Unitronics (1989) (R"G) Ltd

Periodic and Annual Report for 2022

On January 1, 2023, the Company announced that it had ceased to be a "small corporation", as such term is defined in the regulations. In accordance with Regulation 5e (c) of the regulations, the Company announced that it intends to continue to report in accordance with Regulation 5d of the regulations and to implement the reliefs given to "small corporations" (with the exception of the relief that permits publishing only half-yearly financial statements, which the Company intends to continue not to fulfill, and it intends to continue publishing quarterly financial reports as performed in the past) up to and including the Quarterly Report of the Company for the period ending on September 30, 2023. For further details, see the Immediate Report of the Company of January 1, 2023, reference number 2023-01-000381, the information of which is incorporated herein by way of reference.

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

The Company is hereby pleased to present the 2022 Periodic Report which includes a description of the Company and the business development thereof[1], for the twelve-month period ended December 31, 2022. The financial data contained in this report is denominated in NIS unless otherwise specified. The data is current as of December 31, 2022, unless otherwise specified.

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

1.1 Company's activity and description of its business development

The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 1983 (hereinafter: "**the Companies Ordinance**"). In July 1999 the Company became a public company as such is defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed for trading on the Belgium stock exchange and were traded thereby until the delisting thereof in 2017 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**").

Until March 12, 2019 (hereinafter: the "**Date of the Split**"), the Company operated in two main segments of activity, the product segment and the automated solutions segment. From the Date of the Split, the Company operates solely in the product segment and the activities thereof in the field of automated solutions have been transferred to Utron Ltd. (hereinafter: "**Utron**"), a company controlled by the controlling shareholders of the Company, as described in section 1.3.2 below (hereinafter: the "**Split**").

The Company is engaged in the design, development, production, marketing, sale and support of Programmable Logic Controllers (PLC's) (hereinafter: "**Controllers**"). Controllers are computer-based electronic products (hardware and software) used to command and control machines which perform automated operations, such as manufacturing systems and other automated installations in various fields. The Company has expanded its product line and has also started marketing and selling propulsion controllers (VFD and servo systems), which are mainly marketed as supplementary products for the controllers of the Company, and are designed to interface in an integrative and simple manner to these controllers. In addition, the Company launched a new integrative platform for cloud services (SaaS). The platform is designed to enable any customer to connect the controllers of the Company (and even controllers of other companies) to a computer-based cloud environment infrastructure, transfer data securely

[1] This report includes data based on surveys and public studies, including information specified on various websites. It should be noted that, unless explicitly stated otherwise, the Company did not request, and in any case did not receive, the consent of the editors of the aforesaid surveys, studies and websites, to including the information in this report, since this information is information that is accessible to the public and to the best of the knowledge of the Company is public knowledge. The Company has not checked this information independently and it is not responsible for the content of the aforesaid surveys, studies and websites.

and create business dashboards (BI). In this new service, the emphasis is also on providing a value added supplementary service for the controllers of the Company which is reflected in the simplicity and ease of application as well as full integration with the other products of the Company.

The Company operates mainly from office and industry buildings in Airport City near the David Ben Gurion Airport (for further details see section 1.11 below).

1.2 Subsidiaries, related companies and holding structure diagram

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

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

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

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

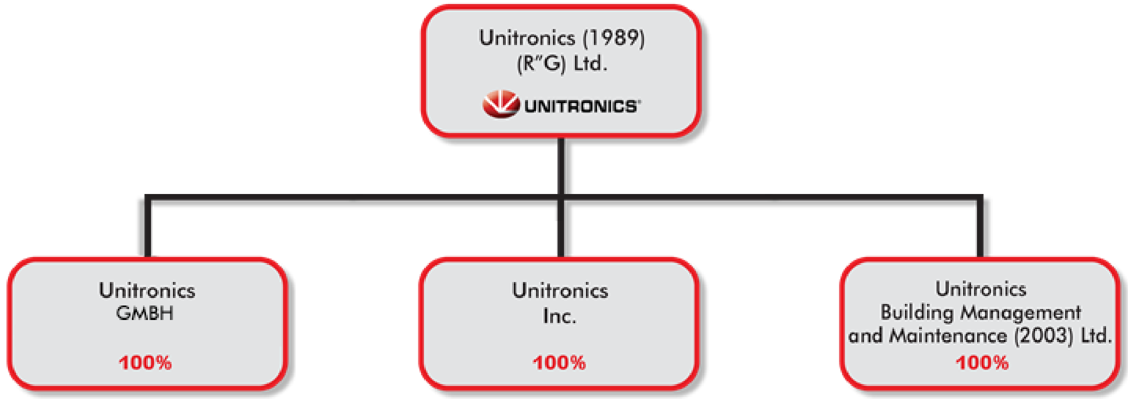
Utron Systems Inc. (formerly: Unitronics System Inc., a wholly owned subsidiary of Utron Solutions), which is incorporated in the United States (Delaware) (hereinafter: "**Systems**") and engages primarily in coordination and management of marketing, distribution and installation activities in the autonomous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

On the date and as part of the Split, Utron Solutions, together with all its activities and assets, including its holdings in Systems, was transferred to Utron.

In the fourth quarter of 2020, the Company established a wholly owned subsidiary incorporated and operating based in Germany, Unitronics GMBH (hereinafter: "**Unitronics GMBH**").

For further details see section 1.19 and section 1.20 below.

Below is a diagram of the holding structure of the Company and its subsidiaries:



1.3 Operating segments

1.3.1 Operating segments

The Company is involved in the design, development, manufacture, marketing, sale and support primarily of PLCs of various models that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs and software for the PLCs (this activity was previously known as the "Product Segment"). The products of the Company 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.

The Company's PLCs and services are marketed and sold via an internal marketing and sales network of the Company through subsidiaries in the United States and Europe, through a distributor network of approximately 190 distributors, 110 of which are in the US and in North America, and the balance in approximately seventy countries (including Israel) mainly throughout Europe, Asia and South America.

1.3.2 The Split

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

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

For more details about the decision of the company's board of directors, see the immediate report on an event or matter that deviates from the normal corporate business from August 20, 2018, Reference No. 2018-01-077146, which is hereby incorporated by reference. For more details about the request for partition approval, see the immediate report on the application to the court for partition approval dated September 6, 2018, reference number 2018-01-083341, which is incorporated herein by reference.

On February 28, 2019, The Company and Utron published the Split Prospectus pursuant to which the split will take place (Reference No.: 2019-01-017856) which came into effect on the Date of the Split. Within the framework of the split, each shareholder of the Company received Utron shares at a quantity equal to the quantity of the Company shares which each shareholder held on March 10, 2019 (assuming that the shareholder did not acquire the share on that date), which is the closing date (except for the Company itself, which holds its own dormant shares which did not grant the Company any right to Utron's shares). For further details, on the splitting procedure and the agreements signed with the Company on this matter, see Chapter 2 and Chapter 8 in the Split and Listing for Trading Prospectus dated February 28, 2019 published by the Company and Utron (Reference No. 2019-01-017856), included herein by reference. For details on the completion of the split see Immediate Report on an event or matter outside the ordinary course of the corporation's business dated March 12, 2019, Reference No. 2019-0102137, included herein by reference. Within this framework, the Company's activity of Automated Solutions was transferred to Utron. Additionally, The Company and Utron entered into agreements to regulate the split and the services and other relations between the companies following the split, as detailed in Section 1.14.6 below.

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

From January 1, 2019 until the publication date of this report, no investments were made in the capital of the Company, and, to the best of the Company's knowledge, no other material transaction was carried out with the Company’s shares by an interested party in the Company outside the Stock Exchange.

1.5 Dividend distribution

1.5.1 The dates and amounts of dividends which the Company has distributed in the past two years

Date of the decision of the Board of Directors	Actual dividend payment date	Total dividend NIS per share	Total dividend paid (in thousands)
May 12, 2021	May 31, 2021	0.7271505	NIS 10,000
December 21, 2021	January 9, 2022	0.7248069	NIS 10,000
August 31, 2022	September 22, 2022	1.086762	NIS 15,000

The balance of distributable earnings under the law as at December 31, 2022 and the date of publication of this report is approximately NIS 20.4 million.

On February 23, 2014, a resolution was passed by the Board of Directors of the Company with regard to the adoption of a dividend distribution policy as of the date of approval and publication of the financial statements as of December 31, 2013. The Company will distribute to its shareholders a dividend of 33% of the net profit attributable to the Company's shareholders in accordance with the audited consolidated annual financial statements of the Company (not including gains deriving from the revaluation of assets) (hereinafter: the "**Profit**") exceeding NIS 3 million, subject, inter alia, to the provisions of the law, financing requirements, business plans and obligations to the holders of the debentures (Series 4 and 5)[2]. The distribution of the dividend is subject to the decision of the Board of Directors of the Company.

For further details of the dividend distributions specified in section 1.5.1 above (including the reasons for the distribution thereof), see the Immediate Reports of the Company of August 31, 2022, May 13, 2021 and December 22, 2021 (reference numbers: 2022-01-112168, 2021-01-085071 and 2021-01-112444, respectively). The aforementioned constitute a generalization by way of reference.

As part of the loans received from a banking corporation, the Company has undertaken not to distribute a dividend to shareholders without the consent of the Bank. Following the date of the balance sheet, approval was received from the bank to cancel the undertaking of the Company to receive the consent of the bank for the distribution of a dividend (see Note 12A (5) and Note 27 (2) to the 2022 consolidated financial statements - Chapter C of this Periodic Report).

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

[2] Which are no longer valid as of the report date

Part II – Other Information

1.6 Financial information on the Company's business activities

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS thousands		
Revenues	**155,520**	**147,018**	**126,160**
Costs:			
Fixed*	62,733	57,325	55,590
Variable**	66,394	62,829	54,030
Total	**129,127**	**120,154**	**109,620**
Profit from ordinary activities	**26,393**	**26,864**	**16,540**

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

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

For an explanation regarding the developments in each of the aforementioned data, see section 2.4.2 in Chapter B of this Periodic Report.

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

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

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

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

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

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

The Corona crisis and its effect on the business operations of the Company

At the beginning of 2020, the epidemic caused by the Corona virus (COVID-19) began to spread around the world following which it was declared a global epidemic by the World Health Organization.

As of January 2021, the State of Israel began an extensive vaccination campaign against the Corona virus, and a return to normality of the Israeli economy became evident. However, towards the end of the fourth quarter of 2021 and the start of the first quarter of 2022, there was a renewed increase in the morbidity rates due to the spread of the "Omicron Strain" which paved the way to the fifth wave of morbidity.

Despite the above, the outbreak of the fifth wave (which subsided towards the end of February 2022) and the renewed increase in the scope of morbidity recorded during June and July 2022, the effect of the restrictions and the increase in morbidity on the economic was lower, since the economy adapted itself to a state of activity alongside the Corona virus, and with the improvement in vaccination rates and the treatment of patients, the Israeli economy returned to complete normality. Further to the above, during the period of the report and until the date of the publication thereof, the majority of the restrictions imposed due to the Corona epidemic have been rescinded.

The Company estimates that as of the date of publication of the Periodic Report, the consequences of the outbreak of the aforesaid virus on the Company are not significant and have not caused a material impact on the business operations of the Company, including the revenues, expenses and profitability thereof. The Company further estimates that the outbreak of the crisis has had no effect on the liquidity of the Company and the financing resources thereof.

The assessments of the Company with regard to the possible consequences of the continued spread of the Corona virus and the instructions given to the public with regard thereto, on the activities of the Company constitute forward-looking information, as such is defined in the Securities Law, 1968, based, inter alia, on the estimates of the Company as of the date of publication of this report with regard to the factors which are not under the control thereof. The assessments of the Company are based on information currently in the possession of the Company, publications on this subject and the relevant instructions of the authorities, which it is not certain will materialize, in whole or in part, and may materialize in a materially different manner, due to factors beyond the control of the Company, including, inter alia, the continued spread of the Corona virus, an improvement in the effectiveness of vaccines against new mutations and/or strains of the Corona virus and the

development of effective drugs to deal with the Corona virus, the instructions of the relevant authorities in Israel and around the world and the intensity and duration of the economic slowdown which will develop in Israel and around the world.

The global shortage of electronic components and its effect on the business operations of the Company

The Company is exposed to the effects and risks associated with the global shortage of electronic components. Since the end of 2020, there has been a worldwide shortage of electronic components which is affecting the entire electronics industry. To the best knowledge of the Company, the shortage of electronic components is due to several reasons, among them: a decrease in supply due to the Corona crisis which caused many workers to remain at home, thereby affecting the production lines; an increase in demand for electronic component-based products during the Corona crisis such as smartphones, computers, monitors, routers and other electronic component-based products; and an increase in demand by the automotive industry, which began to stock up with a large number of electronic chips, which was reflected in large-scale orders of electronic chips.

Following the increase in demand simultaneous with the decrease in supply, the delivery times for electronic components have become very long, sometimes even reaching a year and even longer. As part of the actions taken by the Company to handle the challenges posed by the lack of electronic components, inventory levels were increased in order to respond to the decrease in the availability of electronic components on the one hand and the increase in the backlog of orders on the other hand The Company estimates that the current situation is expected to continue at the beginning of 2022, wherein as of the date of publication of this report, there is no clear forecast for the end or moderation of the global shortage of electronic components.

The Company anticipates that the extension of delivery times for electronic components may extend the delivery times of orders to the customers of the Company and accordingly defer the revenue due therefrom. However, the Company does not anticipate significant cancellations of orders as a result of the extension of delivery times for orders of the customers of the Company.

The estimates of the Company with regard to the global shortage of electronic components and its effect on the Company constitutes forward-looking information, as such term is defined in the Securities Law, 1968, based, among other things, on the estimates of the Company as of the date of publication of this report with regard to factors beyond its control. The estimates of the Company are based on information currently available to the Company and the estimates thereof in accordance therewith, the materialization of which, in whole or in part, is not certain, and may even materialize in a materially different manner, due to factors beyond the control of the Company, including the duration of the global shortage of electronic components, changes in demand in the various industries as specified above, and the duration of the economic slowdown that will develop in Israel and around the world.

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

1.8 Overview

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

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

1.9 The activity segments of the Company

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

1.9.1 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. As aforesaid, the Company has expanded its product line in the past few years and has also started to market Motion controllers, marketed mainly as supplementary products for the controllers of the Company which interface in an integrative and simple manner to these controllers. In addition, the Company launched a new integrative cloud services platform called UniCloud. The platform is designed to enable any customer to connect the controllers of the Company (as well as controllers of third party companies) to a computer based cloud environment infrastructure, transfer data securely and create business dashboards (BI). The emphasis of this new service, marketed mainly as a supplementary product for the controllers of the Company, is on the added value expressed in the simplicity and ease of application as well as full integration with the other products of the Company.

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 section 1.9.19 and 1.9.20 below.

1.9.3 Changes in the scope of operations and profitability of the segment, developments in the segment markets and changes in the characteristics of the customers thereof

According to Technavio, the global controller market is estimated at approximately USD 14 billion in 2020 and is expected to grow to approximately USD 16.4 billion in 2025 reflecting an average annual growth rate in excess of 3%. The VFD and Servo segment is estimated by the same source to be approximately USD 33 billion in 2020 and is expected to grow to approximately USD 41 billion in 2025 with an average annual growth rate of 4.4%.

According to ARC, the Controller market was affected in 2020 in a negative manner due to the outbreak of the Corona virus; however, in 2021, the market recovered and returned to normal with demand volumes similar to the period prior to the outbreak of the Corona virus and even reflected showed growth. In addition, ARC expects high growth in demand from "smart" machine manufacturers which enable connectivity and links to additional machines and/or enterprise information systems and cloud applications in order to achieve competitive advantages in their operating markets.

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 (rackmount).

As aforesaid 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), which, based on the sources cited above, constitute 75% of the total Controller market, and have the highest relative growth rates.

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

(c) Geographic breakdown: In accordance with various market reviews, North America and APAC are the leading territories both in terms of market share and in terms of the expected growth rate in the coming years.

In the past few years, except for 2020 as a result of the effect of the Corona virus, the PLC market has displayed steady growth, and the various market surveys indicate forecasts for continued growth in this market together with great competition, which is also expected to grow and expand into different areas. According to Technavo, one of the trends in the Controller segment is the transition to the use of decentralized systems based on smaller controllers on which the Company is focusing its activities.

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 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 to organizational systems and cloud applications, 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, including the use of different-sized color and touch screens as the means of user-man instrument and machine communications.

Industry 4.0 and IIoT (Industrial Internet of Things) are causing a change in the traditional way in which industrial processes are controlled and supervised as well as the requirement for information to flow from the machine to enterprise information systems and cloud applications. These changes reinforce the need to use controllers but also require adjustments and support for new capabilities, especially in terms of communication capabilities.

The Company designs its products in accordance with these trends, including miniaturization (up to hand-sized products), integration of friendly and convenient user interfaces in the controller body, built-in communication capabilities, simple and secure connectivity to cloud applications and more, as specified 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; a robust, flexible programming environment designed to enable quick and easy realization of customer automation and control requirements; functional reliability of the products; competitive prices reflecting appropriate cost-benefit ratios; high standard of service and support promoting image and customer loyalty; and an extensive distribution infrastructure capable of providing a global response.

1.9.6 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 are PLCs of various series, motion regulators and servo systems as well as external expansion units and software programs as specified below:

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, a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections ("sockets" of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of PLCs (number and type of connectable devices) define their dimensions, as specified in the table below

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

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

The Company's products focus on a range of up to tens of integral I/O points per individual PLC, with the ability to expand by tens to hundreds of additional points (up to 4,000 in the UniStream™ product range), using external expansion units and communications networks.

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

The Company's PLCs are considered to be advanced technology products among the target audience – control engineers and machine builders. A validation of this is that the Company has been awarded the Engineers' Choice Award by Control Engineering magazine (www.controleng.com) for several years in succession (starting in 2012, a different product each year). This is an annual contest run by one of the most prestigious magazines in the United States in the field of Controllers during which the readers themselves select products divided into several categories from a list of products launched in the same year. In 2022, for example, a Unistream™ series controller, which combines built-in connectivity and a five-year subscription to the cloud services of the Company (UniCloud) won the competition. The controller was selected as the Grand Winner, namely, it received the most votes and readers' choices among all the competing categories in that year.

The revenues of the Company from the sale of controllers and expansion units in 2022 accounted for approximately 93% of the total revenues of the Company in accordance with the consolidated financial statements thereof - Chapter C of this Periodic Report.

1.9.8.2 MOTION

The Company markets and sells products in the drive control segment (marketed mainly as supplementary products for the controllers of the Company), which interfaces with industrial communication and is controlled by the controllers of the Company, and focuses on this segment primarily with frequency drives (VFD) and servo systems.

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

Servo systems are "closed circuit" control systems (the need to receive constant feedback to correct runtime errors and fast response rates), a characteristic which distinguishes them from the frequency drive. These systems contain a servo drive and a servo motor. Common applications for this product are: various packaging, conveyance and raw material processing machinery, laboratory automation equipment as well as food and beverage machines.

1.9.8.3 UniCloud

In 2021 the Company launched a new integrative platform for cloud services named UniCloud. The platform is designed to allow each customer to connect the controllers of the Company (and even controllers of other companies) to a cloud computing infrastructure environment, transfer data in a secure manner and create business dashboards (BI). The emphasis in this new service is also on the added value reflected in the simplicity and ease of the application and full integration with the other products of the Company.

The customers of the Company will be charged a monthly fee for the service, as in similar SaaS services. The Company believes that this service affords the Company and its customers business flexibility, significantly reduces the entry barriers for joining the service and creates another significant competitive advantage for the Company in the market in which it operates.

The aforesaid MOTION and UniCloud drive products were designed so that the integration thereof with the controllers of the Company will make it possible to create added and unique value for the customers of the Company. Therefore these are supplementary products for the controller products, which are usually sold as one piece.

However, each of these products can also be sold separately to the customers of the Company.

In addition, certain products in the controller group are sold together with built-in cloud services in negligible volumes.

1.9.8.4 Software

The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. Recently, as part of the expansion of the Company's product portfolio, the Company developed an integrative environment designed to enable these tools to also be used to program and configure the Motion solutions marketed by the Company in a simple and easy manner, which can simplify the integration process thereby preventing the need to be familiar with and to use the other software tools used by the customers up till now. The Company's main software programs of this type the UniLogic® software which serves PLCs from the UniStream® series only, as well as the U90™ and VisiLogic® software of the Company which serve the other PLC series of the Company. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and both the PLC tasks with respect to the system components in the machine or equipment that the PLC is supposed to control as well as both the motion characteristics of the Motion elements.

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.

1.9.8.5 Trends and changes

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

The Company offers MOTION controllers with an emphasis on added value which is reflected by the simplicity of programming using the UniLogic® software of the Company and the complete integration of all the automation components offered by the Company.

In 2021, the Company launched a new integrative cloud service platform called UniCloud. The platform is designed to enable any customer to connect the controllers of the Company (even the controllers of other companies) to a computer-based cloud environment infrastructure, transfer data securely and create business dashboards (BI).

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

1.9.8.6 Services

Services of the company in the Products segment comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services locally and abroad for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the use of the products and/or troubleshooting. Calls to the support team usually originate from the Company's distributors (see section 1.9.11 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.

