HAM-LET (ISRAEL-CANADA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017

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AUDITOR'S REPORT

To The Shareholders Of

HAM-LET (ISRAEL-CANADA) LTD.

Regarding the audit of components of internal control over financial reporting

Pursuant to section 9b(c) to the Israeli securities regulations (periodic and immediate reports), 1970

We have audited the components of internal control over financial reporting of Ham-Let (Israel-Canada) Ltd. and its subsidiaries (collectively, "the Company") as of December 31, 2017. Control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over the recording of revenues and trade receivables; (3) controls over inventory and procurement (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2017.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and our report dated March 15, 2018 expressed an unqualified opinion thereon, based on our audit and the reports of other auditors.

Haifa, Israel
March 15, 2018

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AUDITOR'S REPORT

To The Shareholders Of

HAM-LET (ISRAEL-CANADA) LTD.

We have audited the accompanying consolidated statements of financial position of Ham-Let (Israel-Canada) Ltd. ("the Company") as of December 31, 2017 and 2016 and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017. These financial statements are 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 audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 23.1%, 18.6% and 20.7% of total consolidated assets as of December 31, 2017, 2016 and 2015, respectively, and whose revenues constitute approximately 47.3%, 44.3% and 42.5% of total consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those 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, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of components of Internal Control over Financial Reporting" (as amended), the Company's components of internal control over financial reporting as of December 31, 2017, and our report dated March 15, 2018 expressed an unqualified opinion on the effective maintenance of those components.

Haifa, Israel
March 15, 2018

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		US dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	**11,172**	15,027
Trade receivables	7	**43,473**	37,518
Other receivables	7	**8,718**	5,085
Inventories	8	**53,355**	37,296
Investment property held for sale	9	**-**	1,547
Current tax assets	24	**131**	-
Total current assets		**116,849**	96,473
NON-CURRENT ASSETS:			
Long-term receivables		**1,481**	*152
Property, plant and equipment	10	**32,552**	28,313
Intangible assets	11	**13,429**	*10,923
Deferred taxes	24	**1,705**	1,626
Total non-current assets		**49,167**	41,014
Total assets		**166,016**	137,487

*) Reclassified.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2017	December 31, 2016
		US dollars in thousands	
LIABILITIES			
CURRENT LIABILITIES:			
Loans and credit from banks and others	13	**18,420**	12,981
Trade payables		**25,686**	17,839
Other payables	12	**21,412**	15,799
Current taxes payable	24	**2,737**	2,862
Total current liabilities		**68,255**	49,481
NON-CURRENT LIABILITIES:			
Loans from banks	13	**15,675**	15,145
Employee benefit liabilities	14	**1,452**	1,241
Liabilities for put option	4	**260**	-
Deferred taxes	24	**543**	1,313
Total non-current liabilities		**17,930**	17,699
Total liabilities		**86,185**	67,180
EQUITY:			
Share capital	15	**4,507**	4,501
Share premium		**21,955**	19,490
Adjustments arising from translating financial statements of foreign operations		**(835)**	(2,840)
Treasury shares		**(3,526)**	(3,526)
Retained earning		**57,730**	52,682
Total equity		**79,831**	70,307
Total liabilities and equity		**166,016**	137,487

The accompanying notes are an integral part of the consolidated financial statements.

March 15, 2018			
Date of financial statement approval	Gillon Beck Chairman of the Board of Directors	Amir Widmann CEO	Moran Tayar CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	For the Year ended December 31, 2017	2016	2015
		US dollars in thousands (except per share data)		
Revenues from sales	17	**150,194**	124,088	97,575
Cost of sales	18	**95,974**	78,409	62,771
Gross profit		**54,220**	45,679	34,804
Selling and marketing expenses	19	**25,834**	21,553	16,979
General and administrative expenses	20	**9,452**	8,473	5,324
Research and development expenses	21	**3,914**	3,095	2,825
Other income	22	**(939)**	-	-
Other expenses	22	**245**	816	422
Appreciation of investment property	9	**-**	(202)	(10)
Operating profit		**15,714**	11,944	9,264
Finance income		**272**	227	109
Finance expenses		**2,358**	1,600	1,523
Finance expenses, net	23	**2,086**	1,373	1,414
Income before taxes on income		**13,628**	10,571	7,850
Taxes on income	24	**1,624**	1,394	1,700
Net income attributable to equity holders of the Company		**12,004**	9,177	6,150
Net earnings per share attributable to equity holders of the Company (in US dollars)				
Basic and diluted net earnings per share	16	**0.86**	0.66	0.44

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Net income	**12,004**	9,177	6,150
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit plan	**(41)**	124	(38)
Taxes on items that will not be subsequently reclassified to profit or loss	**(3)**	(17)	3
Total items that will not be subsequently reclassified to profit or loss	**(44)**	107	(35)
Items that will be reclassified or that are reclassified to profit or loss when specific conditions are met:			
Adjustments arising from translating financial statements of foreign operations	**2,005**	(1,535)	(831)
Total items that will be reclassified or that are reclassified to profit or loss, net of tax	**2,005**	(1,535)	(831)
Total other comprehensive income (loss) attributable to equity holders of the Company	**1,961**	(1,428)	(866)
Total comprehensive income attributable to equity holders of the Company	**13,965**	7,749	5,284

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	Share premium	Adjustments arising from translating financial statements of foreign operations	Treasury shares	Retained earnings	Total
	US dollars in thousands					
Year ended December 31, 2017						
Balance as of January 1, 2017	**4,501**	**19,490**	**(2,840)**	**(3,526)**	**52,682**	**70,307**
Net income	**-**	**-**	**-**	**-**	**12,004**	**12,004**
Other comprehensive income (loss)	**-**	**-**	**2,005**	**-**	**(44)**	**1,961**
Total comprehensive income	**-**	**-**	**2,005**	**-**	**11,960**	**13,965**
Transactions with owners, recorded directly in equity:						
Dividend to equity holders of the Company	**-**	**-**	**-**	**-**	**(4,957)**	**(4,957)**
Cost of share-based payments	**-**	**-**	**-**	**-**	**510**	**510**
Retained earnings capitalized to share premium	**-**	**2,465**	**-**	**-**	**(2,465)**	**-**
Employee share options exercised	**6**	**-**	**-**	**-**	**-**	**6**
Balance as of December 31, 2017	**4,507**	**21,955**	**(835)**	**(3,526)**	**57,730**	**79,831**

	Attributable to equity holders of the Company					
	Share capital	Share premium	Adjustments arising from translating financial statements of foreign operations	Treasury shares	Retained earnings	Total
	US dollars in thousands					
Year ended December 31, 2016						
Balance as of January 1, 2016	4,490	19,490	(1,305)	(3,526)	48,297	67,446
Net income	-	-	-	-	9,177	9,177
Other comprehensive income (loss)	-	-	(1,535)	-	107	(1,428)
Total comprehensive income (loss)	-	-	(1,535)	-	9,284	7,749
Transactions with owners, recorded directly in equity:						
Dividend to equity holders of the Company	-	-	-	-	(5,069)	(5,069)
Cost of share-based payments	-	-	-	-	170	170
Employee share options exercised	11	-	-	-	-	11
Balance as of December 31, 2016	4,501	19,490	(2,840)	(3,526)	52,682	70,307

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	**Share premium**	**Adjustments arising from translating financial statements of foreign operations**	**Treasury shares**	**Retained earnings**	**Total**
	US dollars in thousands					
Year ended December 31, 2015						
Balance as of January 1, 2015	4,487	19,490	(474)	(3,526)	42,039	62,016
Net income	-	-	-	-	6,150	6,150
Other comprehensive loss	-	-	(831)	-	(35)	(866)
Total comprehensive income (loss)	-	-	(831)	-	6,115	5,284
Transactions with owners, recorded directly in equity:						
Cost of share-based payments	-	-	-	-	143	143
Employee share options exercised	3	-	-	-	-	3
Balance as of December 31, 2015	4,490	19,490	(1,305)	(3,526)	48,297	67,446

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Cash flows from operating activities:			
Net income	**12,004**	9,177	6,150
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation of property, plant and equipment	**5,300**	5,056	4,296
Amortization of intangible assets	**1,132**	951	532
Fair value adjustment of investment property	**-**	(202)	(10)
Net finance expenses	**1,868**	437	259
Cost of share-based payments	**510**	170	143
Taxes on income	**1,624**	1,394	1,700
Capital gain	**(939)**	-	-
Increase in inventories	**(15,373)**	(2,375)	(2,058)
Decrease (increase) in other receivables and long-term prepaid expenses	**(2,802)**	(198)	724
Increase (decrease) in other payables	**3,900**	315	(753)
Increase in trade receivables	**(4,419)**	(4,257)	(1,631)
Increase in trade payables	**6,770**	2,790	123
Increase (decrease) in employee benefit liabilities, net	**170**	(111)	(93)
Taxes paid	**(2,863)**	(2,281)	(1,328)
Net cash provided by operating activities	**6,882**	10,866	8,054
Cash flows from investing activities:			
Interest received	**107**	2	4
Acquisition of newly consolidated subsidiaries (see Note 4)	**35**	(14,481)	(2,325)
Proceeds from sale of property, plant and equipment	**2,377**	16	-
Proceeds from sale of investment property	**1,590**	-	-
Purchase of property, plant and equipment	**(11,328)**	(3,514)	(3,584)
Purchase of intangible assets	**(2,468)**	-	-
Taxes paid on sale of investment property	**(386)**	-	-
Grant of long-term loans	**(292)**	-	-
Investment grants received	**748**	1,400	-
Net cash used in investing activities	**(9,617)**	(16,577)	(5,905)
Cash flows from financing activities:			
Receipt of long-term loans from banks and others	**4,109**	17,000	-
Short-term bank credit and loans, net	**3,106**	1,490	4,318
Proceeds from exercise of employee options	**6**	11	3
Repayment of long-term loans from banks	**(2,781)**	(2,320)	(3,254)
Interest paid	**(1,071)**	(646)	(307)
Dividend paid to equity holders of the Company	**(4,957)**	(5,069)	-
Net cash provided by (used in) financing activities	**(1,588)**	10,466	760
Exchange rate difference on balances of cash and cash equivalents	**468**	(144)	(156)
Increase (decrease) in cash and cash equivalents	**(3,855)**	4,611	2,753
Cash and cash equivalents as at the beginning of the year	**15,027**	10,416	7,663
Cash and cash equivalents as at the end of the year	**11,172**	15,027	10,416

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Significant non-cash activities:			
Purchase of property, plant and equipment on credit	**902**	361	175
Investment grant receivable	**1,749**	572	-

NOTE 1:- GENERAL

a. General description of the Group and its operations:

Ham-Let (Israel-Canada) Ltd. ("the Company") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 1 Hayotzer Street, Ziporit Industrial Zone, Nazareth Elite. The consolidated financial statements of the Group as of December 31, 2017 comprise the financial statements of the Company and of its subsidiaries (together referred to as "the Group"). The Company is under the control of the FIMI partnerships ("FIMI"). The Group is engaged in the development, manufacture and marketing of instrumentation fittings, faucets and valves for industrial command and control systems in a variety of segments and uses and for ultra clean gas moving systems in the microelectronic industry and other clean industries. The securities of the Company are listed for trading on the Tel-Aviv Stock Exchange.

b. Definitions:

In these financial statements -

1. The Company - Ham-Let (Israel-Canada) Ltd.

2. The Group - The Company and its subsidiaries.

3. Subsidiaries - Companies the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

4. Related parties - Within their meaning in IAS 24 (2009), "Related Party Disclosures".

5. Interested parties - Within their meaning in Paragraph (1) of the definition of an "interested party" in Section 1 of the Securities Law, 1968.

