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,		
		2017	2016	2015
	Note	NIS, (in thousands)		
Revenues	25B(1)	185,002	148,988	159,149
Cost of revenues	18	129,622	117,042	103,201
Gross profit		55,380	31,946	55,948
Development expenses, net	19	4,387	5,087	6,336
Selling & marketing expenses	20	25,905	24,381	23,081
General & administrative expenses	21	16,195	14,243	13,196
Other expenses		13	15	-
Operating profit (loss)		8,880	(11,780)	13,335
Financing incomes	22A	942	943	5,088
Financing expenses	22B	6,613	6,419	7,394
Profit (loss) before tax benefit (taxes on income)		3,209	(17,256)	11,029
Tax benefit (taxes on income)	24(12)	(2,173)	246	(1,417)
Profit (loss) for the year		1,036	(17,010)	9,612
Basic and diluted profit (loss) per 1 ordinary share NIS 0.02 par value	26	0.075	(1.379)	0.961

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,		
	2017	2016	2015
	NIS, (in thousands)		
Profit (loss) for the period	1,036	(17,010)	9,612
<u>Other comprehensive income (loss)</u> <u>(after tax)</u>			
<u>Items that may not be classified</u> <u>afterwards to profit or loss:</u>			
Remeasurement gain (losses) from defined benefit plans	(70)	61	(30)
<u>Items that may be reclassified to</u> <u>profit or loss in the future if certain</u> <u>conditions are met:</u>			
Adjustments arising from translating financial statements of foreign operations	(2,646)	(379)	130
Other comprehensive income (loss) for the year	(2,716)	(318)	100
Total comprehensive income (loss) for the year	(1,680)	(17,328)	9,712

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

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

	Share capital	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings (loss)	Total
	NIS, in thousands						
<u>Balance at January 1, 2015</u>	352	50,588	458	(7,042)	104	5,200	49,660
Net profit for the year	-	-	-	-	-	9,612	9,612
Other comprehensive income (loss) for the year	-	-	130	-	-	(30)	100
Total comprehensive income	-	-	130	-	-	9,582	9,712
<u>Balance at December 31, 2015</u>	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
<u>Balance at December 31, 2016</u>	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)
<u>Balance at December 31, 2017</u>	<u>427</u>	<u>104,513</u>	<u>(2,437)</u>	<u>(7,042)</u>	<u>104</u>	<u>(1,201)</u>	<u>94,364</u>

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,		
	2017	2016	2015
	NIS, (in thousands)		
<u>Cash flows - operating activities</u>			
Profit (loss) for the year	1,036	(17,010)	9,612
Adjustments necessary to show the cash flows from operations (Appendix A)	7,906	(*) 16,838	(*) 8,491
Cash flows provided by (used in) operating activities	8,942	(172)	18,103
<u>Cash flows - investing activities</u>			
Sale of marketable securities, net	-	14,392	11,487
Purchase of property and equipment	(1,421)	(4,832)	(1,097)
Sale of property and equipment	-	64	-
Investment in long-term deposits in banks	-	(20,000)	-
Sale of (Investment in) short-term deposits in banks	25,000	(25,000)	-
Repayment of restricted deposit	1,069	185	200
Repayment (Investment in) other long-term deposits, net	(14)	21	39
Investment in intangible assets	(12,877)	(15,531)	(24,470)
Cash flows provided by (used in) investing activities	11,757	(50,701)	(13,841)
<u>Cash flows - financing activities</u>			
Repayment of long-term loans	(1,094)	(1,160)	(1,796)
Repayment of bonds	(8,666)	(10,680)	(10,748)
Private placement of shares and share purchase option	-	58,353	-
Cash flows provided by (used in) financing activities	(9,760)	46,513	(12,544)
Translation differences in respect of foreign operations cash balances	(1,986)	(*) (780)	(*) (1,309)
Change in cash and cash equivalents	8,953	(5,140)	(9,591)
Cash and cash equivalents at beginning of year	25,757	30,897	40,488
Cash and cash equivalents at end of year	34,710	25,757	30,897

(\*) Reclassified.

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,		
	2017	2016	2015
	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>			
Depreciation and amortization	17,265	16,901	12,711
Loss from marketable securities, net	-	100	341
Changes in liabilities for benefits to employees, net	118	223	367
Revaluation of cash balances in foreign currency	14	(*) 522	(*) 1,418
Capital loss	13	23	-
Deferred taxes	395	(339)	(290)
Reevaluation of deposits in banks	(62)	(147)	-
Reevaluation of long-term loans and bonds	130	(308)	(998)
Reevaluation of other financial assets	396	136	(561)
Reevaluation of share purchase option	2,013	544	-
<u>Changes in assets and liabilities:</u>			
Decrease (increase) in accounts receivable - trade	(29,768)	3,870	(203)
Decrease (increase) in accounts receivable - other	261	20	(1,118)
Decrease (increase) in inventory	(7,045)	(3,416)	6,204
Decrease (increase) in inventory - work in progress	(1,097)	2,963	1,193
Increase (decrease) in accounts payable - trade	3,222	(2,199)	(1,659)
Increase (decrease) in accounts payable - other	22,051	(2,055)	(8,914)
	<u>7,906</u>	<u>16,838</u>	<u>8,491</u>
<u>Appendix B -Non-cash operations</u>			
Purchase of property and equipment on credit	<u>-</u>	<u>-</u>	<u>990</u>
<u>Appendix C - Additional information on cash flows regarding operating activities</u>			
Cash paid during the year for:			
Interest	<u>3,933</u>	<u>4,565</u>	<u>5,135</u>
Taxes on income	<u>1,710</u>	<u>54</u>	<u>54</u>
Cash received during the year for:			
Interest and dividend	<u>176</u>	<u>245</u>	<u>819</u>

(\*) Reclassified.

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 17G below.  
The controlling shareholders of the corporation are jointly the FIMI Fund and Mr. Haim Shani. See Note 17F below.
- B. The Group (the Company and its 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.
- 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 liabilities for benefits to employees 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:

**Pension and other post-employment benefits**

The liability in respect of post-employment defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, the discount rate, rate of salary increase and employee turnover rate. The carrying amount of the liability may be significantly affected by changes in these estimates. See additional information in note 15.

**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 10.

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

**Note 2 - Significant Accounting Policies (cont'd)**

Completion rate for the recognition of income and costs from work under a construction contract

Earned income and costs from a construction contract are recognized according to the percentage of completion as specified in section (P) below. Determining the percentage of completion involves making assumptions, inter alia, for the planning, scope and content of the work.

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. Goodwill and all adjustments of fair value to the book value of the assets and liabilities on the date of acquiring the foreign operations are handled as assets and liabilities of foreign operations and translated according to the closing rate 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 rates of 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 to 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

1. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

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

a. Financial assets at fair value through profit or loss

This category includes financial assets held for trading.

b. Loans and receivables

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. 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.

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 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.

**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 (cont'd)

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, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

The Group assesses the existence of an embedded derivative and whether it is required to be separated from a host contract when the Group first becomes party to the contract. Reassessment of the need to separate an embedded derivative only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

4. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

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

**Note 2 - Significant Accounting Policies (cont'd)**

E. Financial instruments (cont'd)

Financial assets carried at amortized cost

Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

F. Allowance for doubtful accounts

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.. Impaired debts are derecognized when they are assessed as uncollectible.

The Company did not recognize an allowance in respect of groups of customers that are collectively assessed for impairment since it did not expected to have a material impact on the financial statements.

G. 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 not at a normal output, the cost of inventory does not include other fixed and overhead costs, over and above those required for normal output. The costs, as mentioned, which were not loaded, 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.

H. Operating turnover period

The Company's operating turnover period is 12 months.

I. 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)**

**J. 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.

With regard to the implementation of IFRS 16 commencing on January 1, 2019, see section V(3) below.

**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 (K) below).

**K. 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)**

L. 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 of 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.

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)**

M. 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.

N. 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)**

O. Liabilities for benefits to employees

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. Benefits after employment

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)**

**P. Recognition of revenues**

Revenues are recognized in the statement of profit or loss when the revenues can be reliably measured; it is expected that the economic benefits connected with the transaction will flow to the Company, and the cost accrued or which will accrue for the transaction can be reliably measured. The revenues are measured at the fair value of the consideration in the transaction, less commercial discounts, quantity discounts and returns.

The following are the specific provisions regarding recognition of the Group's revenues which must exist so as to recognize the revenue:

1. Revenues from sale of products are recognized when all the significant risks and benefits are passed to the buyer; in general, on the date of delivery of the product to the buyer (the distributor).
2. Revenues from services are recorded by the accrual method over the period of the service agreement.
3. Revenues from work in a construction contract are recognized according to the rate of completion method, where all the following conditions exist: the revenues are known or can be reliably measured, the collection of revenues is expected, the cost connected with performing the work is known or can be reliably measured, there is no significant uncertainty regarding the ability of the Company to complete the work and meet the contractual terms with the customer, and the rate of completion can be reliably measured. The rate of completion is determined on the basis of completion of the engineering stages of the work. Regarding work for which a loss is expected, a full provision for the expected loss is made.

With regard to the implementation of IFRS 15, commencing on January 1, 2018, see section V(1) below.

**Q. Discounts to customers**

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

**R. 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.

**S. 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.

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

**Note 2 - Significant Accounting Policies (cont'd)**

**T. 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).

**U. Initial implementation of new IFRS**

Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In accordance with the amendments to IAS 7 issued in January 2016, an entity is required to provide disclosures that would enable users of the financial statements to assess the changes in liabilities arising from an entity's financing operations, both from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities for which the cash flows for which they were classified or the future cash flows in respect thereof are classified in the statement of cash flows as cash flows from financing activities. A possible way to comply with the new disclosure requirement is to reconcile the opening balance with the closing balance in the statement of financial position of liabilities arising from financing activities.

