MTI WIRELESS EDGE LTD.
MTI Wireless Edge Ltd. ▪ רח׳ המלאכה 11, פארק התעשיה אפק ראש העין 48091
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Annual Report 2018

Antennas

5G dual band solotions

Wireless Controllers

IRRinet Systems

System Engineering

Tethered balloons

Representations

Fast prototype lazer machine

Company Overview

Headquartered in Israel, MTI Wireless Edge Ltd. ("MTI" or the "Company") is a technology group focused on comprehensive communication and radio frequency solutions across multiple sectors through four core divisions:

Antenna Division

MTI is a world leader in the design, development and production of high quality, state-of-the-art, and cost effective antenna solutions including Smart Antennas, MIMO Antennas and Dual Polarity Antennas for wireless applications. MTI supplies antennas for both military and commercial markets from 100 KHz to 90 GHz.

Internationally recognized as a producer of commercial off-the-Shelf and custom-developed antenna solutions in a broad frequency range, MTI Wireless Edge addresses both commercial and military applications.

MTI supplies directional and omnidirectional antennas for outdoor and indoor deployments, including smart antennas for WiMAX, Broadband access, public safety, RFID, base stations and terminals for the utility market.

Military applications include a wide range of broadband, tactical and specialized communication antennas, antenna systems and DF arrays installed on numerous airborne, ground and naval, including submarine, platforms worldwide.

Aerostat Operation Division

Via its system engineering division, the group offers the design and integration of aerostat operation systems, along with the ongoing operation of Platform subsystems, SIGINT, RADAR, communication and observation systems.

Water Control & Management Division

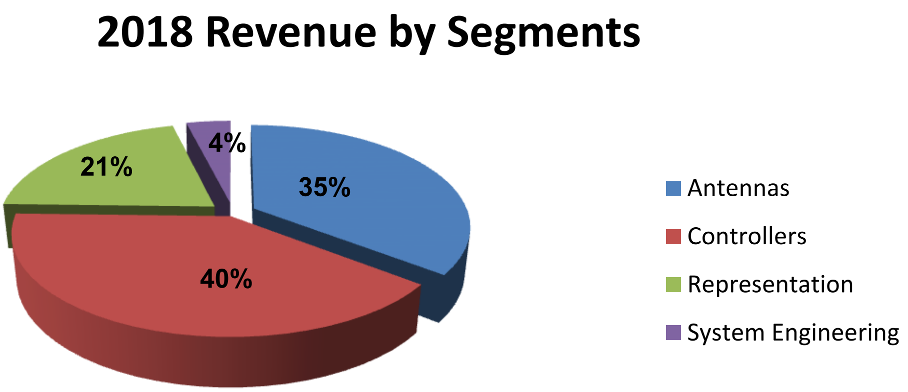
Via its subsidiary, Mottech Water Solutions Ltd (“Mottech”), the group provides high-end remote control solutions for water and irrigation applications based on Motorola’s IRRInet state-of-the-art control, monitoring and communication technologies.

As Motorola’s global prime-distributor Mottech serves its customers worldwide through its international subsidiaries and a global network of local distributors and representatives. With over 25 years of experience in providing customers with irrigation remote control and management, Mottech’s solutions ensure constant, reliable and accurate water usage, while reducing operational and maintenance costs. Mottech’s activities are focused in the market segments of agriculture, water distribution, municipal and commercial landscape as well as wastewater and storm-water reuse.

RF and Microwave Representative and Consultation Division

Via its subsidiary, MTI Summit Electronics Ltd., the group offers representative and expert consultation services specializing in RF and Microwave solutions and applications. It provides its services to international electronics suppliers operating in Israel, Eastern Europe, and Russia.

MTI is based in Israel, India, USA, South Africa, Russia, Australia and China employing (as at 31 December 2018) a total of 206 employees.

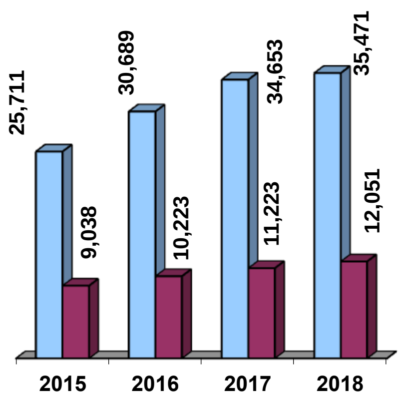


Key Financial facts

(All financial figures assumes that the merger between the Company and MTI Computers & Software Services (1982) Ltd (the "Merger") that completed in August 2018 was in effect throughout the entire of the reported periods)