The cloud service of the Company is a new model (SaaS) for selling services to the customers of the Company, see expansion in section 1.9.8.4.

1.9.9 Revenue breakdown and profitability of products and services

The various series of the Company's major products contribute to the Company's profitability in a manner which shows no material difference between each series.

Below is the segmentation of revenues from a group of similar products, the rate of which constitutes 10% or more of the company's total revenues for the years 2020, 2021 and 2022:

	Revenues (NIS thousands)			Percentage of total revenues		
	2022	2021	2020	2022	2021	2020
PLC's and expansion units	144,673	141,893	123,074	93%	97%	98%

Product	Revenues (NIS thousands)			% out of total revenues		
	2022	2021	2020	2022	2021	2020
Plc's and expansion units	93%	97%	98%	144,673	141,893	123,074

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		
	2022	2021	2020
	NIS thousands		
Revenues (amount and percentage of consolidated revenues)	155,520 (100%)	147,018 (100%)	126,160 (100%)
Gross profit (amount and percentage)	72,086 (46.4 %)	67,083 (45.6%)	55,038 (43.6%)

1.9.10 New products

In 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[3]. These products, which are in

[3] The information with regard to the performance that are not within the Company's existing product range is forward-looking information. The main data serving as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in sections 1.7 and 1.9.4 above, the analysis of market requirements and customer preferences, as expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's

various stages of development (some of them in the initial stages and others in more advanced stages, about to be launched on the market) are planned to include additional products that will allow for the expansion of the product line and were intended to present the Company with new opportunities.

During the year 2022, among other things, the Company launched new expansions and capabilities for the controllers and Motion products of the Company as well as the UniCloud services. These advanced capabilities are designate to permit a wider use of the products of the Company in new markets as well as to further simplify the integration between the controllers of the Company and the other products and services offered thereby.

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 1.9.15 below.

1.9.11 Customers

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

1.9.11.1 During the reporting period, the Company did not have a customer the income to the Company of which accounted for 10% or more of the income of the Company in accordance with the 2022 consolidated financial statements - Chapter C of this Periodic Report.

1.9.11.2 To the best knowledge of the Company, the customers of the Company, mainly distributors, differ in their geographical location, and the Company is not aware of any other fixed characteristics which characterize the customers of the Company. For a breakdown of the revenues of the Company by geographic regions, see Note 24 to the consolidated financial statements - Chapter C of the Periodic Report.

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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.

1.9.12 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing and sales network, through Unitronics GMBH, as well as through Unitronics Inc. as well as a chain of distributors comprising of approximately 190 distributors (of which approximately 110 are in the United States and North America and the balance in approximately seventy countries (including Israel) primarily throughout Europe, Asia and South America. In addition, in the United States and Italy only, the Company uses independent sales representatives to assist in representing the Company's products and services with the distributors and end customers in these countries.

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

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

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

The Company's distributors may not return products. Under the products' warranty, non-functioning products during the warranty period are either repaired or replaced. It should be noted that in actuality, the quantity of the replaced products is not material (for details on revenue recognition, see Note 2 section O) to the 2022 consolidated financial statements– Chapter C of this Periodic Report).

The Company does not have a material distribution agreement and/or dependence on any distributor.

1.9.12.3 Independent sales representatives (hereinafter: the "**Reps**"): The Company has agreements with the Reps in Italy and the United States only. These agreements generally grant the Reps exclusive rights in defined territories only in the United States for 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 agreements with the Reps in Italy are subject to Italian law.

The Company pays commissions to the representatives depending on actual sales made to distributors and end customers in the territory in which the reps have an exclusive agreement.

The Company has no dependence on any of the representatives.

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

1.9.13 Order backlog

In general, the order backlog of the Products Department is in line with the nature of activity in this market, based mainly on stock and off-shelf purchases from distributors and therefore orders are usually accepted for immediate delivery rather than an order backlog. However, during the year, due to the global shortage of components and the prolongation of delivery times in the controller market by all market players, many customers also started placing orders with a more distant outlook of several months in advance.

Expected revenue recognition period	Product order backlog as of March 1, 2023 (closest possible date to the date of this report)	Product order backlog as of December 31, 2022	Product order backlog as of December 31, 2021
	NIS in thousands		
Q1 2022	-	-	26,600
Q2 2022	-	-	4,935
Q3 2022	-	-	2,840
Q4 2022	-	-	2,428
For 2023	-	-	253
Q1 2023	18,760	39,150	-
Q2 2023	40,250	35,733	-
Q3 2023	31,240	7,081	-
Q4 2023	4,021	2,783	-
For 2024	73	37	-
Total	**94,344**	**84,784**	**37,056**

Differences in the reported order backlog for various periods derives from the lengthening of delivery times which cause the customers to order the products with a longer delivery window time, on the one hand, and from receipt of new orders, mainly from large direct customers, on the other hand, all within the ordinary course of the Company’s business. The backlog mix is composed mainly (over 95%) of controllers; however, the 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 use of various customers and the requirements of different markets that usually dictate this pace[4].

[4] 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.

1.9.14 Competition

To the best knowledge of the Company, the controller market is characterized by high concentration wherein the majority of the global market is held by a low number of main players and in addition there are many 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, ABB and GE Intelligent Platforms.

B. Large multinationals dealing primarily in PLCs. Companies included in this group: 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 falls into this category. The Company knows of no other Israeli companies in this category.

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

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

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

1.9.15 Production capacity

The Company manufactures its products primarily through subcontractors. Subcontractors are responsible for placing the electronic components on printed circuits, injection of cases and plastic parts and sub-assemblies such as keyboards. 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 designated to permit growth and flexibility in light of the high production capacity of the current 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.

1.9.16 Research and development

For additional details, see section 1.9.10 above.

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

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS thousands		
Payroll and benefits	8,594	8,000	7,466
Subcontractors	2,704	3,335	3,594
Other expenses	1,564	1,444	1,388
Less capitalized expenses recognized as an intangible asset	(9,426)	(8,635)	(9,060)
Total	**3,436**	**4,144**	**3,388**

Overall, the Company expended approximately NIS 12,862 thousand during the reported period (of which NIS 9,426 thousand was recognized as intangible assets) for the development of products and technologies, as specified in section 1.9.10 above.

From 1992 to 2003, the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the "**Chief Scientist**") participated in the funding of the Company's R&D programs under the Encouragement of Industrial Research and Development Law, 1984 (hereinafter: the "**R&D Law**").Subject to the support received for the financing of the Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying royalties to the Chief

Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist's assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate); receiving approvals regarding changes in holdings and controlling means in the Company; refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas. Total grants approved for the Company based on the R&D programs amounted to USD 583 thousand in respect of which the Company paid to the Chief Scientist up to December 31, 2022, a total of approximately USD 160 thousand. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2022, totaled approximately NIS 120 thousand, attributable to programs in respect of which, in management's estimation, royalties are likely to be paid. As of the date of this report, the Company is in compliance with its obligations to the Chief Scientist.

In accordance with the plans of the Company, the expected amounts to be invested in research and development in 2023 are estimated at approximately NIS 13 million.

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

For details of the Company's investment in its intellectual property, see Note 9 to the 2022 consolidated financial statements - Chapter C of this Periodic Report.

1.9.18 Raw materials, suppliers and subcontractors

1.9.18.1 Each of the company's products consists of tens to hundreds of 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 even though they may be purchased from several manufacturers, their replacement by new manufacturer is liable to cause delays of several weeks resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs. For particular products, where the replacement of a supplier may lead to a longer delay, backup stocks with a 3-4 month supply are maintained, whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement, the purchase quantities for these stocks being financially immaterial.

The Company is dependent on several manufacturers which specialize in the production and supply of unique items, including processors and communication components which can be purchased from suppliers in or outside Israel, primarily, Infineon, Texas Instruments, Freescale, Epson, NXP, Nexperia, ST Microelectronics. Even though these are standard components (off-shelf) for which substitutes from other manufacturers can be found, their replacement may involve structural and functional changes as well as various software and hardware adjustments which could cause delays and customization costs. This is a small number of components and the volume of the purchases of each component in 2022 was not material. To reduce the dependency on these components, the Company enters into annual order arrangements and in a few cases, into minimum stock retention agreements, with several different suppliers, in order to ensure availability and regular supply of these components.

1.9.18.2 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.

The global shortage of electronic components continued in 2022and was reflected by a limited supply, longer delivery times and an increase in the price of electronic components. In cases where a potential for a future shortage of a certain component was identified, the Company prepared itself by stocking up on components in advance. The Company expanded its procurement channels, worked directly with the component manufacturers, and concurrent therewith the Company searched for alternate components while performing the required engineering tests and adjustments to the products. As part of the actions taken by the Company to deal with the challenges posed by the aforesaid lack of electronic components, inventory levels were increased in response to the decrease in the availability of electronic components on the one hand and the increase in the backlog of orders on the other hand.

1.9.18.3 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 even obligated, 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.

1.9.18.4 The Company is party to a non-exclusive agreement dated September 12, 2018 with a manufacturing contractor for printed circuits which is also a provider of components and other services to the Company (hereinafter: the "**Circuit Supplier**"), which as of May 2018, FIMI, the controlling shareholder in the Company, is also a controller of this supplier. The Company has been connected with the circuit supplier for a period of over ten years prior until the acquisition of control over this supplier by FIMI. Due to developments in the printed circuit market and due to changes in the Company needs in this area, the Company has examined possible engagements with additional circuit suppliers and/or the possibility of expanding the existing relations with the circuit supplier and all this – prior to the control acquisition in the supplier by FIMI. Once FIMI has acquired control over the said supplier, the relations with the suppliers have been reviewed again and in August 2018, the Audit Committee and the Board of Directors approved the existing engagement with the circuit supplier as well as its expansion. The Board of Directors' approval to the engagement with the said supplier was received following the Audit Committee's approval which determined, having examined the data presented to it, including the terms of the engagement, its annual financial volume, and the competence terms and other service offers of other service providers which had been examined by the Company for this purpose, that the existing engagement and the expansion of the engagement with the circuit suppliers are not considered extraordinary transactions in which the controlling shareholder has personal interest but that they are non-negligible transaction and as such require the approval of the Audit Committee and Company Board of Directors, whose approval was received following the said deliberations. The Audit Committee further determined that given the circumstances a competitive procedure is not required and the review and selection process company carried out on the competence terms and proposals of other service providers constitutes a sufficient "other procedure", in line with the provisions of Section 117(1b) to the Companies Law. To the best of the Company's knowledge, in 2019, the supplier of the circuits completed the purchase of a company that was also a supplier to the Company of printed circuits (hereinafter: the "Subsidiary of the Supplier of the Circuits") for years prior to its acquisition by the supplier of the circuits. In March 2020, the Audit Committee and the Board of Directors of the Company examined and ratified the agreement between the Company and the Subsidiary of the Supplier of the Circuits in a similar procedure and for similar reasons to approve the agreement with the aforesaid supplier of the circuits, as a non-extraordinary transaction and a non-material transaction in which the controlling shareholder has a personal interest.

The terms of the agreement with the supplier of the circuits and the Subsidiary of the supplier of the circuits includes the placement and assembly services of printed circuits and electronic components, provided by the Company, into completed cards and in some cases testing and packaging of the cards, in accordance with the detailed instructions of the Company, and under the supervision of the Company, and in accordance with detailed purchase orders based on periodic forecasts relayed to the manufacturing contractor which are updated regularly. These suppliers provide a warranty on their work, insures their obligations under the Agreement, while the related intellectual property rights connected with the product are retained by the Company. Payment for the products is based on fixed amounts dependent on the volume of the ordered work and paid on a +65 day basis. Under the agreement with theses suppliers the Company sells certain raw materials to these suppliers for the purpose of manufacturing for the Company. The term of agreement is 12 months and the agreement is automatically renewed unless any of parties gives advance notice of termination to the other party. The Company's purchases from the supplier of the circuits and the subsidiary of the supplier of the circuits in 2022 and in 2021 amounted to NIS 7,298 thousand and NIS 7,115 thousand, respectively, constituting approximately 4.7% and approximately 4.8% of the annual sales turnover of the Company. The Company is not dependent on the supplier of the circuits and the subsidiary of the supplier of the circuits and can also work with other suppliers as well as switch from supplier to supplier without difficulty or significant cost differences, even though the Company estimates that this would not necessarily be in the best interests of the Company.

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

1.9.19 Working capital

1.9.19.1 Total working capital

The Company's working capital as of December 31, 2022 amounted to approximately NIS 34,985 thousand (current assets of approximately NIS 93,135 thousand net of current liabilities of approximately NIS 58,150 thousand).

1.9.19.2 Inventory

It is the policy of the Company to hold an ongoing inventory of 30-150 days of components and raw materials in accordance with forecast requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 30-60 days. The Company's policy is generally to hold a finished products inventory based on actual orders or internal forecasts regularly made and updated by the Company. However, and as necessary, the Company may deviate from this policy, mainly when preparing for extraordinary events or in response to the behavior of raw materials markets in the world.

In 2022, in light of the extension of the global shortage of electronic components, the Company chose to produce products in accordance with actual orders only, in order to optimally utilize the inventory of components and raw materials at its disposal. In 2022, the value of the inventory of components held by the Company increased mainly due to the increase in the level of the inventory intended on ensuring the availability of components due to uncertainties in the market as well as in light of the continued increase in the price of components and raw materials.

The Company continuously examines the trends in the electronic components market in order to adjust the inventory levels to the uncertainties in the market. 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 management in order to make the Company products more accessible to the distributors and customers.

1.9.20 The environment, the 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. 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 the Treatment of Packaging Waste Law and the Law for Environmental Protection for the Environmental Treatment of Electronic Equipment).

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

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

1.9.21 Standards and quality control

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

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

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

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

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

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

The United States Securities and Exchange Commission regulations regarding "conflict minerals," which are designed to reduce the violation of human rights, require public companies listed on American stock exchanges to report the use of certain metals. These regulations are not directly applicable to the Company, however, they might be applicable to some of its customers, and therefore the Company is following developments in this matter.

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[5].

1.9.22 Business objectives and strategy

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

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

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

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

[5] 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.

1.9.23 Development forecast for the coming year

The Company has shown continuous growth in revenue during the past few years, except in 2020 during which the activity of the Company was affected, mainly in the second quarter, due to the effects of the outbreak of the Corona virus. In order to continue the growth trend, the Company will be required to continue to invest material amounts in R&D and marketing, so as to be able to offer existing and prospective customers competitive and efficient products, designed to provide a suitable response to their demands compared to those offered by its competitors. However, there is no assurance that investment of the aforesaid amounts in development and marketing will increase or maintain the Company's current pace of sales.

1.10 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 1.19.1 below). Below are data on the Company's revenues from the activity of Unitronics Management for the indicated periods:

	For the year ended December 31		
	2022	**2021**	**2020**
	NIS in thousands		
Revenues from Unitronics Management operations	452	413	379

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

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

Below are details of the main fixed assets, facilities and real estate used by the Company.

1.11.1 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 (hereinafter: the "**Company's Floors**"), 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 B**uilding"). 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**").

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

1.11.2 Unitronics Building– lease from the controlling shareholder: In addition to the Company floors, which are used in their entirety by the Company, the Company leases from the lessor space on the private floors, based on its variable needs from time to time, at the same terms under which space is leased on the private floors to third parties, which also reflect lease terms prevailing at Airport City in general. As at the date of this report, and in accordance with an agreement which was approved in the General Meeting of the Company's Shareholders dated July 15, 2018, the Company leases 1,022 sq.m as of January 1, 2018, as well as 30 parking spaces for a lease period that ends on August 1, 2021, subject to the Company's right to adjust the required leased space to its needs from time to time, under the same terms (providing the leased space will not exceed 1,022 sq.m) and also to end the lease at any time with prior notice of three months, all according to the decision of the Company's Audit Committee. Under the terms of the lease agreement, the rent is set at NIS 75 per sq.m per month, a monthly total of NIS 76,650, linked to the CPI of June 2009 and a monthly total of NIS 104 thousand including management fees, parking spaces and linkage to abovementioned CPI differentials. For details on past space leased by the Company at the Unitronics Building and on lease terms under previous agreements, see Report on the Convening of a General Meeting of the Company's Shareholders which was published on May 30, 2018 (Reference No. 2018-01-053395), included herein by reference and also see section 4.8.1 in Chapter D of this Periodic Report. On May 6, 2021 and May 12, 2021, the Audit Committee and the Board of Directors of the Company decided, respectively, to extend, under the same terms, for an additional period of three years until August 1, 2024, the validity of the current transaction under Regulation 1 (1) of the Companies Regulations (Relief in Transactions with Interested Parties, 2000 as a transaction which extends a current transaction and determined that there was no real change in the terms of the additional transaction and in the other circumstances relevant to the matter compared to the current transaction. For further details, see section 4.7.3 in Chapter D below.

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

1.11.4 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 May 31, 2025 with an annual rental fee between USD 57 thousand in the first lease year, up to USD 61 thousand in the third lease year.

1.11.5 Insurance

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

1.12 Geographical regions

For revenue data of the Company by geographic areas, see Note 24 to the 2022 consolidated financial statements – Chapter C of this Periodic Report.

Below is the sum of the non-current assets as of 12.31.2022 and as of 12.31.2021 according to their value in the company's consolidated financial statements, divided into geographic areas, according to the location of the assets (amounts in thousands of NIS):

Geographical regions	31.12.2022	31.12.2021
Israel	58,417	59,106
Usa	1,071	361
Total	**59,488**	**59,467**

Below is the sum of the non-current assets as of 31 December, 2022 and as of 31 December, 2021 according to their value in the company's consolidated financial statements, divided into geographic areas, according to the location of the assets (amounts in thousands NIS):

Geographic area	31 December 2022	31 December 2021
Israel	58,417	59,106
USA	1,071	361
Total	**59,488**	**59,467**

1.13 Intangible assets

1.13.1 General:

The intangible assets of the Company mainly include investments in product development as well as patents and software licenses.

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 Investment in development costs

The Company regularly invests in upgrading its products and developing new products, in order to maintain its comparative advantage in marketing technologically advanced products, and capitalizes development costs (mainly labor and subcontractor wages) subject to compliance with accounting rules.

The depreciation period of development assets is 5-7 years.

Below is a breakdown of the investment development costs as of December 31, 2022:

Subject	NIS
Cost	142,558
Accumulated amortization	(100,514)
Development assets, net	**42,044**

The development asset consists of costs attributed to the development projects of the products of the Company. As of December 31, 2022, the development asset, net, mainly refers to development projects of the Unistream series controllers, motion solutions (Motion) and Unicloud services.

1.13.3 Patents and patent applications

The Company has a registered patent relating to the IO unit’s connection.

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

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

1.13.4 Trademark registration

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

1.13.5 Internet domain names

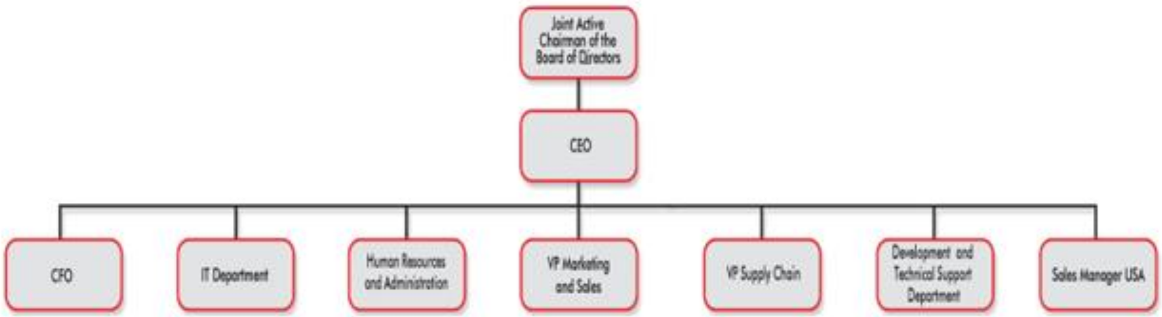
The Company has acquired rights to use domain names (including domain names with various country TLDs) in which it presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communicating with existing and potential customers.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

1.13.6 For further details on the Company's investments in its intellectual property, see Note 9 to the 2022 consolidated financial statements– Chapter C of this Periodic Report.

1.14 **<u>Human resources</u>**

1.14.1 Organizational structure

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



1.14.2 <u>Company staff and composition</u>:

As of December 31, 2022, the Company employed approximately 148 employees, of which approximately 7 employees are employed by the Company and also provide services to Utron, In addition, approximately 6 employees employed by Utron provide services to the Company. For details see section 1.14.6 in this report below.

The breakdown of employees of the Company and its subsidiaries in Israel by occupation on the relevant dates, as of the report date, is as follows:

Occupation	**Staff headcount as of**	
	December 31, 2022	**December 31, 2021**
Marketing, Sales and Technical Support	45	42
Development	25	25
Finance, Human Resources and Administration	16	15
Manufacturing, Logistics and Quality Assurance	57	57
Information systems and Integration	5	3
Total	**148**	**142**

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

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

Employee options plan

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

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

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

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

For details regarding plans for granting options to employees, grants which in practice were implemented as well as with regard to the exercise of options performed during the reporting period, see Note 15 to the 2022 consolidated financial statements in Chapter C below.