The Company is not required to present comparative information for prior periods during the initial implementation period.

For disclosures regarding the changes in liabilities arising from the Company's financing activities, see Note 28.

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

**Note 2 - Significant Accounting Policies (cont'd)**

V. Disclosure of new IFRS during the period prior to their implementation

The following is information regarding international financial reporting standards, amendments to standards and interpretations published but not yet effective that may affect the Company's financial statements at the time of their initial application. Except as otherwise stated, any standard, amendment or interpretation specified below may be applied early, providing disclosure, and the Company plans to adopt it for the first time at their binding commencement date.

1. IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"):

IFRS 15, published in May 2014 (including clarifications to IFRS 15 published in April 2016), establishes a uniform model for the recognition, measurement, presentation and disclosure of revenue from contracts with customers and replaces IAS 18 "Revenues" Construction contracts "and the interpretations by virtue thereof.

In accordance with the provisions of IFRS 15, income will be recognized using a five-stage model, which includes, inter alia, rules for identifying a contract with a customer and setting a transaction price, rules that define how the contract should be separated into its various components ("separate performance obligations") and The total transaction price for each component is identified and separate.

In addition, in accordance with the provisions of IFRS 15, income for each performance commitment must be recognized separately in accordance with the rules determined IFRS 15 regarding the timing of recognition of revenue - on a specific date or over time.

In addition, IFRS 15 includes extensive presentation and disclosure requirements regarding the substance, amount, timing and uncertainty involved in revenue recognition.

IFRS 15 will be applied to financial statements for annual periods beginning on or after January 1, 2018. The Company plans to apply IFRS 15 retrospectively for the first time without restatement of prior periods, but by recognizing the cumulative effect of the retroactive application as an adjustment to the opening balance of retained earnings (or of another component of capital, as appropriate) as of January 1, 2018.

The Company plans to implement the relief in the transitional provisions of IFRS 15, which permits the retroactive implementation only for contracts that have not yet been completed on the initial implementation date. A completed contract is defined as a contract that, in accordance with the standard applied prior to the implementation of IFRS 15, the Company transferred all the goods and services identified for it. In addition, the Company plans to implement the relief in the transition provisions of IFRS 15, which allows not to retroactively implement the provisions of IFRS 15 with respect to contract changes with respect to all contracts that were changed prior to the initial application date of the Standard.

The following is an overview of the principal changes expected as a result of the initial implementation of IFRS 15:

- a. Today, the Company measures the completion rate based on an engineering evaluation of the final rate of the projects. After implementation of IFRS 15, the Company will measure the progress on the basis of the costs incurred by the Company in relation to the total project costs (method based on inputs), except for certain legal costs, costs incurred as a result of significant inefficiency and costs incurred that are disproportionate to the Company's progress in meeting the performance obligation.

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

**Note 2 - Significant Accounting Policies (cont'd)**

V. Disclosure of new IFRS during the period prior to their implementation

1. IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") (cont'd)

- b. The expected effect of the initial application of IFRS 15 on the financial statements as of January 1, 2018:

	Balance as of December 31, 2017	Expected effect of the initial application of IFRS 15	Balance as of January 1, 2018
	<b><u>NIS, (in thousands)</u></b>		
Account receivable – trade	51,124	(23,126)	27,998
Inventory – work in progress	1,697	(1,697)	-
Account payable – other	(37,042)	16,457	(20,585)
Equity	(94,364)	8,366	(85,998)

2. IFRS 9, "Financial Instruments"

IFRS 9, published in July 2014, changes the accounting treatment of financial instruments in three main areas: Classification and measurement, impairment of financial assets and hedge accounting (the accounting treatment of recognition and disposition remains unchanged). IFRS 9 eliminates IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives".

IFRS 9 applies from annual periods beginning on or after January 1, 2018. The following is a review of the main accounting principles set forth in IFRS 9 and the expected effect at initial application:

a. Impairment of financial assets:

The new model provides that an impairment loss will be recognized, which will be calculated according to the credit loss period, regardless of the existence of a loss event. As at the date of initial recognition of the financial asset, at the end of each reporting period, an impairment loss should be recognized, with the change in the amount of the decline in value and financing income from the financial asset dependent on the degree of deterioration of the credit risk.

The Standard is effective for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company has examined the possible effects of the implementation of IFRS 9 on the financial statements and in its assessment the adoption of the Standard will not have a material effect on the financial statements.

3. IFRS 16 – "Leases"

IFRS 16, published in January 2016, supersedes IAS 17 "Leases" and its interpretations. IFRS 16 changes the accounting treatment of leases on the part of the lessee while the lessor's accounting treatment remains largely unchanged.

IFRS 16 cancels the classification of leases as finance or operating by the lessee and states that a lessee shall recognize in the statement of financial position an asset, a lease and a lease liability in respect of all leases, except for leases with periods of less than 12 months and leases where the underlying assets are of low value Whereby a lessee may apply accounting treatment that is similar to the current accounting treatment of operating leases).

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

**Note 2 - Significant Accounting Policies (cont'd)**

V. Disclosure of new IFRS during the period prior to their implementation (cont'd)

3. IFRS 16 – "Leases" (cont'd)

In accordance with IFRS 16, in order for a contract to constitute an arrangement (or component) of a lease, it is required that the contract grant the lessee the right to control the use of the identified asset over a period of time against receipt of consideration. A company may choose to apply accounting policies for each group of underlying assets, whereby the lease components and service components will not be segregated in the contract, but all elements of the contract will be accounted for as a single lease arrangement instead of separation between the lease components and the service components.

A lease undertaking will be measured on the initial recognition date according to the present value of the lease payments that are not paid at the inception date of the lease, discounted at the interest rate inherent in the lease, unless this rate can not be easily determined and then measured according to the additional interest rate of the lessee. A right to use will be measured on the initial recognition date according to the amount of the lease liability plus any lease payments paid to the lessor on or before the commencement of the lease (less any leasehold incentives from the lessor); Initial direct costs attributed to the lease agreement; As well as an estimate of the costs for liquidation and rehabilitation by the lessee.

In the statement of financial position, the assets of the right of use, if not presented separately, will be presented in the item in which the underlying assets were presented if they were owned by the lessee. Lease commitments will be presented in accordance with the provisions of IAS 1 "Presentation of Financial Statements", including the separation between current and non-current. In profit or loss, amortization expenses of the asset, the right to use and interest expenses in respect of the lease liability will be recognized. In the statement of cash flows, payments in respect of the principal portion of the lease liability shall be classified as financing activity and payments in respect of the interest portion of the lease liability shall be classified in accordance with the Company's policy regarding classification of interest payments (as current or financing activity).

IFRS 16 also defines a change in lease terms and determines when it will be accounted for as a new and separate lease, and adds new provisions regarding the accounting treatment of sale and leaseback transactions.

IFRS 16 will be applied to financial statements for annual periods commencing January 1, 2019 or thereafter. Earlier application is permitted, provided that entity applies IFRS 15 "Revenue from contracts with customers".

The accounting treatment in accordance with IFRS 16 regarding the lessees will be implemented retrospectively in one of two ways:

- Restatement of previous periods; or
- Recognition of the cumulative effect of the application retrospectively as an adjustment to the opening balance of retained earnings (or of another component of capital, as appropriate) for the period in which the Standard is initially applied, subject to certain requirements and easements set out in the Standard.

As of December 31, 2017, the Company has minimum future (undiscounted) lease payments in respect of non-cancellable operating leases of NIS 8.3 million, of which NIS 5.1 million is for periods after January 1, 2019. Therefore, the Company Expects that implementation of IFRS 16 will not have a material effect on the Company's financial position.

However, the actual effect of the implementation of IFRS 16 will depend on future factors, including the Company's incremental interest rate at the date of initial implementation and management's expectations on that date regarding exercise of options to extend or cancel leases. In addition, the Company is still examining the transitional provisions of IFRS 16, including the reliefs granted.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<u>NIS, (in thousands)</u>	
<b>Note 3 - Cash and cash equivalents</b>		
Israeli currency	13,535	9,860
Foreign currency	<u>21,175</u>	<u>15,897</u>
	<u>34,710</u>	<u>25,757</u>

**Note 4 - Deposits in banks**

The deposits bear interest at the rate of 0.65% -0.67% and are due to be repaid in June 2018.

**Note 5 - Accounts receivable - trades**

Related to construction contracts (\*):

Open accounts	2,402	1,843
Income receivable	<u>26,859</u>	<u>4,707</u>
	29,261	6,550
 Others	 22,006	 16,945
	<u>51,267</u>	<u>23,495</u>
Provision for doubtful debts	<u>(143)</u>	<u>(258)</u>
	<u>51,124</u>	<u>23,237</u>

(\*) See note 8 below.