6. Dollar - US dollar.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

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

The Company's financial statements have been prepared on a cost basis, except for:

- Financial instrument and derivatives measured at fair value through profit or loss;
- Investment property measured at fair value;
- Inventories measured at the lower of cost or net realizable value;
- Deferred tax assets and liabilities;
- Employee benefit assets and liabilities.

The Company has elected to present the profit or loss items using the function of expense method.

b. The operating cycle:

The operating cycle of the Company does not exceed 12 months.

c. Consolidated financial statements:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the acquisition date.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

e. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the US dollar, which is the functional currency of the Company and most of the subsidiaries.

The Group determines the functional currency of each Group entity and this currency is used to measure each entity's financial position and operating results.

Foreign operations

Assets and liabilities are translated at the closing rate at each reporting date. Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss) in a separate line item in equity, "adjustments arising from translating financial statements of foreign operations".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each balance sheet date according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or carried directly to equity in hedge transactions, are recognized in profit or loss.

f. Cash equivalents:

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

g. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

h. Allowance for doubtful accounts:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Raw and auxiliary materials	-	At cost of purchase using the moving average method.
Work in progress and finished goods	-	Based on the standard cost that reflects the average production cost for the period and includes materials, labor and other direct and indirect manufacturing expenses.

When production is not in normal capacity, inventory cost does not include fixed overhead costs in excess of that required for normal capacity. Such costs are recognized as an expense in profit or loss in the period incurred. Furthermore, the inventory cost does not include exceptional cost of materials, labor and others deriving from inefficiency.

j. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Following are the specific revenue recognition criteria which must be met before revenue is recognized:

Revenues from the sale of goods

Revenues from sale of goods are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When the credit period is short and constitutes the accepted credit in the industry, future consideration is not discounted.

The Group recognizes revenue when there is persuasive evidence (usually executed sales agreement) that the significant risks and rewards of ownership transferred to the buyer, the consideration is probable, the possible return of the goods and the costs incurred or to be incurred can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that the discount will be granted and the amount can be reliably measured, the discount is adjusted from the sale of goods.

The timing of revenue recognition from sales of products in Israel and abroad takes place upon the transfer of risks and rewards in accordance with the specific terms of the sales contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Revenue recognition (Cont.):

Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the lease term. Scheduled increases in rental fees over the term of the contract are recognized as income on a straight-line basis over the lease period.

k. Government grants:

Government grants are recognized when there is reasonable assurance that the grants will be received and the Group will comply with the attached conditions.

Government grants received for the purchase of an asset are presented net of the related asset and are recognized in the income statement on a systematic basis over the useful life of the asset.

l. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Deferred tax assets and deferred tax liabilities are presented as non-current assets and non-current liabilities, respectively. Deferred taxes are offset if there is a legal right to offset current tax asset against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

m. Non-current assets held for sale:

Non-currents assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification.

n. Leases:

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

The Group as lessee

Operating leases

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred to the Group are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Group as lessor

Operating leases

Leases in which the Group does not transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in respect of the lease agreement are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income. Contingent rent is recognized as income in the statement of profit or loss when the Company is entitled to receive such income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with fixed assets.

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

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

	%
Buildings	4
Machinery, equipment and infrastructure systems	6 - 15
Office furniture and equipment	6 - 20
Leasehold improvements	10

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Regarding examination of impairment of property, plant and equipment, see paragraph r 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. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the financial statements) is included in profit or loss when the asset is derecognized.

p. Investment property:

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee under a finance lease to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business.

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss when they arise. Investment property is not systematically amortized.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Costs of intangible assets do not include variable costs which are based on future sales royalties. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

The Group recognizes goodwill at fair value at the acquisition date in the amount of the consideration transferred less the net amount attributed on the purchase date to the identifiable assets acquired and liabilities assumed.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

The useful life of intangible assets is as follows:

	Years
Brand name	10
Customer relations	8
Technology	5

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Impairment of non-financial assets:

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

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

Goodwill in respect of subsidiaries

The Company reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Financial instruments:

1. Financial assets:

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

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

a) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

b) Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost plus directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

2. Financial liabilities:

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

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

a) Financial liabilities at amortized cost:

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

b) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Financial instruments (Cont.):

3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

4. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Financial instruments (Cont.):

5. Impairment of financial assets:

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

Financial assets carried at amortized cost

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

t. Derivative financial instruments designated as hedges:

The Group enters into contracts for derivative financial instruments such as forward currency contracts to hedge risks associated with foreign exchange rate fluctuations. Derivative financial instruments are recognized initially at fair value. After initial recognition, financial derivatives are measured at fair value. Derivatives are recognized in the statements of financial position as assets when fair value is positive and as liabilities when fair value is negative.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

u. Treasury shares:

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

v. Provisions:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Provisions (Cont.):

Following are the types of provisions included in the financial statements:

Legal claims

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

w. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Provisions (Cont.):

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

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

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

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

3. Other long-term employee benefits:

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to the employees for service rendered in the current period and in prior periods and taking into account expected salary increases. The amount of these benefits is discounted to its present value. The discount rate is determined by reference at the reporting date to market yields on Government bonds whose currency and expiration date are consistent with the terms of the Group's obligation.

Remeasurements of the net liability are recognized in profit or loss in the period in which they occur.

x. Share-based payment transactions:

<u>Equity-settled transactions</u>

Some of the Company's employees are entitled to remuneration in the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Share-based payment transactions (Cont.):

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period in which the performance and/or service conditions are to be satisfied, and ending on the date on which the relevant employees become entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

y. Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share in the earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

z. Expenses in respect of warranty:

The Group provides manufacturer warranty for its products provided that the products are used in accordance with the Company's instructions. Payments received for granting warranty services are in immaterial amounts and therefore the Company does not recognize a provision for warranty. Costs of providing warranty included product repair and/or replacement services, if any, are recognized in the statement of profit or loss when the services are provided or the products are actually replaced.

aa. Finance income and expenses:

Finance income comprises interest income on funds invested, gains from hedging instruments recognized in profit or loss and exchange rate gains. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, expenses for linkage on borrowings, losses on hedging instruments recognized in profit or loss, losses from exchange rate, and impairment losses on financial assets except for Trade receivables (presented as general and administrative expenses). Borrowing costs which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Finance income and expenses (Cont.):

Gains and losses from exchange rate differences on financial assets and liabilities are reported net as finance income or as finance expenses, depending on exchange rate fluctuations.

In the statements of cash flows, interest received is presented under cash flows from investing activities whereas interest paid is presented under cash flows from financing activities.

bb. Disclosure of new IFRSs in the period prior to their adoption:

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

In May 2014, the IASB issued IFRS 15 ("IFRS 15").

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

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

Step 2: Identify the separate performance obligations in the contract.

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

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

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

IFRS 15 also establishes the accounting treatment of incremental costs involving signing contracts and costs that are directly related to meeting contracts.

IFRS 15 is to be applied retrospectively for annual periods beginning on January 1, 2018. IFRS 15 allows an entity to choose to apply a modified retrospective approach, according to which IFRS 15 will only be applied in the current period presented to existing contracts at the date of initial application. No restatement of the comparative periods will be required.

The Company intends to fully adopt the provisions of IFRS 15 retrospectively upon the Standard's initial adoption.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. Disclosure of new IFRSs in the period prior to their adoption (Cont.):

The Company generates most of its revenue from the sale of goods. The Company has begun preparations for the adoption of the new Standard on the effective date and is assessing its potential impact on its financial statements as follows:

Revenue from the sale of goods

In contracts with customers where the sale of goods is expected to be the only performance obligation, revenue is to be recognized at a point in time when the control of the goods is transferred to the customer, normally when the goods are delivered to the customer. This is similar to the date of revenue recognition in accordance with current accounting standards.

The timing of recognition of revenue from existing contracts will not change following the adoption of the provisions of the new Standard in respect of revenue from the sale of goods.

After having evaluated the effects of the application of the new Standard, the Company believes that the adoption is not expected to have a material effect on the Company's financial statements.

2. IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which focuses on the following issues: classification and measurement, impairment and hedge accounting.

The new Standard is to be applied for annual periods beginning on January 1, 2018.

Excluding with respect to hedge accounting, the provisions of the new Standard should be adopted retrospectively, with no mandatory restatement of comparative figures. As for hedge accounting, the provisions of the new Standard should be adopted prospectively, except for a few exceptions.

After having evaluated the effects of the application of the new Standard, the Company believes that the adoption is not expected to have a material effect on the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. Disclosure of new IFRSs in the period prior to their adoption (Cont.):

3. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The effects of the adoption of the new Standard are as follows:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expenses separately.

- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.

- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. At this stage, the Company does not intend to early adopt the new Standard.

The new Standard permits lessees to use one of the following approaches:

a) Full retrospective approach - according to this approach, the effect of the adoption of the new Standard at the beginning of the earliest period presented will be carried to equity. Also, the Company will restate the comparative figures in its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. Disclosure of new IFRSs in the period prior to their adoption (Cont.):

b) Modified retrospective approach - this approach does not require restatement of comparative data. The balance of the liability as of the date of first-time adoption of the new Standard will be calculated using the existing discount rate on the date of first-time adoption. As for the outstanding right-of-use asset, the Company may apply one of the two following alternatives to account for each lease separately:

- Recognizing an asset in the amount of the recognized liability, with certain adjustments.
- Recognizing an asset as if the asset had always been measured according to the provisions of the new Standard.

Any difference arising on the date of first-time adoption of the new Standard as a result of the modified retrospective approach will be carried to equity.

The Company is evaluating the possible effects of the new Standard. Since the Company's lease contracts are significant, the Company estimates that the adoption of the new Standard will have a material impact on the Company's assets and liabilities.

At this stage, the Company estimates the effect of the initial adoption of the new Standard to result in an increase of about 12% in the Group's total balance sheet.

However, the adoption of the Standard will not impair the Company's and the subsidiary's compliance with the financial covenants detailed in Note 13c below.

The above quantitative disclosures rely on the effects as they are currently known to the Company and may be adjusted in the Company's financial statements for 2018, after specific policies have been finalized with respect to the application issues currently under review.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. Disclosure of new IFRSs in the period prior to their adoption (Cont.):

4. Annual Improvements to IFRS Cycle for 2015-2017:

In December 2017, the IASB issued amendments to the following standards in the context of the Annual Improvements to IFRS 2015-2017 Cycle:

IFRS	Subject of amendment
IFRS 3	The amendment clarifies that when an entity obtains control of a business that is a joint operation (as defined in IFRS 3), it remeasures previously held interests in that business at fair value.
IFRS 11	The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12	The amendment clarifies that all income tax consequences of payment of dividends should be recognized in profit or loss, other comprehensive income or equity, based on the classification of the transaction or event which created the distributable profits.
IAS 23	The amendment clarifies that borrowings made specifically for the purpose of constructing a qualifying asset will be classified for the purpose of capitalization of borrowing costs to qualifying assets as funds that an entity borrows generally when the underlying qualifying asset is ready for its intended use or sale and some of the specific borrowing related to that qualifying asset remains outstanding at that point.