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) are for an unlimited period, with each party entitled to terminate the agreement by prior notice. Senior officers of the Company are also insured under a directors and officers professional liability insurance policy.

In addition, on May 17, 2022, following receipt of the approval of the Balance Sheet, Compensation and Audit Committee, the Company's Board of Directors and the Special General Meeting of the Shareholders of the Company, the Company ratified its Compensation Policy for its officers, which pursuant to the provisions of section 267A (d) of the Companies Law, shall be valid for three years from the date of its approval by the General Meeting of the Company. For details of the Company's Compensation Policy, see section 4.7.2 in Chapter D below. For details of the employment terms of the senior officers in the Company, see section 4.7 in Chapter D of this Periodic Report.

1.14.5 <u>The Company's investment in training and instruction</u>

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

1.14.6 <u>Service arrangements between the Company and Utron</u>:

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

Following a number of personnel changes in the Company and in Utron, the parties reached an agreement regarding the reduction of certain services and payments provided under those service agreements and the amendment resulting therefrom in the aforesaid agreements, which were approved by the Audit Committee and the Company as a transaction which does not require the approval of a General meeting since it is only of benefit to the Company, and all in accordance with Article 1 (2) of the Companies Regulations (Easements on Transactions with Interested Parties), 2000. Furthermore, on August 3, 2021, Utron advised the Company that it requests to terminate within 90 days the agreement with regard to the services of a CFO which Utron receives from the Company in accordance with the service agreements. In light of the above, the agreement for the services of a CFO provided by the Company to Utron ended on October 31, 2021[6]. For further details, see section 4.8.6 of Chapter D of this Periodic Report.

[6] It should be clarified that in accordance with the service agreements between the Company and Utron, if a specific service is terminated in accordance with the service agreements, the consideration for the provision of the services will be reduced in accordance with the cost of the terminated service. Therefore, the termination of a specific service can be a termination of all or part of the service.

1.15 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, 2022			As of December 31, 2021		
	Credit amount, NIS thousands	Interest rate	Effective interest rate	Credit amount, NIS thousands	Interest rate	Effective interest rate
Long-term bank credit (EUR) (1)	782	4.64%	4.64%	1,026	LIBOR+ 3.41%	LIBOR+ 3.41%
Long-term bank credit (NIS) (2)	2,500	5.69%	5.69%	4,500	2.54%	2.54%
Long-term bank credit (EUR) (3)	-	-	-	836	2.58%	2.58%

(1) On July 6, 2011, the Company took a loan in the amount of EUR 1 million in connection with the purchase of real estate in Tirat Yehuda in the Modi'in District Industrial area which was sold in 2014. On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by way of charge to Bank Leumi, as security for the loans from Bank Leumi (which were provided to the Company in 2011). Further thereto, in January 2015 pledges on the rights of the Company in the Unitronics Building were recorded in the Land Registration Bureau to secure the aforesaid loan. Under the terms of the loans, the loans are repayable over 14 years, with the addition of interest at LIBOR + 3.41%. Following the reform of the LIBOR interest rates (under which the LIBOR interest rates will cease to be published and will be replaced by new base interest rates as of January 1, 2022), a variable interest rate of 4.64% was determined for the loan as of December 31, 2022.

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

On September 24, 2020, the Company repaid the Second Loan from a banking corporation under early repayment in the amount of NIS 20 million, the original repayment date of which was on February 28, 2021, without penalty in respect of the early repayment. As part of the early repayment of the aforesaid loan, it was agreed between the Company and the banking corporation to release of a deposit which was pledged in favor of the banking corporation in the amount of NIS 5 million.

For further details of the above, see the Immediate Report of the Company dated September 29, 2020, Reference No. 2020-01-105510, the information of which is included herein by way of reference.

(3) On March 9, 2020, the Company took a loan from a banking corporation in the amount of € 1.9 million, for a period of 24 months, payable in 24 monthly payments, bearing

a fixed interest rate of 2.58% per year. In March 2020, a mortgage was registered at the Land Registry Office on rights of the Company in Unitronics House to secure the aforesaid loan. During the reporting period, the loan was repaid in full in accordance with the terms of the loan, and the aforesaid pledge was also removed.

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

Subsequent to the balance sheet date, confirmation was received from the banking corporation of the cancellation of the undertaking of the Company to the banking corporation to comply with the financial covenants and the requirement to obtain the consent of the banking corporation for the distribution of a dividend to the shareholders.

1.16 Taxation

For details on the tax laws applying to the Company and its subsidiaries, see Note 23 to the Company's 2022 consolidated financial statements– Chapter C of this Periodic Report.

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

1.16.1 The tax rates applicable to the Company

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

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

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

The corporate tax rate in Israel as ofstarting from January 1, 2018, onwards is 23%.

1.16.2 The Company has tax assessments which are considered to be final up to 2017.

1.16.3 Approved enterprise/beneficiary enterprise

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

On November 15, 2021, Amendment 74 to the Encouragement of Capital Investment Law was published within the framework of the Economic Efficiency Law (Legislative Amendments for Attaining Budgetary Objectives for 2021 and 2022), 2021 (hereinafter: the "**Amendment to the Law**"). As part of the Amendment to the Law, a temporary order was established (hereinafter: the "**Temporary Order**"), pursuant to which the Company can advise, within one year from the date of publication of the law, of its desire to pay reduced tax on its exempt income accrued up to December 31, 2020, prior to the distribution of a dividend, in whole or in part (selected accrued income), subject to the fulfillment of a number of terms specified in the amendment to the law. The corporate tax to be paid by the Company shall be at the corporate tax rate which would have applied to that income under the provisions of the law in the year in which it was generated if it had not been exempt from corporate tax in that year, multiplied by the "tax coefficient" (which is in fact the discount rate in the tax liability), but not less than 6%. In accordance with the amendment to the law, the larger the portion of the accrued income to which a company requests to apply the provisions of the amendment to the law, the larger the tax benefits it will receive. Following the payment of the reduced tax, the company will be entitled to distribute a dividend in the amount of the aforesaid income without paying additional corporation tax. A company which selects to pay the aforesaid reduced corporate tax shall be required to invest during a period of five years in one or more of the following industrial enterprises: production properties (excluding buildings), investment in research and development or payment of salaries to new employees to be added to the entity (relative to the number of employees employed in the entity at the end of the 2020 tax year). The required investment is as specified, which, as a rule, is calculated according to the amount of taxed income.

The Company decided not to apply for the Temporary Order.

In addition, in accordance with the amendment to the law, the company will be obligated to perform a pro rata distribution of its exempt profits (if and to the extent it is held thereby on the date of the distribution) in a distribution situation (as such term is defined in the law) in accordance with the provisions of the law and the determined terms. This provision is applicable from 15 August 2021.

The Company recorded tax expenses in 2021 and 2022 for dividends distributed following the application of the Amendment to the Law. The balance of the profits of an approved/beneficiary enterprise, which was not distributed and for which no obligation was recorded as of December 31, 2022, is approximately NIS 29.2 million. If a dividend is distributed from these profits, the Company will be taxed at the rate of 25% and the recipients of the dividend will be taxed at the rate of 15%.

1.16.4 On November 28, 2018, the Company received a tax decision from the Tax Authority in connection with the Utron Split, including the transfer of the shares of Utron Solutions from the Company to Utron. For details see Note 23 to the 2022 consolidated financial statements - Chapter C of this Periodic Report.

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

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

1.16.6 The subsidiary Unitronics GMBH is taxed in accordance with the tax laws in Germany, wherein the total tax rate applicable thereto is 31.825%.

1.17 Restrictions on and supervision of Company activities

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

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

1.17.2 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.

1.17.3 Standards: For details, see sections 1.9.20.

1.18 Material agreements and cooperation agreements

As of the report date the Company does not have material agreements.

1.19 Subsidiaries

1.19.1 Unitronics Building Management & Maintenance (2003) Ltd.

1.19.1.1 General Description

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

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

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

1.19.1.3 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.

1.19.1.4 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.

1.19.1.5 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.

1.19.1.6 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.

1.19.1.7 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.

1.19.1.8 Directors and senior officers in Unitronics Management

The directors of Unitronics Management are: Messrs. Haim Shani and Amit Ben Zvi, who also serve as Joint Chairmen of the Board of Directors of the Company.

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

1.19.1.9 Profit/(loss) of Unitronics Management

For information regarding profit (loss) of Unitronics Management, see the table in section 1.12.4 below.

1.19.2 **Unitronics Inc.**

1.19.2.1 General description

Unitronics Inc. was incorporated on June 25, 2001, as a wholly owned subsidiary of the Company. Unitronics Inc. is primarily engaged in the marketing and distribution of products from the Products segment of the Company and its service activities in the United States, and operates a network of more than 110 distributors spread primarily throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts (as stated in section 1.12.4 above), where most of the activities of the Company are carried out in the US.

1.19.2.2 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.

1.19.2.3 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.

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

The total equity of Unitronics Inc. as of December 31, 2022 amounts to approximately NIS 52 thousand. The current debit balance of Unitronics Inc.to the Company amounted to NIS 1.95 million as of December 31, 2022. In addition, the Company provided Unitronics Inc. with capital notes in a total of NIS 12 million, unlinked and with no interest.

1.19.2.5 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.

1.19.2.6 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.

1.19.2.7 Directors and senior officers in Unitronics Inc.

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

1.19.3 **Unitronics GMBH**

1.19.3.1 General Description

Unitronics GMBH was established by the Company in 2020 and began operations in October 2020. Unitronics GMBH is mainly engaged in the marketing and distribution activities of the Company in Europe.

1.19.3.2 Registered and issued capital, the Company's share

As of the date of this report, the registered capital of Unitronics GMBH is EUR 25,000, divided into 25,000 shares of EUR 1 par value each, all of which were issued to the Company and are held thereby.

1.19.3.3 The cost of the shares of Unitronics GMBH for the Company and the price at which they are listed in the books thereof

As of the date of this report, the cost to the Company of the shares of Unitronics GMBH which are held by the Company is EUR 25,000.

1.19.3.4 Holders of more than 25% of the capital

As of the date of this report, and since the establishment thereof, Unitronics GMBH has been wholly owned and controlled by the Company.

1.19.3.5 Management fees, interest, dividends, and other payments of Unitronics GMBH

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

1.19.3.6 Directors and senior officers of Unitronics GMBH

Mr. Amit Ben Zvi and Mr. Haim Shani serve on the Board of Directors of Unitronics GMBH.

1.20 Related companies

1.20.1 Utron, Utron Solutions and Systems.

1.20.1.1 General description

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

1.20.1.2 Registered and issued capital, the Company's share

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

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

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

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

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

As of December 31, 2018, the balance of the debt of Utron Solutions to the Company stands at NIS 121 million, classified as long term. In March 2019, the Company converted the debt to receipt on shares account. As part of an agreement from January 2019 which was made within the framework of the split, Utron has undertaken to step into the shoes of Systems for the execution of a certain project if Systems will not be able to execute the project, and compensate the customer for any damage and expense which Systems is responsible for, according to the agreement, and as long as Unitronics Systems has not violated the agreement. For details see sections 8.3.8 in the Split and Listing for Trading Prospectus dated February 28, 2019, which was published by the Company and Utron (Reference No. 2019-01-017856), included herein by reference. The balance of the debt to the Company after converting the receipts on account of the shares of Utron, Utron Solutions and Systems is a net amount of approximately NIS 2.9 million.

1.20.1.5 Holders of more than 25% of the share capital

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

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

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

1.20.1.7 **Profit (loss) before and after tax, dividend, management fees and interest income from subsidiaries and related companies.**

	Year ended December 31, 2022		
	Unitronics Management	Unitronics Inc.	Unitronics GMBH
	NIS thousands		
Profit (loss) before tax	129	4,540	129
Profit (loss) after tax	129	4,233	89
Dividend	-	-	-
Management fees	-	-	-
Interest Income	-	-	-

	Year ended December 31, 2021			Year ended December 31, 2020		
	Unitronics Management	Unitronics Inc.	Unitronics GMBH	Unitronics Management	Unitronics Inc.	Unitronics GMBH
	NIS thousands					
Profit (loss) before tax	151	1,089	100	24	445	4
Profit (loss) after tax	151	894	68	24	445	4
Dividend	-	-	-	-	-	
Management fees	-	-	-	-	-	
Interest Income	-	-	-	-	-	

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

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

The following are risk factors affecting the Company, and management's assessment as to the extent of their influence on its business:

Type of risk	**Nature of risk**	**Estimated extent of influence on the Company**
Macro risks	*Exposure to market risks*: The Company is exposed to fluctuations in interest rates, in exchange rates and in the consumer price index. For details see also Note 26 to the 2022 consolidated financial statements– Chapter C of this Periodic Report.	Medium
	Exposure to strikes in Israeli ports: Strikes in Israel's seaports and/or airports could delay the import of raw materials used by the Company 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
	Impact of the Corona virus: The Company is exposed to the influence of local and global macroeconomic effects and risks associated with the outbreak of the Corona virus, which may affect its ability to purchase raw materials and products, their prices, their conveyance and the ability thereof to regularly produce, sell and ship products. In addition, the Company is exposed to a decline in demand for its products, an impact on sales volume and the strength of its customers. Failure to eradicate the Corona virus and the continuation or exacerbation of measures taken by the authorities and the countries may adversely affect the Company's business activities, including, inter alia, the possible lack of human resources due to absenteeism, lengthening of project times, delays in projects performed by the Company caused by damage to third parties, a slowdown in customer activity, restrictions on travel abroad of employees and managers of the Company and instability in global markets.	Low
	Competition: The Company is exposed to competition from entities whose resources and reputation surpass those of the Company as set forth in section 1.9.13.	High
	Standards: The Company is exposed to risks arising from the failure of its products or services to comply with certain standard requirements as set forth in sections 1.9.19 and 1.9.20 above.	Medium
	Raw materials: In general, the Company is exposed to risks arising from temporary shortages in electronic components worldwide and limited allocations of components by component	Medium

Type of risk	Nature of risk	Estimated extent of influence on the Company
Sector-related risks of the Company	manufacturers, in cases of excess demand, as set forth in section 1.9.17 above. Furthermore, the Company is exposed to the effects and risks associated with the global shortage of electronic components. Since the end of 2020, there has been a worldwide shortage of electronic components, which is affecting the entire electronics industry, by extending the delivery times of electronic components essential for the production of the Company's products, and in accordance therewith, causing an extension in delivery times to the customers of the Company, and may result in deferral of revenues, see also section 1.7 above.	
	Development of new technologies and/or products: The Company is exposed to the risks involved in developing new products and/or technologies the successful development and/or the marketing of which is doubtful as specified in sections 1.9.4, 1.9.10 and 1.9.15 above.	Low
	Cyber threats – The operations of the Company involve interfaces to information systems and digital information of various types. Over the past few years there has been an increase in the frequency and severity of cyber incidents (including cybercrime). This trend is expected to continue in the future and even worsen, despite all the defense mechanisms employed in the prevention thereof. Cyber incidents may lead to unauthorized access, unauthorized exposure, abuse, disruption, deletion or modification of the information of the Company's and/or its customers', as well as disrupt the current activity, damage computing services, slow them down significantly and even disable information systems. The Company is exposed to risks emanating from the use of a large variety of IT systems and various communications components, when some of these systems include internet connection and/or internet cloud. The Company uses different means to protect these systems, starting with a firewall, through encryption devices and software/hardware protections intended to prevent hacking or malware disruptions. The use of such protections proved in the past to be reliable and effective, as a rule, and the systems implemented by the Company has not been adversely affected by malicious activity such that were described above. Nevertheless, there is no guarantee that these means and devices will continue to protect in the future against hacking and disruption attempts. In the event of damage to the Company as a result of the aforesaid cyber-attacks, the	Medium

Type of risk	Nature of risk	Estimated extent of influence on the Company
	Company may suffer negative consequences, such as disruption of the operations of the Company and/or its customers, disruption of the operation of the information systems of the Company or the shutdown thereof, the stealing of information from the Company and/or its customers, as well damage to the reputation of the Company which affects the trust of its customers. Furthermore, such damage caused by an act or failure of the Company may expose the group to lawsuits. In such cases, this may harm the business results of the Company.	
Unique risks of the Company	*Leverage*: The Company has commitments for the repayment of loans as specified in section 1.16 above. If the Company's assessments regarding its financial strength prove erroneous, there is a possibility, though unlikely, that the Company will be unable to comply with the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (*inter alia* for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite its financial strength, to comply with the loan repayment terms in the future.	Low
	Unregistered intellectual property: The Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks arising from the non-registration of those items of intellectual property in respect of which applications were filed and are pending (for details see section 1.13 above).	Low
	Low share prices and trading volumes: The volumes of trading in the Company's shares on the Tel Aviv Stock Exchange are generally low, a fact which adversely affects their marketability and could make it difficult for the Company to raise additional capital from the public, should it wish to do so.	Low

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

The Board of Directors of the Company is pleased to submit the Board of Directors' Report on the State of the Company's Affairs for the year ended December 31, 2022 (hereinafter: "the reporting period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Regulations"). The Board of Directors' report reviews the major changes in the Company's activities, which occurred during the period of the report up to the date of publication of the report. It is clarified that the description contained in the Board of Directors' report includes only information which, in the Company's opinion, constitutes material information and is made assuming that the reader has a description of the corporation's business as included in Chapter A of this periodic report.

2.1 Summarized Description of the Company and Its Business Environment

The Company is engaged in the design, development, production, marketing, sale and support of Programmable Logic Controllers (PLCs) (hereinafter: "**Controllers**") and other automation products, for further details see Note 1 to the 2022 consolidated financial statements - Chapter C of this Periodic Report.

2.2 The Corona crisis and its impact on the company's business operations

For details of the spread of the Corona virus and its effect on the Company, see section 1.7 in Chapter A of this Periodic Report.

2.3 The consequences of the global shortage of electronic components

For details of the consequences of the global shortage of electronic components and the impact thereof on the Company, see section 1.7 in Chapter A of this Periodic Report.

2.4 The effects of inflation and the increase in interest rates

Further to the aforesaid in section 1.21 (risk factors) in Chapter A (Description of the Business of the Company) of this Periodic Report, as of the date of the report, the Company is monitoring and examining the consequences that may arise as a result of the increase in the consumer price index and the interest rate in the market.

In this context, starting in 2021 there has been an increase in inflation rates in Israel and in the world. In 2022, the consumer price index in Israel increased by approximately 5.3% compared to an increase of 2.8% in the previous year. As a result of the global price increases, central banks in the world decided to raise interest rates in order to restrain price increases. Beginning in April 2022, the Bank of Israel decided to raise the interest rate in Israel, which as of the date of publication of the report is 4.25% compared to 0.1% at the beginning of 2022.

According to the forecast of the research division of the Bank of Israel, the inflation rate in the next four quarters ending in the fourth quarter of 2023 is expected to be 3% and in 2024 the inflation rate is expected to be 2%. Furthermore, in accordance with the forecast, monetary interest is expected to be 4% on average in the fourth quarter of 2023.

The Company has taken loans from banking corporations linked to the prime interest rate, and the Company also rents a building with rental prices linked to the consumer price index. The increase in the consumer price index as well as the increase in the prime interest rate did not materially affect the results of the Company. The Company estimates that the effect of the continued increase in the consumer price index as well as the increase in interest rates is not expected to significantly affect the results of its operations in light of the liabilities and cost structure of the Company.

The Company estimates regarding the effects of inflation and the increase in interest rates and the effect of these factors on the operations of the Company constitute forward-looking information, as such term is defined in the Securities Law, 1968, based, among other things, on the estimates of the Company, as of the date of publication of this report, in relation to factors beyond its control The estimated of the Company are based on information currently available to the Company, on publications on this subject and on the directives of the relevant authorities, which may not materialize, in whole or in part, and may materialize in a materially different manner, due to factors beyond the control of the Company.

2.5 Analysis of the financial situation

2.5.1 Statement of Financial Position

Subject	As of December 31		Board of Directors explanations of the main changes
	2022	2021	
	NIS thousands		
Current assets	93,135	84,268	An increase of approximately NIS 8.9 million in the total current assets as of December 31, 2022 is mainly due to an increase in inventory in the amount of approximately NIS 11 million (in view of the preparation of the Company for the global shortage of electronic components and the increase in the backlog of orders), an increase in customer balances in the amount of approximately NIS 12.5 million (in light of the increase in the scope of activity and sales in the fourth quarter of the reporting year in relation to the corresponding quarter in 2021) as well as an increase in receivable balances (mainly due to an increase in institutions and expenses in advance). The aforesaid increase was partially offset by a decrease in cash of approximately NIS 20.8 million mainly due to dividends paid during the reporting period.
Non-current assets	59,488	59,467	Non-material change
Total assets	**152,623**	**143,735**	

Subject	As of December 31		Board of Directors explanations of the changes
	2022	2021	
	NIS thousands		
Current liabilities	58,150	55,155	The increase in total current liabilities as of December 31, 2022 is due to an increase in the balance of suppliers and service providers of approximately NIS 9.3 million due to the increase in inventory levels and an increase in other payables balance of approximately NIS 3.4 million due to an increase in customer advances and the provision for tax on dividends distributed during the period. The increase in liabilities was partially offset by a dividend in the amount of NIS 10 million which was announced in December 2021, and paid during the reporting period.