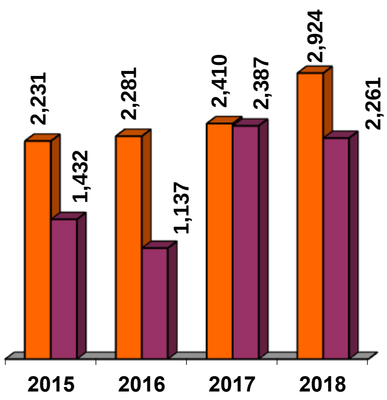
Revenue & Gross Profit 2015 - 2018
(US dollar in thousands)

- Revenue
- Gross Profit



Profit before tax and cash flow 2015 - 2018
(US dollar in thousands)

- Profit from operations
- Cash generated from operations



2018 Highlights

- The completion of the Merger increased revenue by 35% during the period to $35.5m, with organic growth being 2% (2017: $26.4m* and $34.6m** respectively)

- Earnings per share increased by 14% to 2.70 US cents (2017: 2.36 US cents), even following the issuance of shares as consideration for the Merger

- Gross profit increased 26% year-on-year to $12m due to the Merger, with organic growth being 7% (2017: $9.6m* and $11.2m** respectively)

- Profit from operations increased 82% year-on-year to $2.9m due to the Merger, with organic growth being 21% (2017: $1.6m* and $2.4m** respectively)

- The Company generated $2.3m of cash from operations (2017: $2.4m)

- Shareholder's equity grew during the period to $20.6m (31 December 2017: $19.6m) representing 18.3p per share (*Calculated at £/$ rate of 1.29)*

- Dividend of $0.015 per share (2017: $0.02 per share) declared – to be paid on 5 April 2019 to shareholders on the register at the close of trading on 22 March 2019

** These figures represent the relevant financial results of the Company (only) for the year ended 31 December 2017.*
*** These figures represent the relevant financial results of the Company in the year ended 31 December 2017, aggregated with that of MTI Computers & Software Services (1982) Ltd for the same period.*

Chairman's Statement

I am pleased to report on our audited results for the financial year ended 31 December 2018, during which we made a significant structural change via the merger of the Company with our former controlling shareholder, MTI Computers & Software Services (1982) Ltd ("MTIC") (the "Merger"). As part of this process the board decided to reorganize the Company and as announced, subject to shareholder approval, we are expecting our proposed CEO, Moni Borovitz, to lead the implementation of our new strategy as detailed below. I would like to thank shareholders for their support for the Merger, which we believe was a strong strategic move for the benefit of all shareholders. Some of the benefits of the Merger are already seen via the cost savings in the last quarter of 2018 (the first full quarter post-Merger), during which the Company generated $1m of profit from operations for the first time, which represented more than 35% of the Company's total profit from operations for the entire year.

Business wise the Company continued to experience growth in revenue and profits. We were able to secure new projects in both our antenna and representation divisions, which will benefit us in 2019 onwards. We were able to complete the registration of Mottech in China and strengthened our sales and marketing teams in China, as well as in other key territories to lay the foundations to capitalize on the enormous opportunities for future growth.

Climate change and droughts being experienced across the globe have made it clear that water is becoming a critical natural resource and its management is becoming essential. These developments have allowed the Board to identify new market opportunities from various areas around the world and we are focused on maximizing these opportunities as they develop.

In the antenna segment we continue to see strong demand for millimeter wave (including 60 – 80 GHz and 5G) antenna solutions and expanded our offering into dual band subsystem antenna solutions, securing contracts with key customers and increased our offering by adding a matching part to the dual band antennas. This increased our unit selling price while strengthening our relationship with customers. We are confident that this will be part of MTI's growth in the future.

In the military antenna business, 2018 revenue was the highest ever and we continue to see strong demand for our products. As recently announced during 2019 we secured a large-scale order for our offset facility in India. This, together with our promising pipeline of opportunities, provides strong confidence in the future growth of the business.

Our representation division experienced notable growth this year in both revenue, profits and importantly its progress in respect of future projects. We are very satisfied with the progress made, as some of the brands that we represent in Israel are becoming standards in the industry.

Our system engineering division continued to market tethered balloon solutions and is involved in a large project which we expect to be turned into a more significant order for 2019, followed by a potential sizeable long-term operation, service and maintenance contract. We will announce any developments regarding this project in due course.

Each of our business divisions is well positioned to continue to grow organically while we continuously search for external opportunities to accelerate such growth and use our strong balance sheet to do so.

Under the Israeli Companies Law, we may declare dividends out of the higher of retained earnings and earnings generated over the two most recent years (the profit test), in either case, provided that our board of directors reasonably believes that the dividend will not render us unable to meet our current or foreseeable obligations when due (the solvency test).Following a review of the performance of the business, the Board believes we pass both tests and decided to declare a final dividend of $0.015 per share. The dividend will be paid on 5 April 2019 to shareholders on the register at the close of trading on 22 March 2019.