An analysis customers (open accounts) without provision for doubtful debts, net, in accordance with the collection delay in relation to the reporting date:

	Customers without collection delay	<u>Customers with collection delay of</u>			
		Up to 30 days	30 to 60 days	More than 60 days	Total
		<b><u>NIS (in thousands)</u></b>			
December 31, 2017	<u>20,985</u>	<u>1,778</u>	<u>247</u>	<u>425</u>	<u>23,435</u>
December 31, 2016	<u>15,319</u>	<u>1,845</u>	<u>347</u>	<u>987</u>	<u>18,498</u>

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

	<b><u>December 31,</u></b> <b><u>2017</u></b>	<b><u>December 31,</u></b> <b><u>2016</u></b>
	<b><u>NIS, (in thousands)</u></b>	
<b>Note 6 - Accounts receivable - Other</b>		
Government institutions	2,034	1,919
Prepaid expenses	851	1,221
Other	348	385
	<u>3,233</u>	<u>3,525</u>
<b>Note 7 - Inventory</b>		
Materials and Packaging	12,336	9,652
Work in process	13,720	8,206
Finished products	6,259	7,483
	<u>32,315</u>	<u>25,341</u>
<b>Note 8 – Construction contracts</b>		
Revenues recognized	62,522	49,996
Revenues received	33,272	44,313
	<u>29,250</u>	<u>5,683</u>
<u>Presented in the statement of financial position under:</u>		
Receivables for construction contracts	<u>29,261</u>	<u>6,550</u>
Liabilities for construction contracts	<u>11</u>	<u>867</u>

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

**Note 9 - Property and equipment, net**

	Land and Buildings (*)	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
	<u>NIS (in thousands)</u>					
<b>Cost</b>						
Balance as at January 1, 2016	22,176	2,506	5,709	879	3,771	35,041
Additions	90	4,494	12	-	236	4,832
Disposals	-	-	(117)	(12)	(280)	(409)
Exchange differences	-	-	-	2	(17)	(15)
Balance as at December 31, 2016	22,266	7,000	5,604	869	3,710	39,449
Additions	301	380	591	-	149	1,421
Disposals	-	-	(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
<b>Accumulated depreciation</b>						
Balance as at January 1, 2016	7,610	784	4,164	158	2,278	14,994
Depreciation during the year	502	432	511	128	252	1,825
Disposals	-	-	(74)	-	(248)	(322)
Exchange differences	-	-	-	-	(10)	(10)
Balance as at December 31, 2016	8,112	1,216	4,601	286	2,272	16,487
Depreciation during the year	502	725	460	124	254	2,065
Disposals	-	-	(523)	-	-	(523)
Exchange differences	-	-	-	-	(80)	(80)
Balance as at December 31, 2017	8,614	1,941	4,538	410	2,446	17,949
<b>Net book value as at December 31, 2017</b>	13,953	5,439	1,134	440	1,272	22,238
<b>Net book value as at December 31, 2016</b>	14,154	5,784	1,003	583	1,438	22,962

(\*) The building is located in Kiri'at 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 547 thousands as at December 31, 2017 (as at December 31, 2016 amounted to NIS 563 thousands).

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

**Note 10 - Intangible assets, net**

	<b>Patents and Licenses</b>	<b>Software</b>	<b>Development costs</b>	<b>Total</b>
	<b>NIS (in thousands)</b>			
<b>Cost</b>				
Balance as at January 1, 2016	1,288	1,778	103,977	107,043
Additions - internal created	-	-	14,707	14,707
Additions - bought	235	589	-	824
Disposals	-	(32)	-	(32)
Balance as at December 31, 2016	1,523	2,335	118,684	122,542
Additions - internal created	-	-	12,666	12,666
Additions - bought	123	88	-	211
Disposals	-	(16)	-	(16)
Balance as at December 31, 2017	1,646	2,407	131,350	135,403
<b>Accumulated amortization</b>				
Balance as at January 1, 2016	882	1,711	36,784	39,377
amortization during the year	227	103	14,256	14,586
Disposals	-	(32)	-	(32)
Balance as at December 31, 2016	1,109	1,782	51,040	53,931
amortization during the year	259	218	14,456	14,933
Disposals	-	(16)	-	(16)
Balance as at December 31, 2017	1,368	1,984	65,496	68,848
<b>Net book value as at December 31, 2017</b>	278	423	65,854	66,555
<b>Net book value as at December 31, 2016</b>	414	553	67,644	68,611

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

**Note 10 - 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,		
	2017	2016	2015
	NIS (in thousands)		
Cost of revenues	14,568	14,304	10,572
Development expenses, net	58	25	49
Selling & marketing expenses	22	14	24
General & administrative expenses	285	243	204
	<u>14,933</u>	<u>14,586</u>	<u>10,849</u>

**Note 11 - Current maturities of non-current liabilities**

	December 31, 2017	December 31, 2016
	NIS (in thousands)	
A. Current maturities of non-current loans:		
Linked to the USD	-	419
Linked to the EURO	346	710
	<u>346</u>	<u>1,129</u>
B. Current maturities of bonds:		
Linked to the CPI	10,805	6,439
Not linked	1,842	1,839
	<u>12,647</u>	<u>8,278</u>

**Note 12 - Accounts payable - other**

Employees, payroll and taxes	4,731	4,248
Provision for vacation	1,988	1,958
Accrued expenses	29,061	8,162
Provision for loss	987	970
Liabilities for construction contracts (*)	11	867
Advances from customers	41	89
Other	223	281
	<u>37,042</u>	<u>16,575</u>

(\*) See note 8 above.

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

**Note 13 - Loans from banks**

A. Consisting of the following:

		<u>December 31, 2017</u>	<u>December 31, 2016</u>
	<u>Annual Interest Rates %</u>	<u>NIS (in thousands)</u>	
Long-term loans from banks:			
Linked to the USD	Libor+2.02	-	419
Linked to the EURO	Libor+ 2.02-3.41(*)	2,595	3,237
Less current maturities		<u>(346)</u>	<u>(1,129)</u>
		<u>2,249</u>	<u>2,527</u>

(\*) As at December 31, 2017 - 3.035%

B. Mortgages - see note 16B.

**Note 14 - 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, 2017 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 16.B.4).

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

**Note 14 - 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 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, 2017 the Company meets its financial covenants.

Composition:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>NIS (in thousands)</u>	
Series 4	33,436	40,003
Less discount, net	(256)	(484)
	33,180	39,519
Less current maturities	(10,805)	(6,439)
	<u>22,375</u>	<u>33,080</u>
Series 5	30,000	32,000
Less discount, net	(716)	(877)
	29,284	31,123
Less current maturities	(1,842)	(1,839)
	<u>27,442</u>	<u>29,284</u>
	<u>49,817</u>	<u>62,364</u>

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

**Note 15 - 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

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>NIS (in thousands)</u>	
Defined benefit liabilities	7,628	7,619
Fair value of plan assets	<u>(5,083)</u>	<u>(5,267)</u>
Net liabilities	<u><u>2,545</u></u>	<u><u>2,352</u></u>

**Note 16 - 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, 2017 amount to NIS 1,973 thousands. The liability in respect of royalties to the Government at December 31, 2017 amounts to NIS 220 thousands relating to projects that the company's management assumes royalties payments.

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

**Note 16 - 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 14,330 thousands as of December 31, 2017.
2. According to building rental agreement from June 2015 in Kiriat Sde Hateufa, the subsidiary Unitronics Automated put a bank guarantee amount of NIS 923 thousands.
3. As at December 31, 2017, the company and the subsidiaries gave performance guarantees to customers in the total amount of NIS 2.7 million. A sum of NIS 97 thousands were put in a restricted deposit. Subsequent to the date of the statement of financial position, a performance guarantee for a customer in the amount of NIS 1.7 million (out of the amount mentioned above) expired.
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. In 2016, the Company signed an agreement with a financial institution in the United States valid until December 2019, according to which the financial institution provided a framework in favor of building guarantees (Surety bond) in the amount of up to USD 35 million for providing performance guarantees for projects that the Company is expected to carry out in the US As of the date of the report, the Company has utilized approximately USD 9 million from this framework.

**C. Commitments**

1. On March 26, 2017, the subsidiary Unitronics Inc. signed an agreement with an American customer unrelated to the Company or its interested parties for the construction of an autonomous parking system in a building located in California, USA, in the amount of about USD 9.3 million.
2. On August 1, 2017, the subsidiary Unitronics Systems Inc. signed an agreement with an American customer unrelated to the Company or interested parties to establish an autonomous parking system in a building located in New York, USA, in the amount of about USD 3.1 million.
3. On August 5, 2017, the subsidiary Unitronics Systems Inc. signed an agreement with an American customer unrelated to the Company or interested parties to establish an autonomous parking system in a building located in Texas, USA, in the amount of about USD 4.86 million.
4. Regarding an agreement signed subsequent to the date of the statement of financial position, see Note 30 below.

**Note 17 - Share Capital**

**A. Composition of share capital**

	<b><u>December 31, 2017 and 2016</u></b>	
	<b><u>Number of shares</u></b>	
	<b><u>Authorized</u></b>	<b><u>Issued and outstanding</u></b>
Ordinary shares of NIS 0.02 par value each	<u>100,000,000</u>	<u>15,428,504</u>

- B. As at December 31, 2017 and 2016, the Company held 1,676,192 shares, representing 10.86% as of December 31, 2017 and 2016 of the Company's issued share capital, which were purchased for a total amount of NIS 7,042 thousands.

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

**Note 17 - Share Capital (cont'd)**

**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 2017 and 2016.

**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 operates 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 14(A) and 14(B).

- 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, first attributing the consideration for the option letter, which constitutes a derivative instrument for a sum of NIS 4.5 million, with the difference between the gross consideration and the option value attributed to the component of shares that were allocated to FIMI. For further details see Note 27F.

- 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.

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

**Note 18 - Cost of revenues**

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
Materials consumed and subcontractors (*)	84,128	67,343	65,917
Payroll and related benefits	29,284	26,436	18,226
Changes in work in process and finished products	(4,290)	1,130	2,893
Depreciation and amortization	15,568	15,153	11,276
Management and Maintenance costs	407	391	395
Other expenses	4,525	6,589	4,494
	<u>129,622</u>	<u>117,042</u>	<u>103,201</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 2017 the proceeds from sales of raw materials amounted to about NIS 5.2 million (in 2016 and 2015 amounted to NIS 5.6 and 5 million, Respectively).