Subject	As of December 31		Board of Directors explanations of the changes
	2022	2021	
	NIS thousands		
Non-current liabilities	17,840	17,451	An increase in the balance of non-current liabilities as of December 31, 2022 of approximately NIS 0.4 million was mainly due to an increase in the liability for option warrants of approximately NIS 3.4 million as a result of the fair value revaluation thereof (see section 2.8 below), which was offset by a decrease in the balance of long-term loans for in the amount of approximately NIS 2.3 million (current repayment of loans) and due to a decrease in long-term lease liabilities of approximately NIS 0.7 million.
Equity attributable to shareholders of the Company	76,633	71,129	An increase in the equity of the Company as of December 31, 2022 in the amount of approximately NIS 5.5 million, which is mainly due to an increase in equity in light of the profit for the period in the amount of approximately NIS 18.9 million as well as an increase in capital deriving from the conversion differences of subsidiaries abroad, and on the other hand, a decrease in equity following the distribution of a dividend in the reporting year in the amount of NIS 15 million (for further details, see section 1.5 in Chapter A of this Periodic Report).
Total liabilities and equity	**152,623**	**143,735**	

The working capital of the Company at December 31, 2022 and December 31, 2021 was approximately NIS 34,985 thousand and approximately NIS 29,113 thousand, respectively.

2.5.2 **Operating results**

Subject	For the year ended December 31			**Board of Directors explanations of the main changes in 2022 versus 2021**
	2022	**2021**	**2020**	
	USD thousands			
Revenues	155,520	147,018	126,160	The income of the Company increased by approximately NIS 8.5 million as a result of the increase in demand and sales of the Company's products, mainly in the focus countries of the Company.
Cost of revenues	83,434	79,935	71,122	
Gross profit (Gross profit margin)	72,086 (46.4%)	67,083 (45.6%)	55,038 (43.6%)	The gross profit increased in the amount of approximately NIS 5 million while improving the gross profit relative to the income. The improvement in the rate of the gross profit is mainly due to the fixed expenses, as the percentage income of which declined with the increase in the volume of activity and sales.
Development expenses	3,436	4,144	3,388	
Sales and marketing expenses	29,038	25,429	22,007	There was an increase in sales and marketing expenses mainly due to an increase in the sales team of the Company and an increase in marketing expenses following the reduction of these expenses during the Corona period.
General and administrative expenses	13,219	11,914	13,103	The increase in administrative and general expenses was mainly due to an increase in salary costs and overheads.
Other income	-	1,268	-	The other income in 2021 is attributed to the forgiveness of PPP loan in the United States (as specified in Note 12A (6) to the 2022 consolidated financial statements - Chapter C of this Periodic Report).
Operating income	26,393	26,864	16,540	
Finance income (expenses), net	(3,015)	(3,627)	285	The decrease in financing expenses, net, are attributed to financing income from exchange rate differences and foreign exchange hedging transactions amounting to approximately NIS 1 million (against the above expenses in 2021 in the amount of approximately NIS 1.3 million) and on the other hand, an increase in expenses for the option warrants (see section 2.8 below).
Profit before income taxes	23,378	23,237	16,825	
Income taxes	4,517	4,038	1,929	The increase in tax expenses is mainly due to an increase in tax expenses on the dividend.
Profit for the period from current operations	18,861	19,199	14,896	

2.6 Liquidity and financing resources

As of December 31, 2022, 2021, and 2020, the cash and cash equivalent balances of the Company amounted to approximately NIS 6,937 thousand, approximately NIS 27,728 thousand, and approximately NIS 24,159 thousand, respectively. For explanations of the changes in cash flows:

	For the year ended December 31			Board of Directors explanations of the changes
	2022	2021	2020	
	USD thousands			
Cash flow – operating activities	18,677	32,109	37,489	The cash flows in 2022 deriving from operating activities amounted to approximately NIS 18.7 million and derives from the profit of the operations of the Company which amounted to approximately NIS 18.9 million, net of the adjustments required to present the cash flow of current activities in the amount of NIS 0.2 million. These adjustments include a net increase in working capital items totaling approximately NIS 15.3 million (mainly due to an increase in inventory and customers), and on the other hand, income and expenses that do not involve cash flows in the amount of NIS 15.1 million (mainly depreciation, amortization and revaluation of option warrants).
Cash flow – investment activities	(10,504)	(7,314)	(3,164)	The cash flows used in investment activities during the reporting period amounted to approximately NIS 10.5 million, which was mainly used for investments in development properties as well as fixed assets.
Cash flow – financing activities	(29,784)	(20,606)	(26,153)	The cash flow used in financing activities during the reporting period amounted to approximately NIS 29.8 million, which was mainly used for the payment of a dividend which was announced at the end of 2021 and during the reporting period as well as for the current repayment of loans received from banks.

On December 31, 2022 and as of the date of this report, the total number of approved credit lines available to the Company for current operations amounted to approximately NIS 5,400 thousand which were not utilized. The Company applies from time to time to the financial institutions for credit lines in accordance with the needs thereof.

2.7 Events subsequent to the date of the balance sheet

2.7.1 On January 1, 2023, the Company announced that it had ceased to be a "small corporation", as such term is defined in the regulations. In accordance with Regulation 5e (c) of the regulations, the Company announced that it intends to continue to report in accordance with Regulation 5d of the regulations and to implement the reliefs given to "small corporations" (with the exception of the relief that permits publishing only half-yearly financial statements, which the Company intends to continue not to fulfill, and it intends to continue publishing quarterly financial reports as performed in the past) up to and including the Quarterly Report of the Company for the period ending on September 30, 2023. For further details, see the Immediate Report of the Company of January 1, 2023, reference number 2023-01-000381, the information of which is incorporated herein by way of reference.

2.8 Details required in accordance with Regulation 8B (9) of the Regulations

Identity of the subject of the assessment	Fair value the price adjustment mechanism of a warrant for a warrant
The timing of the assessment	December 31, 2022
The value of the valuation issue	NIS 9,357,542
Appraiser	Accountant Shai Fulbranis holds a B.A. in Economics with an Accounting Degree from Ben-Gurion University. He holds an Israeli accountancy license. Fulbranis CEO Barkat Ben-Yehuda since 2007.
Experience in carrying out valuations for accounting needs in reported corporations and on a scale similar to that of the reporting or exceeding valuation	Has extensive experience of 16 years in the field of valuations and economic consulting on similar or larger scale.
Company dependency	There is no dependency on the company.
Providing indemnity to the valuator	The Company undertakes to indemnify the Valuer in connection with any compensation, which exceeds three of the fees paid by the Company to the Valuer in respect of the Opinion, in which the Valuer must be valued to a third party and / or the Company in connection with the Opinion, including, in all The expenses that will be required for legal representation, including expert advice and opinion, will be transferred to the valuator within 30 days from the date of their valuation notification to the Company.
Evaluation model	Monte Carlo
The assumptions by which the assessor made the valuation	Unitronics Standard Deviation 26.72%, Utron Standard Deviation 24.87%, Riskless Interest Rate 3.61%, Lifetime 1.25 Years, Unitronics Base Property NIS 16.2, Utron Base Property NIS 7.73.
Impact on profit and loss	Financing expenses of NIS 3,336 thousand for the year ended December 31, 2022.

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

For details of the Company's liabilities by maturity dates, as of December 31, 2022, see Immediate Report T-126 published by the Company concurrently with the publication of this report, which is hereby incorporated by reference.

2.10 Corporate Governance Aspects

2.10.1 Details of the Company's Internal Auditor

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

b) CPA Daniel Shapira does not play any additional role in the Company beyond his term as Internal Auditor of the Company and provides internal audit services to the Company as an external entity through the firm of Daniel Shapira Accountants located in 7, Jabotinsky St., Ramat Gan, which specializes in internal audit, and has approximately 30 years of internal audit experience in public companies in a variety of areas of activity.

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

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

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

e)

	2022	**2021**
Hours spent on internal audit of the Company with respect to its operations in Israel.	120	120
Hours spent on internal audit of investee companies with respect to their operations in Israel.	-	-
Hours spent on internal audit of the Company and investee companies with respect to their operations overseas.	-	-

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

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

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

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

Issue	**2022 reports**	**2021 reports**
Report subjects	1. Transactions with related parties 2. Financial management	Inventory
Date of discussion by Audit Committee	March 22, 2023	March 21, 2022
Date of discussion by Board of Directors	March 27, 2023	March 28, 2022

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

(l) The internal auditor’s fee for services rendered for 2022 amounted to approximately 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.

2.10.2 **Directors with Accounting and Financial Skills**

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

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

2.10.3 **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.

2.10.4 **Donations policy**

The Company has no policy regarding charitable donations.

2.10.5 **Disclosure Regarding Fee of Independent Auditors**

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

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

Below are details of the total remuneration to which the Company's independent auditors are entitled in respect of audit and other services for companies and subsidiaries thereof in the reporting year and in the previous year:

Nature of service	2022 NIS thousands	2021 NIS thousands
Audit services, audit-related services, and tax services	324	285
Other services	45	-

2.11 <u>Disclosure Requirements in Connection with Financial Reporting</u>

2.11.1 **<u>Critical accounting estimates:</u>**

For details on the critical accounting estimates used in the financial statements, see Note 2 (Accounting Policy) to the 2022 consolidated financial statements – Chapter C of this Periodic Report.

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

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

March 27, 2023

UNITRONICS (1989) (R"G) LTD

Consolidated
Financial Statements
December 31, 2022

Unitronics (1989) (R"G) Ltd

Consolidated Financial Statements

December 31, 2022

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

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as of December 31, 2022 and 2021 and the consolidated statements of profit or loss, comprehensive Income (loss), changes in equity and cash flows for each of the three years ended December 31, 2022. These consolidated financial statements are in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021 and the results of operations, changes in equity and cash flows thereof for each of the three years ended December 31, 2022, in conformity with International Financial Reporting Standards (IFRS) and Israeli Securities Regulations (Annual Financial Statements), 2010.

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

Tel Aviv, March 27, 2023

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

	Note	December 31, 2022	December 31, 2021
		NIS thousands	
Current assets			
Cash	3	6,937	27,728
Trade receivables, net	4	32,379	19,869
Other receivables	5	5,828	2,137
Related companies		8,711	6,229
Inventories	6	39,280	28,305
		93,135	84,268
Non-current assets			
Right-of-use assets	7	14,920	15,810
Other deposits		129	116
Property and equipment, net	8	2,376	2,206
Intangible assets, net	9	42,063	41,335
		59,488	59,467
		152,623	143,735

Amit Ben Zvi and Haim Shani Joint Chairmen of the Board of Directors	Amit Harari CEO	Itzik Hai CFO

Date of approval of the financial statements: March 27, 2023

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

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

	Note	December 31, 2022	December 31, 2021
		NIS thousands	
Current liabilities			
Current maturities of loans from bank	10, 12	2,313	3,129
Trade payables		29,302	19,993
Related company		5,788	4,789
Lease liabilities	7	1,601	1,450
Dividend payable	16C	-	10,000
Other payables	11	19,146	15,794
		58,150	55,155
Non-current Liabilities			
Loans from bank	12	969	3,233
Employee benefit liabilities, net	13	1,653	1,929
Lease liabilities	7	1,179	1,842
Warrants for share options	26E	9,358	6,022
Deferred tax liability	23H	4,681	4,425
		17,840	17,451
Contingent liabilities, mortgages, guarantees and agreements	14		
Equity	15,16		
Share capital		428	428
Additional paid-in capital		63,936	63,877
Capital reserve with regard to conversion of financial statements of foreign activities		(2,085)	(3,260)
Capital reserve for share based payment		867	673
Treasury shares		(7,042)	(7,042)
Fund regarding a transaction with the controlling shareholder		104	104
Retained earnings		20,425	16,349
		76,633	71,129
		152,623	143,735

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

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

	Note	For the year ended December 31, 2022	2021	2020
		NIS thousands		
Revenues	24	155,520	147,018	126,160
Cost of revenues	17	83,434	79,935	71,122
Gross profit		72,086	67,083	55,038
Development expenses	18	3,436	4,144	3,388
Selling and marketing expenses	19	29,038	25,429	22,007
General and administrative expenses	20	13,219	11,914	13,103
Other income		-	1,268	-
Operating profit		26,393	26,864	16,540
Finance income	21A	963	-	1,847
Finance expenses	21B	3,978	3,627	1,562
Profit before income taxes		23,378	23,237	16,825
Income taxes	23J	4,517	4,038	1,929
Profit for period		18,861	19,199	14,896
Basic earnings (loss) per ordinary share of NIS 0.02 par value :	25			
Basic earnings per share in NIS		1.367	1.395	1.083
Diluted earnings per share in NIS		1.355	1.387	0.931

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,		
	2022	2021	2020
	NIS thousands		
Net income	18,861	19,199	14,896
Other comprehensive profit (loss) (net of taxes)			
Items that will not subsequently be reclassified to profit or loss:			
Remeasurement gain (losses) from defined benefit plans	215	(130)	234
Items that will be reclassified to profit or loss if certain conditions are met:			
Adjustments arising from translating financial statements of foreign operations	1,175	(296)	(528)
Other comprehensive profit (loss) for the year	1,390	(426)	(294)
Total comprehensive income for the year	20,251	18,773	14,602

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	Additional paid-in capital	Capital reserve from conversion of financial statements of foreign operations	Capital reserve from share based payments	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings	Total
	NIS thousands							
Balance at January 1, 2020	427	63,204	(2,436)	151	(7,042)	104	2,150	56,558
Net income	-	-	-	-	-	-	14,896	14,896
Other comprehensive income (loss) for the year	-	-	(528)	-	-	-	234	(294)
Total comprehensive income (loss) for the year	-		(528)		-	-	15,130	14,602
Stock-based compensation	-	-	-	417	-	-	-	417
Balance at December 31, 2020	427	63,204	(2,964)	568	(7,042)	104	17,280	71,577
Net income	-	-			-	-	19,199	19,199
Other comprehensive loss for the year	-	-	(296)	-	-	-	(130)	(426)
Total comprehensive income (loss) for the year	-	-	(296)	-	-	-	19,069	18,773
Stock-based compensation	-	-	-	242	-	-	-	242
Dividend distribution	-	-	-	-	-	-	(20,000)	(20,000)
Exercise of employee stock options	1	673	-	(137)	-	-	-	537
Balance at December 31, 2021	428	63,877	(3,260)	673	(7,042)	104	16,349	71,129
Profit for the year	-	-	-	-	-	-	18,861	18,861
Other comprehensive income for the year	-		1,175		-	-	215	1,390
Total comprehensive income for the year	-	-	1,175	-	-	-	19,076	20,251
Share-based payment cost	-	-	-	253	-	-	-	253
Dividend distribution	-	-	-	-	-	-	15,000	(15,000)
Exercise of employee stock options	*	59		59	-	-	-	-
Balance at December 31, 2022	428	63,936	(2,085)	867	(7,042)	104	20,425	76,333

(*) Lower than NIS 500

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,		
	2022	2021	2020
	NIS thousands		
Cash flows - operating activities			
Net income	18,861	19,199	14,896
Adjustments required to reconcile Net income to net cash provided by operating activities (Appendix A)	(184)	12,910	22,593
Net cash flows derived from operating activities	18,677	32,109	37,489
Cash flows - investment activities			
Purchase of property and equipment	(893)	(776)	(691)
Realization of short-term deposits in banks	-	2,252	1,589
Realization of restricted cash	-	-	307
Realization of restricted long-term deposit	-	175	4,788
Investment in right-of-use assets	(162)	(261)	(25)
Investment in intangible assets	(9,444)	(8,704)	(9,132)
Net cash flows used in investment activities	(10,504)	(7,314)	(3,164)
Cash flows - financing activities			
Repayment of long-term loans	(3,144)	(9,459)	(25,138)
Loans taken	-	-	12,455
Repayment of Debentures	-	-	(11,396)
Repayment of lease undertakings	(1,640)	(1,684)	(2,074)
Dividend distribution	(25,000)	(10,000)	-
Realization of employee options	-	537	-
Net cash used in financing activities	(29,784)	(20,606)	(26,153)
Effect of foreign exchange rate differences in respect of cash	820	(620)	397
Annual changes in cash and cash equivalents	(20,791)	3,569	8,569
Cash and cash equivalent balances at beginning of year	27,728	24,159	15,590
Cash and cash equivalents balances at end of year	6,937	27,728	24,159

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,		
	2022	2021	2020
	NIS thousands		
Appendix A			
Adjustments required to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	11,583	11,937	13,024
Stock-based compensation	253	242	417
Accrued severance pay, net	(29)	(3)	67
Revaluation of cash balances in foreign currency	(390)	494	(792)
Change in deferred taxes	224	(338)	136
Revaluation of deposits in banks	-	(1)	20
Revaluation of long-term loans and bonds	64	(322)	(98)
Forgiveness of PPP loan (Note 12 A 6)	-	(1,268)	-
Revaluation of other financial assets	19	38	(38)
Revaluation of warrants for share options	3,336	1,765	(1,847)
Accrued interest and revaluation in respect of leases	79	44	84
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	(11,176)	(3,188)	1,628
Decrease (increase) in accounts receivables	(3,548)	(823)	2,114
Decrease (increase) in inventory	(10,818)	(4,104)	11,291
Increase in related companies, net	(1,103)	(458)	(4,512)
Decrease (increase) in suppliers and service providers	9,263	4,038	(1,119)
Increase in accounts payable	2,059	4,857	2,218
	(184)	12,910	22,593
Appendix B - Supplemental disclosure of cash flows – current activities:			
Cash paid during the year for:			
Interest	246	336	1,178
Income taxes	2,262	2,072	2,162
Cash received during the year for:			
Interest	-	9	25
Appendix C – Non-cash transactions			
New lease agreements	1,009	3,793	147
Dividend declaration	-	10,000	-

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

Note 1 – General

A. Unitronics (1989) (R"G) Ltd. (hereinafter: the "Company") was incorporated in August 1989. In 1999, the Company became a public company and listed its shares for trading on the stock exchange in Brussels, Belgium. In 2004, the Company issued securities on the stock exchange in Tel Aviv. The address of the registered office of the Company is Arava 3, Airport City.

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

Until March 12, 2019, the Group operated in two main segments, the product segment and the automated solutions segment, and also held 100% of the capital and control rights of Utron Automated Solutions Ltd. (hereinafter: "Utron Solutions", formerly Unitronics Automated Solutions Ltd). As of March 12, 2019, the Company operates only in the product segment, and its operations in the automated solutions segment have been transferred to Utron Ltd. (hereinafter: "Utron), as part of the Spinoff in accordance with the Spinoff Prospectus and the listing for trading (hereinafter: the "Spinoff").

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

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

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

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

3. The Company holds 100% of the equity and control of Unitronics GMBH (hereinafter: "Unitronics GMBH"). Unitronics GMBH was established by the Company in 2020 and started its operations in October 2020. Unitronics GMBH deals primarily with the marketing and distribution activities of the Company's products in Europe.

D. Global shortage of electronic components

The Company is exposed to the effects and risks associated with the global shortage of electronic components. There has been a worldwide shortage of electronic components since the end of 2020 which affects the entire electronics industry. To the best of the company's knowledge of the Company, the shortage of electronic components is due to several reasons, including: a decrease in supply due to the Corona crisis, as a result of which many workers remained at home, which caused damage to the production lines; an increase in demand for electronic component-based products during the Corona crisis such as: smartphones, computers, monitors, routers and other electronic component-based products; and an increase in demand in the automotive industry, which began to stock up on a large amount of electronic chips, which was reflected by large-scale chip orders.

Following the increase in demand simultaneous with the decrease in supply, the delivery times for electronic components have become very long, sometimes reaching a year and even longer. The Company estimates that despite the noticeable relief in the availability of the components as of the date of the report, the current situation is expected to also continue at the beginning of 2023, wherein as of the date of publication of this report, there is no clear forecast for the end or moderation of the global shortage.

The Company anticipates that the extension of delivery times for electronic components may extend the delivery times of orders to the customers of the Company and in accordance therewith, defer revenue therefrom. However, the Company does not anticipate significant cancellations of orders as a result of the extension of delivery times for orders to the customers of the Company.

Note 2 – Accounting policies

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

A. Basis of presentation of the financial statements

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

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

Consolidated Financial Statements

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

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

B. Assumptions and estimates

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

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

Development costs

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

Deferred taxes

Assets (liabilities) in respect of deferred taxes are recognized in accordance with section K below. Calculation of deferred tax assets (liabilities) is based on assumptions, inter alia, of the dates of realization of the temporary differences and the tax rates expected to apply on the dates of realization. See Note 23.

C. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

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

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

Note -2 – Accounting policies (continued)

C. Functional currency, presentation currency and foreign currency (continued)

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

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

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

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

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

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

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

2. Foreign currency transactions, assets and liabilities

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

D. Financial Instruments

1. Financial Assets

A financial asset was recognized when the Company became a party to the contractual provisions of the instrument, while using the accounting on the clearing date of the transaction.