In January 2019 the Company announced a program to conduct market purchases of ordinary shares of par value 0.01 Israeli Shekels each ("Ordinary Shares") in the Company up to a maximum value of £150,000 (the "Programme"). The key reason for the Programme was to assist with liquidity in the Ordinary Shares by holding repurchased Ordinary Shares in treasury and potentially reselling these Ordinary Shares under circumstances that the Board deems to be appropriate and in compliance with regulation.

Cash generated from any eventual resales of Ordinary Shares acquired under the Programme will be credited to an account and may be reused for future purchases under the Programme. The Programme commenced on 28 January 2019 and will continue until no later than 26 July 2019. As at 10 March 2019, a total of 510,000 Ordinary Shares had been repurchased.

We believe that the underlying drivers of our business, such as the continued growth in data usage and increasing subscriber numbers, are part of long-term trends that we expect will continue for the foreseeable future. This, together with the requirement for efficient water management, provides us with confidence in both the Company's short and long-term growth prospects.

I would like to thank our employees for their contribution to the Company and for their dedication and creativity, which has enabled us to achieve these results. I would also like to acknowledge our gratitude to the employees' families for their continued support.

Zvi Borovitz
Chairman

MTI Wireless Edge Ltd. ▪ רח' המלאכה 11, פארק התעשייה אפק ראש העין 48091
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Chief Executive's review

I am happy to report that during 2018 we experienced double digit growth due to the Merger of the Company with our former controlling shareholder (MTIC). We were also able to grow the business organically as well, increasing earnings per share by 14%. I would like to emphasize that our fourth quarter results showed operating profit of over $1 million, representing an 11% operating margin, which is an early demonstration of some of the benefits from the Merger.

Our wireless controller segment grew by 9% in 2018, completing a 10% compound annual growth rate since its acquisition in 2015. We continue to see many opportunities to grow this business and remain focused on building our offering for various markets in the water management segment, as it is evident that the world's climate change is driving demand for better water management solutions. While investing in developing this business segment we were able to meet our long-term goal of having a 10% operating profit margin.

In the antenna segment we experienced a decrease of 4% in revenue due to a large project that completed in 2017. Nevertheless our military antenna business reached its highest level ever, growing 26% in 2018 and we continue to see a large pipeline of opportunities here. This military segment is also making good use of our new facility in India, which is supporting the substantial demand for solutions made in India, as part of the offset requirements. Our 5G millimeter wave business has tripled its revenue in 2018, and we are confident that this will be the future growth engine of the antenna segment. Other areas of the antenna division also made significant progress in 2018, including the completion of the development of several antenna solutions, where we expanded our customer base and initiated patent registration on these new solutions.

Our RFID segment was flat in 2018 after four consecutive years of growth and we believe our positioning in the market remains strong. As we continue to see more applications that require the use of such solutions our key future goal is to ensure that MTI remains well positioned in this market, to maximize the benefits of the continuing world-wide growth in the use of RFID technology.

In the newly acquired representation business we had a very good year growing the revenue of its core business in Israel (which now accounts for more than 85% of the representation business) by 17%. We achieved an overall 4% increase in revenue and reached a 10% operating profit margin, while increasing the operating profit by 37% year on year. We were able to initiate several new projects during 2017-2018, the results of which should be seen in the coming years.

We enter 2019 with a healthy orderbook and a large pipeline of opportunities in the various segments of the business, which provides us with great confidence in the future growth potential of the business.

Dov Feiner

Chief Executive Officer

MTI Wireless Edge Ltd. ▪ 48091 רח' המלאכה 11. פארק התעשיה אפק ראש העין
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Our Board

Zvi Borovitz – Chairman of the board

Zvi founded MTI in the early '70s together with his late wife Aya. He has more the 40 years of experience in the development and management of high tech companies. Zvi holds an MS in Electrical Engineering from the Polytechnic Institute of Brooklyn.

Dov Feiner – Chief Executive (Proposed general manager of the Company's antenna division)
Executive Director

Dov has planned and implemented the Company's entry into the commercial antenna market. Prior to joining the Company, Dov served for 12 years in the research and development division of the Israeli Defense Force. Dov holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University where he graduated with honors.

Moshe (Moni) Borovitz – Finance Director (Proposed Chief Executive)
Executive Director

Moni is the son of Zvi Borovitz. He was a consultant with Ernst & Young's Israeli affiliate Kost Forer & Gabbay, a leading Israeli certified public accountancy firm. Moni is a certified public accountant with a B.A. in Computer Science from Tel Aviv University, and has an MBA from Ben Gurion University.

Lihi Elimelech Bechor, Adv.- Non Executive Director

Lihi is a senior legal professional with many years of experience, specialising in intellectual property including copyrights, patents, designs and trademarks and managing the IP portfolio of various companies. Mrs. Elimelech-Bechor, Adv. currently serves as an external director of Malibu Investments Inc. (a real estate company listed on the Tel Aviv Stock Exchange) with headquarters in Canada.