**Note 19 - Development expenses, net**

Salaries and related benefits	12,469	13,849	18,003
Subcontractors	2,087	3,383	10,043
Other expenses	2,497	2,562	2,345
Less - capitalized expenses to Intangible assets	(12,666)	(14,707)	(24,055)
	<u>4,387</u>	<u>5,087</u>	<u>6,336</u>

**Note 20 - Selling and marketing expenses**

Salaries and related benefits	13,018	12,115	11,783
Travel and marketing	468	336	192
Exhibits, advertising and other expenses	12,419	11,930	11,106
	<u>25,905</u>	<u>24,381</u>	<u>23,081</u>

**Note 21 - General and administrative expenses**

Salaries and related benefits	8,969	6,898	6,767
Office rent, maintenance and communications	2,554	2,463	1,729
Depreciation and amortization	616	589	541
Professional services	1,675	2,204	2,590
Allowance for doubtful	30	113	100
Other expenses	2,351	1,976	1,469
	<u>16,195</u>	<u>14,243</u>	<u>13,196</u>

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

For the year ended December 31,		
2017	2016	2015
NIS (in thousands)		

**Note 22 - Financing income (expenses)**

A. Financing income

Profit and interest from marketable securities, net	-	-	478
Profit from hedge transactions, net	49	735	3,784
Embedded derivatives	-	-	371
Erosion of long-term loans from banks	-	47	406
Net profit from changes in exchange rates	713	-	-
Others	180	161	49
	<u>942</u>	<u>943</u>	<u>5,088</u>

B. Financing expenses

Financing cost relating to bonds	4,138	4,512	4,882
Loss from change in exchange rates, net	-	741	1,965
Embedded derivatives	2,013	544	-
Others	462	622	547
	<u>6,613</u>	<u>6,419</u>	<u>7,394</u>

C. Classification of finance income (expenses) according to finance instruments

Financial assets at fair value through the statement of operations	<u>50</u>	<u>733</u>	<u>4,158</u>
Financial liabilities measured at reduced cost	<u>(4,267)</u>	<u>(4,465)</u>	<u>(4,476)</u>
Financial liabilities measured at fair value through the statement of operations	<u>(2,013)</u>	<u>(544)</u>	<u>473</u>

**Note 23 - Interested and related parties**

1. Transactions with interested and related parties:

For the year ended December 31,		
2017	2016	2015

	NIS (in thousands)		
Salaries and related benefits (*)	1,829	1,662	1,699
Bonus interested parties	260	-	894
Chairman of the Board of Directors' remuneration	796	416	-
Other directors' remuneration (**)	362	357	273
Rental expenses and management fees	1,155	1,285	1,200
(*) Number of recipients	2	2	2
(**) Number of recipients	6	8	5

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

**Note 23 - Interested and related parties (cont'd)**

**2. 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 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. On July 2015 the Board of Directors and the Audit Committee approved a new lease agreement between the Company and a company controlled by the controlling shareholders in conditions which do not differ essentially conditions of the previous agreement on March 2012 on rental space totaling 1,106 square meters and 30 parking spaces. The agreement is for a period of three years commencing from 1 August 2015. In addition, the company controlled by the controlling shareholders requires the Company in management fees on the leased area against the first billing by a third party. On January 1, 2017 an addendum to the lease agreement was signed, reducing the lease area by 170 square meters so that the total area of the leased premises stands at 936 square meters. The number of leased parking spaces remains unchanged. As from September 1, 2017, the reduction of the said area was canceled and on January 1, 2018, the area was reduced by 84 square meters, so that the total area leased from this day stands at 1,022 square meters.

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

**Note 24 - Taxes on Income**

**1. 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.

**2. 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.

**3. 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%.

**4. 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, 2017 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.

**5. The Company has final tax assessments for all years up to and including 2012.**

**6. 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 as follows:

1. Corporate tax fell to 21%.
2. Transferred loss from a business may be transferred to the future without limitation.

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

**Note 24 - Taxes on Income** (cont'd)

7. The carryforward losses for tax purposes as at December 31, 2017, (Only in respect of subsidiaries) amounts to approximately NIS 106 million for which, deferred tax assets were not recognized as their utilization in the foreseeable future is not probable.

8. Consolidation of tax reports for 2017

As of 2017, the Company intends to consolidate its tax reports together with its subsidiary Unitronics Automatic Solutions Ltd., pursuant to Section 23 of the Encouragement of Industry (Taxes) Law, 1969.

9. Deferred tax attributed to the company

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2017	2016	2017	2016	2015
	NIS in thousands				
<u>Deferred tax liabilities:</u>					
Property, plant and equipment	439	394	(45)	(30)	130
Other financial assets	-	59	63	(59)	-
Marketable securities	-	-	-	32	(32)
Intangible assets	5,465	4,911	(554)	(85)	(155)
	5,904	5,364	(536)	(142)	(57)
<u>Deferred tax assets:</u>					
Carry forward tax losses	-	-	-	(89)	89
Inventory	313	369	(56)	369	-
Other financial liabilities	435	87	342	87	-
Employee benefits	519	666	(141)	114	271
Other taxes assets (*)	-	54	-	-	(13)
	1,267	1,176	145	481	347
Deferred tax income (expenses), net			(391)	339	290
Deferred tax liabilities, net	4,637	4,188			

(\*) Advances paid for excess expenses

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

Non-current liabilities	<u>4,637</u>	<u>4,188</u>
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10. Income taxes relating to items of other comprehensive income:

	<b>Statements of income</b>		
	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS (in thousands)</b>		
Remeasurement gain (loss) from defined benefit plans	<u>5</u>	<u>(11)</u>	<u>6</u>

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

**Note 24 - Taxes on Income** (cont'd)

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
11. <u>Taxes on income included in profit or loss:</u>			
Current tax	(1,782)	-	(1,707)
Previous year tax	-	(93)	-
Deferred tax income (expenses), see Section 9 above.	(391)	339	290
	<u>(2,173)</u>	<u>246</u>	<u>(1,417)</u>
12. <u>Theoretical tax:</u>			
Profit (loss) before taxes on income	3,209	(17,256)	11,029
Statutory tax rate	24%	25%	26.5%
Tax computed at the statutory tax rate	<u>770</u>	<u>(4,314)</u>	<u>2,922</u>
Increase in taxes resulting from non-deductible expenses	68	64	68
Temporary differences and losses for tax purposes where deferred taxes were not recognized	3,398	7,268	4,868
Benefit in privileged tax rate	(2,052)	(3,331)	(6,463)
Taxes in respect of previous years	-	93	-
Other	<u>(11)</u>	<u>(26)</u>	<u>22</u>
Taxes on income (tax benefit)	<u>(2,173)</u>	<u>(246)</u>	<u>1,417</u>

**Note 25 - 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 recourses 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 25 - Operative segments** (cont'd)

A. General (cont'd)

3. Part of the revenues and expenses are allocated directly to the operative segments. Expenses, which relate to both segments, are allocated to the segments 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 company and subsidiaries revenues can also be classified geographically.

B. Report on operative segments

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
1. Revenues			
Products	123,160	113,509	109,059
Automated Solutions	61,406	(*) 35,052	(*)49,681
Other	436	427	409
Total revenues	<u>185,002</u>	<u>148,988</u>	<u>159,149</u>
2. Segment results and adjustment to the profit (loss):			
Products	27,051	24,098	23,857
Automated Solutions	(6,584)	(25,027)	(1,408)
Other	27	33	13
Unallocated corporate expenses	<u>(11,614)</u>	<u>(10,884)</u>	<u>(9,127)</u>
Operating profit (loss)	8,880	(11,780)	13,335
Unallocated corporate financing expenses, net	(5,671)	(5,476)	(2,306)
Tax benefit (taxes on income)	<u>(2,173)</u>	<u>246</u>	<u>(1,417)</u>
Profit (loss) for the year	<u>1,036</u>	<u>(17,010)</u>	<u>9,612</u>

(\*) Reclassified

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

**Note 25 - Operative segments (cont'd)**

B. Report on operative segments (cont'd)

	December 31,		
	2017	2016	
	NIS (in thousands)		
3. Segment assets			
Products	93,395	81,505	
Automated Solutions	66,048	44,705	
Other	65	73	
Unallocated corporate assets	73,966	91,794	
Consolidated total assets	233,474	218,077	
4. Segment liabilities			
Products	24,318	17,747	
Automated Solutions	31,699	12,713	
Other	169	254	
Unallocated corporate liabilities	82,924	91,319	
Consolidated total liabilities	139,110	122,033	
	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
5. Investment cost in long-term assets			
Products	9,107	9,968	11,382
Automated Solutions	4,556	(*) 9,607	(*) 13,804
Unallocated capital expenditure	635	788	1,371
Investment cost in long-term assets	14,298	20,363	26,557
6. Depreciation and amortization			
Products	9,968	9,990	8,238
Automated Solutions	6,543	(*) 6,204	(*) 3,685
Unallocated depreciation and amortization	754	707	788
Total depreciation and amortization	17,265	16,901	12,711

(\*) Reclassified

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

**Note 25 - Operative segments** (cont'd)

C. Geographical information

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

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
Israel	26,420	31,013	41,514
Europe	55,308	51,553	47,925
United States of America	87,644	(*) 52,251	(*) 55,609
Other destinations	15,630	(*) 14,171	(*) 14,101
	<u>185,002</u>	<u>148,988</u>	<u>159,149</u>

2. Non-current assets (according to the assets location)

	December 31, 2017	December 31, 2016
	NIS (in thousands)	
Israel	88,607	111,390
North america	513	621
Consolidated total non-current assets	<u>89,120</u>	<u>112,011</u>

D. Major customers

Revenues from major customers which each account for 10% or more of total revenues as reported in the financial statements:

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
Customer A – Automated Solutions segment	-	-	16,389

(\*) Reclassified

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

**Note 26 – Profit (loss) per share**

	For the year ended December 31,		
	2017	2016	2015
	NIS (in thousands)		
<u>Profit (loss) for the year</u>			
Basic and Fully diluted	1,036	(17,010)	9,612
<u>Weighted average share capital (number of shares)</u>			
Basic and Fully diluted	13,752,312	12,334,504	10,002,312

**Note 27 - Financial Instruments**

A. Classification of financial asset and financial liabilities

	December 31, 2017	December 31, 2016
	NIS, (in thousands)	
<u>Financial assets at fair value through profit or loss</u>		
Foreign currency forward contracts	68	360
Foreign currency purchase/sell options	-	55
Financial assets at fair value through the statement of operations	68	415
<u>Financial assets measured at reduced cost</u>		
Loans and receivables	73,375	70,362
<u>Financial liabilities at fair value through profit or loss</u>		
Forward contracts on foreign currency	94	-
Foreign currency purchase/sell options	-	45
Liability for share purchase option	6,910	4,897
<u>Other financial liabilities at reduced cost</u>		
Financial liabilities measured at reduced cost	121,252	106,013

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

**Note 27 - Financial Instruments (cont'd)**

**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.  
The Company has liquid balances, which are deposited in unlinked NIS balances, bearing interest, and therefore the Company is exposed to changes in the NIS rates of interest which are likely to affect the Company's business results.