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

A. Financial assets at fair value through profit or loss

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

B. Reduced value debt instruments

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

Note -2 – Accounting policies (continued)

D. Financial Instruments (continued)

2. Financial liabilities

   A financial liability was recognized when the Company became a party to the contractual provisions of the instrument.

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

   A. Financial liabilities measured at amortized cost

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

   B. Financial liabilities at fair value through profit or loss

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

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

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

3. Disposal of financial instruments

   A. Financial assets

      A financial asset is discarded from the Statement of Financial Position on the date the transaction is cleared at which time the contractual rights to cash flows from the financial asset have expired or when the Company has transferred the financial asset. A transfer can only be performed by transferring the contractual rights to receive the cash flows from the financial asset or by undertaking a contractual obligation to pay the cash flows to the other party subject to compliance with certain terms.

   B. Financial liabilities

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

4. Impairment of financial assets

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

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

   At the end of each reporting period, the Company assesses whether an asset has been impaired due to credit risk, namely, if an event has occurred which has a detrimental effect on the future cash flows of the asset which is being assessed. The Company erases the total gross book value of a financial asset, in whole or in part, if the Company has no reasonable expectation of the asset being restored. There is no material effect on the financial statements in respect of forecasted credit losses.

Note -2 – Accounting policies (continued)

E. Trade receivables

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

F. Inventory

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

The cost of the inventory is determined as follows:

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

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

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

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

G. Operating turnover period

The Company's operating turnover period is one year.

H. Treasury shares

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

I. Leases

1. General:

The Company determines at the time of entering into the lease whether the agreement is a lease, or whether it includes a lease, by examining whether the agreement transfers the right to control the use of an identified property for a period of time for a consideration. The Company re-evaluates the fulfilment of the lease only when there is a change in the terms of the agreement.

The Company determines the period of the lease as a period during which the lease cannot be revoked, taking into account also the periods covered by extension (or cancellation) options of the lease period, when it is reasonably certain that the tenant will exercise (not exercise) the option in accordance with the provisions of International Financial Reporting Standard 16 with regard to leases (IFRS 16).

2. The Company as a leaseholder

On the date of commencement of the lease, the Company recognizes in the Statement of Financial Position the right of use of the property and lease obligation for all the leases, except for leases not exceeding 12 months and for leases in which the based property is of a lower value than the vale at the beginning of the life thereof, if it was recognized as an expense in the Statement of Income and was classified as cash flows from current operations in the Statement of Cash Flows.

At the start of the lease, the Company measured the lease liability at the current value of the lease payments which have not been paid at that date, discounted by the interest rate embodied in the lease, unless this rate is not easily determinable, then it was measured in accordance with the nominal additional interest rate of the Company on that date. Following the date of the commencement of the lease, the lease liability is measured by increasing the book value in order to reflect interest on the lease liability and reducing the book value in order to reflect the lease payments which have been made.

A user rights asset is measured at the start of the lease at cost, which consists of the initial measurement amount of the lease liability pus any lease payments made on or prior to that date (net of any lease incentives and any initial direct costs incurred). Following the date of the commencement of the lease, the Company measured the cost of the user rights in the property, net of depreciation and impairment losses.

Subsequent to the date of the start of the lease, the lease liability was measured by increasing the book value to reflect the interest on the lease liability; the amortization of the book value in order to reflect the lease payments

Note -2 – Accounting policies (continued)

I. Leases (Cont.)

which have been made; adjustments for the re-measurement of the lease liability;

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

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

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

J. Fixed assets

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

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

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

The useful life cycle of fixed assets is as follows:

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

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

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

K. Intangible assets

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

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

Software

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

Note -2 – Accounting policies (continued)

K. Intangible assets (Cont.)

Research and development

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

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

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

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

Amortization

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

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

L. Impairment of non-financial assets

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

Impairment losses are recognized in profit or loss.

Note -2 – Accounting policies (continued)

M. Taxes on income

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

1. Current taxes

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

2. Deferred taxes

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

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

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

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

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

N. Liabilities due to employee benefits

The Group has a number of types of employee benefits:

1. Short-term employee benefits

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

Note -2 – Accounting policies (continued)

N. Liabilities due to employee benefits (Cont.)

2. Post-employment benefits

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

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

Furthermore, the Company also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured according to the actuarial valuation method of the projected eligibility unit. The actuarial calculations takes into account future salary increases and rates of employee turnover based on the estimated time of payment. The amounts are presented based on discounted projected future cash flows according to the interest rate of index-linked high quality corporate bonds, the repayment date of which is similar to the severance pay liability period.
The Company deposits funds in respect of its severance pay obligation to part of its employees on an ongoing basis in pension funds, insurance companies and severance pay funds (hereinafter: the "Plan Assets"). The Plan Assets are assets held by a long-term employee benefit fund or qualifying insurance policies. The Plan Assets are not available for use by the Group's creditors and they cannot be paid directly to the Group.

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

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

O. Revenue recognition

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

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

The Company recognizes revenue from cloud services and maintenance throughout the agreement period with the customer.

Deferred income, which represents a contractual obligation, represents unrecognized payments collected for cloud and maintenance services. Deferred income is recognized when the Company fulfills and executes the agreement.

P. Discounts to customers

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

Note -2 – Accounting policies (continued)

Q. Earnings (loss) per share

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

R. Provisions

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

S. Fair value measurement

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

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

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

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

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

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

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

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

T. Share-based payment

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

U. Government grants

Government grants were not recognized before there was reasonable assurance that the Company would comply with the conditions attached thereto and that the grants would be received.

Note 2 – Accounting policies (continued)

V. New standards in the period prior to the application thereof

The following is the information with regard to the amendments to standards which have been published but have not yet entered into force, which may affect the Company's financial statements when they are initially applied. Unless otherwise stated, each amendment specified below may be applied early, with disclosure thereof, and the Company plans the initial adoption thereof on the binding commencement date thereof.

Classification of liabilities as current or non-current - Amendments to International Accounting Standard 1 "Presentation of Financial Statements" (hereinafter: the "Amendments to IAS 1"):

The amendments to IAS 1 were published in January 2020 in order to clarify the classification of liabilities in the Statement of Financial Position, as current or non-current. The amendments clarify various aspects of one of the criteria for classification which is based on the question of the existence of a right to defer the disposal of a liability for at least 12 months. In addition, the amendments clarifies the meaning of the term "disposal" in connection with the classification of liabilities as current or non-current.

The following is an overview of the main points of the amendments:

- The right to defer disposal should exist at the end of the reporting period. If this right is subject to compliance with certain conditions, the right exists only if the Company complies with these conditions at the end of the reporting period, even if the lender examines the compliance with the conditions only at a later date.
- The classification criterion deriving from the existence of a right to defer a disposal for at least 12 months following the reporting period is not affected by the intentions or the expectations of the management to realize the right or the disposal of the actual liability during the 12 months following the reporting date.
- The amendments clarify that "disposal" for the purposes of classifying liabilities as current or non-current refers to the transfer to the opposite party, the results of which are cancellation (extinguishment) of the liability, which includes the transfer of cash or other financial resources such as goods or services, or of capital instruments, unless this is an undertaking to transfer equity instruments deriving from an option to convert debt into capital, which is classified as an equity instrument and recognized separately from the undertaking as a capital component of a complex financial instrument.

The amendments to IAS 1 will be applied retrospectively, following a one-year deferral of the original commencement date of the amendments to IAS1 starting from annual periods beginning on or following January 1, 2024. The company is examining the impact of the standard on its financial statements.

Note 3 - Cash

	December 31, 2022	December 31, 2021
	NIS, (in thousands)	
Israeli currency	627	6,178
Foreign currency	6,310	21,550
	6,937	27,728

Note 4 – Trade receivables, net

	As of December 31	
	2022	2021
Open accounts	32,429	19,919
Less provision for doubtful debts	(50)	(50)
	32,379	19,869

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

		Past due trade receivables			
	Receivables not yet due (without collection arrears)	Up to 30 days	30 to 60 days	More than 60 days	Total
			NIS thousands		
December 31, 2022	29,425	2,575	347	32	32,379
December 31, 2021	18,386	1,347	66	70	19,869

Note 5 – Other receivables

	As of December 31	
	2022	2021
	NIS thousands	
Government institutions	3,902	978
Prepaid expenses	1,117	494
Other receivables *	809	665
	5,828	2,137

* The balance includes forfeiture of a bank guarantee during December 2018 in the amount of NIS 665 thousand provided by the Company as part of an agreement between Utron Solutions and Florentine Quartet Ltd. ("Florentine"). Mutual claims are pending between Utron Solutions and Florentine. Utron Solutions estimates, based on the opinion of legal counsel, that the chances of success are more likely than not, wheras the chances of success of the counterclaim of Florentine is significantly less likely.

Note 6 – Inventories

	As of December 31	
	2022	2021
	NIS thousands	
Materials and Packaging	30,163	18,637
Inventory in process	4,474	3,944
Finished goods	4,643	5,724
	39,280	28,305

The inventory balance includes a provision for inventory impairment in the amount of NIS 1,983 thousand as of December 31, 2022 and in the amount of NIS 1,750 thousand as of December 31, 2021.

Note 7 – Leases

A. Information about lease activities

The Company leases a fleet of vehicles for 3 years.

The Company has discounted leasing rights (91%) for 49 years (and an option to extend for an additional 49 years) pursuant to lease agreements dated April 16, 2008 in the structure in which the Company operates in Israel. The extension option was not taken into account in calculating the asset user rights since the Company is not able to estimate as of the date of the report that the probability of the realization thereof is certainly reasonable .

B. Information about right-of-use assets

	Land rights	Building	Vehicles	Total
Depreciation - for the year ended	486	1,201	407	2,094
Depreciated cost as of December 31, 2022	12,121	2,055	744	14,920

	Land rights	Building	Vehicles	Total
Depreciation - for the year ended	469	1,258	370	2,097
Depreciated cost as per December 31, 2021	12,437	2,651	722	15,810

Total additions to non-cash user-right properties during 2022 and 2021 is NIS 1,089 thousand and NIS 3,793 thousand, respectively. The total deductions for non-cash user-right properties during 2022 and 2021 is NIS 80 thousand and NIS 70 thousand, respectively.

During 2021, the Board of Directors of the Company approved an extension of the rental of the building from a controlling shareholder for a period of 3 years, beginning on August 1, 2021 (the date of termination of the previous rental agreement) - see Note 22A.

C. Analysis of contractual lease liability maturity dates

With regard to the analysis of contractual lease liability maturity dates - see Note 26 (a) 3.

D. Additional quantitative information about leases

	For year ended December 31. 2022	For year ended December 31, 2021	For year ended December 31, 2020
	NIS thousands		
Interest expenses on lease liabilities	92	55	84
Total cash flow paid for leases	1,640	1,684	2,074

Note 8 – Fixed assets, net

	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
Cost					
Balance as of January 1, 2021	1,498	7,060	564	2,936	12,058
Acquisitions and investments in the account year	356	341	-	79	776
Exchange differences	-	-	-	(44)	(44)
Balance as at December 31, 2021	1,854	7,401	564	2,971	12,790
Acquisitions and investments in the account year	153	399	259	82	893
Exchange differences	-	-	13	156	169
Balance as at December 31, 2022	2,007	7,800	836	3,209	13,852
Accumulated depreciation					
Balance as at January 1, 2021	1,351	5,817	279	2,336	9,783
Amortizations in the account year	36	607	57	130	830
Exchange differences	-	-	-	(29)	(29)
Balance as at December 31, 2021	1,387	6,424	336	2,437	10,584
Amortizations in the account year	72	520	62	119	773
Exchange differences	-	-	1	118	119
Balance as at December 31, 2022	1,459	6,944	399	2,674	11,476
Depreciated cost as at at December 31, 2022	548	856	437	535	2,376
Depreciated cost as at December 31, 2021	467	977	228	534	2,206

Note 9 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
	NIS (in thousands)			
Cost				
Balance as of January 1, 2021	997	1,348	124,431	126,776
Additions created internally	14	-	8,691	8,705
Balance as at December 31, 2021	1,011	1,348	133,122	135,481
Additions created internally	8	-	9,436	9,444
Balance as of December 31, 2022	1,019	1,348	142,558	144,925
Accumulated amortization				
Balance as of January 1, 2021	875	1,333	82,927	85,135
Amortization in the account year	72	5	8,934	9,011
Balance as at December 31, 2021	947	1,338	91,861	94,146
Amortization in the account year	53	10	8,653	8,716
Balance as at December 31, 2022	1,000	1,348	100,514	102,862
Amortized value as of December 31, 2022	19	-	42,044	42,063
Amortized value as of December 31, 2021	64	10	41,261	41,335

Amortization costs

Amortiation costs of intangible assets are classified in the Statement of Income as part of the cost of income.

Note 10 – Current maturities of loans from banks

	December 31, 2022	December 31, 2021
	NIS thousands	
Current maturities of long-term loans:		
Linked to the EURO	313	1,129
Not linked	2,000	2,000
	2,313	3,129

See Note 12.

Note 11 – Other payables

	December 31, 2022	December 31, 2021
	NIS thousands	
Employees and institutions in respect of salaries	2,735	2,604
Provision for vacation and rest pay	1,962	2,011
Payable expenses	7,519	7,703
Advance payments	1,088	472
Government institutions	4,413	2,455
Other	1,429	549
	19,146	15,794

Note 12 - Loans from banks

A. Composition:

	December 31, 2022	December 31, 2021
	NIS (in thousands)	
Long-term loans from banks:		
EURO linked loans(1) (2)	782	1,862
Unlinked loans (3)	2,500	4,500
Less current maturities	(2,313)	(3,129)
	969	3,233

(1) On July 6, 2011, the Company took a loan from a bank of € 1 million at an interest rate of Libor + 3.41%. The loan principal and interest payments are repayable on a quarterly basis for 14 years. Following the reform of the LIBOR interest rates (in accordance with which the LIBOR interest rates will cease to be published and will be replaced by new base interest rates as of January 1, 2022), a variable interest rate of 4.64% was determined for the loan as of December 31, 2022.

(2) On March 9, 2020, the Company took a loan from a banking corporation in the amount of EUR 1.9 million, for a period of 24 months, repayable in 24 monthly installments, bearing a fixed interest rate of 2.58% per annum, and secured by a first lien on the Company's contractual rights in Unitronics Building, see note 14B1 below. During the reporting period, the loan was repaid in full in accordance with the terms of the loan, and the aforesaid pledge was also removed

(3) On March 3, 2019, the Company took a loan from a banking corporation to finance the repayment of the Debentures (Series 5) in a total amount of NIS 10 million for a five-year period with an early repayment option at an interest rate of prime plus less than one percent per annum, with payments of interest and principal on a quarterly basis.

(4) On May 7, 2020, the Company received a loan from a banking corporation in the amount of NIS 3.5 million for a period of 60 months, as part of the state-guaranteed loan track in light of the corona crisis.

The loan is repayable in 49 equal monthly installments starting at the end of the first year, and carries an annual interest rate of prime + 1.5%. The Company is exempt from interest for the first year in this loan track.

During 2021, the Company repaid the loan by way of an early repayment.

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

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

As of the end of the reported period the Company is in compliance with the financial covenants.

Regarding receiving approval from the banking corporation to cancel the aforesaid undertakings of the Company thereto, subsequent to the balance sheet date, see Note 27.

(6) On April 30, 2020, the American subsidiary Unitronics Inc. received a loan from a bank which can be forgiven in the amount of approximately USD 388,000 (forgivable loan) by the US Government, as part of the Payroll Protection Program ("PPP") in light of the Corona crisis (hereinafter –the "PPP loan"). The loan carries a fixed interest rate of 1% per annum.

Subject to proof of use of the loan amount mainly for the payment of wages to its employees as well as for other overhead expenses during 2020, the forgiveness of the PPP loan repayment may be granted. If the Company does not comply with the forgiveness conditions, the loan will be repayable in monthly installments for a period of up to two years from the date of receipt thereof. On April 2, 2021, the approval of the US government was given, following the examination of the eligibility of the Group for a waiver on the repayment of the PPP loan, and as a result, the amount of the waiver (in the amount of the loan) was recognized as Other Income in 2021.

Note 13 – Employee benefit liabilities, net

A. Post-employment benefits:

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

B. Defined contribution plans:

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

C. Defined benefits plans:

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

D. Plan liabilities, net

	As of December 31,	
	2022	2021
	NIS (in thousands)	
Defined benefit liabilities	5,340	5,420
Fair value of plan assets	(3,567)	(3,364)
Central severance fund	(120)	(127)
Net liabilities	1,653	1,929

Note 14 - Contingent liabilities, mortgages, guarantees and agreements

A. **Contingent liabilities**

1. The Company received grants from the Chief Scientist of the Ministry of Trade and Industry for participation in research and development programs carried out thereby. The Company is required to pay royalties to the Chief Scientist at rates of 2% to 5% of the amounts received for the sale of the products or knowledge developed under the programs, or from the sale of any rights therein. The royalties are limited to 100% of the grants received.
   The balance of grants received less royalties paid therefor as of December 31, 2022 amounts to approximately NIS 1,865 thousand. The liability balance as of December 31, 2022 amounts to approximately NIS 120 thousand for projects which the management of the Company estimates royalty payments are due.

Note 14 - Contingent liabilities, mortgages, guarantees and agreements (Cont.)

B. Mortgages and guarantees

1. As security for the Company's liabilities to a bank, a first lien was recorded on the Company's contractual rights pursuant to lease agreements dated August 23, 2000 between the Company and the Israel Lands Administration. During the reporting period the pledge was removed.

2. Prior to the Spinoff, as part of the Spinoff Agreement and as of the report date, the Company provided a guarantee to a foreign insurance company in favor of the provision of surety bonds to secure the undertakings of Utron Systems Inc. (hereinafter: "Systems), a related company of the Utron Group, for the construction of projects in the amount of approximately USD 60 million. As of December 31, 2022, the framework amount in use which is guaranteed by the Company is in the total amount of approximately USD 25 million (as of December 31, 2021 the framework amount in use guaranteed by the Company was the total amount of approximately USD 28 million). The cost of the surety bonds is paid by Systems, the Company has undertaken to continue to provide a guarantee in favor of the aforesaid surety bonds and is entitled to indemnity from Systems in the event of the realization of the surety bonds. Each party has the right to cancel the guarantee of the Company with prior written notice, wherein the Company has the right to cancel only for balance of the unused framework.

   Regarding the release of the Company from the guarantee to the foreign company subsequent to the balance sheet date, see Note 27.

3. As part of the January 2019 agreement for the establishment of an autonomous parking lot, the Company has undertaken to replace Systems in the performance of the project if Systems is unable to carry it out, and compensate the customer for any damages and expenses for which Systems is liable in accordance with the agreement, in the event that Systems has breached the agreement. As of the approval date of the financial statements the Company is not aware of any breach.

Note 15 – Share based payment

On May 30, 2019, the Company's Board of Directors adopted an option plan to reward employees, consultants and officers of the Company and its subsidiaries. On August 20, 2019, 370,000 options were allocated to the employees and officers in the Group (of which 75,000 options were allocated to the CEO of the Company). Each option is exercisable for an ordinary share of NIS 0.02 par value of the Company. The option exercise mecanism is through the allocation of shares in the value of the benefit at the exercise date, such that in practice the allocated shares and dilution are lower than the total options. The vesting period of the options is 4 years from the date they were granted and the life cycle of the options is 6 years from the date they were granted. The exercise price of each option is NIS 12.7 which is determined according to the options plan as the higher between the market price on the date they were granted or a premium of 5% above the average market price in the 30 trading days preceding the date they were granted. The fair value of each option on the date they were granted which was calculated in accordance with the B&S model is NIS 3.09. The fair value of the options as of the date they were granted is NIS 1,222 thousand. The salary expenses which were recorded in the books of the Company in the years 2022 and 2021 are NIS 253 thousand and NIS 242 thousand, respectively.

During 2022, 19,296 option warrants were exercised by the employees of the Company (including senior officers of the Company) for 9,616 ordinary shares of the Company. During 2021, 44,465 option warrants were exercised by the employees of the Company (including senior officers in the Company) in exchange for 44,465 ordinary shares of the Company in exchange for an additional exercise in the amount of NIS 537 thousand.

On December 21, 2021, the Board of Directors of the Company approved the execution of a non-material private placement of 40,000 non-negotiable option warrants, exercisable for ordinary shares at a cost of NIS 0.02, each par value, for an officer of the Company. The exercise price of each option is NIS 24.63 which was determined in accordance with the option plan, as the highest between the opening price of the share of the Company on the date granted date and a premium of 5% above the average price of the shares of the Company on the Tel Aviv Stock Exchange Ltd. during the 30 trading days prior to the grant date.The fair value as of the grant date of the option on the date granted which was calculated in accordance with the B&S model is NIS 6.61. The fair value as of the grant date of the granted options is NIS 264 thousand.

Note 16 - Share Capital

A. Composition:

		As of December 31, 2021 and 2020	
		Registered	Issued and paid up
	As of December 31 2022 and 2021	Number of shares	
		2022	2021
Ordinary shares of NIS 0.02 par value each	100,000,00	15,482,585	15,472,969

Regarding the exercise of option letters for employees for ordinary shares of the company, see note 15.