Amnon Sofrin - Non Executive Director

Brigadier General Sofrin served in the Israel Defense Forces ("IDF") from 1973 to 2003. His last assignment with the IDF was as Chief of the Combat Intelligence Corps, which he established in 2000 and commanded for over three years. After retiring from the IDF, Brigadier General Sofrin was assigned to a senior position within Israel's security apparatus as Head of the Intelligence Directorate of Israel's Secret Service until 2008. Brigadier General Sofrin has a BA in Political Science from Tel Aviv University and a MA in Political Science & Security Studies from Haifa University (1993). Brigadier General Sofrin is on the final stage of writing his Phd thesis at the Hebrew University in Jerusalem. Brigadier General Sofrin is currently the Marketing VP for Africa at Israel Aerospace Industries. Brigadier General Sofrin was a director of M.T.I. Computers & Software Services (1982) Ltd from 30 December 2013 until the completion of its merger with MTI in 2018.

Richard Bennett - Non Executive Director

Richard Antony Bennett started his career with General Electric in Asia in 1990. In 1994, he was a founding shareholder of J2/JFAX Inc., in New York, which has become a leading internet unified messaging service and is currently listed on NASDAQ. From 1999 to 2001 he joined Virtual Internet as commercial director where he helped manage their admission to AIM. In 2001 he became a founder and director of Pixago which was later sold to First Media. Richard also served as a director and founder of PZERO Ltd, a renewable energy technology consultancy business, whose UK customers were sold to The Carbon Advisory. From 2005 until recently he served as the CEO of the AIM listed Coms plc, an internet telephony service provider. He is currently a non-executive director of AIM listed China New Energy as well as the founder and CEO of Sunbird Bioenergy.

David Yariv - Non Executive Director

David Yariv started his career with the Israeli Naval Academy in 2000 and was a Naval officer from 2002 to 2006. In 2009 he began his engineering career at Elbit Systems and today he serves as Chief System Engineer at Israel Aircraft Industries. Mr Yariv holds a B.Sc in Electrical Engineering from the Tel-Aviv University, specializing in Computers, micro- waves and optics, and an MBA from Bar-Ilan University, specializing in finance.

Corporate Governance

The following statement of corporate governance reflects the position of the Company as at 31 December 2018. This governance applies the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code').

The board is responsible for the Company's corporate governance policy, and recognizes the importance of high standard of integrity, and seeks to apply the principles set out in the QCA Code.

Details of how the Company addresses key principles in the QCA Code can be found on the Company's website - https://www.mtiwirelessedge.com/?CategoryID=396

Strategy

Our strategy is focused around five key areas:

1. *Profitable sales growth*

   The key guideline in our business is to continue growth in revenue and profits. We are concentrating only on growing markets where we have advantages over competition and are continuously looking to develop our products and services ahead of the market to strengthen our position and grow revenue and profits.

2. *Introducing new products*

   As a technology company we aim to introduce new products to answer our markets' demands. We invest in research and development and work closely with our customers and vendors to bring new products to the market. Some of this investment is done in collaboration with our customers as part of a project from which we derive technology that can be applied in other areas.

   Our antenna segment brings both new products and new technologies to market. While new products are introduced several times a year, new technologies are introduced with wider gaps. These new technologies are applied towards new products over several years following such introduction. As an example, in 2017 we introduced a dual band technology, which led to new products in 2018. We expect these dual band products to be key growth areas for our antenna division over the coming years.

   In the controller segment we work closely with Motorola to develop new hardware, while we develop software in parallel. We bring solutions and applications to the market more frequently than hardware, in order to answer market demands and keep our edge over competitors.

   In the representation business, we use the foundation of our vendors' new technology and development capabilities to introduce new products and in parallel we always search for new vendors / solutions to bring to the market, by signing up new vendors.

3. *Supporting our existing brands*

   As leaders in the market, our goal is to continue and support our existing brands and strengthen our relationship with the key participants in our markets and our existing customers, while introducing solutions to new markets and customers. Some of the markets we work in are very conservative and being able to support a brand for decades is essential and our ability to continue and develop new, more advanced solutions while supporting the legacy solution on the same platform is a unique capability. In order to continue to support our brands, we invest in sales and marketing, service, pre and post-sales support, as well as in technology.

4. *Enhancing our operational capabilities*

   As a global provider of various technology solutions we continue to work on improving our operational capabilities, by outsourcing most of our production and performing final assembly and testing in house, in order to assure the quality of the product we provide. While production is sourced worldwide, the assembly is performed in several continents, which allows us to improve our support to customers, while improving our profitability. This is a key focus for the group as we believe that the profit on marginal sales should increase and that overall profits should grow faster than revenue growth. In order to meet these goals we continually search for new operational solutions. Some of these can include technological improvements or merging similar process and activities over the different segments of the business.