**2. Credit Risks**

As at December 31, 2017 the company had trade account receivables and other account receivables amounting to approximately NIS 73,375 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 27 - 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, 2017:

	<u>Book Value</u>	<u>1<sup>st</sup> year</u>	<u>2<sup>nd</sup> year</u>	<u>3<sup>rd</sup> year</u>	<u>4<sup>th</sup> year</u>	<u>5<sup>th</sup> 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>

December 31, 2016:

	<u>Book Value</u>	<u>1<sup>st</sup> year</u>	<u>2<sup>nd</sup> year</u>	<u>3<sup>rd</sup> year</u>	<u>4<sup>th</sup> year</u>	<u>5<sup>th</sup> year and after</u>	<u>Total expected cash flow</u>
<u>NIS, (in thousands)</u>							
Accounts payable - trade	19,678	19,678	-	-	-	-	19,678
Accounts payable - other	12,037	12,037	-	-	-	-	12,037
Forward contracts	45	45	-	-	-	-	45
Liability for share purchase option (*)	4,897	-	-	-	-	4,897	4,897
Loans from banks and others	3,656	1,229	414	403	392	1,631	4,069
Bonds	70,642	12,503	16,179	15,732	15,011	26,784	86,209
	<u>110,955</u>	<u>45,492</u>	<u>16,593</u>	<u>16,135</u>	<u>15,403</u>	<u>33,312</u>	<u>126,935</u>

(\*) Repayment by way of issue of shares.

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

**Note 27 - 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,	
	2017	2016	2017	2016
	NIS, (in thousands)			
<u>Financial liabilities (1)</u>				
Bonds - linked to the Israeli CPI	33,930	40,417	35,597	43,211
Bonds - not linked	29,781	31,749	35,556	36,672

(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, 2017:</u>			
<u>Financial assets measured at fair value</u>			
Forward contracts	-	68	-
<u>Financial liabilities measured at fair value</u>			
Forward contracts	-	94	-
Liability for share purchase option	-	-	6,910
<u>As at December 31, 2016:</u>			
<u>Financial assets measured at fair value</u>			
Forward contracts	-	360	-
Foreign currency purchase/sell options	-	55	-
<u>Financial assets measured at fair value</u>			
Foreign currency purchase/sell options	-	45	-
Liability for share purchase option	-	-	4,897

During the years 2017 and 2016 there were no transitions between levels.

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

**Note 27 - 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	
	2017	2016
	<u>NIS, (in thousands)</u>	
Beginning of period	4,897	(*) 4,353
Total net loss recognized in profit or loss	2,013	544
Balance at December 31	<u>6,910</u>	<u>4,897</u>

(\*) As of May 18, 2016 - the date of establishment the liability

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 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.**  
**Notes to the Consolidated Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

F. Liability for share purchase option (cont'd)

	For the year ended December 31,	
	2017	2016
	<u>Profit (loss)</u>	
	<u>NIS, (in thousands)</u>	
<u>Sensitivity analyses for changes in the Underlying Asset:</u>		
10% increase	<u>(12)</u>	<u>(489)</u>
10% decrease	<u>485</u>	<u>(127)</u>
20% increase	<u>267</u>	<u>(165)</u>
20% decrease	<u>700</u>	<u>430</u>
<u>Sensitivity analyses for changes in the standard deviation:</u>		
5% increase	<u>500</u>	<u>103</u>
5% decrease	<u>(219)</u>	<u>(102)</u>
10% increase	<u>799</u>	<u>209</u>
10% decrease	<u>(304)</u>	<u>(657)</u>

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 27 - Financial Instruments (cont'd)**

H. Sensitivity analyses for changes in market factors

	For the year ended December 31,	
	2017	2016
<u>Profit (loss)</u>		
<u>NIS (in thousands)</u>		
<u>Sensitivity analyses for changes in the USD exchange rate:</u>		
5% increase in the exchange rate	<u>686</u>	<u>(245)</u>
5% decrease in the exchange rate	<u>(686)</u>	<u>245</u>
<u>Sensitivity analyses for changes in the Euro exchange rate:</u>		
5% increase in the exchange rate	<u>(458)</u>	<u>(526)</u>
5% decrease in the exchange rate	458	549

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 28 - Changes in liabilities deriving from financing activities**

	2017		
	Loans 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)	-
Repayment of long-term loans	(1,094)	-	-
Total changes from cash flows from financing activities	(1,094)	(8,666)	-
Exceange rate differences	33	-	-
Reevaluation of share purchase option	-	-	2,013
Reevaluation of bonds	-	488	-
Balance as of December 31	2,595	62,464	6,910
			Total cash flow from finance activities
			(9,760)

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

**Note 29 - information about Subsidiaries held by the Company**

	Association country	Holding rate as at December 31, 2017 and 2016	
		Shares with voting right	Shares with profit right
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 30 - Subsequent events**

On February 15, 2018, the subsidiary Unitronics Systems Inc. signed an agreement with an American customer unrelated to the Company or to its interested parties for the construction of two autonomous parking facilities in adjacent buildings in New York, USA in a total amount of USD 6.9 million.

## **UNITRONICS (1989) (R"G) LTD**

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

**December 31, 2017**

**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, 2017 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.

**[הודבקה חוות דעת שנשלחה כמסמך]**

**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, 2016 and for the year ended December 31, 2016 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.

The separate financial information of the Company as of December 31, 2015 and for the two years the last of which ended December 31, 2015 which included in the Company's periodic report was audited by Amit, Halfon Certified Public Accountants (Israel) whose auditor's special report dated March 8, 2016 was unqualified.

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, 2016 and for the year ended December 31, 2016 is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon  
Certified Public Accountants (Israel)

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

March 28, 2017

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

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

		December 31, 2017	December 31, 2016
	Additional information	NIS, (in thousands)	
<u>Current assets</u>			
Cash and cash equivalents	A	24,082	19,057
Restricted deposit		901	1,091
Short-term deposits in banks		20,209	25,070
Accounts receivable -			
Trade	B	15,429	11,329
Other	B	2,055	1,972
Other financial assets	B	68	415
Accounts receivable - other -			
Subsidiaries	E(3)	12,989	34,296
Inventory		27,401	19,658
		<u>103,134</u>	<u>112,888</u>
<u>Non-current assets</u>			
Long-term deposits in banks		-	20,077
Long-term deposits		112	277
Property and equipment, net		16,462	16,902
Loans and capital notes to subsidiaries less surplus of liabilities over assets associated with subsidiaries	E	36,621	(*) 9,920
Intangible assets, net		44,274	44,602
		<u>97,469</u>	<u>91,778</u>
		<u>200,603</u>	<u>204,666</u>

\_\_\_\_\_  
Amit Ben Zvi  
Chairman of the Board of Directors

\_\_\_\_\_  
Haim Shani  
Director and Chief  
Executive Officer

\_\_\_\_\_  
Eitan Alon  
Chief Financial Officer

Approved: March 25, 2018

(\*) Reclassified.

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**

		December 31, 2017	December 31, 2016
	Additional information	NIS, (in thousands)	
<u>Current liabilities</u>			
Current maturities of non-current loans		346	1,129
Current maturities of bonds		12,647	8,278
Accounts payable -			
Trade		20,011	15,212
Other	C1	7,425	7,630
Other financial liabilities		94	45
		<u>40,523</u>	<u>32,294</u>
<u>Non-current liabilities</u>			
Loans from banks		2,249	2,527
Bonds		49,817	62,364
Liabilities for benefits to employees, net		2,103	2,352
Liability for share purchase option	C2	6,910	4,897
Deferred taxes	D	4,637	4,188
		<u>65,716</u>	<u>(*) 76,328</u>
<u>Equity</u>			
Share capital		427	427
Share premium		104,513	104,513
Capital reserve from translation of foreign operation		(2,437)	209
Company shares held by the company		(7,042)	(7,042)
Reserve from a transaction with a controlling party		104	104
Retained loss		<u>(1,201)</u>	<u>(2,167)</u>
		<u>94,364</u>	<u>96,044</u>
		<u>200,603</u>	<u>204,666</u>

(\*) Reclassified.