The amendments will be applied for annual periods beginning on January 1, 2019. Each amendment may be early adopted separately by providing the appropriate disclosures.

5. IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. Disclosure of new IFRSs in the period prior to their adoption (Cont.):

The Interpretation is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.

2. Full retrospective adoption including restatement of comparative data.

The Company is evaluating the possible impact of the adoption of the Interpretation but is presently unable to assess its effect, if any, on the financial statements.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

a. Estimates and assumptions:

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

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

- Impairment of goodwill:

  The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows.

NOTE 3:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

a. Estimates and assumptions (Cont.):

- Provision for impairment of inventories:

Inventories are calculated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale as known as of the date of the financial statements. Provisions for impairment of inventories are recognized taking into account the Group's expectation of full realization of inventories in the coming years.

- Determining the fair value of share-based payment transactions:

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price and exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

b. Capital management - objectives, procedures and processes:

Management's policy is to maintain a strong capital base in order to improve the company's ability to continue its operations and generate profits for its shareholders, other stakeholders' benefits such as credit providers and employees, and to support future business development. The Board of Directors monitors the return on capital that the Company defines as net operating income divided by total share capital. The Board of Directors also monitors the amounts of dividends distributed to shareholders. The Company and its subsidiaries are subject to external capital requirements as described in Note 13c.

Management strives to maintain a balance between high yields, possible to achieve by maintaining high debt levels, to the existing security and benefits in a strong capital base.

Below is the Group's debt to equity ratio:

	December 31,	
	2017	**2016**
	US dollars in thousands	
Total liabilities	**86,185**	67,180
Less - cash and cash equivalents	**11,172**	15,027
Net debt	**75,013**	52,153
Total equity	**79,831**	70,307
Debt to equity ratio as at December 31	**94%**	74%

NOTE 4:- BUSINESS COMBINATIONS

a. Rovac Pte. Ltd.:

On October 27, 2017, the Group (through a Singapore subsidiary) completed the acquisition of 70% of the issued share capital of Rovac Pte. Ltd., a company incorporated in Singapore ("Rovac") for a total consideration of approximately SGD 600 thousand (approximately US$ 440 thousand), calculated based on Rovac's NAV as of the acquisition date, subject to downward adjustments of the consideration, if applicable, payable by Rovac's three shareholders who collectively held (through the date of consummation of the acquisition agreement) Rovac's entire shares ("the sellers"). After the consummation of the transaction, the sellers retain 30% of the issued share capital of Rovac. Rovac is engaged in command and control system design, assembly and integration for the oil and gas industry.

According to the acquisition agreement and subject thereto, the Group was granted a call option for purchasing the sellers' remaining shares (30% - "the remaining shares") for a period of six months starting from January 1, 2021. According to the agreement, the exercise price will be based on Rovac's NAV (multiplied by the relative portion purchased as per the call option) according to Rovac's latest financial statements before the date of exercise of the option. Also according to the acquisition agreement and subject thereto, the sellers were granted a put option for an identical period from January 1, 2021 to sell the remaining shares to the Group under similar terms to the call option. Considering the similar option terms granted to the parties in the transaction and assuming high likelihood of the exercise of the call option, the Company recognized the acquisition of 100% of the acquiree and assumed the entire liabilities arising from the exercise of the put option. The present value of the put option was estimated on the acquisition date at US$ 260 thousand.

The fair value of the identifiable assets and liabilities of Rovac on the acquisition date:

	US dollars in thousands
Cash and cash equivalents	285
Trade receivables	486
Other receivables	136
Inventories	212
Property, plant and equipment	49
Long-term deposits	146
Loans and credit from banks	(366)
Trade payables	(255)
Other payables	(253)
Net assets	440
Goodwill created upon acquisition	260
Total acquisition cost	700

NOTE 4:- BUSINESS COMBINATIONS (Cont.)

a. Rovac Pte. Ltd. (Cont.):

The adjustments to the fair value of the identifiable assets and liabilities acquired were determined based on management's estimates.

The intangible assets include goodwill. The goodwill recognized in the acquisition mainly relates to the technical skills and human capital expertise in the acquiree and to the expected synergy from the integration of Rovac into the Group's existing business segments.

The acquisition consideration and the fair value of the assets and liabilities acquired can be ultimately adjusted within a period of 12 months from the acquisition date. On the date of final measurement, the adjustments are made by restating comparative figures previously reported based on the final measurement.

Cash used in the acquisition

	US dollars in thousands
Total cash paid on acquisition date	250
Cash and cash equivalents in the acquiree at the acquisition date	(285)
Net cash	(35)

The consideration transferred on the acquisition date is comprised as follows:

	US dollars in thousands
Consideration paid in cash	250
Liability for purchase price adjustments	(1) 190
Liability for put option	(2) 260
	700

(1) The liability for purchase price adjustments is presented in other payables.

(2) The Company recognized part of the consideration as a liability for the put option granted to the sellers who hold the remaining 30% of Rovac's share capital. The liability for the put option was calculated according to Rovac's estimated NAV as of January 1, 2021 based on net income forecasts from the acquisition date through December 31, 2020, discounted at a rate of 15%.

Direct acquisition costs associated with the transaction in the amount of approximately $ 50 thousand were recognized as an expense and included in other expenses. From the acquisition date, Rovac has contributed $ 646 thousand to the consolidated revenue turnover in the segment of process industry products and increased the consolidated operating income and consolidated net income by $ 40 thousand and $ 6 thousand, respectively.

NOTE 5:- OPERATING SEGMENTS

a. General:

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and the allocation of resources and evaluation of performance are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's chief operating decision maker ("CODM") reviews internal management reports.

The accounting policies of the reportable segments are the same as described in Note 2 regarding significant accounting policies.

The reportable segments are presented in the financial statements as follows:

- Ultra-clean products - manufacture of fittings, faucets and valves for ultra clean gas systems in microelectronic industries and in other ultra clean industries.
- Process industry products - manufacture of fittings, faucets and valves for industrial command, control and transmission systems.

Segment income is measured based on operating income as included in reports that are regularly reviewed by the CODM. This information is used to measure segment results as management believes that such information is the most relevant in evaluating the results. Segment results reported to the CODM include items directly attributable to a segment on a reasonable basis.

NOTE 5:- OPERATING SEGMENTS (Cont.)

b. Reporting of operating segments:

	For the Year ended December 31, 2017		
	Ultra-clean Products	Process industry products	Total
	US dollars in thousands		
Revenues from external factors	**58,256**	**91,938**	**150,194**
Segment income	**6,583**	**9,131**	**15,714**
Additional information:			
Depreciation and amortization	**1,461**	**4,971**	**6,432**

	For the Year ended December 31, 2016		
	Ultra-clean Products	Process industry products	Total
	US dollars in thousands		
Revenues from external factors	40,537	83,551	124,088
Segment income	5,305	6,639	11,944
Additional information:			
Depreciation and amortization	1,405	4,602	6,007

	For the Year ended December 31, 2015		
	Ultra-clean Products	Process industry products	Total
	US dollars in thousands		
Revenues from external factors	31,088	66,487	97,575
Segment income	1,890	7,374	9,264
Additional information:			
Depreciation and amortization	1,613	3,215	4,828

NOTE 5:- OPERATING SEGMENTS (Cont.)

c. **Adjustments to profit or loss in respect of operating segments:**

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Total operating segment income (*)	**15,714**	11,944	9,264
Unallocated amounts:			
Finance income	**272**	227	109
Finance expenses	**(2,358)**	(1,600)	(1,523)
Consolidated income before taxes on income	**13,628**	10,571	7,850

(*) Segment performance is measured based on operating income or loss.

d. **Entity level disclosures:**

Information on products

The Group's revenues from external factors in respect of each group of similar products are as follows:

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Revenues from external factors:			
Fittings for the process industry	**57,421**	53,961	44,813
Faucets for the process industry	**27,572**	23,076	20,917
Systems for the process industry	**836**	1,478	758
Equipment for pipe transmission and electric wiring for the process industry	**6,109**	5,036	-
Fittings for the ultra-clean industry	**19,097**	14,995	9,386
Faucets for the ultra-clean industry	**22,481**	16,941	13,109
Systems for the ultra-clean industry	**16,678**	8,601	8,592
	150,194	124,088	97,575

NOTE 5:- OPERATING SEGMENTS (Cont.)

d. Entity level disclosures (Cont.):

Information on geographical segments

Presented hereunder are revenues from sales according to geographical areas on the basis of the geographical location of customers (export destinations):

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Revenues from external factors:			
North America	**31,869**	27,459	23,647
Europe	**52,458**	41,908	39,022
China	**20,929**	17,738	5,761
The Far East (except China)	**36,214**	27,952	22,687
Israel	**5,579**	6,914	3,871
Others	**3,145**	2,117	2,587
Consolidated	**150,194**	124,088	97,575

Non-current assets according to geographical areas on the basis of the geographical location of the assets:

	Non-current assets (*) December 31,	
	2017	2016
	US dollars in thousands	
Israel	**26,610**	19,840
Europe	**6,003**	5,892
China	**13,940**	13,505
Others	**909**	151
Consolidated	**47,462**	39,388

(*) Include long-term receivables, property, plant and equipment and intangible assets.

NOTE 6:- CASH AND CASH EQUIVALENTS

	December 31,	
	2017	**2016**
	US dollars in thousands	
Cash for immediate withdrawal	**11,172**	10,975
Cash equivalents - short-term deposits	**-**	4,052
	11,172	15,027

NOTE 7:- TRADE AND OTHER RECEIVABLES

	December 31,	
	2017	**2016**
	US dollars in thousands	
Trade receivables:		
Open debts	**44,833**	39,251
Less - allowance for doubtful accounts	**(1,360)**	(1,733)
	43,473	37,518
Other receivables:		
Government authorities	**2,202**	952
Deposits	**574**	467
Investment grants receivable (a)	**2,679**	1,504
Indemnification asset (b)	**1,000**	1,000
Prepaid expenses	**765**	680
Deferred revenues	**405**	-
Advances from suppliers	**368**	(c) 85
Other	**725**	(c) 397
	8,718	5,085

The Group's exposure to credit risk and currency risk and a sensitivity analysis of financial assets are disclosed in Note 26 on financial instruments.

(a) See Note 10(3).

(b) As part of the acquisition of the Chinese company, the sellers undertook to provide full and unconditional indemnification for any violation of presentations and for specific contingencies identified in the context of a due diligence study, mainly relating to potential exposures in respect of employee rights and corporate tax. The Chinese company's financial statements on the acquisition date include provisions for the above contingencies and for asset write downs totaling approximately $ 7.6 million which the Company, based on its legal counsel, believes give rise to an indemnification right. The Company recognized an indemnification asset receivable in respect of said indemnification arrangement in the amount of $ 1 million representing the amount which management of the Company, based on legal counsel, estimates can be collected from the sellers for the indemnification arrangement.

(c) Reclassified.

NOTE 8:- INVENTORIES

	December 31,	
	2017	2016
	US dollars in thousands	
Raw and auxiliary materials	**17,383**	12,238
Work in process	**6,474**	3,459
Finished goods	**29,498**	21,599
	53,355	37,296

As for impairment of inventories recognized in cost of sales, see Note 18.