B. As at December 31, 2022 and 2021, the Company held 1,676,192 shares, representing approximately 10.83% as of December 31, 2022 and approximately 10.86% as of December 31, 2021 of the Company's issued share capital, which was acquired for a total amount of approximately NIS 7,042 thousands.

C. Dividend Distribution policy

On February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of approval and publication of the financial statements for December 31, 2013. The Company is to distribute to its shareholders a dividend of 33% of the net profit attributable to the shareholders of the Company based on the Company's annual audited consolidated financial statements (not including earnings deriving from asset revaluation) (hereinafter: the "Profit"), above an amount of NIS 3 million, subject, inter alia, to statutory provisions, financing requirements and the business plans thereof. The dividend distribution is subject to a resolution of the Company's Board of Directors.

On May 12, 2021, the Board of Directors of the Company decided to distribute a dividend to the shareholders of the Company in the amount of approximately NIS 0.73 for each ordinary share of the Company, and a total of NIS 10,000 thousand. On May 30, 2021, the dividend was paid in full.

On December 21, 2021, the Board of Directors of the Company decided to distribute a dividend to the shareholders of the Company in the amount of approximately NIS 0.72 for each ordinary share of the Company, and a total of NIS 10,000 thousand. On January 9, 2022, the dividend was paid in full..

On August 31, 2022, the Board of Directors of the Company decided to distribute a dividend to the shareholders of the Company in the amount of approximately NIS 1.09 for each one ordinary share of the Company, and a total of NIS 15,000 thousand. On September 22, 2022, the dividend was paid in full. See Note 23 d.

D. Managing the Company's capital

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

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

Note 16 - Share Capital (continued)

E. On May 18, 2016 an investment transaction in the Company and the acquisition of the shares of the Company from Mr. Haim Shani (the controlling shareholder of the Company up to this date) was concluded by the FIMI Fund (hereinafter: "FIMI"), in which as of this date the Company is held under the joint control of the FIMI Fund and Mr. Haim Shani, holding approximately 49.99% and approximately 22%, respectively, of the issued and paid-up share capital of the Company as of the date of the closure of the aforesaid transaction.

In addition, the Company granted FIMI a share option letter stating that if the conditions set forth in the investment agreement are fulfilled, the Company shall allocate to FIMI up to 535,714 additional shares (hereinafter: the "Additional Shares"), for no additional consideration.

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

Note 17 - Cost of revenues

	For the year ended December 31,		
	2022	2021	2020
	NIS (in thousands)		
Materials and subcontractors (*)	60,350	57,621	44,395
Payroll and related benefits	10,421	9,625	7,978
Changes in inventory in process and finished goods	551	491	5,694
Depreciation and amortization	9,886	10,170	11,071
Building management company costs	480	419	511
Other expenses	1,746	1,609	1,473
	83,434	79,935	71,122

* As part of the product manufacturing activity up to 2021, the Company acquired and sold raw materials to subcontractors for production for the Company. Raw material sales to subcontractors are at cost to the company and do not include gross profit. Since this presentation reflects the essence of these transactions, material costs are shown to offset revenues from raw material inventory sales to subcontractors. In 2021 and 2020, revenues from the sale of raw material inventory to subcontractors totaled approximately NIS 1.2 million and approximately NIS 1.9 million, respectively (in 2022 no revenue was recorded from the aforesaid sale of inventory).

The cost of revenue includes provision expenses for inventory impairmrnt in the amount of NIS 233 thousand, NIS 350 thousand and NIS 100 thousand for the years 2022, 2021 and 2020, respectively.

Note 18 - Development expenses, net

	For the year ended December 31		
	2022	2021	2020
	NIS thousands		
Salaries and related benefits	8,594	8,000	7,466
Subcontractors	2,704	3,335	3,594
Others	1,564	1,444	1,388
Less - expenses capitalized to Intangible assets	(9,426)	(8,635)	(9,060)
	3,436	4,144	3,388

Note 19 – Sales and marketing expenses

	For the year ended December 31		
	2022	2021	2020
	NIS thousands		
Salaries and related benefits	17,317	15,162	12,649
Export fees and expenses	6,742	7,425	6,183
Exhibitions, advertising and other expenses	4,979	2,842	3,175
	29,038	25,429	22,007

Note 20 - General and administrative expenses

	For the year ended December 31		
	2022	**2021**	**2020**
		NIS thousands	
Salaries and related benefits	7,388	6,536	7,820
Office maintenance and communications	2,078	1,588	1,928
Depreciation and amortization	520	596	748
Professional services	1,302	1,517	1,261
Provision for doubtful debts	-	-	44
Other expenses	1,931	1,677	1,302
	13,219	11,914	13,103

Note 21 - Financing income (expenses)

	For the year ended December 31,		
	2022	**2021**	**2020**
		NIS thousands	
A. Financing income			
Profit from hedge transactions, net	218	-	-
Exchange rate difference net profit	745	-	-
Revaluation of option warrants	-	-	1,847
	963	-	1,847
B. Financing expenses			
Financing cost relating to bonds	-	-	63
Loss from hedging transactions, net	-	244	11
Loss,net, from differences in exchange rates	-	1,062	337
Loan interest	162	266	778
Revaluation of option warrants	3,336	1,766	-
Others	480	289	372
	3,978	3,627	1,561
C. Classification of financing income (expenses) according to financial instruments			
Financial assets measured at fair value through the statement of profit or loss	218	(244)	(11)
Financial liabilities measured at reduced cost	-	-	(63)
Financial liabilities measured at fair value through the statement of profit or loss	(3,336)	(1,765)	1,847

Note 22 - Interested and related parties

A. **Transactions with interested and related parties**

	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Salaries and related benefits (1)	850	965	1,420
Bonus to interested parties (2)	2,286	2,246	1,906
Salary of the Chairman of the Board of Directors' and joint functionaries(3)	2,077	2,060	1,872
Salaries of other directors	366	308	243
Rental expenses and management fees(4)	1,283	1,237	1,150
Number of salary and benefit recipients	1	2	2
Number of Chairman of the Board of Directors salary recipients	2	2	2
Number of recipients of other directors salaries	6	6	5

(1) The salaries and fringe benefits in 2022, include the annual salaries of Mr. Amit Harari, the CEO of the Company. The salaries and fringe benefits in 2021, include the annual salary of Mr. Amit Harari and the salary of Ms. Bareket Shani up to the date of her retirement from the management position thereof on January 7, 2021. The salaries and fringe benefits for 2020 include the annual salary of Mr. Amit Harari and the salary of Ms. Bareket Shani.

(2) The bonus of the interested parties includes a bonus for Mr. Amit Ben Zvi, Mr. Haim Shani and Mr. Amit Harari.

(3) The salary of the joint active Chairmen of the Board of Directors includes the salary of Mr. Amit Ben Zvi and Mr. Haim Shani.

(4) On May 12, 2021, the Board of Directors of the Company approved the extension of a rental with a company controlled by Mr. Haim Shani (the Active Chairman of the Board of Directors of the Company and the controlling shareholder thereof jointly with the Fimi Fund) and Ms. Bareket Shani, the wife of Mr. Shani, for a period of three years starting on August 1, 2021 (the date of termination of the previous rental agreement), in accordance with Regulation 1(1) of the Relief Regulations.

On the date of the completion of the Spinoff, the Company entered into an agreement with Utron for the provision of services and sales from the Company to Utron and for the provision of services by Utron to the Company as specified below.

Following a number of personnel changes in the Company and in Utron, the parties reached an agreement with regard to a reduction of services and certain payments provided under the aforesaid services agreements and for the amendment of the deriving results of those agreements, and on December 20, 2020, the Board of Directors of the Company approved the aforesaid amendments.

On August 3, 2021, Utron advised the Company that it requests to terminate the CFO services it receives from Unitronics pursuant to the services agreement within 90 days. In light of the above, Utron ceased to receive CFO services from the Company as of November 1, 2021.

Note 22 - Interested and related parties (continued)

A. Transactions with interested and related parties (continued)

The aforesaid agreements between the Company and Utron are as follows:

(1) An agreement for the provision of services to Utron by the Company for five years, with each party having the right to terminate the agreement with prior written notice of ninety days. Under the services agreement, Services will be provided to Utron by the Company, without there being an employer-employee relationship between Utron and the Company and anyone on behalf thereof. The amount Utron billed the Company in 2022, 2021 and 2020 amounted to approximately NIS 311 thousand, approximately NIS 574 thousand and approximately NIS 1,548 thousand, respectively.

(2) An agreement for the provision of services to the Company by Utron for five years, with each party having the right to terminate the agreement with prior written notice of ninety days. Under the services agreement, services will be provided to Utron by the Company, without there being an employer-employee relationship between Utron and the Company and anyone on behalf thereof. The amount Utron billed the Company in 2022, 2021 amounted to approximately NIS 918 thousand, each year, and in 2020 it amounted to approximately NIS 1,320 thousand.

(3) An agreement for the assignment of two projects signed in the first quarter of 2019 Unitronics Inc. to Utron Systems until the completion of the projects. As of December 31, 2022, the projects have been completed and the expected balance of income is for service income with a monthly payment of approximately USD 8 thousand.

(4) An agreement for the provision of services, including employees of Unitronics Inc. to Utron Systems for a period of five years, with each party having the right to terminate right the agreement with prior written notice of ninety days. The billing amount of Unitronics Inc. to Utron Systems in 2022, 2021 and 2020 amounted to approximately USD 242 thousand, approximately USD 234 thousand and approximately USD 300 thousand, respectively.

(5) An agreement for the provision of services, including employees of Utron Systems to Unitronics Inc. for a period of five years, with each party having the right to terminate right the agreement with prior written notice of ninety days. The billing amount of Utron Systems to Unitronics Inc. in 2022. 2021 and 2021 amounted to approximately USD 16 thousand, approximately USD 45 thousand and approximately USD 77 thousand, respectively.

(6) An acquisition agreement, in accordance with which Utron and Utron Solutions will from time to time acquire in accordance with the needs thereof, products manufactured by the company in accordance with a fixed and known price list in accordance with which the Group sells these same products to the distributors thereof. The aforesaid agreement will be valid for a period of 10 years, with each party having the right to terminate the agreement with prior written notice of ninety days. The total sales of the Company to Utron and Utron Solutions in 2022, 2021 and 2020 is approximately NIS 857, approximately NIS 372 thousand and approximately USD 771 thousand, respectively..

(7) A lease agreement in accordance with which Utron will lease to the Company under a sublease in the building in which it is located in Airport City, with an area of 220.5 square meters at the same cost which Utron pays to the lessor plus overhead costs, and a total amount of approximately NIS 160 thousand per year. The aforesaid agreement is a back-to-back (BTB) agreement with Utron's agreement with the lessor.

The balances of the related companies in the Statement of Financial Position are a product of the aforesaid agreements.

B. **Officers Insurance**

On May 29, 2022, the Board of Directors of the Company approved the renewal of the insurance policy for directors and officers of the Company for a period of 12 months from June 1, 2022 to May 31, 2023 and in accordance with the Remuneration Policy of the Company, for all directors and officers in the Company (for those that are not controlling shareholders in the Company as well as for those who are controlling shareholders in the Company, or relatives thereof, with a coverage limit of up to USD 7.5 million.

Note 22 - Interested and related parties (continued)

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

D. On May 16, 2019, the General Meeting approved the term of office of Mr. Amit Harari, as CEO of the Company, as of April 1, 2019 and also approved the appointment of Mr. Haim Shani as an active Joint Chairman of the Board of Directors (Mr. Shani is a controlling shareholder [jointly with the FIMI fund]) and the employment agreements under the same conditions of Mr. Shani and Ms. Bareket Shani (Mr. Shani's wife) for a period of three additional years beginning on April 1, 2019. In accordance with the employment agreements, the monthly salaries thereof will be NIS 60,000 and NIS 30,000. respectively, linked to the consumer price index in a manner such that, starting in January 2012 and at the beginning of each year, an amount equal to the percentage change in the consumer price index for the past year is added to the salaries thereof. In addition, in accordance with the employment agreement, Mr. Shani is entitled to an annual bonus at a rate of 7.5% of the pre-tax profit for each year. The bonus is subject to a cap of NIS 1.14 million, linked to the known consumer price index on May 9, 2016, 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, and affirmation by the Company's Compensation Committee that the aforesaid terms are consistent with the Company's Compensation Policy and the terms of the employment agreement. On May 17, 2022, the general meeting ratified the employment agreement of Mr. Haim Shani for a period of three additional years, beginning on April 1, 2022.

   It should also be noted that on January 7, 2021, Ms. Shani resigned from the management positions thereof in the Company and as of January 8, 2021, Ms. Shani will only serve as a Director in the Company.

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

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

   On May 17, 2022, the general meeting ratified the payment of compensation to Mr. Ben Zvi under the same terms for a period of three more years, beginning on April 1, 2022.

F. The Company is party to an agreement with a printed circuit assembly contractor which is also a supplier of other components and services to the Company, the controlling shareholder of which is FIMI. The agreement is for a period of one year and is renewed automatically unless one of the parties has given prior notice of termination. The Company's volume of acquisitions from the supplier in 2022 and 2021 was NIS 7,298 thousand and NIS 7,115 thousand, respectively.

Note 23 - Income taxes

A. <u>The tax rates applicable to the company</u>

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

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

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

   The corporate tax rate in Israel as of January 1, 2018 is 23%.

B. The company has tax assessments that are considered final until and including 2017.

Note 23 - Income taxes (Cont.)

C. Industrial company

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

D. Approved Enterprise/Beneficiary Enterprise

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

On November 15, 2021, Amendment 74 to the Encouragement of Capital Investment Law was published as part of the Economic Efficiency Law (Legislative Amendments For Attaining Budgetary Objectives for the 2021 and 2022), 2021 (hereinafter: the “Amedment to the Law”). As part of the Amendment to the Law a temporary order was established (hereinafter: “Temporary Order”) in acccordance with which the Company can advise within one year from the date of publication of the amendment to the law, the desire thereof to pay reduced tax on ite exempt income accrued up to December 31, 2020, prior to the distribution of a dividend, in whole or in part (selected accrued income), subject to the fulfillment of a number of conditions set forth in the amendment to the law. The corporate tax to be paid by the Company will be at the corporate tax rate that would have applied to that same income under the provisions of the law, in the year it was produced if it had not been exempt from corporate tax that year, multiplied by the "tax coefficient" (which in fact constitutes the discount rate on the tax liability), but not less than 6%. In accordance with the amendment to the law, if the Company wants to apply the provisions of the amendment to the law to a larger portion of its accumulated income, the greater the tax benefit it will receive. Once the reduced tax has been paid, the Company shall be entitled to distribute a dividend in the amount of the aforesaid income without paying additional corporate tax. A Company which chooses to pay the aforesaid reduced corporate tax, shall be required to invest over a period of five years in an industrial entity in one or more of the following: production properties (excluding buildings), investment in research and development or payment of salaries to new employees hired by the entity (relative to the the number of employees employed by the entity at the end of the 2020 tax year). The required investment is as specified in the amendment and this, as a rule, is calculated in accordance with the amount of taxed income.

The Company chose not to implement the Temporary Order.

In addition, in accordance with the amendment to the law, the Company will be obliged to perform a pro rata distribution of its exempt profits (if any is held thereby on the date of the distribution) in a distribution situation (as such term is defined in the law), in accordance with the provisions of the law and the determined terms. This provision is applicable from 15 August 2021.

The Company recorded tax expenses in 2021 and 2022 for dividends distributed following the application of the Amendment to the Law. The balance of the profits of an approved/beneficiary enterprise, which was not distributed and for which no obligation was recorded as of December 31, 2022, is approximately NIS 29.2 million. If a dividend is distributed from these profits, the Company will be taxed at the rate of 25% and the recipients of the dividend will be taxed at the rate of 15%.

E. Unitronics Inc. is taxed under U.S. tax law, the federal tax rate applicable thereto is 21% and in the state of Massachusetts it is 8.75%.

F. Unitronics GMBH is taxed in accordance with German tax law, wherein the total tax rate applicable thereto is 31.825%.

Note 23 - Income taxes (Cont.)

G. Spinoff

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

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

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

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

Note 23 - Income taxes (continued)

H. Deferred taxes:

	Statements of financial position		Statements of income		
	For the year ended December 31,		For the year ended December 31,		
	2022	2021	2022	2021	2020
	NIS thousands				
Deferred tax liabilities:					
Right-of-use assets	940	1,010	70	(257)	269
Intangible assets	5,249	5,154	(95)	219	19
	6,189	6,164	(25)	(38)	288
Deferred tax assets:					
Fixed assets	19	22	(3)	6	(12)
Inventory	64	78	(14)	(108)	(188)
Financial and other liabilities	651	701	(50)	254	(51)
Lease liabilities	301	422	(121)	266	(230)
Employee benefits	473	516	(11)	(42)	57
	1,508	1,739	(199)	376	(424)
Tax income (expenses)			(224)	338	(136)
Deferred tax liabilities, net	4,681	4,425			
Deferred tax liabilities, net presented in the Statement of Financial Position as follows:					
Non-current liabilities	4,681	4,425			

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

	Statements of income		
	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Profit (loss) from re-measurement for defined benefit plans	(32)	20	36

Note 23 - Income taxes (continued)

J. Income taxes included in profit or loss

	Statements of income		
	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Current taxes	3,602	3,245	2,128
Tax expenses (income) for previous years	691	1,131	(335)
Deferred tax expenses (income), see also Section H above.	224	(338)	136
	4,517	4,038	1,929

K. Theoretical tax

	Statements of income		
	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Profit before income taxes	23,378	23,237	16,825
Tax rates	23%	23%	23%
Tax calculated according to statutory tax	5,377	5,345	3,870
Unrecognized expenses	223	47	71
Various tax rates for foreign subsidiaries abroad	59	(47)	(150)
Tax rate benefit for preferred enterprise	(2,374)	(2,280)	(1,392)
Taxes for previous years	691	1,131	(335)
Utilization of losses carried forward for which no deferred taxes have arisen	348	-	-
Other differences	193	(158)	(135)
Income taxes	4,517	4,038	1,929

Note 24 - Income

Income according to geographic areas:

	Statements of income		
	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Israel	8,936	7,975	7,288
Europe	55,407	56,805	49,381
Unites States	72,822	63,215	54,110
Others (1)	18,355	19,023	15,381
Total income	155,520	147,018	126,160

(1) Including income from several countries, wherein the income from one country does not exceed 2% of the total income of the Company.

Note 24 – Income (continued)

Revenues by products

	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
PLC's and expansion units	144,673	141,893	123,074
Others	10,847	5,125	3,086
Total income	155,520	147,018	126,160

Note 25 – Profit per share

	For the year ended December 31,		
	2022	2021	2020
	NIS thousands		
Net income used to calculate the basic earnings per share (NIS thousands)	18,861	19,199	14,896
Impact on income assuming conversion of options (NIS thousands)	-	-	(1,596)
Net income used to calculate the diluted earnings per share (NIS thousands)	18,861	19,199	13,300
Weighted average of amounts of shares used to calculate the earnings per share (No. of shares)			
Basic	13,806,393	13,796,777	13,752,312
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	13,801,585	13,763,562	13,752,312
With the addition of options	120,154	81,081	535,714
Adjusted weighted average of number of ordinary shares used to calculate the diluted earnings per share	13,921,739	13,844,643	14,288,026

Note 26 - Financial instruments

A. Financial Risk factors

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

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

1. Market Risks

   a. Currency and Index risks

      (1) Most of the sales of the Company in the automated solutions segment are denominated in or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and the payment thereof, are likely to create an exposure for the Company.

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

   b. Interest risks

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

2. Credit Risks

   As at December 31, 2022 the Company had trade account receivables amounting to approximately NIS 32 million. The Company does not anticipate material credit risks in respect of trade account receivables, deposits and other account receivables.

3. Liquidity risks

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

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

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

   As of December 31, 2022:

	Book Value	Up to 1 year	2nd year	3rd year	4th year	5th year and thereafter	Total expected cash flow
	NIS thousands						
Trade payables	35,090	35,090	-	-	-	-	35,090
Other payables	13,504	13,504	-	-	-	-	13,504
Loans from banks	3,303	2,440	836	159	-	-	3,435
Lease liabilities	2,780	1,626	1,069	176	-	-	2,871
	54,677	52,660	1,905	335	-	-	54,900

Note 26 - Financial instruments (Cont.)

As of December 31, 2021:

	Book Value	Up to 1 year	2nd year	3rd year	4th year	5th year and thereafter	Total expected cash flow
				NIS thousands			
Trade payables	24,782	24,782	-	-	-	-	24,782
Other payables	12,679	12,679	-	-	-	-	12,679
Dividend payable	10,000	10,000	-	-	-	-	10,000
Loans from banks	6,382	3,262	2,359	807	150	-	6,578
Lease liabilities	3,292	1,465	1,262	687	-	-	3,414
	57,135	52,558	3,621	1,494	150	-	57,453

B. Fair value

The balance in the financial statements of cash, customers, receivables and payable balances, suppliers and service provider liabilities, loans from banks, payables and credit balances and option warrants corresponds or is close to the fair value thereof.