5. *Strategic acquisitions*

   Our group completed two successful acquisitions in the past five years which helped strengthen the Company and its position in the market. We believe that we should use our strong balance sheet and continue to grow the business by performing more acquisitions, while pushing our internal growth engines.

   Our key criteria for acquisitions are to ascertain that any acquisition will be complementary to our existing segments and that synergies will arise from it. We continuously dedicate time and effort searching for acquisitions but are very selective in this process, as we believe that it is critical to find suitable targets under the right terms.

Directors

Pursuant to the provisions of the Israeli Companies Law, the Company has nominated Lihi Elimelech Bechor and Richard Bennett as external (independent) directors. As such, the initial term of an external director is three years and this may be extended for two additional three-year terms. The external directors have to serve on the Audit committee, the Financial statements committee and on the Remuneration committee. The rest of the board members are elected annually in the shareholders meeting.

All of the directors have access to the advice and services of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the board, in which any concerns expressed by them regarding matters pertaining to the Company are recorded. While there is no formal process, the performance and effectiveness of each director, including the non-executive directors, is assessed on an on-going basis by the other members of the board. All members of the board are free to bring any matter to the attention of the board, at any time.

Performance of the board

During 2019 the Company intends to review the performance of the Board as a whole, to ensure that the members of the Board collectively function in an efficient and productive manner. When conducting this review, the Company will consider whether there is merit in using a more formal peer and self-assessment process to evaluate the performance of the Directors and the Board as a whole. Key issues as part of the board members contribution valuation would be in their contribution to the strategy planning of the Company, ongoing business development, legal expertise in the Company's area of business, accounting, finance and economic specialties.

As part of the above review processes, the Board will consider how regularly these review processes should be repeated going forward. The Company will consider whether any succession planning requirements might be necessary over the next 12 months, as part of the aforementioned review process.

All board members are required to devote their time as needed by the Company. While there is no specific time requirement from the non-executive board members, the Board is satisfied that during the year ended 31 December 2018 the non-executive board members have devoted the amount of time that was needed (usually not more than several hours per month). As executive directors, Mr. Zvi Borovitz, Mr. Moshe Borovitz and Mr. Dov Feiner have greater time requirements, which are detailed in the Company's remuneration policy which was proposed for the re-approval of shareholders at an extraordinary general meeting called for 14 March 2019, as announced on 22 January 2019.

MTI Wireless Edge Ltd. ▪ רח' המלאכה 11 . פארק התעשיה אפק ראש העין 48091
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Board Meetings

The board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The board generally meets five times a year and at such other times as required, and receives regular reports on a wide area of key issues including operational performance, risk management and corporate strategy, budget and corporate actions etc., and other areas which are either required by law or deemed relevant by the management.

Over the year ended 31 December 2018, in total the board and its committees held 18 meetings. The table below shows the number of board or committee meetings in which each of the directors could have participated (taking into consideration their membership of the committees and or their date of nomination to the board) and their actual participation:

Board member name	Total number of board and/or committee meetings applicable	Total number of meetings attended
Zvi Borovitz	9	8
Dov Feiner	9	8
Moshe Borovitz	9	9
Richard Bennett	18	14
Lihi Elimelech Bechor	16	16
David Yariv	9	9
Amnon Sofrin	1	1
Zvi Kanor	15	14

Committees

Audit & Financial Statements Committees

The audit committee and the financial statements committee are chaired by Mrs. Lihi Elimelech Bechor. The other members are Richard Bennett and Amnon Sofrin. The external auditors, together with the management, are invited to attend these meetings as and when required.

In accordance with its terms of reference, the principal function of this committee is to determine the appropriateness of accounting policies to be used in the Company's annual results. In addition the Committee is responsible for assessing the Company's audit arrangements and the Company's system of internal controls, and for reviewing the quarterly and annual results before publication. The responsibilities of the Audit Committee include all matters required to be covered by the Israeli Companies Law. The Company has also decided pursuant to the Companies Law that the audit committee shall act as its Financial Statements Committee which is responsible to review the financial statements in detail and suggest to the board whether to amend or approve the financial statements.

The Israeli Companies Law requires the Company to have an internal auditor appointed by the board. The internal auditor is responsible for examination of the Company's internal controls and reviewing their effectiveness and reports to the Audit Committee.