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

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

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

		For the year ended December 31,		
		2017	2016	2015
	<u>Additional information</u>	<u>NIS, (in thousands)</u>		
Revenues		87,504	78,626	101,522
Revenues from subsidiaries	E1	34,234	31,263	32,694
Total revenues		121,738	109,889	134,216
Cost of revenues		76,636	72,227	82,082
Gross profit		45,102	37,662	52,134
Development expenses, net		2,810	3,167	3,100
Selling & marketing expenses		10,532	9,463	8,841
General & administrative expenses		10,427	8,917	8,823
General & administrative expenses to subsidiaries	E1	745	800	878
Operating profit		20,588	15,315	30,492
Financing incomes	E1	3,661	3,003	6,616
Financing expenses		6,878	6,501	7,626
Profit after financing, net		17,371	11,817	29,482
The Company's share of subsidiaries losses		14,162	29,073	18,453
Profit (loss) before tax benefit (taxes on income)		3,209	(17,256)	11,029
Tax benefit (taxes on income)	D6	(2,173)	246	(1,417)
Profit (loss) for the year attributed to the company's shareholders		1,036	(17,010)	9,612

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,		
	2017	2016	2015
	NIS, (in thousands)		
profit (loss) for the year attributed to the company's shareholders	1,036	(17,010)	9,612
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	(70)	61	(30)
<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	(2,646)	(379)	130
Other comprehensive income (loss) for the year attributed to the company's shareholders	(2,716)	(318)	100
Total comprehensive profit (loss) for the year attributed to the company's shareholders	(1,680)	(17,328)	9,712

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,		
	2017	2016	2015
	<u>NIS, (in thousands)</u>		
<u>Cash flows - operating activities</u>			
Profit (loss) for the year attributed to the company's shareholders	1,036	(17,010)	9,612
Adjustments necessary to show the cash flows from operations (Appendix A)	20,788	(*) 41,652	(*) 23,601
Cash flows provided by operating activities of the company	21,824	24,642	33,213
Cash flows used in operating activities from transactions with subsidiaries	(3,300)	(*) (14,463)	(*) (14,531)
Cash flows provided by operating activities	<u>18,524</u>	<u>10,179</u>	<u>18,682</u>
<u>Cash flows - investing activities</u>			
Sale of marketable securities, net	-	14,392	11,487
Purchase of property and equipment	(894)	(233)	(538)
Investment in long-term deposits in banks	-	(20,000)	-
Repayment of (Investment in) short-term deposits in banks	25,000	(25,000)	-
Repayment of restricted deposit	190	185	200
Repayment of long-term deposits, net	82	60	39
Investment in intangible assets	(8,825)	(10,468)	(10,874)
Cash flows provided by (used in) investing activities	15,553	(41,064)	314
Cash flows used in investing activities from transactions with subsidiaries	(19,228)	(*) (20,226)	(*) (14,710)
Cash flows used in investing activities	<u>(3,675)</u>	<u>(61,290)</u>	<u>(14,396)</u>
<u>Cash flows - financing activities</u>			
Repayment of long-term loans	(1,094)	(1,160)	(1,796)
Repayment of bonds	(8,666)	(10,680)	(10,748)
Private placement of shares and share purchase option	-	58,353	-
Cash flows provided by (used in) financing activities	(9,760)	46,513	(12,544)
Translation differences on cash and cash equivalents	(64)	(525)	(*) (1,446)
Change in cash and cash equivalents	5,025	(5,123)	(9,704)
Cash and cash equivalents at beginning of year	19,057	24,180	33,884
Cash and cash equivalents at end of year	<u>24,082</u>	<u>19,057</u>	<u>24,180</u>

(\*) Reclassified.

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,		
	2017	2016	2015
	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	14,162	29,073	18,453
Depreciation and amortization	10,753	10,931	9,361
Loss from marketable securities, net	-	100	341
Changes in liabilities for benefits to employees, net	93	223	367
Changes in deferred taxes	395	(339)	(290)
Revaluation of foreign currency cash balances	64	(*) 525	(*) 1,446
Revaluation of deposits in banks	(62)	(147)	-
Revaluation of long-term loans and bonds	130	(308)	(998)
Revaluation of embedded derivatives	396	76	(501)
Revaluation of share purchase option	2,013	544	-
<u>Changes in assets and liabilities:</u>			
Decrease (increase) in accounts receivable - trade	(4,100)	5,115	(3,675)
Increase in accounts receivable - other	(85)	(317)	(419)
Decrease (increase) in inventory	(7,619)	444	6,231
Decrease in inventory - work in progress	-	-	2,935
Increase (decrease) in accounts payable - trade	4,799	(1,763)	(2,551)
Decrease in accounts payable - other	(151)	(2,505)	(7,099)
	<u>20,788</u>	<u>41,652</u>	<u>23,601</u>
<u>Appendix B - Non-cash transactions</u>			
Providing long-term financing to a subsidiary	<u>24,280</u>	<u>20,000</u>	<u>20,000</u>
<u>Appendix C - Additional information on cash flows regarding operating activities</u>			
Cash paid during the year for:			
Interest	<u>3,933</u>	<u>4,565</u>	<u>5,135</u>
Taxes on income	<u>1,710</u>	<u>54</u>	<u>54</u>
Cash received during the year for:			
Interest and dividend	176	245	819

(\*) Reclassified.

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

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

### **Additional information**

#### **Additional information of new IFRSs in the period before their adoption:**

##### **IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"):**

IFRS 15, published in May 2014 (including clarifications to IFRS 15 published in April 2016), establishes a uniform model for the recognition, measurement, presentation and disclosure of revenue from contracts with customers and replaces IAS 18 "Revenues", IAS 11 "Construction contracts" and the interpretations by virtue thereof.

In accordance with the provisions of IFRS 15, income will be recognized using a five-stage model, which includes, inter alia, rules for identifying a contract with a customer and setting a transaction price, rules that define how the contract should be separated into its various components ("separate performance obligations") and The total transaction price for each component is identified and separate.

In addition, in accordance with the provisions of IFRS 15, income for each performance commitment must be recognized separately in accordance with the rules determined IFRS 15 regarding the timing of recognition of revenue - on a specific date or over time.

In addition, IFRS 15 includes extensive presentation and disclosure requirements regarding the substance, amount, timing and uncertainty involved in revenue recognition.

IFRS 15 will be applied to financial statements for annual periods beginning on or after January 1, 2018. The Company plans to apply IFRS 15 retrospectively for the first time without restatement of prior periods, but by recognizing the cumulative effect of the retroactive application as an adjustment to the opening balance of retained earnings (or of another component of capital, as appropriate) as of January 1, 2018.

The Company plans to implement the relief in the transitional provisions of IFRS 15, which permits the retroactive implementation only for contracts that have not yet been completed on the initial implementation date. A completed contract is defined as a contract that, in accordance with the standard applied prior to the implementation of IFRS 15, the Company transferred all the goods and services identified for it. In addition, the Company plans to implement the relief in the transition provisions of IFRS 15, which allows not to retroactively implement the provisions of IFRS 15 with respect to contract changes with respect to all contracts that were changed prior to the initial application date of the Standard.

The following is an overview of the principal changes expected as a result of the initial implementation of IFRS 15:

- a. Today, the Company measures the completion rate based on an engineering evaluation of the final rate of the projects. After implementation of IFRS 15, the Company will measure the progress on the basis of the costs incurred by the Company in relation to the total project costs (method based on inputs), except for certain legal costs, costs incurred as a result of significant inefficiency and costs incurred that are disproportionate to the Company's progress in meeting the performance obligation.

### Additional information

## IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"): (cont'd)

- |   | Balance as of<br>December 31,<br>2017 | Expected effect<br>of the initial<br>application of<br>IFRS 15 | Balance as of<br>January 1,<br>2018 |
|---|---------------------------------------|--|-------------------------------------|
|   |                                       |  |                                     |
|   |                                       | <b><u>NIS, (in thousands)</u></b>                              |                                     |
| Loans and capital notes to subsidiaries less surplus<br>of liabilities over assets associated with subsidiaries | <u>36,621</u>                         | <u>(8,366)</u>   | <u>28,255</u>                       |
| Equity  | <u>(94,364)</u>                       | <u>8,366</u>   | <u>(85,998)</u>                     |

The Standard is effective for annual periods beginning on January 1, 2018. Early adoption is permitted. The Company has examined the possible effects of the implementation of IFRS 9 on the financial statements and in its assessment the adoption of the Standard will not have a material effect on the financial statements.

**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>US Dollar</u>	<u>Euro</u>	<u>Not linked</u>	<u>Total</u>
	<u>NIS, (in thousands)</u>			
<u>December 31, 2017:</u>				
Cash and cash equivalents	10,124	1,642	12,316	24,082
<u>December 31, 2016:</u>				
Cash and cash equivalents	6,842	4,815	7,400	19,057

- 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, 2017</u>	<u>December 31, 2016</u>
	<u>NIS, (in thousands)</u>	
<u>Financial assets at fair value through profit and loss:</u>		
Foreign currency forward contracts	68	360
Foreign currency purchase/sell options	-	55
<u>Financial assets at reduced cost:</u>		
Loans and receivables	15,945	57,851
	<u>16,013</u>	<u>58,266</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	94	-
Foreign currency purchase/sell options	-	45
Liability for share purchase option	6,910	4,897
<u>Other financial liabilities at reduced cost:</u>		
Financial liabilities measured at reduced cost	91,035	94,996

## **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. Account payable - other - attributed to the parent company

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>NIS, (in thousands)</b>	
Employees, payroll and taxes	2,762	2,781
Accrued expenses	2,805	2,705
	<u>5,567</u>	<u>5,486</u>

2. 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	
	2017	2016
	NIS, (in thousands)	
Beginning of period		
Total net loss recognized in profit or loss	4,897	(*) 4,353
Balance at December 31	2,013	544
	<u>6,910</u>	<u>4,897</u>

(\*) As of May 18, 2016 - the date of establishment the liability

3. 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)

4. 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):

	<b><u>Book value</u></b>	<b><u>1<sup>st</sup> year</u></b>	<b><u>2<sup>nd</sup> year</u></b>	<b><u>3<sup>rd</sup> year</u></b>	<b><u>4<sup>th</sup> year</u></b>	<b><u>5<sup>th</sup> year and after</u></b>	<b><u>Total</u></b>
<b>NIS, (in thousands)</b>							
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>
December 31, 2016:							
Accounts payable - trade	15,212	15,212	-	-	-	-	15,212
Accounts payable - other	7,630	7,630	-	-	-	-	7,630
Foreign currency purchase/sell options	45	45	-	-	-	-	45
Liability for share purchase option	4,897	-	-	-	-	4,897	4,897
Loans from banks	3,656	1,229	414	403	392	1,631	4,069
Bonds	70,642	12,503	16,179	15,732	15,011	26,784	86,209
	<u>102,082</u>	<u>36,619</u>	<u>16,593</u>	<u>16,135</u>	<u>15,403</u>	<u>33,312</u>	<u>118,062</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, 2017 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 and including 2012.**

##### **3. Consolidation of tax reports for 2017**

As of 2017, the Company intends to consolidate its tax reports together with its subsidiary Unitronics Automatic Solutions Ltd., pursuant to Section 23 of the Encouragement of Industry (Taxes) Law, 1969.