NOTE 9:- INVESTMENT PROPERTY HELD FOR SALE

a. On December 28, 2016, the Company signed an agreement for the sale of its real estate rights in consideration of approximately $ 1,547 thousand. According to the agreement, the legal possession of the real estate was transferred to the buyer on February 28, 2017.

b. Presented hereunder are the changes in investment property during the year:

	2017	2016
	US dollars in thousands	
Balance as of January 1,	**1,547**	1,345
Fair value adjustment	**-**	202
Disposal	**(1,547)**	-
Balance as of December 31,	**-**	1,547

c. Amounts that were recognized in profit or loss:

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Rental income of investment property	**19**	104	92

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT

	Machinery, equipment and infrastructure systems	Office furniture and equipment	Motor vehicles	Land and Buildings (2)	Leasehold improvements	Total
	US dollars in thousands					
Cost net of investment grants:						
Balance as of January 1, 2016	65,105	5,702	107	1,426	9,910	82,250
Additions	2,806	355	46	-	90	3,297
Investment grants	(506)	(49)	-	-	(17)	(572)
Disposals	-	(11)	(87)	-	-	(98)
Newly consolidated companies	2,590	167	74	4,894	-	7,725
Effect of changes in exchange rates	(275)	(25)	(9)	(378)	(27)	(714)
Balance as of December 31, 2016	69,720	6,139	131	5,942	9,956	91,888
Changes in 2017:						
Additions	**9,970**	**696**	**-**	**5**	**110**	**10,781**
Investment grants	**(1,627)**	**(105)**	**-**	**-**	**(17)**	**(1,749)**
Disposals	**(14)**	**(34)**	**(34)**	**(1,346)**	**(27)**	**(1,455)**
Newly consolidated company *	**26**	**12**	**-**	**-**	**11**	**49**
Effect of changes in exchange rates	**490**	**69**	**7**	**408**	**13**	**987**
Balance as of December 31, 2017	**78,565**	**6,777**	**104**	**5,009**	**10,046**	**100,501**
Accumulated depreciation:						
Balance as of January 1, 2016	48,710	5,171	90	229	4,962	59,162
Additions	3,950	328	36	182	560	5,056
Disposals	-	(9)	(73)	-	-	(82)
Effect of changes in exchange rates	(96)	(11)	(3)	(15)	(4)	(129)
Balance as of December 31, 2016	52,564	5,479	50	396	5,518	64,007
Changes in 2017:						
Additions	**4,204**	**343**	**41**	**197**	**515**	**5,300**
Disposals	**(7)**	**(26)**	**(26)**	**(111)**	**(13)**	**(183)**
Effect of changes in exchange rates	**276**	**41**	**3**	**22**	**3**	**345**
Balance as of December 31, 2017	**57,037**	**5,837**	**68**	**504**	**6,023**	**69,469**
Depreciated cost as of December 31, 2017	**21,528**	**940**	**36**	**4,505**	**4,023**	**31,032**
Payments on account of PPE						**1,520**
						32,552
Depreciated cost as of December 31, 2016	17,156	660	81	5,546	4,438	27,881
Payments on account of PPE						432
						28,313
Investment grants deducted from costs as of December 31, 2017 (3)	**15,136**	**784**	**-**	**-**	**779**	**16,699**
Investment grants deducted from costs as of December 31, 2016 (3)	13,509	679	-	-	762	14,950

* See Note 4.

Regarding liens, see Note 29.

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

(1) **Purchase of property, plant and equipment on credit**

Purchases of property, plant and equipment in 2017 that have not yet been paid in cash as of December 31, 2017 amount to $ 902 thousand (2016 - $ 361 thousand).

(2) **Details on land rights used as property, plant and equipment by the Group**

A Dutch subsidiary has freehold property rights. The property serves as the manufacturing plant of the subsidiary.

The Chinese subsidiary owns a production facility used for manufacturing and operational purposes. See also Note 28a below.

(3) **Investment grants:**

(a) In June 2011, the Company submitted to the Israel Innovation Authority ("the IIA") a request to approve an investment program for the expansion of the Company's Israeli enterprise under the grants track in the amount of NIS 50 million (approximately $ 14 million). In December 2013, the IIA approved an investment by the Company of approximately NIS 45 million (approximately $ 13 million) for the receipt of grants.

The Company made the necessary investments and in December 2016 obtained approval for its investments in a total of NIS 40.5 million only in the approved program. The Company applied to the IIA for updating the approved investment amount to the sum approved in the letter of approval. An administrative proceeding is currently in progress with the IIA regarding this issue.

The grants are at the rate of 20% of the total scope of the Company's investments and are subject to compliance with the terms of the letter of approval. Management of the Company believes that it complies with the required terms of the letter of approval and recognized the grants receivable in the financial statements accordingly.

As of the date of the financial statements, grants totaling approximately NIS 8.1 million (approximately $ 2.1 million) have been received in respect of this program.

(b) In November 2015, the Company submitted a request to the IIA to approve an investment program for the expansion of the Company's Israeli enterprise under the grants track in the amount of NIS 50 million (approximately $ 13 million). The IIA approved the request in October 2016.

The grants are at the rate of 20% of the total scope of the Company's investments and are subject to compliance with the terms of the letter of approval. Management of the Company believes that it complies with the required terms of the letter of approval and recognized the grants receivable in the financial statements accordingly.

As of the date of the financial statements and after the reporting date, no grants have been received by the Company in respect of this program.

NOTE 11:- INTANGIBLE ASSETS

a. Intangible assets:

	Customer relations	Order backlog	Goodwill	Brand name	Technology	Total
	US dollars in thousands					
Cost:						
Balance as of January 1, 2016	1,912	199	1,874	702	-	4,687
Newly consolidated companies	5,308	330	3,016	-	235	8,889
Effect of changes in exchange rates	(685)	(56)	(265)	(24)	(14)	(1,044)
Balance as of December 31, 2016	6,535	473	4,625	678	221	12,532
Changes in 2017:						
Newly consolidated company (a)	**-**	**-**	**260**	**-**	**-**	**260**
Additions (1)	**-**	**-**	**-**	**-**	**2,468**	**2,468**
Effect of changes in exchange rates	**490**	**37**	**450**	**95**	**11**	**1,083**
Balance as of December 31, 2017	**7,025**	**510**	**5,335**	**773**	**2,700**	**16,343**
Amortization:						
Balance as of January 1, 2016	239	199	3	377	-	818
Amortization for the year	605	240	-	71	11	927
Effect of changes in exchange rates	(77)	(43)	(1)	(15)	-	(136)
Balance as of December 31, 2016	767	396	2	433	11	1,609
Changes in 2017:						
Amortization for the year	**716**	**78**	**195**	**73**	**46**	**1,108**
Effect of changes in exchange rates	**95**	**36**	**1**	**64**	**1**	**197**
Balance as of December 31, 2017	**1,578**	**510**	**198**	**570**	**58**	**2,914**
Net book value:						
As of December 31, 2017	**5,447**	**-**	**5,137**	**203**	**2,642**	**13,429**
As of December 31, 2016	5,768	77	4,623	245	210	10,923

(a) See Note 4.

(1) **Purchase of technology rights**

On December 15, 2016, the Company and Resato International B.V. ("Resato") signed a contract for the immaterial purchase of technology rights underlying the manufacture of a product line of high pressure connectors and fittings ("the acquired assets") in consideration of €2.3 million based on the conditions determined in the purchase agreement. The acquired assets will allow the Company to establish a high pressure connector and fitting production and assembly line to be used by both the Company's customers and Resato. The latter will cease manufacturing its own connectors and fittings during the period stated in the purchase agreement (subject to certain exceptions stipulated therein). Resato has undertaken to provide the Company development, manufacturing and engineering support for a period of five years from the date of consummation of the purchase in return for royalties to be paid over the service period as a percentage of the Company's revenues from products that integrate the acquired assets. The transaction was completed in January 2017. The use of the technology is expected to begin in the course of 2018.

NOTE 11:- INTANGIBLE ASSETS (Cont.)

b. **Amortization expenses:**

The amortization expenses of intangible assets are all classified in selling and marketing expenses in profit or loss, excluding the amortization of goodwill created in the acquisition of a subsidiary which is included in other expenses.

c. **Impairment testing for cash-generating units containing goodwill:**

1. The Company's books include goodwill totaling $ 2,059 thousand arising from the transaction for the acquisition of the Dutch subsidiary in 2010. The impairment testing was determined by discounting the future cash flows that will derive from the continuing use of the cash-generating unit ("CGU") with the help of an independent valuation expert according to which no impairment was recognized. The value of the CGU as per said calculation was estimated at €7,300 thousand (approximately $ 8,744 thousand). This value exceeds the net carrying amount attributable to the unit which is €5,891 thousand (approximately $ 7,056 thousand). The valuation relied on the following assumptions:

   - Estimated cash flows based on actual operating results in 2017, the budget for 2018 and the Group's plans for future years (2022 as the representative year).

   - The Company's revenues as included in the projected cash flows were estimated based on the Company's budget for 2018 on the basis of the order backlog and steps taken by the Company, adjusted by the valuation expert to the economic conditions in the Company's operating environment and a growth rate for 2019-2021 which subsides by 2%-6% per annum. In the representative year, a fixed growth rate of 2% was determined based on management's estimate.

   - A pre-tax discount rate of about 16% was used in calculating the recoverable amount of the CGU. The estimated discount rate was based on the estimated inherent risk in the CGU's operation.

   - The gross profit margin in the representative year is about 36%.

2. The Company's books include goodwill totaling $ 2,814 thousand arising from the transaction for the acquisition of the Chinese subsidiary in 2016. The impairment testing was determined by discounting the future cash flows that will derive from the continuing use of the CGU with the help of an independent valuation expert according to which no impairment was recognized. The value of the CGU as per said calculation was estimated at RMB 116,653 thousand (approximately $ 17,928 thousand). This value exceeds the net carrying amount attributable to the unit which is RMB 93,718 thousand (approximately $ 14,404 thousand). The valuation relied on the following assumptions:

NOTE 11:- INTANGIBLE ASSETS (Cont.)

c. Impairment testing for cash-generating units containing goodwill (Cont.):

- Estimated cash flows based on actual operating results in 2017, the budget for 2018 and the Group's plans for future years (2023 as the representative year).

- The Company's revenues as included in the projected cash flows were estimated based on the Company's budget for 2018 on the basis of the order backlog and steps taken by the Company, adjusted by the valuation expert to the economic conditions in the Company's operating environment and a growth rate for 2019-2022 of up to about 5%-9% per annum. In the representative year, a fixed growth rate of 3% was determined based on management's estimate.

- A pre-tax discount rate of about 19% was used in calculating the recoverable amount of the CGU. The estimated discount rate was based on the estimated inherent risk in the CGU's operation.

- The gross profit margin in the representative year is about 41%.