Remuneration Committee
The Remuneration Committee is chaired by Lihi Elimelech Bechor. The other members are Richard Bennett and Amnon Sofrin. In accordance with its terms of reference, the committee reviews the performance of the executive directors and key employees and makes recommendations to the board and the shareholders of the company, pursuant to Rule 20 of the Israeli Companies Law, on matters relating to their remuneration and terms of employment. Such remunerations usually includes both fixed and variable compensation package including share options and other equity incentives pursuant to any share option scheme or equity incentive scheme. The remuneration arrangements of the non-executive directors are determined by the board as a whole and, in accordance with the Israeli Companies Law, approved in the Annual General Meeting of its Shareholders.

On 12 November 2012 Amendment No. 20 to the Israeli Companies Law was published (the "Amendment"). According to the Amendment, a public company is required to appoint a remuneration committee (its composition and manner of discussion shall be in accordance with the provisions of the Amendment), and adopt a policy regarding the conditions of service and employment of officers of the Company, in accordance with the recommendations of such remuneration committee, subject to the approval of the general meeting of the shareholders of the Company. In addition, the Amendment regulates the method of approval of the terms of service and employment of officers of public companies.

The Company established its three years' policy in July 2013 after receiving the approval of its shareholders. This Policy was renewed in May 2016 and is brought for an approval of the shareholders on 14 March 2019 for another 3 year term.

Relations with Shareholders

The board welcomes the views of shareholders. The Annual General Meeting ("AGM") is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM in order to take advantage of the opportunity to ask questions of the directors.

Shareholders may also contact the Company in writing or via its website, which is regularly updated. Additional information is supplied through the circulation of the Quarterly Reports and the Annual Report and Accounts. During the year the Company issued a series of announcements via the Regulatory News Service and updated its website in accordance with AIM Rule 26. The Chief Executive, Finance Director and the Chairman from time to time meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Company's business and operations.

Internal Control

The board as a whole, the audit and financial statements committee and the Company's internal auditor (further details of which can be found below) contribute towards the Company's framework for the identification, assessment and management of risk. The board has overall responsibility both for the Company's system of internal controls, which includes internal financial controls and for reviewing their effectiveness. Through its involvement in the Company's risk management procedures, the board is satisfied that the Company's framework for the identification, assessment and management of risk is effective, although the directors recognize that no system of internal control can provide absolute assurance. The Company's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the directors with reasonable assurance against material misstatement or loss. The key elements of the Company's internal control system, which have been operational since the Company's flotation in March 2006, are as follows:

Management Structure
The board has overall responsibility for the Company and there is a formal schedule of matters specifically reserved for decision by the board. Each executive director has been given responsibility for specific aspects of the Company's affairs.

Monitoring Systems used by the Board
The board receives regular reports on the financial and business performance of the Company. The board is regularly advised through these reports on the financial performance relative to the Company's approved budget and update on the orderbook and pipeline status.

Internal Audit
The board has, in accordance with the Israeli Companies Law, appointed Mr. Eyal Weitzman as its internal auditor. The internal auditor and the audit committee last met on January 2019 and decided on a two year work plan to cover some of the risks identified in previous year's assessment. The last report by the auditor was provided to the audit committee in March 2018, relating to the operation of Mottech in Israel, analyzing the workflow process and validation of profitability. No significant findings were reported.

Going Concern
The directors have a reasonable expectation that the Company has adequate financial resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement
Corporate Governance procedures are subject to regular review by the board. Details of how the Company addresses key principles in the QCA Code can be found on the Company's website.

MTI Wireless Edge Ltd. ▪ 48091 רח' המלאכה 11 פארק התעשייה אפק ראש העין
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Report on Directors' Remuneration

Remuneration Committee

The Remuneration Committee was responsible for managing the process and defining the new remuneration policy adopted by the company pursuant to the board's and shareholder's approval, as required by the Israeli Companies Law. Following such approval the remuneration committee is responsible to check and make required changes, if any, in the remuneration of each of the executive of the company within the boundaries of the approved policy.

Policy on Company Remuneration

The Company operates in the telecommunications industry. Accordingly, in setting remuneration, the board has to be mindful of competitive pressures from the market, and at the same time controlling the Company's fixed cost base where a high proportion of the expenses are staff related.

The Company maintains a balance between remaining market-competitive and ensuring that some element of total staff remuneration is related to the financial performance of the Company as a whole.

Policy on Senior Executive Remuneration

It remains the Company's policy to set the remuneration of senior executives (including executive directors) at a level to attract and retain executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee considers pay and employment conditions throughout the Company.

Directors' Remuneration – all figures represents annual costs to the company

Name	Basic Salary / Management Fee	Pension Contribution	Non Cash benefits	Bonuses	Total cost	Shares held by each Director
Dov Feiner	246	32	17	30	325	3,832,388
Moshe Borovitz*	264	-	22	74	360	121,254
Zvi Borovitz*	212	-	29	56	297	946,429
Non-Executive Directors**	70	-	-	-	70	

(*) Each of Zvi and Moshe Borovitz also has an interest in 25% of Mokirei Aya Ltd. which controls 33.13% of the issued share capital of the Company, as of 31 December 2018.