C. Classification of financial instruments at fair value rating

The financial instruments in the statement of financial position are presented according to their fair value or a disclosure has been published with regard to the fair value thereof, classified by groups with similar characteristics to the rating of fair value in accordance with the source of the data used in determining the fair value:

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

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

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

Warrant obligation liabilities are measured according to Level 3.

D. Valuation techniques in respect of fair value measurements are classified at Level 3 – option warrant liabilities

As part of the 2016 FIMI investment agreement, the Company granted FIMI a notice of rights to receive shares pursuant to which if the the terms specified in the investment agreement are fulfilled, the Company will allocate to FIMI up to an additional 535,714 shares, with no additional consideration.

The entitlement of FIMI to additional shares of the Company will depend on the total consideration which FIMI will receive from the sale of its holdings of the Company's shares and the shares of Utron. In light of the number of variables affecting the value of the option warrants the "Monte Carlo" model will be used.

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

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

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

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

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

Note 26 - Financial instruments (continued)

D. Liability for option warrants - financial liabilities at fair value through profit or loss (Cont.):

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

The future values of Fimi shares were divided into two categories:

1. The industries in which the aggregate value of Fimi shares is lower than 250% of the acquisition price of the shares of the Company by Fimi, in which Fimi is entitled to the allocation of additional shares of the Company.
2. The industries in which the aggregate value of Fimi shares is higher than 250% of the acquisition price of the shares of the Company by Fimi, in which Fimi is not entitled to the allocation of additional shares of the Company.

E. Reconciliation between fair value measurements classified at Level 3 in the fair value rating of financial instruments:

	For the year ended December 31 2022	For the year ended December 31 2021
	USD thousands	
As of the start of the period	(6,022)	(4,257)
Total financing cost loss	(3,336)	(1,765)
As of the end of the period	(9,358)	(6,022)

The remaining liability for the option warrants is in accordance with a valuation by an external appraiser, based on the "Monte Carlo" model. The assumptions in the performance of the valuation:

Unitronics base asset NIS 16.2, Utron base asset NIS 7.73, Unitronics standard deviation 26.72%, Utron standard deviation 24.87%, risk-free interest rate 3.61%, life cycle 1.25 years.

Note 26 - Financial instruments (continued)

F. Quantitative information regarding fair value measurements classified as Level 3:

	For the year ended December 31,	
	2022	2021
	Profit (loss) due to the change	
	NIS thousands)	
Sensitivity analyses for changes in the base asset[(1)]:		
10% increase	(62)	246
10% decrease	444	(101)
20% increase	332	558
20% decrease	1,177	(236)
Sensitivity analyses for changes in the deviation from the standard[(1)]:		
5% increase	108	149
5% decrease	(132)	(173)
10% increase	241	333
10% decrease	(182)	(329)

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

G. Forward contracts and option warrants

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

Note 26 - Financial instruments (continued)

H. Sensitivity tests for a change in market factors

	For the year ended December 31,	
	2022	2021
	Profit (loss) NIS thousands	
Sensitivity analyses for changes in the USD exchange rate:		
5% increase in the exchange rate	471	798
5% decrease in the exchange rate	(471)	(798)
Sensitivity analyses for changes in the Euro exchange rate:		
5% increase in the exchange rate	518	665
5% decrease in the exchange rate	(518)	(665)

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

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

Note 27 – Events subsequent to the date of the balance sheet

1. During the reporting period, the Board of Directors of the Company approved the release of the Company from the guarantee thereof to a foreign insurance company, which was given to guarantee the obligations of Utron Systems, with the intention of bearing the expected liquidation costs. Subsequent to the balance sheet date, the Company received a letter of release from the foreign insurance company in respect of the aforesaid guarantee. The disposal fee amounted to approximately NIS 462 thousand, see also note 14 b.2 above.

2. Subsequent to the balance sheet date, confirmation was received from the banking corporation with regard to the cancellation of the undertaking of the Company to the banking corporation to comply with financial covenants and to obtain the consent of the banking corporation to distribute a dividend to the shareholders, see also note 12 A (5) above.

Note 28 - Information about investee companies

	Country of incorporation	Shares conferring voting rights	Shares conferring rights to profits
		Holding rate	
		As of December 31, 2022, 2021	
Unitronics Inc.	USA	100%	100%
Unitronics GmbH	Germany	100%	100%
Unitronics building management and maintenance (2003) Ltd.	Israel	100%	100%

Chapter D – Additional Details about the Corporation (Reg. 10C - 29A)

4.1 Summary of Income Statements (Consolidated) for Each of the Quarters of 2022 (NIS Thousands) (Regulation 10A)

	1-3/2022	4-6/2022	7-9/2022	10-12/2022	1-12/2022
	NIS thousands				
Income	36,904	36,744	34,308	47,564	155,520
Cost of income	19,915	19,467	18,323	25,729	83,434
Gross profit (gross profit margin)	16,989 (46.0%)	17,277 (47.0%)	15,985 (46.6%)	21,835 (45.09%)	(72,086) (46.4%)
Development expenses	1,027	954	776	679	3,436
Sale and marketing expenses	6,487	7,159	6,370	9,022	29,038
General and administrative expenses	3,246	3,140	3,260	3,573	13,219
Profit from ordinary activities	6,229	6,024	5,579	8,561	26,393
Financing income (expenses), net	26	(626)	(1,760)	(655)	(3,015)
Profit on income before taxes	6,255	5,398	3,819	7,906	23,378
Taxes on income	882	552	1,695	1,388	4,517
Profit for the period	5,373	4,846	2,124	6,518	18,861

4.2 Use of securities consideration (Rule 10c)

During the reporting period, no securities of the Company were offered pursuant to a Prospectus.

4.3 List of Investments in Active Subsidiaries and Associates (Reg. 11)

Below are details of the Company's investments in active subsidiaries and associates at the date of the statement of financial position:

Subsidiary	**Class of share**	**No. of shares**	**Total par value**	**Value of shares in the financial statement**
Unitronics Building Management and Maintenance (2003) Ltd.	Ordinary – NIS 1	1,000	NIS 1,000	NIS 1,000
Unitronics Inc. (foreign company)	Ordinary – USD 0.01	1,000	USD 10	USD 10
Unitronics GMBH (foreign company)	Ordinary – EUR 1	25,000	EUR 25,000	EUR 25,000

Subsidiary	**Value in the separate financial statement of the corporation, attached to the Company's financial statements**	**Percentage of Company's holdings in capital, in voting rights and in the power to appoint directors, out of total issued shares**
	NIS in thousands	
Unitronics Building Management and Maintenance (2003) Ltd.	107	100%
Unitronics Inc. (foreign company)	11,563	100%
Unitronics GMBH (foreign company)	259	100%

4.4 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.

4.5 Revenues of and from Active Subsidiaries and Associates (Reg. 13)

For details of the comprehensive income of the Company's active subsidiaries and associates in the last reporting year ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation – see section 1.20.1.7 in Chapter A of this Periodic Report.

4.6 Trading on the Stock Exchange (Form. 20)

During the reporting year trading on the Israel Stock Exchange in securities issued by the company was not stopped.
For details on the continuation of the company's connection, the agreement makes a market with Bursa services and investments in Israel E. B. E. Ltd., see report from the Day 6 September 2018, Reference No. 2018-01-083002, report from 31 October 2018, reference No. 2018-01-098506 and report from January 1, 2019, Reference No. 2019-01-000145, which is hereby built on the path of reference.

4.7 Remuneration of Interested Parties and Senior Officers (Reg. 21)

4.7.1 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 remuneration in the corporation, whose remuneration 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(1)	Joint Active Chairman of the Board of Directors	30%	21.83% (1)	1,340	1,254	-	**2,594**
Mr. Amit Harari	CEO of the Company	100%	-	850	342	49	**1,241**
Mr. Albert Betz	General Manager Unitronics INC	100%	-	719	254	24	**997**
Mr. Itzhak Hai	CFO	100%	-	753	121	95	**969**
Mr. Boaz Carmi	VP Sales	100%	-	685	147	19	**851**
Other directors who are not officers				1,103	690	-	**1,793**

(1) For details of the rent paid by the Company to the Company under the control of Haim Shani and Bareket Shani in respect of the rental of private floors on the Unitronics House, see section 1.11.2 in Chapter A of this Periodic Report.

4.7.2 Remuneration policy – On May 17, 2022, following the approval of the Balance Sheet Committee, the Remuneration and Audit Committee (hereinafter: the "**Remuneration Committee**") and the Company's Board of Directors ratified the Remuneration Policy for officers of the Company, following the passing of three years from the previous approval of the Remuneration Policy. The Remuneration Committee and the Board of Directors of the Company believe that it is appropriate to ratify the Remuneration Policy of the Company, without material changes. For the wording of the ratified Remuneration Policy and the reasons for the ratification thereof, see the Immediate Report on the convening of the meeting of April 11, 2022 and the report on the results of the meeting of May 17, 2022, reference number 2022-01-038805 and reference number 2022-01-060136, respectively, the information of which is included herein by way of reference) (hereinafter: the "**Remuneration Policy**"). As of the date of this report, the terms of office and employment of all Company officers are in accordance with the Remuneration Policy

4.7.3 Mr. Haim Shani – The Company is bound by a personal employment agreement with Mr. Haim Shani (controlling shareholder of the Company (jointly with the FIMI Fund) and a Director) (hereinafter in this section: the "**Employment Agreement**"). In accordance with the Employment Agreement, Mr. Shani serves as the active Chairman of the Board of Directors of the Company.

Under the Employment Agreement, as approved on March 24, 2022 and March 28, 2022 by the Remuneration Committee and the Board of Directors of the Company, respectively, and subsequently, on May 17, 2022 by the General Meeting of the Shareholders of the Company (for further details see the Immediate Report on the convening of the meeting of April 11, 2022 and the report on the results of the meeting of May 17, 2022 reference number 2022-01-060136, the information of which is included herein by way of reference), Mr. Shani's salary is NIS 60,000 per month. The salary is linked to the Consumer Price Index, such that as of January 2012, and each year thereafter, an amount equal to the percentage of change in the past year's CPI is to be added to the salary thereof. 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 Agreement is in force for a period of three years starting on April 1, 2022.

In accordance with the Employment Agreement, in addition to the wages listed above, Mr. Shani is eligible to receive the following benefits from the Company as follows: (a) Accepted social benefits such as Executive Insurance; (B) training fund; (C) use of a company vehicle (without specifying a specific vehicle category) and reimbursement of expenses; (D) A 30-day annual holiday that can be accrued over the next two years of work.

In addition, Mr. Haim Shani is eligible for an annual grant for each calendar year beginning in 2005 and as long as Mr. Shani is employed as a senior company officer, at a rate of 7.5% of pre-tax profit for the same year (cost to the Company) up to a ceiling of NIS 1.14 million (linked to the index from May 9, 2016)

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.

In March 2023, the Remuneration Committee and the Board of Directors of the Company confirmed a bonus payment of approximately NIS 1,254 thousand to Mr. Haim Shani in respect of 2022, according to the conditions described above, which is in accordance with the Remuneration Policy of the Company and the employment agreement of Mr. Shani, which constitutes fair and reasonable consideration for the essential services of Mr. Shani.

4.7.4 Mr. Amit Harari – The Company is bound by a personal employment agreement with Mr. Amit Harari, by which Mr. Harari serves as the Company's CEO.

In accordance with Mr. Harari's employment agreement, as amended from time to time, as of the date of the report, Mr. Harari's salary is NIS 53,000 per month.

In addition to the salary set forth above, Mr. Harari is entitled to receive the following benefits from the Company as follows: (a) acceptable social benefits such as executive insurance; (B) training fund; (C) use of a company vehicle and reimbursement of expenses; (D) A 24-day annual vacation that can be accrued over the next two years of work.

In addition, in accordance with the approval of the Remuneration Committee dated March 22, 2023 of the amendment (non-material) to Mr. Harari's employment agreement dated December 27, 2017, Mr. Harari is entitled to a maximum annual bonus of up to NIS 400 thousand (in lieu of the previously approved amount of NIS 375 thousand) subject to meeting the sales target and the net profit target.

On September 26, 2019, following the approval of the Company's Board of Directors, on August 20, 2019, the Company's general meeting approved 75,000 unlisted stock options, each of which may be exercised for one Company ordinary share, In accordance with the plan for the allocation of options to employees and officers of the Company, which has been approved by the Company's Board of directors. For further details, see the Immediate Report on Meeting Results of September 26, 2019, Reference No. 2019-01-099796, which is hereby incorporated by reference and Note 15 to the 2022 Consolidated Financial Statements in Chapter C below.

In March 2023, the Remuneration Committee and the Company's Board of Directors approved a bonus payment of approximately NIS 342 thousand to Mr. Amit Harari for 2022 in respect of attaining sales and profitability targets in accordance with the conditions described above, which is in accordance with the Company's remuneration policy and Mr. Harari's employment agreement, and complies with the Company's remuneration policy and constitutes fair and reasonable remuneration for Mr. Harari's essential services.

Shortly following the publication of this Periodic Report, the Company announced the convening of an annual and special general meeting of the shareholders of the Company the agenda of which includes, among other things, the approval of the updating of the terms of office and employment of the CEO of the Company, Mr. Amit Harari. For further details, see section 4.16 below.

4.7.5 Mr. Amit Ben Zvi – As part of the Fimi Fund Investment Transaction in the Company, approved by the General Meeting of Shareholders of the Company in May 2016, Mr. Amit Ben Zvi was appointed to serve as the salaried Chairman of the Active Board of Directors. Since April 1, 2019, Mr. Ben Zvi has served as Chairman of the Joint Active Board of Directors. For his tenure as the active Joint Chairman of the Board of Directors, the Company pays the Fimi Foundation for the services of Mr. Ben Zvi an annual total amount equal to 55% of the employer's cost of the Active Chairman of the Board of Directors (Mr. Haim Shani) plus VAT and expenses. The salary is paid to Mr. Ben Zvi on a quarterly basis for the services rendered to the Company in the previous calendar quarter.

In March 2023, the Remuneration Committee and the Board of Directors of the Company confirmed a remuneration payment of approximately NIS 690 thousand to Mr. Amit Ben Zvi for 2022, according to the conditions described above which is in accordance with the Company's remuneration policy and the mechanism described above, and constitutes fair and reasonable consideration for the essential services of Mr. Ben Zvi.

4.7.6 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 remuneration and attendance fees at the "fixed amount" specified in the Second and Third Schedule to the Remuneration Regulations, and in accordance with the relevant rating of the Company's capital.

In accordance with the Company's Remuneration Policy, the remuneration and expense reimbursement of Directors who are not Company officers is identical to the remuneration and expense reimbursement paid to External Directors of the Company.

The amount of participation in the meeting and the annual remuneration paid by the Company to the Company's external directors as well as directors who do not serve as officers (other than their tenure as directors) or as Chairman of the Board of Directors of the Company as described above in 2022 is approximately NIS 137 thousand and approximately NIS 229 thousand, respectively.

For details of the remuneration under the Remuneration Regulations for Ms. Bareket Shani, the wife of Mr. Haim Shani, which serves as a member of the Board of Directors (who until January 2021 also served as member of the management of the Company) and the Fimi Fund, the controlling shareholder of the Company, for the services of Mr. Gillon Beck as a Director of the Company (which remained unchanged with respect to the Fimi Fund) and with regard to the inclusion of Ms. Shani and Mr. Beck in the liability policy for directors and officers of the Company in accordance with the provisions Relief Regulations, see the Immediate Report of the Company dated December 21, 2020, with regard to a transaction with a controlling shareholder or Director which does not require the approval of a General Meeting, Reference no. 2020-01-130288, the information of which is incorporated herein by way of reference.

4.7.7 The Company has a directors and officers liability insurance policy for a limit of liability of USD 7,500,000 (seven and a half million US dollars) per event and in total, in respect of damages that could occur during the insurance period (plus reasonable legal defense costs in Israel beyond the limit of liability and legal expenses abroad within the limit of liability) (hereinafter: "the **Policy**"). The Company's deductible for insurance claims is between USD 10,000 and USD 50,000 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.

Pursuant to the Remuneration Policy of the Company and the terms thereunder, on May 25, 2022 the Balance Sheet Committee, the Remuneration Committee, the Audit Committee and the Board of Directors of the Company, respectively, approved the renewal and extension of the liability insurance policy for Directors and officers in the Company under the terms set forth below, valid from June 1, 2022 to May 31, 2023, in accordance with the previous Remuneration Policy of the Company. In addition, the Board of Directors and the Committee decided to insure, in accordance with the terms of the new policy, both the directors and officers of the Company who are not controlling shareholders in the Company or the relatives thereof, as well as directors and officers who are controlling shareholders in the Company or relatives thereof. The main terms of the policy are as follows: insurance coverage of USD 7,500,000 (USD seven million and five hundred thousand) for one event and in total for damages that may occur during the insurance period (plus reasonable legal defense expenses in Israel and abroad). The amount of the deductible of the Company in respect of claims shall be a total amount of USD 10,000, except for claims filed in the United States and Canada as well as claims in the field of securities, in which the deductible of the Company will be USD 50,000 per event. For further details, see the Immediate Report on a Transaction with a Controlling Shareholder or a Director that does not require the approval of a General Meeting dated May 30, 2022, reference number 2022-01-066646, the information of which is incorporated herein by way of reference.

4.7.8 For details on payments made during the reporting period to interested parties employed by the Company (including related payments), see section 4.7.1 above.

4.7.A <u>Control of the Corporation (Reg. 21A)</u>

The controlling shareholders of the corporation are the FIMI Fund and Mr. Haim Shani. For more details about Mr. Shani, see section 4.13 below.

In accordance with information provided to the Company by the Fimi Fund, the controlling shareholder of the Fimi Fund is Mr. Yishai Davidi.

4.8 <u>Transactions with Controlling Shareholders (Reg. 22)</u>

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 2022 or following the end of 2022 up to the date of the date of this Periodic Report, or is still valid as of the date of this Periodic Report:

<u>Other transactions which are not enumerated in section 270(4) of the Companies Law</u>

4.8.1 Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter: "**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for 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 2021 following the approval of the renewal of the rental agreement in connection with the areas in the Unitronics Building from the controlling shareholders, Mr. Haim Shani and Ms. Bareket Shani, linked to the index of March 2015, as specified in section 4.8.3 below) 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) 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, according to actual usage).

For these services, Unitronics Management was paid in total approximately NIS 1,190 thousand, approximately NIS 1,143 thousand and approximately NIS 1,099 thousand for the years 2022, 2021 and 2020, respectively; of which approximately NIS 738 thousand, approximately NIS 730 thousand and approximately NIS 720 thousand, respectively, were paid by the Company, and approximately NIS 455 thousand, approximately NIS 412 thousand and approximately NIS 379 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, and most recently in May 2021, as specified in section 4.8.3 below, but at times also not as part of the discussions regarding the approval of the aforementioned agreement. These discussions also included an examination of the management fees compared to other buildings in Airport City, and it was found that the management fees are at market conditions.

4.8.2 The Company is bound by an agreement with a Circuit Supplier and Electronic Cards (hereinafter: the "Circuit Provider") under the control of the Fimi Fund, which controls the Company and a similar agreement with a subsidiary of the Circuit Provider.

For details regarding these engagements and their approval by the Audit Committee and the Company's Board of Directors, see Section 1.9.18.4 in Chapter A of the Periodic Report.

Shortly after the publication of this periodic report, the company announced the convening of an annual and special general meeting of the company's shareholders whose agenda includes, among other things, the approval of a contract with the circuit supplier and a subsidiary of the circuit supplier. For more details, see section 4.16 below.

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

4.8.3 On July 15, 2018 the General Meeting of Company Shareholders approved an agreement of lease of space in the Unitronics Building in Airport City from a company controlled by Mr. Haim Shani, a controlling shareholder of the Company, and Ms. Bareket Shani, his wife, for a further period of three years beginning on August 1, 2018 (the date of expiration of the previous lease agreement), in accordance with section 275(a) of the Companies Law. On May 6, 2021 and May 12, 2021, the Audit Committee and the Board of Directors of the Company decided, respectively, to extend, under the same terms, for an additional period of three years until August 1, 2024, the validity of the current transaction under Article 1 (1) of the Companies Regulations (Relief in Transactions with Interested Parties), 2000 as a transaction which extends a current transaction and determined that there was no real change in the terms of the additional transaction and in the other circumstances that are relevant to the matter compared to the current transaction.

For details of the reasons of the Remuneration 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 sections 1.11.1 and 1.11.2 in Chapter A of this Periodic Report as well as the Immediate Report of the Company in respect of a transaction between a controlling shareholder or a Director which does not require the approval of a general meeting, dated May 13, 2021, reference number 2021-01-084486, which is hereby included by way of reference. Shortly following the publication of this Periodic Report, the Company announced the convening of an annual and special general meeting of the shareholders of the Company the agenda of which includes, among other things, the approval of a revised rental agreement in connection with the rental, subject of this section. For further details, see section 4.16 below.