NOTE 12:- OTHER PAYABLES

	December 31,	
	2017	2016
	US dollars in thousands	
Employees and payroll accruals	**9,794**	8,310
Accrued vacation	**1,320**	1,012
Advances from customers	**747**	103
Liability for sales commissions	**1,917**	944
Accrued expenses and other payables	**7,634**	5,430
	21,412	15,799

NOTE 13:- LOANS AND CREDIT FROM BANKS AND OTHERS

	Linkage	Interest rate at December 31, 2017 %	December 31, 2017	December 31, 2016
			US dollars in thousands	
Current liabilities to banks and others:				
Current maturities of long-term loans	SGD	6.25-6.75	**201**	-
Current maturities of long-term loans	US$	3.8	**1,339**	804
Current maturities of long-term loans	US$	LIBOR+2.2-2.95	**1,716**	1,834
Current maturities of long-term loans	Euro	Libor+2.05	**689**	-
Current maturities of long-term loans	Euro	2.88-3.9	**54**	29
Short-term loans	US$	LIBOR+2.1-2.5	**3,000**	-
Short-term loans	Euro	LIBOR+1.3-1.58	**4,791**	4,207
Short-term loans	RMB	4.35	**2,305**	5,673
Overdraft	NOK		**-**	434
Overdraft	Euro		**31**	-
Overdraft	US$		**4,294**	-
			18,420	12,981
Non-current liabilities to banks:				
a. Composition:				
Loans in SGD			**201**	-
Loans in US$			**16,712**	17,555
Loans in Euro			**2,761**	257
Less - current maturities			**(3,999)**	(2,667)
			15,675	15,145
b. Loan maturity dates:				
Second year			**3,392**	2,553
Third year			**3,393**	2,553
Fourth year			**3,393**	2,553
Fifth year and thereafter			**5,497**	7,486
			15,675	15,145

As of December 31, 2017, the rate of the LIBOR is 1.75% (December 31, 2016 - 1%).

NOTE 13:- LOANS AND CREDIT FROM BANKS AND OTHERS (Cont.)

c. Contractual restrictions and financial covenants:

As security for liabilities to various banks in the amount of approximately $ 35.6 million, the Company and its subsidiary, HTC Ltd., undertook to comply with financial covenants that include a minimum ratio of "tangible shareholders' equity"(*) of 30%, during the credit period according to the consolidated financial statements, to total "consolidated balance sheet of the Group", as these terms were defined in the agreements between the Company and the banks.

As at the date of the financial statements, the Company and the subsidiary are in compliance with the financial covenants.

(*) Tangible equity - equity presented in the consolidated financial statements less deferred charges, intangible assets, less amounts detailed in the financial statements on a consolidated basis in respect of and in connection with the Company's receivables that represent interested parties and/or subsidiaries and/or related parties of the Company (as these terms are defined in the Securities Law, 1968), and less guarantees that were provided by the Company as security for the debts of interested parties and/or related parties of the Company.

d. The Group's exposure to credit risk, interest rate risk and currency risk and an analysis of sensitivity of financial assets are detailed in Note 26 below regarding financial instruments.

e. See Note 29 regarding liens and collaterals.

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

a. Post-employment benefits:

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

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or as defined contribution plan, as detailed below.

NOTE 14:- EMPLOYEE BENEFIT LIABILITIES (Cont.)

a. Post-employment benefits (Cont.):

1. Defined contribution plans:

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

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Expenses in respect of defined contribution plans	**673**	492	465

2. Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Expenses in respect of defined benefit plans	**144**	145	137

NOTE 15:- EQUITY

a. Composition of share capital:

	December 31,	
	2017	2016
	Number of shares	
Authorized (nominal NIS):		
Ordinary shares of NIS 1 par value each	**50,000,000**	50,000,000
Issued and outstanding (nominal NIS) *:		
Ordinary shares of NIS 1 par value each	**14,425,256**	14,403,464

* Including treasury shares - see paragraph d below.

b. The Ordinary shares, excluding treasury shares (see paragraph d below), confer on their owners the right to participate in the Company's current earnings and in the distribution of assets at the time of liquidation, in proportion to their par value.

c. Share-based payments:

1. On January 2, 2017, the Company's Board of Directors decided to adopt an option plan for employees, officers and consultants of the Company and its subsidiaries and an option plan for the Company's CEO. On February 13, 2017, the general meeting of the Company's shareholders approved the CEO's option plan and the options were allocated on March 13, 2017.

   The plan consists of the following:

   a) Allocation to the Company's CEO of 100,000 (non-marketable) options that are exercisable into up to 100,000 shares in three equal annual portions of 33,333 options each and allocation to the Company's employees, officers and consultants of 109,500 (non-marketable) options that are exercisable into up to 109,500 shares in three equal annual portions of 36,500 options each, all as detailed below.

   b) The options will vest as follows: the first portion will be exercisable from the first anniversary of the actual allocation date; the second portion will be exercisable from the second anniversary of the actual allocation date; and the third portion will be exercisable from the third anniversary of the actual allocation date. Notwithstanding the aforesaid, upon the termination of employment of a holder of the Company's options by the Company for whatever reason, the options that would have vested by that date had the vesting period been on a quarterly basis will vest.

NOTE 15:- EQUITY (Cont.)

c) Each portion of options can be exercised for a period of two years from the relevant vesting date. Officers who terminate their service in the Company may exercise their unexercised options within 90 days from the termination date. In the event of change of control on the Company's Board, the Company may decide on partial acceleration of the vesting period.

d) The exercise price is NIS 60.00 per option but it will not be paid to the Company but rather used for determining the bonus component arising from the exercised options and the number of resulting shares. In addition, the options are subject to certain adjustments in the event of dividend distribution, distribution of bonus shares and rights issues.

The fair value of the options allocated on said date was calculated using the Black & Scholes option pricing model and amounted to $ 696 thousand. This value was based on the following parameters: (1) a share price of NIS 60; (2) (weighted average) expected volatility of 28.52%-30.61%; (3) a risk-free interest rate of 0.65%-1.26%; (4) (weighted average) expected life of the options of 4 years. The fair value was also calculated assuming the options are only exercised shortly before they expire.

The updated exercise price of the options as of December 31, 2017 following the dividends distributed by the Company is NIS 58.71 (see paragraph f below).

2. On December 7, 2017, the Company's Board of Directors decided to adopt an option plan for an employee and officer of the Company. The options were allocated on December 27, 2017.

The plan consists of the following:

a) Allocation to an officer and employee in the Company of 21,000 (non-marketable) options that are exercisable into 21,000 shares in three equal annual portions of 7,000 options each as detailed below.

b) The options will vest as follows: the first portion will be exercisable from the first anniversary of the actual allocation date; the second portion will be exercisable from the second anniversary of the actual allocation date; and the third portion will be exercisable from the third anniversary of the actual allocation date. Notwithstanding the aforesaid, upon the termination of employment of a holder of the Company's options by the Company for whatever reason, the options that would have vested by that date had the vesting period been on a quarterly basis will vest.

c) Each portion of options can be exercised for a period of two years from the relevant vesting date. Officers who terminate their service in the Company may exercise their unexercised options within 90 days from the termination date. In the event of change of control on the Company's Board, the Company may decide on partial acceleration of the vesting period.

NOTE 15:- EQUITY (Cont.)

d) The exercise price is NIS 69.89 per option but it will not be paid to the Company but rather used for determining the bonus component arising from the exercised options and the number of resulting shares. In addition, the options are subject to certain adjustments in the event of dividend distribution, distribution of bonus shares and rights issues.

The fair value of the options allocated on said date was calculated using the Black & Scholes option pricing model and amounted to $ 102 thousand. This value was based on the following parameters: (1) a share price of NIS 69.89; (2) (weighted average) expected volatility of 28.88%-31.39%; (3) a risk-free interest rate of 0.35%-0.9%; (4) (weighted average) expected life of the options of 4 years. The fair value was also calculated assuming the options are only exercised shortly before they expire.

3. The composition of the options:

Date of approval of option plan	Optionees	Number of outstanding options	Exercise price at December 31, 2017
November 14, 2013	Employees, officers and consultants	21,500	NIS 24.27
March 19, 2015	Officers	49,998	NIS 34.06
November 1, 2015	US subsidiary's CEO	24,999	NIS 28.03
December 30, 2015	Company CEO	100,000	NIS 28.5
December 1, 2016	Officers and VP of Business Development-Asia	60,000	NIS 41.11
January 2, 2017	Employees, officers and consultants	100,500	NIS 58.71
January 2, 2017	Company CEO	100,000	NIS58.71
December 7, 2017	Officer and employee	21,000	NIS 69.89

In the reporting year, the Company recorded salary expenses of $ 510 thousand for the grants of the above options (in 2016 - $ 170 thousand).

NOTE 15:- EQUITY (Cont.)

4. Changes in options:

	2017	2016	2015
	Number of options		
Balance as of January 1	**296,497**	295,189	268,582
Granted during the year	**230,500**	160,000	74,997
Forfeited during the year	**(9,000)**	(26,850)	(21,400)
Exercised during the year	**(40,000)**	(131,842)	(26,990)
Total options outstanding at December 31	**477,997**	296,497	295,189
Total options exercisable at December 31	**71,498**	53,999	80,792
Average remaining life of outstanding options	**3.03 years**	3.47 years	2.52 years
Average price of outstanding options	**$ 12.96**	$ 8.42	$ 7.3

d. Treasury shares:

The reserve for treasury stock comprises the cost of the Company's shares held by the Group.

In 2008, the Company's Board of Directors decided to approve a framework of up to NIS 25 million for the repurchase of the Company's shares that are traded on the Tel Aviv Stock Exchange. Any such repurchase of shares will be done from time to time by the Company and/or through its subsidiary, at the discretion of the Company's management or of any other entity authorized by the Company.

The cost of repurchase of the Company's shares as aforementioned is recorded directly in equity. Until December 31, 2008, the Company repurchased 448,051 of its shares at a total cost of $ 3,526 thousand. The share repurchase had no effect on taxes.

The Group did not repurchase any more shares of the Company during 2009-2017.

e. Translation reserve from foreign operations:

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

NOTE 15:- EQUITY (Cont.)

f. **Dividends:**

On March 23, 2017, the Company's Board of Directors decided to distribute a dividend in the total amount of NIS 18.07 million ($ 0.35 per share), which was paid to the Company's shareholders on May 16, 2017.

On November 27, 2016, the Company's Board of Directors decided to distribute a dividend in the total amount of NIS 19.36 million ($ 0.36 per share), which was paid to the Company's shareholders on December 12, 2016.

g. **Capitalization of retained earnings to share premium:**

On December 13, 2017, the Company capitalized a total of $ 2,465 thousand from tax-exempt earnings to share premium, in order to meet the standard conditions detailed in the updated letter of approval of the IIA, as part of the investment program under the grants track pursuant to the Law for the Encouragement of Capital Investments, 1959.

NOTE 16:- EARNINGS PER SHARE

Basic and diluted earnings per share *

The calculation of basic earnings per share as at December 31, 2017 was based on the income attributable to Ordinary shareholders in the amount of $ 12,004 thousand (in 2016 and 2015 - income of $ 9,177 thousand and income of $ 6,150 thousand, respectively), divided by the weighted average number of Ordinary shares calculated as follows:

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Income attributable to Ordinary shareholders	**12,004**	9,177	6,150
Weighted average number of Ordinary shares:			
Balance as of January 1	**13,955,413**	13,914,795	13,901,546
Effect of options exercised into shares	**18,387**	15,128	7,788
Weighted average number of Ordinary shares used to calculate basic earnings per share	**13,973,800**	13,929,923	13,909,334

* The effect of the employee options on the calculation of the diluted earnings per share is immaterial in all the reporting periods.