Zvi and Moshe Borovitz provide management services to the company through a company controlled by them (the "Management Company"). These management services consisted of the services of Mr. Zvi Borovitz who serves as a non-executive chairman of the Company and Mr. Moshe Borovitz who served as the finance director of the Company. Therefore, their management fee includes all benefits required by law including a pension contribution.

(**) Remuneration for Mrs. Lihi Elimelech Bechor, Mr. Richard Bennett, Mr. David Yariv, Mr. Zvi Kanor (while served) and Mr. Amnon Sofrin who joined the board of directors in November 2018. Each non-executive director is entitled to $18,000 per annum plus expenses.

For information on share options granted to directors please see note 24 to the financial statements.

Service Contracts

The Company has a service agreement with the Management Company as described above, in respect of the services of Messrs Zvi and Moshe Borovitz. The term of this agreement was approved by shareholders and is for a period of three years starting 1 June 2016. On 22 January 2019 the Company convened an extraordinary shareholders meeting ("EGM") to amend the service agreement with the Management Company and nominate Mr. Moshe (Moni) borovitz as the CEO of the Company and retain the services of Mr. Zvi Borovitz as chairman of the board. Conditional on the approval of shareholders the agreement will be in place for 3 years starting 1 March 2019.

Dov Feiner has a service contract with a notice provision in excess of three months. According to a new regulation in the Israeli Companies Law the change in remuneration policy to the CEO of the Company will have to be brought to the approval of the shareholders after a long-term strategy is proposed by the remuneration committee. This was approved on 18 May 2016. As stated above, the Company is seeking some organizational changes and Mr. Feiner will become the general manager of the antenna division subject to the adoption of a new remuneration policy for the Company in the EGM. Conditional on the approval of shareholders Mr. Feiner's agreement will be in place for 3 years starting 1 March 2019.

The two Non-Executive External Directors are entitled to a fee of $18,000 per annum, paid quarterly. According to the Israeli Companies Law, non-executive independent directors (defined as external directors in the Israeli Companies Law) are elected for three year terms. On 29 April 2015 Mrs. Lihi Elimelech Bechor was appointed and at the coming EGM the Company will seek the approval for Mr. Richard Bennett's reappointment for three year term.

Amnon Sofrin and David Yariv, the two additional non-executive directors who joined the board on 27 November 2018 and 12 May 2017, respectively, are each entitled to $18,000 per annum, paid quarterly, similar to the External directors.

These fees are determined with reference to available information on the fees paid to non-executive directors in other companies of broadly similar size, market cap and complexity. Non-executive directors are entitled to be reimbursed for reasonable out-of-pocket expenses in line with the policy applied to the Company's employees.

MTI Wireless Edge Ltd. ▪ רח' המלאכה 11, פארק התעשיה אפק ראש העין 48091
11 Hamelacha St. Afek Industrial Park Rosh-Ha'Ayin 48091, Israel
Tel: +972-3-9008900 ▪ Fax: +972-3-9008901 ▪ www.mtiwe.com

Financial Statement

M.T.I WIRELESS EDGE LTD.

Annual Report and Financial Statements

Year Ended

December 31, 2018

M.T.I WIRELESS EDGE LTD.

(An Israeli Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Independent Auditors' Report to Shareholders of
<u>M.T.I Wireless Edge Ltd.</u>

We have audited the accompanying consolidated statements of financial position of M.T.I Wireless Edge Ltd and its subsidiaries (hereafter- "the Company"), as of December 31, 2018 and 2017 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years than ended. 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 included in consolidation constitute approximately 12% and 12% of total consolidated assets as of December 31, 2018 and 2017 respectively, and whose revenues included in consolidation constitute approximately 15% and 12% of total consolidated revenues for the years ended on those dates, respectively. The financial statements of those subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to financial information included for these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted 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 about whether 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 Company's 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 the 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, 2018 and 2017, and the results of their operations, changes in equity and their cash flows for each of the years than ended in conformity with International Financial Reporting Standards (IFRS).

Tel-Aviv, Israel March 10, 2019

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

M.T.I Wireless Edge Ltd.