**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

	<b>Statements of financial position</b>		<b>Statements of income</b>		
	<b>December 31,</b>		<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS in thousands</b>				
<u>Deferred tax liabilities:</u>					
Property, plant and equipment	439	394	(45)	(30)	130
Other financial assets	-	59	63	(59)	-
Marketable securities	-	-	-	32	(32)
Intangible assets	5,465	4,911	(554)	(85)	(155)
	<u>5,904</u>	<u>5,364</u>	<u>(536)</u>	<u>(142)</u>	<u>(57)</u>
<u>Deferred tax assets:</u>					
Carry forward tax losses	-	-	-	(89)	89
Inventory	313	369	(56)	369	-
Other financial liabilities	435	87	342	87	-
Employee benefits	519	666	(141)	114	271
Other taxes assets (*)	-	54	-	-	(13)
	<u>1,267</u>	<u>1,176</u>	<u>145</u>	<u>481</u>	<u>347</u>
 Deferred tax income (expenses), net			<u>(391)</u>	<u>339</u>	<u>290</u>
 Deferred tax liabilities, net	<u>4,637</u>	<u>4,188</u>			

(\*) Advances paid for excess expenses

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

	<b>Statements of income</b>		
	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS in thousands</b>		
 Remeasurement gain (loss) from defined benefit plans	<u>5</u>	<u>(11)</u>	<u>6</u>
 6. <u>Taxes on income included in profit or loss:</u>			
Current tax	(1,782)	-	(1,707)
Taxes in respect of previous years	-	(93)	-
Deferred tax income (expenses), See Section 4 above.	<u>(391)</u>	<u>339</u>	<u>290</u>
	<u>(2,173)</u>	<u>246</u>	<u>(1,417)</u>

**Unitronics (1989) (R"G) Ltd****Additional information**D. Disclosure of taxes on income attributed to the company itself (cont'd)7. Theoretical tax:

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>NIS in thousands</b>		
Profit before subsidiaries losses and before taxes on income	17,371	11,817	29,482
Statutory tax rate	24%	25%	26.5%
Tax computed at the statutory tax rate	4,169	2,954	7,813
Increase in taxes resulting from non-deductible expenses	68	64	68
Temporary differences and losses for tax purposes where deferred taxes were not recognized	-	-	(23)
Benefit from privileged tax rate	(2,052)	(3,331)	(6,463)
Previous year tax	-	93	-
Other	(12)	(26)	22
Taxes on income (tax benefit)	<u>2,173</u>	<u>(246)</u>	<u>1,417</u>

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

### **Additional information**

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

##### **1. Transactions with subsidiaries**

	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>		
	<b>NIS</b>		
Revenues	<u>34,234</u>	<u>31,263</u>	<u>32,694</u>
General & administrative expenses	<u>745</u>	<u>800</u>	<u>878</u>
Financing incomes	<u>2,719</u>	<u>2,060</u>	<u>1,528</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**

**E. 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, 2017 in the amount of approximately NIS 12.8 million (approximately NIS 11.1 million as at December 31, 2016).

- b. On December 31, 2017 the company committed not to repay NIS 118 million, from the ongoing balance to subsidiary Automated Solutions before January 1, 2019 (NIS 98 million as at December 31, 2016).
- c. As of December 31, 2017, the Company provided performance guarantees to customers as part of the agreements of subsidiaries to establishing automated parking systems and integrated logistics systems in amount of NIS 2.6 million (Of which a guarantee in the amount of NIS 1.7 million expired after the balance sheet date).
- d. As of December 31, 2017 there is ongoing balance of the subsidiary Unitronics building management and maintenance (2003) Ltd. in the amount of approximately NIS 179 thousand (approximately NIS 123 thousand as at December 31, 2016).

## **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:

<b>Subsidiary</b>	<b>Class of share</b>	<b>No. of shares</b>	<b>Total par value</b>	<b>Value of shares in the financial statement</b>
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

<b>Subsidiary</b>	<b>Value in the separate financial statement of the corporation, attached to the Company's financial statements</b>	<b>Percentage of Company's holdings in capital, in voting rights and in the power to appoint directors, out of total issued shares</b>
	<b>NIS in thousands</b>	
Unitronics Building Management and Maintenance (2003) Ltd.	(229)	100%
Unitronics Inc. (foreign company)	1,413	100%
Unitronics Automated Solutions Ltd.	(83,071)	100%
Unitronics Systems Inc. (foreign company) (*)	(8,494) (**)	100%

(\*) Held by Unitronics Automated Solutions Ltd.

(\*\*) In the books of Unitronics Automated Solutions Ltd.

### 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.

### 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 1.21.4.8 in chapter A of this Periodic Report.

#### 4.4 Trading on the Stock Exchange (Reg. 20)

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 on an Event or Matter Outside the Ordinary Course of the Corporation's Business, dated June 6, 2017, reference number 2017-01-047806, as amended in immediate report dated June 20, 2017, reference number 2017-01-051619, included herein by reference. For further details regarding the completion of the delisting and listing process, see Immediate Report on an Event or Matter Outside the Ordinary Course of the Corporation's Business, dated July 31, 2017, reference number 2017-01-065935, included herein by reference

During the reporting year trading in securities issued by the Company was not suspended on the stock exchange in Israel.

#### 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	100%	22.72% (1)	1,188	260	- (3)	1,448
Mr. Yair Goldberg	CEO of US subsidiary (5)	100%		681	164	-	845
Mr. Amit Harari	VP and Manager Products Division	100%		618	136	-	754
Ms. Bareket Shani	Director, Deputy CEO and Chief Human Resources Officer	100%		678	-	- (3)	678
Mr. Gabriel Badusa	Chief Financial Officer (4)	100%		619	-	-	619
	Other directors (2)			1,158	-	-	1,158

- (1) As of December 31, 2017.
- (2) Including compensation of NIS 796 thousand to the active Chairman of the Board of Directors.
- (3) For details about the rent paid by the Company to a company controlled by Mr. Haim Shani and Ms. Bareket Shani for the lease of space on the private floors of the Unitronics Building, see section 1.12.2 in chapter A of this Periodic Report.
- (4) Term of office ended on November 30, 2017.
- (5) Term of office ended on December 31, 2017.

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.

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 22, 2018 the Compensation Committee affirmed that the payment of a bonus of NIS 260 thousand to Mr. Haim Shani in respect of 2017, per the terms described above, is in accordance with the Company's Compensation Policy and Mr. Shani's employment agreement. On March 25, 2018 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. 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. The compensation is paid to Mr. Ben-Zvi quarterly for services provided to the Company in the previous calendar quarter.

4.5.5 Mr. Amit Harari – In October 2010 an employment agreement (hereafter in this section: "**the Agreement**") was signed between the Company and Mr. Amit Harari. The Agreement is for an unspecified period and stipulates that either party thereto may terminate it at any time by 30 days' prior notice in writing.

Effective January 1, 2012 Mr. Harari is entitled to an annual bonus for meeting quantitative and qualitative targets, in an amount not exceeding NIS 375 thousand, subject to the Company's Compensation Policy. The Agreement also stipulates that Mr. Harari is entitled to the following fringe benefits: pension insurance, study fund and the use of a company car, and entitles him as well to social benefits (vacation days, sick days and convalescence pay). Mr. Harari serves as the Company's Vice President and Manager Products Division.

4.5.6 Mr. Gabriel Badusa – On July 23, 2014 an employment agreement (hereinafter in this section: "**the Agreement**") was signed between the Company and Mr. Gabriel Badusa. The Agreement was made for an unspecified period and stipulates that either party thereto may terminate it at any time by 30 days' prior notice in writing. Mr. Badusa served in the position of Chief Financial Officer of the Company and ended his term of office on November 30, 2017 (for further details see Immediate Report on a Senior Officer Who

Ended His Term of Office, dated October 22, 2017, reference number 2017-01-100971, included herein by reference).

Mr. Badusa was entitled to the following fringe benefits: contributions to executive insurance, pension fund and study fund and the use of a company car. In addition, Mr. Badusa was entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay).

- 4.5.7 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. Mr. Goldberg ended his term of office as CEO of the subsidiary on December 31, 2017.

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 CEO of a subsidiary in the US.

- 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 \$5,000,000 (five 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).