NOTE 17:- REVENUES FROM SALES

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Sales in Israel	**5,579**	6,914	3,871
Sales abroad	**144,615**	117,174	93,704
	150,194	124,088	97,575

NOTE 18:- COST OF SALES

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Consumption of parts and materials	**37,570**	26,506	19,694
Wages, salaries and related expenses	**24,232**	18,090	15,564
Share-based payments	**52**	5	12
Subcontractors	**12,046**	8,847	6,523
Auxiliary materials	**3,140**	2,248	1,835
Rent	**2,003**	1,592	1,525
Plant maintenance	**1,562**	1,409	1,358
Other manufacturing expenses	**9,721**	8,807	8,075
Depreciation and amortization	**4,907**	4,656	3,960
Purchase of finished goods	**11,417**	7,796	6,342
Changes in inventories of products in process and finished products	**(10,699)**	(1,181)	(1,863)
Changes in provision for impairment of inventory	**23**	(366)	(254)
	95,974	78,409	62,771

NOTE 19:- SELLING AND MARKETING EXPENSES

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Wages, salaries and related expenses	12,445	* 10,446	* 9,817
Share-based payments	106	58	20
Advertising and marketing	2,404	1,972	1,752
Shipping and insurance	3,200	3,090	2,587
Professional fees	5,268	* 3,670	1,127
Rent and building maintenance	1,233	1,125	1,029
Depreciation and amortization	993	986	602
Other selling and marketing expenses	185	206	45
	25,834	21,553	16,979

* Reclassified.

NOTE 20:- GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Wages, salaries and related expenses	**4,547**	4,725	2,268
Share-based payments	**326**	102	99
Professional fees	**2,449**	1,570	1,439
Office maintenance	**1,401**	1,002	679
Doubtful accounts and bad debts	**(387)**	103	78
Depreciation and amortization	**337**	365	266
Other general and administrative expenses	**779**	606	495
	9,452	8,473	5,324

NOTE 21:- RESEARCH AND DEVELOPMENT EXPENSES

	For the Year ended December 31,		
	2017	2016	2015
	US dollars in thousands		
Wages, salaries and related expenses	**2,955**	2,348	2,077
Share-based payments	**26**	5	12
Other expenses	**933**	742	736
	3,914	3,095	2,825

NOTE 22:- OTHER EXPENSES (INCOME)

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Expenses in respect of acquisition of companies (a)	**50**	816	422
Capital gain from sale of property, plant and equipment (b)	**(939)**	-	-
Amortization of goodwill created in acquisition of subsidiary	**195**	-	-
	(694)	816	422

(a) See Note 4.

(b) See Note 28a.

NOTE 23:- FINANCE INCOME AND EXPENSES

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Interest income from banks deposits	**27**	2	4
Change in fair value of derivative financial instruments	**151**	223	105
Other finance income	**94**	2	-
Finance income recognized in profit or loss	**272**	227	109
Interest expenses on financial liabilities measured at amortized cost	**1,137**	797	277
Net loss from exchange rate differences	**449**	586	833
Change in fair value of derivative financial instruments	**-**	-	233
Other finance expenses	**772**	217	180
Finance expenses recognized in profit or loss	**2,358**	1,600	1,523
Net finance expenses recognized in profit or loss	**2,086**	1,373	1,414

NOTE 24:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

1. Corporations in Israel:

The Law for the Encouragement of Capital Investments, 1959 ("the Law")

According to the Law, the company and an Israeli subsidiary are entitled to various tax benefits by virtue of the "approved enterprise" and "beneficiary enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

Tax benefits and reduced tax rates

Grants track

The Company has investment programs according to which it is entitled to investment grants of 20%.

Tax benefits track

The Company and a subsidiary in Israel have a number of investment programs recognized as approved enterprises under the Law. The investments in these programs have been completed, approval has been received from the Investment Center and the benefit period in their respect has ended.

The Company and a subsidiary in Israel have an investment program which has been recognized as a beneficiary enterprise under section 51 of the Law. The income from the beneficiary enterprise is tax-free for ten years from 2006 in the subsidiary and from 2007 in the Company. In 2011, the Company chose to apply Amendment 68 to the Law.

Companies that own an approved or beneficiary enterprise and distribute dividends out of tax exempt profits will be liable to pay corporate tax on the amount of the dividend distributed in the tax year in which it is distributed at the rate that would have applied to it according to the Law had the income not been tax exempt.

Conditions for the entitlement to the benefits

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The managements believe that the companies are meeting the aforementioned conditions.

NOTE 24:- TAXES ON INCOME (Cont.)

a. Tax laws applicable to the Group companies (Cont.):

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73)

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The deferred tax balances as of December 31, 2016 have been calculated based on the revised tax rate. As a result of the change in the tax rate, the balance of deferred tax liabilities decreased by approximately NIS 134 thousand. The entire decrease was recorded as income in profit and loss.

The Law for the Encouragement of Industry (Taxation), 1969

The Company and a subsidiary in Israel ("the companies") have an "industrial company" status, as defined by the Law for the Encouragement of Industry (Taxation), 1969. According to this status, the companies are entitled to claim accelerated depreciation on equipment used in industrial activities, as determined in regulations by virtue of the Income Tax (Inflationary Adjustments) Law, 1985, and amortization of knowhow used to develop the enterprise for 8 years. In addition, since the 1999 tax year, the companies file consolidated tax returns as "industrial companies".

2. Subsidiaries outside of Israel:

Subsidiaries which were incorporated outside of Israel are subject to tax under the tax laws in their countries of residence.

b. Tax rates applicable to the Group:

The Israeli corporate tax rate was 24% in 2017, 25% in 2016 and 26.5% in 2015.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

NOTE 24:- TAXES ON INCOME (Cont.)

c. Final tax assessments:

The Company and a subsidiary in Israel have received tax assessments that are deemed final up to and including the 2013 tax year.

The US subsidiary was issued final tax assessments through the 2010 tax year, a British subsidiary (Cambridge Fluid Systems Limited) was issued final tax assessments through the 2011 tax year and a German subsidiary was issued final tax assessments through the 2012 tax year. The Chinese subsidiaries and the Singapore subsidiary (Ham-Let Singapore Valves & Fittings Pte. Ltd.) have not been issued final tax assessments since their incorporation.

d. Carryforward losses for tax purposes and other temporary differences:

Carryforward business losses of the Group total approximately $ 11,238 thousand as of December 31, 2017. Deferred tax assets of approximately $ 1,705 thousand relating to losses totaling $ 2,466 thousand of total carryforward losses as above and to other deductible temporary differences were recognized in the financial statements.

Deferred tax assets relating to carryforward business losses of approximately $ 8,772 thousand were not recognized because their utilization in the foreseeable future is not probable.

e. Taxes on income recognized in profit or loss:

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Current tax expense:			
Current year	**2,348**	1,933	1,349
Adjustments for prior years, net	**122**	14	517
	2,470	1,947	1,866
Deferred tax expenses (income):			
Creation and reversal of temporary differences	**(936)**	(419)	(166)
Change in tax rate	**90**	(134)	-
	(846)	(553)	(166)
Total income tax expenses	**1,624**	1,394	1,700

NOTE 24:- TAXES ON INCOME (Cont.)

f. Theoretical tax:

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Income before taxes on income	**13,628**	10,571	7,850
Statutory tax rate	**24%**	25%	26.5%
Tax computed at the statutory tax rate	**3,271**	2,643	2,080
Tax benefit from reduced tax rate of preferred enterprises	**(2,964)**	(2,194)	(1,578)
Current year tax losses for which no deferred taxes were created	**435**	764	83
Temporary differences for which no deferred taxes were recognized	**185**	(381)	-
Tax effect of exchange rate differences (Dollar-NIS)	**(731)**	6	80
Creation of deferred tax at different tax rate	**833**	339	317
Non-deductible expenses	**341**	407	186
Taxes in respect of previous years	**122**	14	517
Effect of change in tax rate	**90**	(134)	-
Other differences	**42**	(70)	15
Taxes on income	**1,624**	1,394	1,700

g. Deferred taxes:

Recognized deferred tax assets and liabilities

Deferred taxes in respect of companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. Deferred taxes in respect of foreign subsidiaries are calculated according to the relevant tax rates of each country.

NOTE 24:- TAXES ON INCOME (Cont.)

Deferred tax assets and liabilities are attributable to the following items:

	Property, plant and equipment	Inventory	Carry-forward losses	Other assets	Employee benefits	Other	Total
	US dollars in thousands						
Balance of deferred tax asset (liability) at January 1, 2016	(1,369)	833	-	(431)	193	23	(751)
Newly consolidated companies	603	19	446	(1,466)	900	2	504
Changes recognized in profit or loss	111	(81)	78	222	(28)	117	419
Changes recognized in other comprehensive income	(33)	(1)	(29)	149	(78)	(1)	7
Effect of change in tax rate	176	(7)	-	-	(10)	(25)	134
Balance of deferred tax asset (liability) at December 31, 2016	(512)	763	495	(1,526)	977	116	313
Changes recognized in profit or loss	**(174)**	**537**	**72**	**215**	**(115)**	**401**	**936**
Changes recognized in other comprehensive income	**19**	**1**	**25**	**(105)**	**59**	**4**	**3**
Effect of change in tax rate	**2**	**(1)**	**(25)**	**-**	**-**	**(66)**	**(90)**
Balance of deferred tax asset (liability) at December 31, 2017	**(665)**	**1,300**	**567**	**(1,416)**	**921**	**455**	**1,162**

Presented in the statement of financial position as follows:

	December 31, 2017	December 31, 2016
	US dollars in thousands	
Deferred tax assets	**1,705**	1,626
Deferred tax liabilities	**(543)**	(1,313)
Balance of deferred tax assets at December 31	**1,162**	313

NOTE 25:- FINANCIAL RISK MANAGEMENT

a. **Overview:**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency and interest risks)

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

b. **Risk management framework:**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has authorized the Company's management to be responsible for developing and monitoring the Group's risk management policies. The Company's management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. Through its policy assimilation and training programs, the Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

c. **Credit risk:**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk, due to the fact that the Company insures most of the credit it grants to its customers.

NOTE 25:- FINANCIAL RISK MANAGEMENT (Cont.)

c. Credit risk (Cont.):

The Group has a procedure for defining the credit limit of a customer on the date of opening the customer on the system. In addition, the Group requests foreign trade risks insurance for transactions with certain customers. The risk insurance company defines the possible amount of debt of the customer and provides to the Company information regarding the financial ability of the customer. The Group regularly examines the balances of its customers around the world.

The Group recognizes an impairment provision that reflects its assessment of the losses incurred in respect of trade and other receivables. The principal components of this provision are specific loss components relating to individually significant exposures.

Guarantees

The Group's policy is to provide financial guarantees to subsidiaries based on the specific circumstances.

d. Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group verifies that there is a sufficient amount of cash on hand for the payment of current operating expenses including the amounts required in order to meet its financial liabilities. This does not take into account the potential effect of extreme scenarios that cannot be reasonably forecasted, such as natural disasters.

e. Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, the CPI and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

In the ordinary course of business, the Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set forth by the Group's management.

NOTE 25:- FINANCIAL RISK MANAGEMENT (Cont.)

e. Market risk (Cont.):

Currency risk

The Group is exposed to currency risk on sales, purchases, services and borrowings that are denominated in various currencies, other than the Dollar, and in the various functional currencies of the Group entities. The currencies in which the sale transactions are primarily denominated are USD, NIS, GBP, Japanese Yen and Euro.

The Company has significant production costs denominated in NIS. Changes in the US Dollar-NIS exchange rate have a material effect on the Group's operating results.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

In regards to material transactions the Company's policy is to hedge the risk arising from changes in foreign currency exchange rates by means of forward transactions and foreign currency options.

Interest rate risk

The Group adopted a policy of ensuring its exposure to changes in interest rates on borrowings based on a fixed rate of interest. This is achieved by entering into interest rate swaps.