4.8.4 For details of transactions between the Company and its controlling shareholders or transactions in 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 2022 or at a date after the end of 2022 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 1.11.2 in Chapter A and section 4.8.3 of Chapter D of this Periodic Report (regarding the lease agreement with a company controlled by Mr.Haim Shani and Bareket Shani) section 4.7.3 above (regarding the Employment Agreement of Mr. Haim Shani - controlling shareholder of the Company [jointly with the Fimi Fund] and a director), including approval of the remuneration and the inclusion of Ms. Shani in the liability insurance policy of Directors and officers of the Company in accordance with the provisions of the Relief Regulations as specified in section 4.7.6 above), section 4.17.1 below (regarding the issue of letters of indemnification and exemption to Mr. Haim Shani (controlling shareholder of the company [jointly with the Fimi Fund] and director) and Ms. Bareket Shani (wife of Mr. Shani, who also serves as a board member), section 4.7.6 (regarding the approval of remuneration to the Fimi Fund, the controlling shareholder of the Company, for the services of Mr. Gillon Beck as a Director of the Company (and regarding the inclusion of Mr. Beck in the liability insurance policy for Directors and officers in accordance with the provisions of the Relief Regulations) as well as section 4.8.5 below (regarding the approval of the amendment of the service agreements between the Company and Utron, a company controlled by the controlling shareholders of the Company).

As stated in Chapter A of this report, until the date of the split, the Company operated in two main areas of activity, the products sector and the automated solutions sector. As of the day of the split, the Company is active in the products sector only, and its operations in the automatic solutions sector were transferred to Utron Ltd, a company controlled by the controlling shareholder of the Company. As part of the Split, as aforesaid in section 1.3.2 of Chapter A of the Periodic Report, the Company and Utron entered into agreements as described below:

4.8.5 Transactions with controlling shareholders

In September 2018, the Company entered into a split agreement with Utron whereby all of the assets and liabilities of the Company's automated solutions operation, including the Company's shares in Unitronics Solutions, will be transferred to Utron, subject to the approval of the Tax Authority and the completion of a public offering under a prospectus. This split, which was published by the Company and Utron on February 28, 2019 (reference no: 2019-01-017856, Which is hereby incorporated by reference). As part of the splitting process, agreements were signed in which the parties undertook to provide different services to each other throughout the transition period until completion of the transfer of said assets and liabilities.

In February 2019, the Company and Utron entered into service agreements that came into force upon completion of the public offering as stated above. In these agreements, a system of mutual services was arranged between the parties on various subjects, including financial and accounting services, legal services, human resources services, information system services and other general services. The agreements will be in effect for five years, with each party having the right to terminate them or service by virtue thereof by prior written notice.

Following a number of personnel changes in the Company and in Utron (hereinafter collectively – the "**Companies**"), the parties reached an agreement regarding the reduction of certain services and payments made under those service agreements and the resulting amendment to those agreements, which are essentially as follows:

A. Termination of services previously provided by employees who are no longer employed by the Company, and therefore on the one hand the agreed service is not provided, while on the other hand no cost is paid for the service.

B. A reduction in the scope of services previously provided by the employees of the Company, who in accordance with the service agreements provided a service to Utron at a certain rate, and now the Company wants to reduce this rate since those services are required by the Company, while on the other hand, the Company is not interested in hiring new employees to provide the remainder of the services in accordance with these agreements.

C. Services which were previously provided to the Company by Utron employees, which the Company no longer requires and therefore saves this cost.

Utron has two projects in the field of parking solutions in the US, which prior to completion of the split were executed by Unitronics Inc. ("INC"), a subsidiary of the Company, and since these agreements can't be assigned to Utron, in February 2019, And the liabilities of Inc pursuant to the said agreements until their completion date.

In the framework of the Company's operations, three Inc employees are employed in the automated solutions sector due to regulatory constraints in the US. In February 2019, an agreement was signed between Inc and Unitronics Systems, a company held by Unitronics Solutions (hereinafter: "Systems"), whereby employees will continue to be employed through Inc. will pay the services to Systems, and the fees of these employees and of an accountant that will provide services to Systems, shall be paid by Inc when Systems will bear the cost of their back-to-back employment. The agreement shall be valid for five years from the date of completion of the public offering, the party has the right to terminate the agreement by prior written notice.

In February 2019, Systems entered into an agreement with Inc, which came into force upon completion of the public offering as stated above. Under the agreement, Systems will provide Inc with administrative and accounting services through two employees whose salaries will be paid by Systems, and will not be charged back-to-back. The agreement will be valid for five years, with each party having the right to terminate it by prior written notice.

In February 2019, an agreement was signed between the Company and Utron, according to which Utron leases to the Company a sublease space at a price paid by Utron to the landlord with the addition of overhead costs. The agreement is back-to-back against the agreement of Utron with the landlord, including the date of termination. In addition, each party has the right to terminate the agreement by prior written notice.

As part of the execution of projects in the field of automated parking solutions in the US, Systems is sometimes required: (1) to give a Surety Bond to secure its undertaking to complete a project at the cost of the cost. The agreement between the Company and Utron, each party has the right to cancel the Company's guarantee in advance and in writing, with the right to cancel the Company's liability only for the balance of the unused letter of commitment, (2) to receive an undertaking to secure the execution of projects, The Company has undertaken to enter the shoes of System for the execution of the project Which the Company will not be able to perform, and to compensate the Customer for any damage and expense to which Systems is liable under the agreement provided that Systems has breached the Agreement.

On June 26, 2022, the Board of Directors of the Company, following the receipt of the approval of the Remuneration Committee and Audit Committee of that date, approved to act to release the Company from the guarantees thereof to the insurance company in connection with Systems projects, while willing to bear the expected disposal costs that will be paid to a financial entity unrelated to the Company or to interested parties therein, and that such approval is beneficial for the Company. The Balance Sheet Committee, the

Remuneration Committee and the Audit Committee confirmed that the release of Unitronics from the aforesaid guarantees in the Systems projects does not constitute an extraordinary transaction and does not require a competitive process under the circumstances. During the first quarter of 2023, the Company received a letter of release from the aforesaid guarantee. The disposal fee was approximately NIS 462 thousand.

Upon completion of the aforementioned public offering, the letters of protest entered into effect whereby the Company undertook to convert into a loan capital that was granted to Unitronics Solutions by June 30, 2018, in the amount of NIS 120 million.

On December 20, 2020, the Board of Directors, after receiving approval from the Audit Committee of that date, confirmed that the agreement of the parties with regard to the reduction of certain services and payments which were provided under those service agreements and the resulting amendment therefrom, as specified above, does not require the approval of a General Meeting, since this of benefit to the Company, all in accordance with Regulation 1 (2) of the Relief Regulations.

On August 3, 2021, Utron advised the Company that it requests to terminate within 90 days the agreement with regard to the CFO services Utron receives from the Company in accordance with the service agreements. In light of the aforesaid, the agreement for the provision of CFO provided by the Company to Utron ended on October 31, 2021[5].

For further details, see the Immediate Report of the Company dated December 21, 2020, with regard to a transaction with a controlling shareholder or Director which does not require the approval of a General Meeting, Reference no. 2020-01-130288, the information of which is incorporated herein by way of reference.

Clarifications in the Immediate Report dated December 21, 2020, at the request of the Securities Authority dated March 16, 2021, reference number 2021-01-035631, are hereby incorporated by way of reference, as well as the Immediate Report with regard to the amendment of the service agreements between the Company and Utron dated August 4, 2021, reference number 2021 -01-061336, is hereby incorporated by way of reference.

Non - exceptional transactions

In February 2019, an agreement was signed between the Company and Utron, according to which Utron will purchase from time-to-time products manufactured by the Company according to a fixed price and known in advance, according to which the Company sells the products to its distributors, as updated from time to time. The agreement will be in effect for 10 years, with each party having the right to terminate it in advance and in writing.

The nature of the personal interest of the controlling shareholder

Since the Company and Utron are controlled by the same controlling shareholders - Mr. Haim Shani and the Fimi Fund, they have a personal interest in each of the transactions described above. In addition, Mr. Shani serves as active chairman of the board of directors of the Company and as CEO and director of Utron, Mr. Ben Zvi serves as an Active Chairman of the Board of

5 It should be clarified that in accordance with the service agreements between the Company and Utron, if a specific service is terminated in accordance with the service agreements, the consideration for the provision of the services will be reduced in accordance with the cost of the terminated service. Therefore, the termination of a specific service can be a termination of all or part of the service.

Directors of the Company and as Active Chairman of the Board of Directors of Utron and Mr. Beck serves as a Director in the Company and in Utron.

4.9 Holdings of Interested Parties and Senior Officers (Reg. 24)

For details regarding shares and other securities of the Company or of a subsidiary or related company of the Company held by any interested party in the Company as of the report publication date, see Immediate Report on the Holdings of Interested Parties and Senior Officers, dated January 5, 2023 (reference number 2023-01-004077), included herein by way of reference.

4.10 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.10.1 Registered and Issued Capital
For details regarding registered and issued capital see Note 16 to the 2022 consolidated financial statements– Chapter C of this Periodic Report.

4.10.2 Convertible Securities
As part of the FIMI Fund investment transaction which was approved by the General Meeting of the Shareholders of the Company in May 2016, 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.

4.11 Register of Shareholders of the Corporation (Reg. 24B)

For details on the register of Company shareholders as of the date of publication of this Periodic Report, see Immediate Report dated January 5, 2023, reference number: 2023-01-004020, included herein by way of reference.

4.12 Registered Address (Reg. 25A)

Registered Company Office: Unitronics Building, HaArava Street, Airport City, POB 300, Ben Gurion Airport, 70100
Email: info@unitronics.com
Telephone number: 03-9778888
Fax number: 03-9778877

4.13 Directors of the Corporation (Reg. 26)

Name, ID number, date of birth, citizenship	Address for court notices	Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No	Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein	Date of commence-ment of service as a Director of the Company	Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director	According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details)	Does the Company regard the Director as having accounting and financial expertise?
Haim Shani 056548142 31/7/1960 Israeli	17 Arlozorv, Tel Aviv	No; Has professional qualifications	Yes, CEO and Director of the Company until March 2019 and as of that date active Chairman of the Board of Directors, Director and senior officer in the subsidiaries, Unitronics Building Management and Maintenance (2003) Ltd., President of Unitronics Inc.	20/8/1989	High school education, from March 2019 he serves as a director and CEO of Utron, President of Unitronics Systems Inc. High School education, Director and CEO of Utron; President of Unitronics Systems Inc. Director and Senior Officer in the subsidiaries Unitronics Building Management and Maintenance (2003) Ltd. and Unitronics GMBH.	Yes, husband of Ms. Bareket Shani, a Director of the Company (see details below)	No
Bareket Shani 0581366311 30/6/1963 Israeli	17 Arlozorv, Tel Aviv	No; Has professional qualifications	No[6], except as the Secretary of the subsidiary Unitronics Inc.	1/1/1999	Academic. B.Sc. in Industrial Engineering and Management from the Technion. Company Secretary of Utron and Unitronics Systems Inc.; Director of Utron	Yes, wife of Mr. Haim Shani.	No
Zvi Livne 010025658 22/7/1947 Israeli	20 Ma'ale Habanim , Yoknea m	No; Audit, Remuneration 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; up to 2022, senior partner at Ziv, Shifer & Co., CPA; serves as a Director of	No	Yes

6 Until January 8, 2021, Ms. Shani served as Deputy CEO and Human Resources Manager of the Company and from that date Ms. Shani resigned from all her management positions in the Company and she serves solely as a Director of the Company. For further details see Immediate Report Dated December 21, 2020, reference number 2020-01-137628, which is incorporated hereto by way of reference.

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 commence-ment of service as a Director of the Company	Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director	According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details)	Does the Company regard the Director as having accounting and financial expertise?
					Unitronics Building Management and Maintenance (2003) Ltd., PML – Particle Monitoring Technologies Ltd. and Alberta Nano Monitoring Systems		
Doron Shinar 054973029 8/12/1957 Israeli	12 Zlochisti St., Tel Aviv 6299412	Yes, External Director; Audit, Remuneration 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	No	Yes
Amit Ben-Zvi 022644744 11/9/1966 Israeli	94 Yigal Alon St., Tel Aviv 67891	No; Has accounting and financial expertise as well as professional qualifications	Yes, active chairman of the board of directors of the Company until March 2019, and as of that date a joint chairman of the board of directors; Chairman of the Board of Directors of Utron, Chairman of the Board of Directors of the subsidiaries Unitronics Inc. and Unitronics GMBH, a partner in the FIMI Fund (controlling shareholder in the Company).	18/5/2016	Academic. LLB from Tel Aviv University; BA in Accounting from Tel Aviv University. Partner in the FIMI Fund. Director at: C. Mer Industries Ltd, Y. Stern Engineering (1989) Ltd., E&M Computing Ltd., Dean Marketing and Roasting (2021) Ltd., Hyper Global Ltd., Utron Ltd., Ashot Ashkelon Industries Ltd.; Amal Holdings Ltd; Chairman of the Board of Directors of Unitronics Systems Inc., a company owned by Utron Ltd..	No	Yes

Name, ID number, date of birth, citizenship	Address for court notices	Board of Directors Committee Memberships; Independent Director/ External Director as defined in the Companies Law – Yes/No	Employee of the Company, of a subsidiary thereof, of a related company thereof or of an interested party therein – Position or positions held therein	Date of commencement of service as a Director of the Company	Education and occupation during the past 5 years, with details of the acquired profession or educational field, the educational institution and the academic degree or professional diploma held as well as details of corporations in which the Director serves as a Director	According to the best knowledge of the Company and its Directors, is the Director a family member of an interested party in the Company?– Yes / No (details)	Does the Company regard the Director as having accounting and financial expertise?
Gillon Beck 057382780 16/2/1962 Israeli	34 Ha-Arazim St., Givat Ada	No; Has accounting and financial expertise as well as professional qualifications	Yes, senior partner in the FIMI Fund (a controlling shareholder of the Company)	18/5/2016	Academic. B.Sc. in Industrial and Management Engineering from the Technion; MBA from Bar Ilan University. Senior partner in the FIMI Fund. Director at: Utron Ltd., Inrom Group, Sunstar Technologies Ltd.; Beit Shemesh Engineers Holdings (1997) Ltd. (and subsidiaries), Orbit Technologies Ltd., Bird Aerosystems Ltd.,, Aitec Ltd., ImageSat, Simplivia, Y, Stern Engineering Ltd., Rafa Laboratories Ltd. E&M Computing Ltd., Hyper Global Ltd.; TAT Technologies, FIMI Group	No	Yes
Yariv Avisar 57418873 24/12/1961 Israeli	Ha-Shahaf St., POB 219, Ein Sarid	No; Has professional qualifications	No	18/5/2016	Academic. CEO of SCR, Chairman of Dolav Plastic Products, Chairman of Electric Motor, Director of Scodex, Director Telfair, chairman Amiad Water Systems.	No	No
Rivka Granot 022652457 4/3/1967 Israeli	8 Finland St., Haifa	Yes, External Director; Audit, Remuneration 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 member on the Investment Committee of Amitim	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 commence-ment 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?
					(Harel Insurance), Israel Ports Development & Assets Company Limited, Tomer Energy Royalties, Ltd., Danel and KAMAR (voluntarily). (Also serves voluntarily as the Chairman of the Investment Committee of the University of Haifa and also a member of the Investment Committee of the Israel Democracy Institute).		

Below are the rates of attendance of the Directors at meetings of the Board of Directors and its committees in 2022:

Director	Rate of attendance at meetings of the Board of Directors	Rate of attendance at meetings of the Balance Sheet, Audit and Remuneration 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	100%	-
Rivka Granot	100%	100%

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 4.13 above:

Name, ID number, date of birth	Date on which the officer began his term of office	Position held by the officer in the Company, a subsidiary thereof, a related company thereof or an interested party therein; If the senior officer is an independent authorized signatory of the Company – this fact is to be mentioned	Is the officer an interested party in the Company or related to another senior officer or to an interested party in the Company?	Education and business experience during the past five years
Amit Harari 33591843 25/11/76	01/04/19	CEO	No	Academic, B.Sc. in Industrial Engineering from the Technion, MBA from Tel Aviv University.
Itzhak Hai 024062374 8/11/68	21/11/21	Chief Financial Officer	No	Academic Education, BA in Business Administration (majoring in Accounting) from the College of Management, Certified Public Accountant Has served as CFO of Materna Industries Limited Partnership.
Ron Alkalay 024844045 07/02/70	01/04/19	VP of Chain and Supply	No	Academic Education: Industrial Engineering and Management B.Sc. - Technion, Business Administration M.Sc.- Tel Aviv University Served as Operations Manager at Caesar Stone and as Vice President of Operations at Bordeaux Digital.
Boaz Karmi 022396535 13/04/66	01/04/19	VP Marketing & Sales	No	BA and MA in Economics and Business Administration Diplom Kaufmann, University of Applied Sciences – (Hannover, Germany) Past 5 years' experience: General Manager Sales at Fuji Electric Europe GmbH - Offenbach am Main, Germany.
Albert Batz 643984318 10/08/1951	01/7/17	General Manager Unitronics INC	No	Academic Education, Bachelor of Science - Physics, served as Vice President of Sales for the North American Company, as of July 2017 serving as Sales Manager for the Company in North America. Prior to joining the company, he served as ABB's Global Sales Manager.
Daniel Shapira 052755998 21/7/54	02/6/19	Internal Auditor	No	Academic Education, BA in Accounting and Economics from Bar Ilan University, for the past 5 years – owner of an accounting firm and an auditor for public companies traded in Israel and abroad.

4.14 Corporation's Independent Auditor (Reg. 27)

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

4.15 Amendment of the Articles or Memorandum of Association (Reg. 28)

There has been no amendment of the Articles of Association of the Company during the period of the report and until the date of the publication thereof.

4.16 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 no recommendations or resolutions were issued by the Board of Directors in the matters set out in regulation 29(a) of the Reports Regulations as follow:

In addition, no resolutions were passed at the general meeting, not in accordance with the recommendations of the directors.

On April 11, 2022, the Company announced the convening of an annual and special general meeting of the shareholders of the Company, the agenda of which is as follows: (a) presentation and discussion of the 2021 Periodic Report of the Company; (b) the reappointment of the auditor of the Company and the authorization of the Board of Directors of the Company to determine the remuneration thereof; (c) the reappointment of the Directors serving in the Company (who are not External Directors); (d) the reappointment of Ms. Rivka Granot for an additional term as an External Director of the Company; (e) the ratification of the employment agreement of Mr. Haim Shani, Active Chairman of the Board of Directors and one of the controlling shareholders of the Company, for an additional period of three years; (f) the ratification of the terms of service of Mr. Amit Ben Zvi, the Joint Active Chairman of the Board of Directors, partner and officer in the Fimi Group, one of the controlling shareholders of the Company, for an additional period of three years; (g) ratification of the Remuneration Policy of the Company.

On May 17, 2022, the Company announced the results of the convening of the annual and special general meeting in accordance with which all the resolutions that were on the agenda of the meeting were approved by the required majority. For further details, see the Immediate Reports of the Company of April 11, 2022 and May 17, 2022 (reference numbers: 2022-01-038805 and 2022-01-060136, respectively). The aforesaid constitute a generalization by way of reference.

Shortly following the publication of this Periodic Report, the Company announced the convening of an annual and special general meeting of the shareholders of the Company. the agenda of which included the following topics: (a) presentation and discussion of the 2022 Periodic Report of the Company; (b) reappointment of the auditor of the Company and the authorization of the Board of Directors of the Company to determine the fee thereof; (c) reappointment of the current directors of the Company (who are not External Directors); (d) the approval of a rental agreement from a company controlled by Mr. Haim Shani (Active Chairman of the Board of Directors of the Company and a controlling shareholder thereof together with the Fimi Fund) and Ms. Bareket Shani, the wife of Mr. Haim Shani, for a period of three years starting from the date of approval of the meeting in accordance with Article 275(a) of the Companies Law; (e) confirmation of contract with PCB Technologies Ltd. ("PCB") and a subsidiary of PCB, companies under the control of Fimi Fund, which controls the company jointly with Mr. Haim Shani, for a period of three years; (f) approval of updating the terms of office and employment of the CEO of the Company, Mr. Amit Harari.

4.17 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 Remuneration Policy of the Company (for details see section 4.7.2 above):

4.17.1 The Company's Articles of Association permits the exemption, indemnification and insurance of officers (including the Directors of the Company) to the maximum extent permitted by the Companies Law.

Indemnification and exemption: The Company has undertaken towards officers of the Company (including Directors in the Company), including Directors and officers which are controlling shareholders in the Company and/or the representatives thereof 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 indemnity and exemption of its officers (including during the report period, as specified in section 4.15 above), including the controlling shareholders thereof and/or the representatives thereof, and issues letters of indemnity and exemption to new officers that are appointed, in accordance with the requirements of the law.

4.17.2 For details of the insurance of officers of the Company, see section 4.7.7 above.

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Unitronics (1989) (R"G) Ltd.

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

March 27, 2023

Chapter E - Statements by the CEO and Senior Officer in Finance of the Corporation for 2022

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

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

I, Amit Harari, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2022 ("**the Reports**").

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

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

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

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

March 27, 2023

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Amit Harari, CEO

Statement by the Senior Officer in Finance pursuant to Regulation 9b(d)(2) of the regulations

I, Itzik Hai, 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 2022 ("**the reports**").

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

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

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

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

March 27, 2023

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Itzik Hai, CFO