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 2017 or at a date after the end of 2017 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 2015 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 1,180 thousand, NIS 1,247 thousand and NIS 1,287 thousand for the years 2017, 2016 and 2015, respectively; of which NIS 745 thousand, NIS 822 thousand and NIS 878 thousand, respectively, were paid by the Company, and NIS 435 thousand, NIS 425 thousand and NIS 409 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 March 2017, 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.

#### **Transactions Enumerated in Section 270(4) of the Companies Law**

- 4.6.2 On July 16, 2015 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, 2015 (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 1.13.2 in chapter A of this Periodic Report as well as Immediate Report on a Transaction between a Company and Its Controlling Shareholder, dated May 20, 2015, reference number 2015-01-024264, included herein by reference (for further details on the aforesaid approval of the General Meeting, see Immediate Report on Results of a Meeting to Approve a Transaction with a Controlling Shareholder and/or to Approve a Private Offering, dated July 16, 2015, reference number 2015-01-074880, included herein by reference). As of January 1, 2017 said lease agreement was amended to reduce the space leased to the Company. As of September 1,

2017 said reduction of the leased space was canceled, and on January 1, 2018 the space was reduced by 84 square meters, so that the total leased space as of that date stands at 1,022 square meters (for further details see section 1.12.2 in chapter A of this Periodic Report).

- 4.6.3 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 2017 or at a date after the end of 2017 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 1.122.2 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 below (regarding the issue of letters of indemnification and exemption to Mr. and Ms. Shani).

#### **Negligible Transactions**

- 4.6.4 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.

#### **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 July 26, 2016 (reference number 2016-01-090868), 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 17 to the consolidated financial statements for 2017 – 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 February 1, 2018 (reference number 2018-01-009519), 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](mailto:info@unitronics.com)

Telephone number: 03-9778888

Fax number: 03-9778877

#### 4.10 Directors of the Corporation (Reg. 26)

<b>Name, ID number, date of birth, citizenship</b>	<b>Address for court notices</b>	<b>Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No</b>	<b>Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein</b>	<b>Date of commence- ment of service as a Director of the Company</b>	<b>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</b>	<b>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)</b>	<b>Does the Company regard the Director as having accounting and financial expertise?</b>
<b>Haim Shani</b> 056548142 31/7/1960 Israeli	20 Bazelet St., Shoham	No; Has professional qualifications	Yes, CEO of the Company, 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.	Yes, husband of Ms. Bareket Shani, a Director and officer of the Company (see details below)	No
<b>Bareket Shani</b> 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.	6/7/1999	Academic. B.Sc. in Industrial Engineering and Management from the Technion	Yes, wife of Mr. Haim Shani, Director and CEO of the Company.	No
<b>Zvi Livne</b> 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 Unitronics Building Management and Maintenance (2003) Ltd., PML – Particle Monitoring Technologies Ltd. and Alberta Nano Monitoring Systems	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?
<b>Doron Shinar</b> 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 Acidos 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
<b>Amit Ben-Zvi</b> 022644744 11/9/1966 Israeli	98 Yigal Alon St., Tel Aviv 67891	No; Has accounting and financial expertise as well as professional qualifications	Yes, serves as active Chairman of the Board of Directors of the Company, Chairman of the Board of Directors of the subsidiary Unitronics Inc., and Chairman of the Board of Directors of the subsidiary Unitronics Systems Inc.; partner in the FIMI Fund (a controlling shareholder of 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.	No	Yes
<b>Gillon Beck</b> 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.	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?
<b>Yariv Avisar</b> 57418873 24/12/1961 Israeli	Ha-Shahaf St., POB 219, Ein Sarid	No; Has professional qualifications	No	18/5/2016	Academic. BA in Business Administration from The College of Management. CEO of SCR Engineers between 2011-2015. Until 2015 served as a Director of subsidiaries of the SCR Group.	No	No
<b>Rivka Granot</b> 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 2017:

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	100%	100%
Amit Ben-Zvi	100%	-
Gillon Beck	100%	-
Yariv Avisar	80%	-
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:

<b>Name, ID number, date of birth</b>	<b>Date on which the officer began his term of office</b>	<b>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</b>	<b>Is the officer an interested party in the Company or related to another senior officer or to an interested party in the Company?</b>	<b>Education and business experience during the past five years</b>
<b>Eitan Alon</b> 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.
<b>Avraham Peleg</b> 25647991 1/9/73	04/05/14	Finance Controller	No	Academic, BA in Business Administration (Accounting) in the Academic Track from The College of Management, Israel-certified CPA. Prior to joining the Company served as a controller at Hagag Group Real Estate Development Ltd. and before as a Senior Auditor at Amit, Halfon–CPA.
<b>Amit Harari</b> 33591843 25/11/76	26/10/10	Vice President and Products Division Manager	No	Academic, B.Sc. in Industrial Engineering from the Technion, MBA from Tel Aviv University. Prior to joining the Company served as Vice President at Computerized Business Solutions Inc.
<b>Ronen Leibovitz</b> 059748327 20/7/65	28/5/17	Internal Auditor of the Company	No	Academic, BA in Business Administration, CPA, partner in Crowe Horwath (Israel) accounting firm.
<b>Hilit Bar Sorya</b> 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.
<b>Daniel Raphael Nygate</b> 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.
<b>Josef Ratsabi</b> 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.

#### 4.12 Corporation's Independent Auditor (Reg. 27)

BDO Ziv Haft, CPA – 48 Menachem Begin St., Tel Aviv.

On November 29, 2017, Amit Halfon, CPA ceased to serve as the Company's independent auditors, in accordance with a resolution of the General Meeting of Company Shareholders from October 20, 2016. As of November 29, 2017, BDO Ziv Haft, CPA serve as the Company's sole independent auditors.

#### 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.

#### 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 4.5.9 above.

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

By:                      Amit Ben-Zvi  
Chairman of the Board of Directors

Haim Shani  
Director and CEO

March 25, 2018

## **Chapter E - Statements by the CEO and CFO of the Corporation for 2017**

- 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 2017 ("**the Reports**").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the reports.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 25, 2018

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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 2017 ("**the reports**").
2. To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

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

March 25, 2018

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Eitan Alon, CFO



**UNITRONICS (1989) (R"G) LTD.**

**PRESS RELEASE**

**Airport City, Israel,**

**March 26, 2018**

**\*\*\*Regulated Information\*\*\***

**\*\*\*For Immediate Release\*\*\***

**Corporation's Liabilities Status Report by Dates of Payment**

**Airport City, Israel – March 26, 2018** - Unitronics published the attached Immediate Report pursuant to the requirements of Israeli law, in connection with the requirement to report the Corporation's liabilities status by dates of payment.

**About Unitronics**

Unitronics (1989) (R"G) Ltd. is an Israeli company that engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly Programmable Logic Controllers ("PLCs"). PLCs are computer-based electronic products (hardware and software), used in the command and control of machines performing automatic tasks, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also engages, through its automated solutions Department and/or its subsidiaries, in the design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities. The Company's PLCs are distributed by over one hundred and forty distributors (and a wholly owned US subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa. The services of the Systems Department are provided to customers in Israel and also outside Israel.

This press release contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

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

**Re: An Immediate Report Concerning Corporation's Liabilities Status by Dates of Payment**

Pursuant to section 36A of the Israeli Securities Law, 1968.

Reporting period: December 31<sup>th</sup>, for the year: 2017.

Detailed Corporation's liabilities status by dates of payment is as follows:

- A. Debentures issued by the reporting Corporation to the public and held by the public, excluding such Debentures held by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year	10,967	2,000						3,249	16,216
Second Year	11,235	2,000						2,534	15,769
Third Year	11,235	2,000						1,811	15,046
Fourth Year		8,000						1,392	9,392
Fifth Year and So On		16,000						1,392	17,392
Total	33,437	30,000						10,378	73,815

- B.** Private debentures and non banking-credit, excluding debentures or credit which was given by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation – based on data from the Corporation's separate financial reports ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

- C.** Bank credit – from Israeli banks ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year			346					76	422
Second Year			346					65	411
Third Year			346					55	401
Fourth Year			346					44	390
Fifth Year and So On			1,211					70	1,281
Total			2,595					310	2,905

D. Bank credit – from banks abroad (“Solo” report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

E. Summary table of tables A-D, Total credit- banking, non-banking and debentures (“Solo” report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year	10,967	2,000	346					3,325	16,638
Second Year	11,235	2,000	346					2,599	16,180
Third Year	11,235	2,000	346					1,866	15,447
Fourth Year		8,000	346					1,436	9,782
Fifth Year and So On		16,000	1,211					1,462	18,673
Total	33,437	30,000	2,595					10,688	76,720

**F. External balance credit exposure (“Solo” report) (in NIS thousands)**

- H. Total credit balance, banks, non banks and debentures of all consolidated companies, excluding companies which are reporting companies and excluding the reporting Corporation's data included in tables A-D above (in NIS thousands)

Fund Payments									
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	Other	Gross Interest Payment (Without Tax Deduction)	Total by year
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

- I. Total credit balance provided to the reporting Corporation by its parent company or controlling shareholder and balance of debentures issued by the reporting Corporation and held by its parent company or controlling shareholder: 0.
- J. Total credit balance provided to the reporting Corporation by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation, and balance of debentures issued by the reporting Corporation and held by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation: 0.
- K. Total credit balance provided to the reporting Corporation by consolidated companies and balance of debentures issued by the reporting Corporation and held by the consolidated companies: 0.
- L. (1) Cash and cash equivalents, marketable securities and short term deposits ("Solo" report) (in NIS thousands): 44,291  
 (2) Cash and cash equivalents, marketable securities and short term deposits of all consolidated companies (in NIS thousands): 54,919  
 (\*) Pledged cash is excluded.

Respectfully,

Unitronics (1989) (R"G) Ltd.