NOTE 26:- FINANCIAL INSTRUMENTS

a. Credit risk:

1. Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	December 31,	
	2017	2016
	Carrying amount	
	US dollars in thousands	
Cash and cash equivalents	**11,172**	15,027
Trade receivables	**43,473**	37,518
Other receivables	**7,802**	4,405
	62,447	56,950

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

a. Credit risk (Cont.):

The maximum exposure to credit risk due to trade and other receivables at the reporting date by geographic regions is as follows:

	December 31,	
	2017	2016
	Carrying amount	
	US dollars in thousands	
Domestic	**6,296**	4,955
Euro-zone countries	**8,496**	6,645
United Kingdom	**3,650**	2,672
North America	**5,191**	3,586
China *	**17,633**	15,470
Far East	**9,442**	7,600
Other regions	**567**	995
	51,275	41,923

* A significant portion of the Chinese subsidiary's sales are made through Xinghe Group Co., Ltd. (a former shareholder of the Chinese subsidiary) based on a marketing and sale agreement signed between the companies. The balance of trade receivables and other receivables includes an amount of approximately $ 5.7 million representing a debt of Xinghe Group Co., Ltd. to the Chinese subsidiary.
Standard credit days in the Far East in general and particularly in China are significantly higher than average credit days in the other geographical regions in which the Group operates.

The maximum exposure to credit risk due to trade receivables and other receivables at the reporting date by type of counterparty is as follows:

	December 31,	
	2017	2016
	Carrying amount	
	US dollars in thousands	
Distributors	**12,845**	11,698
End customers	**30,628**	25,820
Others	**7,802**	4,405
	51,275	41,923

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

a. Credit risk (Cont.):

2. Aging of debts and impairment losses:

The aging of trade receivables at the reporting date is as follows:

	December 31,			
	2017		2016	
	Gross	Impairment	Gross	Impairment
	US dollars in thousands			
Not past due	**26,621**	**-**	24,155	-
Past due 0-30 days	**8,301**	**-**	5,543	-
Past due 31-60 days	**2,572**	**-**	1,645	-
Past due 61 days and above *	**7,339**	**1,360**	7,908	1,733
	44,833	**1,360**	39,251	1,733

Most transactions are insured by credit insurance.

* Out of the balance of debts which are past due above 61 days, an amount of approximately $ 5.7 million represents past due debts of the Chinese subsidiary. The payment pattern of Chinese customers normally exceeds due dates. The provision for impairment represents the real exposure in respect of past due debts.

The movement in the provision for impairment in respect of trade receivables during the year is as follows:

	2017	2016	2015
	US dollars in thousands		
Balance as of January 1	**1,733**	529	566
Effect of newly consolidated companies	**-**	1,169	-
Loss (gain) recognized	**(373)**	35	(37)
Balance as of December 31	**1,360**	1,733	529

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

b. Liquidity risk:

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	December 31, 2017				
	Carrying amount	Contractual cash flows (1)	1 year or less	1-2 years	2-6 years
	US dollars in thousands				
Non-derivative financial liabilities					
Loans and borrowings from banks	**18,420**	**19,442**	**19,442**	**-**	**-**
Bank loans	**15,675**	**17,334**	**-**	**3,974**	**13,360**
Trade payables	**25,686**	**25,686**	**25,686**	**-**	**-**
Other payables	**9,320**	**9,320**	**9,320**	**-**	**-**
Total	**69,101**	**71,782**	**54,448**	**3,974**	**13,360**

(1) The interest payments on variable interest rate loans may be different from the amounts in the above table.

	December 31, 2016				
	Carrying amount	Contractual cash flows (1)	1 year or less	1-2 years	2-6 years
	US dollars in thousands				
Non-derivative financial liabilities					
Loans and borrowings from banks	12,981	13,919	13,919	-	-
Bank loans	15,145	17,007	-	3,105	13,902
Trade payables	17,839	17,839	17,839	-	-
Other payables	8,956	8,956	8,956	-	-
Total	54,921	57,721	40,714	3,105	13,902

(1) The interest payments on variable interest rate loans may be different from the amounts in the above table.

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

c. **Foreign currency risks:**

1. **Sensitivity analysis:**

A strengthening of the USD against the following currencies in respect of existing balance sheet exposure as at December 31, 2017 would have increased (decreased) equity and profit or loss by the amounts shown below excluding the tax effect. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	December 31,			
	2017		2016	
	Equity	Profit (loss)	Equity	Profit (loss)
	US dollars in thousands			
Increase in the exchange rate of:				
Japanese Yen - 5%	**(169)**	**(169)**	(87)	(87)
Euro - 5%	**27**	**27**	105	105
NIS - 5%	**446**	**446**	221	221

A weakening of the USD against the above currencies at the same rates as at December 31 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

2. Details of the Group's derivative financial instruments as of December 31, 2017:

Derivative	Buying currency	Selling currency	Par value US$ 000	Start date	End date	Fair value US$ 000
NIS-linked hedges						
Forwards	NIS	USD	9,400	Oct 2017	Jan-Mar 2018	151
Presented in current assets						151

At December 31, 2016, the Group had no derivative financial instruments.

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

c. **Foreign currency risks (Cont.):**

3. **Presented hereunder is information on the exchange rates of the NIS, the Japanese Yen and the Euro in relation to the US Dollar in the reporting periods:**

As of December 31:	Exchange rate of 1 NIS	Exchange rate of 100 Japanese Yen	Exchange rate of 1 Euro
2017	**0.288**	**0.888**	**1.192**
2016	0.260	0.855	1.052

Rate of change in the year ended December 31:

	Exchange rate of 1 NIS	Exchange rate of 100 Japanese Yen	Exchange rate of 1 Euro
2017	**10.9%**	**3.95%**	**13.89%**
2016	1.48%	2.92%	(3.37%)
2015	(0.33%)	(0.76%)	(10.41%)

d. **Interest rate risk:**

1. **Interest profile:**

Following is the interest rate profile of the Group's interest-bearing financial instruments:

	December 31, 2017	December 31, 2016
	Carrying amount	
	US dollars in thousands	
Fixed rate instruments:		
Financial assets	**-**	2,500
Financial liabilities	**9,920**	13,430
	(9,920)	(10,930)
Variable rate instruments:		
Financial assets	**-**	1,552
Financial liabilities	**24,175**	14,696
	(24,175)	(13,144)

2. **Fair value sensitivity analysis for fixed rate instruments:**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss in respect of changes in the carrying amount of assets and liabilities bearing fixed interest.

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

d. Interest rate risk (Cont.):

3. Cash flow sensitivity analysis for variable rate instruments:

A change of 5% in the base interest rate at the reporting date would have an insignificant effect on equity and profit or loss. The aforesaid applies also to 2016.

e. Fair value versus carrying amount:

The carrying amount of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, derivatives, short-term loans and borrowings, trade payables, other payables and long-term loans approximates their fair value.

Fair value (other than derivatives) is estimated by discounting future cash flows by the market interest rate on the date of measurement.

f. Details regarding fair value measurement of Level 2 financial instruments:

Forward contracts - fair value is measured on the basis of discounting the difference between the forward price in the contract and the current forward price for the residual period until redemption using market interest rates appropriate for similar instruments, including the adjustment required for the parties' credit risks.

Foreign currency options - fair value is measured based on the Black & Scholes formula.

g. Changes in liabilities arising from financing activities:

	Balance at January 1, 2017	Receipt of loans	Repayment of loans	Short-term credit, net	Finance expenses	Newly consolidated subsidiaries	Foreign currency translation adjustments	Balance at December 31, 2017
	US dollars in thousands							
Short-term loans	10,314	-	-	3,106	584	153	264	14,421
Long-term loans	17,812	4,109	(2,781)	-	280	212	42	19,674
Total	28,126	4,109	(2,781)	3,106	864	365	306	34,095

NOTE 27:- OPERATING LEASES

a. Leases in which the Group is the lessee:

1. The monthly rent in respect of the industrial buildings in Ziporit Ind. Park that are used by the Company and its subsidiary, HTC, is $ 128 thousand linked to the CPI. The rent contract is until March 31, 2032, and the Company was provided a number of dates on which it can decide not to continue the rent (the nearest exit date is April 30, 2019).

2. The future minimum lease rent payments for all Group companies (calculated according to the rent in effect on December 31, 2017) are as follows:

Year	US dollars in thousands
2018	**2,582**
2019	**1,283**
2020	**440**
2021	**409**
2022 and thereafter	**1,282**
	5,996

b. Leases in which the Group is the lessor:

See Note 9.

NOTE 28:- COMMITMENTS

a. On August 9, 2017, the Company and Jiangsu Xinghe Valve Co., Ltd., a wholly-owned subsidiary of the Company incorporated in China ("the Chinese subsidiary"), signed an agreement with the authorities in the Yangzhong district for the allocation of new land and the construction of a new plant in China to replace the current plant ("the agreement", "the Chinese authorities" and "the new plant", respectively). Among others, the agreement consists of the following provisions and conditions:

1. In return for the evacuation of the current plant, whose depreciated cost in the consolidated financial statements as of the date of signing the agreement approximated RMB 29 million (approximately $ 4 million), the Chinese subsidiary will receive from the Chinses authorities alternative land and monetary compensation of approximately RMB 61.28 million (approximately $ 9 million) ("the monetary compensation") which will be paid in three installments as follows: (i) about 40% of the monetary compensation will be received several days after signing the agreement; (ii) 40% of the monetary compensation will be received once the construction of the new plant commences and an investment of approximately $ 3 million is made by the Chinese subsidiary; (iii) 20% of the monetary compensation will be received after the construction of the new plant has ended and another investment of approximately $ 3 million is made by the Chinese subsidiary. The monetary compensation includes an amount of RMB 19.36 million for the potential impairment of the current plant's operations as a result of the road expansion work. The compensation will be carried to profit and loss over the expected construction period of the new plant.

2. The total investment which the Chinese subsidiary has undertaken to make in the construction of the new plant and in machinery, equipment and added semiconductor production facilities will not be lower than RMB 100 million (approximately $ 15 million). The Company intends to use the monetary compensation received from the Chinese authorities for financing the above investment.

3. According to the agreement, the Chinese authorities are responsible for supplying power, water and communication facilities and for leveling out the site on which the new plant will be located. The Chinese authorities have also undertaken to grant the Chinese subsidiary additional economic incentives (such as tax abatements and refunds) and the Chinese subsidiary has undertaken to pay direct and indirect taxes of at least RMB 7.5 million (approximately $ 1 million) per annum.

In addition to the above agreement, the Chinese subsidiary has signed an agreement with Xinghe Group Co., Ltd. (a former shareholder of the Chinese subsidiary which currently provides the Chinese subsidiary chairman of the board services) for receiving various services consisting of brokerage, holding negotiations, managing the new plant construction project and providing administrative support all in return for a fee of approximately RMB 13.6 million (approximately $ 2 million) that will be paid based on certain milestones as stated in the agreement over the period of the new plant construction.

NOTE 28:- COMMITMENTS (Cont.)

In September 2017, the first installment of the monetary compensation totaling approximately RMB 24.5 million (approximately $ 3.6 million) was received and the office building was evacuated to allow the expansion of the road. In respect of the first installment as above, a net capital gain was recorded (less transaction costs) totaling approximately $ 0.9 million. In addition, the legal claim of the alternative area was received and the development work for the construction of the new plant began. The evacuation of the current plant is expected to be completed in the first quarter of 2019 after the completion of the construction of the new plant. On the date of completion of the evacuation, the Company is expected to recognize the remaining capital gain.

b. On August 9, 2017, the Company was notified by the Israel National Authority for Technological Innovation ("the IIA") that one of its wholly-owned subsidiaries, HTC Ltd., won a bid by virtue of incentive track no. 29 - lab program for technological innovation (pilot) ("the incentive track"). According to the letter of approval, the franchise period is three years from November 1, 2017. According to the incentive track, the innovation lab is entitled to a grant from the IIA depending on the number of lab companies that will be incorporated into the innovation lab during the franchise period. In March 2018, HTC Ltd. signed an agreement with a startup, as approved by the IIA, for incorporating it into the Company's innovation lab. The startup is a hi-tech company operating in the industrial enterprises quality assurance market.

c. Lease agreements

See Note 27.

d. Commitment to purchase equipment, raw materials and finished goods:

1. As at December 31, 2017, the Group has commitments for purchasing equipment in the amount of approximately $ 6,838 thousand (at December 31, 2016 - approximately $ 3,791 thousand).

2. As at December 31, 2017, the Group has commitments for purchasing raw materials in the amount of approximately $ 19,765 thousand (at December 31, 2016 - approximately $ 10,116 thousand).

3. As at December 31, 2017, the Group has commitments for purchasing finished goods in the amount of approximately $ 3,462 thousand (at December 31, 2016 - approximately $ 888 thousand).

NOTE 29:- LIENS AND COLLATERALS

a. As security for repayment of liabilities of the Company and its subsidiary in Israel to banks, liens have been recorded on all the assets of the aforementioned companies in favor of said banks as follows:

- A first priority specific lien was recorded on machinery, equipment, facilities and systems, the acquisition of which was financed by long-term loans, in favor of the bank which provided the loan.

- Floating lien on all the assets of the Company and its subsidiary in Israel.

The total long-term liabilities and open letters of credit secured by liens at the reporting date amount to $ 35,565 thousand on a consolidated basis.

b. For the purpose of ensuring compliance with the conditions of investment grants received from the Israeli Government, a specific and floating lien was recorded on the machinery, equipment, tools, devices, facilities and all real estate property which are the subject of the investment plans, as well as all insurance rights in connection therewith.

The total grants secured by the aforementioned liens as at the reporting date are: the Company - $ 8,099 thousand and the subsidiary - $ 5,949 thousand.

c. To secure an amount which the Company undertook to pay two of the sellers of the Chines company, the Company provided a bank guarantee of $ 1,350 thousand.

d. To secure a subsidiary's short-term bank loans totaling $ 2,305 thousand, the Company provided a bank guarantee of $ 2,500 thousand.

NOTE 30:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS

a. Identity of interested and related parties:

The interested and related parties of the Company are FIMI Group and its related parties, other interested parties, directors and key management personnel of the Company.

b. Remuneration of key management personnel (including directors):

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers (such as a car etc.), and contributes to a post-employment defined benefit plan on their behalf. Executive officers also participate in the Company's share option plans (see Note 15c regarding share-based payments).

NOTE 30:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

b. Remuneration of key management personnel (including directors) (Cont.):

Remuneration of key management personnel (including directors employed by the Group)

	For the Year ended December 31,					
	2017		2016		2015	
	Number of people	US dollars in thousands	Number of people	US dollars in thousands	Number of people	US dollars in thousands
Key management personnel (1)						
Salary cost	**9**	**1,983**	11	1,694	9	1,999
Annual grant	**9**	**611**	11	606	9	439
Share-based payments (2)	**9**	**404**	11	142	9	112
		2,998		2,442		2,550

Remuneration of directors not employed by the Company

For the Year ended December 31,					
2017		2016		2015	
Number of people	US dollars in thousands	Number of people	US dollars in thousands	Number of people	US dollars in thousands
8	**213**	9	206	9	196

(1) Transactions with key management personnel:

On December 31, 2015, Mr. Uri Oliner's tenure as the Company's CEO ended. On December 30, 2015, Mr. Amir Widmann's appointment as the Company's CEO was approved effective from January 1, 2016. According to the employment terms, which were amended in 2017, Mr. Widmann is entitled to receive a monthly salary of NIS 80 thousand. On March 15, 2018, in keeping with the recommendation of the Remuneration Committee, the Company's Board decided to approve an immaterial salary increment to the Company's CEO to NIS 87.5 thousand a month. According to the agreement, the Company is obligated to make contributions on behalf of Mr. Widmann in a severance pay fund and/or executive insurance policy and in an advanced study fund at customary rates as well as provide an occupational disability fund. Mr. Widmann is also entitled to 26 annual vacation days and a company car whose entire expenses including maintenance and income tax in its respect will be paid by the Company.

Moreover, Mr. Widmann is entitled to an annual bonus based on the Company's executive remuneration plan. The annual bonus will amount to 3-8 gross monthly salaries. The annual bonus includes a discretionary component in the amount of up to three salaries. The remaining annual bonus components will be based on the following: (1) 50% of the bonus will be contingent on meeting sales targets; (b) 50% of the bonus will be contingent on the Company meeting an annual NOI target.

On February 13, 2017, the Company's special general meeting approved a material private placement of 100,000 (non-marketable) options that are exercisable into up to 100,000 shares of NIS 1 par value each to the Company's CEO.

(2) See Note 15c.

NOTE 30:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

c. Amounts of related and interested party transactions:

	For the Year ended December 31,		
	2017	**2016**	**2015**
	US dollars in thousands		
Sales in Israel (1)	**117**	170	183
Purchase of materials and parts (2)	**126**	125	9

(1) The Company makes sales to a related party (a former related party controlled by the controlling shareholder which is no longer a related party) in the ordinary course of business.

(2) The Company has agreements during the ordinary course of business with various suppliers.

d. Interested and related party balances:

	December 31,	
	2017	**2016**
	US dollars in thousands	
Current assets:		
Trade receivables (company owned by the controlling shareholder)	**-**	31
Current liabilities:		
Other payables (key management personnel)	**1,105**	842
Trade payables (companies owned by controlling shareholder)	**31**	39
Non-current liabilities:		
Employee benefit liabilities (key management personnel)	**201**	168
Highest balance in the year:		
Company owned by the controlling shareholder (trade receivables)	**76**	90

NOTE 30:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

e. Immaterial transactions procedure:

1. On March 15, 2018, the Company's Board of Directors reaffirmed the guidelines and rules for classifying a transaction of the Company or its subsidiary with an interested party ("interested party transaction") as an immaterial transaction as provided in Regulation 41(A)(6)(a) of the Securities Regulations (Annual Financial Statements), 2010 as follows.

2. In the ordinary course of business, the Company and its subsidiaries execute transactions with interested parties (including a controlling shareholder), including transactions of the following types and having the following characteristics: transactions for the acquisition of services from interested parties; transactions for the acquisition and/or lease and/or sale of products from/to interested parties.

3. The Company's Board of Directors decided that in the absence of any special qualitative considerations arising from the overall circumstances of the matter (see paragraph 4 below), an interested party transaction will be considered immaterial if the relevant criterion calculated for the transaction (one or more, as described hereunder) is less than half a percent (0.5%) or a maximum amount of $ 0.5 million, whichever is lower.

   For every interested party transaction that is being examined for immateriality, one or more of the ratios relevant to the specific transaction will be calculated on the basis of the most recent financial statements of the Company: (a) sales ratio - the amount of the sales in the interested party transaction divided by the annual amount of sales; (b) cost of sales ratio - the cost of the interested party transaction divided by the annual cost of sales; (c) profit ratio - the actual or forecasted profit or loss from the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements have been issued; (d) assets ratio - the amount of the assets in the interested party transaction divided by total assets; (e) liabilities ratio - the amount of the liabilities in the interested party transaction divided by total liabilities; (f) operating expenses ratio - the amount of the expense in the interested party transaction divided by the amount of the annual operating expenses.

   Thus for example, the relevant ratio for the purchase of products or services will usually be the costs of sales ratio. In cases that according to the Company's judgment all the aforementioned quantitative ratios are irrelevant to the immateriality examination of the interested party transaction, the transaction will be considered immaterial on the basis of some other relevant ratio to be determined by the Company, providing that the relevant ratio calculated for the transaction is less than half a percent (0.5%) or a maximum amount of $ 0.5 million, whichever is lower.

NOTE 30:- RELATED AND INTERESTED PARTY BALANCES AND TRANSACTIONS (Cont.)

e. Immaterial transactions procedure (Cont.):

4. The qualitative examination of an interested party transaction may result in the contradiction of the presumption regarding immateriality of the transaction as mentioned in paragraph 3 above. Thus, for example, an interested party transaction shall not be considered immaterial if the event is perceived by management of the Company as being a significant event and is a basis for making management decisions, or if in the framework of the interested party transaction interested parties are expected to receive benefits that it is important they be brought to the attention of the public.

5. Each year the Company's Audit Committee will review the manner of implementing the instructions of this procedure by the Company and its implementation.

NOTE 31:- EVENTS AFTER THE REPORTING DATE

On January 25, 2018, the Company's Board decided to adopt an option plan for an officer in the Company. The validity of the allocation pursuant to the option plan is subject to obtaining approvals required by law, including the approval of the TASE for listing the shares deriving from the exercise of the options for trade. The options were allocated on March 14, 2018. The plan consists of the following:

a. Allocation to the officer of 30,000 (non-marketable) options that are exercisable into up to 30,000 shares in three equal annual portions of 10,000 options each as detailed below.

b. The vesting periods of the options will be as follows: the first portion will be exercisable from the first anniversary of the actual allocation date; the second portion will be exercisable from the second anniversary of the actual allocation date; and the third portion will be exercisable from the third anniversary of the actual allocation date. Notwithstanding the aforesaid, upon the termination of employment of the officer by the Company for whatever reason, the options that would have vested by that date had the vesting period been on a quarterly basis will vest.

c. The exercise period of each portion is two years commencing on the vesting date of the relevant portion. If the officer terminates his service in the Company, he may exercise his unexercised options within 90 days. In the event of change of control on the Company's Board, the Company may decide on partial acceleration of the vesting period.

NOTE 31:- EVENTS AFTER THE REPORTING DATE (Cont.)

d. The exercise price of each option is NIS 80.99. However, the exercise price will not be paid to the Company but will be used only to determine the bonus component resulting from the options exercised and the resulting number of shares. The difference between the opening rate of the Company's share on the TASE on the exercise date and the exercise price will be calculated on the exercise date (the difference multiplied by the number of exercised options - "the bonus"). The Company will allocate to the officer who exercises his options shares that represent the result of dividing the bonus by the opening rate of the Company's shares on the TASE on the exercise date. Fractions will be rounded up to the nearest number. The officer will only pay the par value of the shares for the allocation. In addition, the options are subject to several adjustments in the event of dividend distribution, distribution of bonus shares and rights issues.

e. The fair value of the options at grant date was estimated by applying the Black & Scholes option pricing model, amounting to $ 187 thousand. This value was calculated based on the following parameters: (1) share price of NIS 80.99; (2) (weighted average) expected volatility of 28.99%-31.37%; (3) risk-free interest rate of 0.31%-0.88%; (4) (weighted average) expected life of the options of four years. The fair value was also calculated assuming that the options will only be exercised shortly before they expire.

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