Consolidated Statements of Comprehensive Income

		For the year ended December 31,	
		2018	2017*
	Note	$'000	$'000
Revenues	3, 5	35,471	34,653
Cost of sales		23,420	23,430
Gross profit		12,051	11,223
Research and development expenses		1,090	927
Distribution expenses		4,277	4,085
General and administrative expenses		3,767	3,795
Loss (profit) from sale of property, plant and equipment		(7)	6
Profit from operations	4	2,924	2,410
Finance expense	6	288	249
Finance income	6	(14)	(287)
Profit before income tax		2,650	2,448
Tax expenses	7	321	440
Profit		2,329	2,008
Other comprehensive income (loss) net of tax:			
Items that will not be reclassified to profit or loss:			
Re measurements on defined benefit plans		22	53
Items that may be reclassified to profit or loss:			
Adjustment arising from translation of financial statements of foreign operations		(229)	61
Total other comprehensive income (loss)		(207)	114
Total comprehensive income		2,122	2,122
Profit attributable to:			
Owners of the parent		2,337	1,949
Non-controlling interest		(8)	59
		2,329	2,008
Total comprehensive income (loss) attributable to:			
Owners of the parent		2,130	2,063
Non-controlling interest		(8)	59
		2,122	2,122
Earnings per share (dollars)			
Basic	8	0.0270	0.0231
Diluted	8	0.0269	0.0230

(*) comparative numbers were adjusted to reflect the merger, refer to note 27.

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2018:

	Attributable to owners of the parent							
	Share capital	**Additional paid-in capital**	**Capital Reserve from share-based payment transactions**	**Translation differences**	**Retained earnings**	**Total attributable to owners of the parent**	**Non-controlling interests**	**Total equity**
	U.S. $ in thousands							
Balance as at January 1, 2018	200	21,716	352	105	(2,781)	19,592	383	19,975
Changes during 2018:								
Comprehensive income								
Profit for the year	-	-	-	-	2,337	2,337	(8)	2,329
Other comprehensive income								
Re measurements on defined benefit plans	-	-	-	-	22	22	-	22
Translation differences	-	-	-	(229)	-	(229)	-	(229)
Total comprehensive income (loss) for the year	-	-	-	(229)	2,359	2,130	(8)	2,122
Dividend	5	672	-	-	(1,773)	(1,096)	-	(1,096)
Share based payment	-	-	14	-	-	14	-	14
Balance as at December 31, 2018	205	22,388	366	(124)	(2,195)	20,640	375	21,015

(*) comparative numbers were adjusted to reflect the merger, refer to note 27.

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Changes in Equity (Cont.)

For the year ended December 31, 2017:**

	Attributable to owners of the parent							
	Share capital	**Additional paid-in capital**	**Capital Reserve from share-based payment transactions**	**Translation differences**	**Retained earnings**	**Total attributable to owners of the parent**	**Non-controlling interests**	**Total equity**
	U.S. $ in thousands							
Balance as at January 1, 2017	195	21,337	323	44	(3,865)	18,034	324	18,358
Changes during 2017:								
Comprehensive income								
Profit for the year	-	-	-	-	1,949	1,949	59	2,008
Other comprehensive income								
Re measurements on defined benefit plans	-	-	-	-	53	53	-	53
Translation differences	-	-	-	61	-	61	-	61
Total comprehensive income for the year	-	-	-	61	2,002	2,063	59	2,122
Exercise of options to share capital	2	99	(*)	-	-	101	-	101
Dividend	3	280	-	-	(918)	(635)	-	(635)
Share based payment	-	-	29	-	-	29	-	29
Balance as at December 31, 2017	200	21,716	352	105	(2,781)	19,592	383	19,975

(*) less than one thousand dollars

(**) comparative numbers were adjusted to reflect the merger, refer to note 27.

The accompanying notes form an integral part of the financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Financial Position

		As at December 31,		As at December 31,	
		2018	2018	2017*	2017*
	Note	$'000	$'000	$'000	$'000
ASSETS					
Non-current assets:					
Property, plant and equipment	10	4,245		4,211	
Intangible assets	11	881		995	
Deferred tax assets	12	687		600	
Long-term prepaid expenses		32		45	
Total non-current assets			5,845		5,851
Current assets:					
Inventories	13	6,005		5,481	
Current tax receivables		153		619	
Unbilled revenue	14	2,271		1,762	
Trade and other receivables	14	9,591		10,244	
Other current financial assets	15	-		2,011	
Cash and cash equivalents	16	5,401		3,508	
Total current assets			23,421		23,625
TOTAL ASSETS			29,266		29,476
LIABILITIES					
Non-current liabilities:					
Loans from banks, net of current maturities	17	427		955	
Employee benefits, net	18	701		734	
Total Non-current liabilities			1,128		1,689
Current Liabilities:					
Current tax payables		12		237	
Trade and other payables	19	6,530		6,706	
Current maturities and short term bank credit and loans	20	581		869	
Total current liabilities			7,123		7,812
Total liabilities			8,251		9,501
TOTAL NET ASSETS			21,015		19,975

(*) comparative numbers were adjusted to reflect the merger, refer to note 27**.**

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Financial Position (Cont.)

	Note	As at December 31, 2018 $'000	As at December 31, 2018 $'000	As at December 31, 2017* $'000	As at December 31, 2017* $'000
Capital and reserves attributable to owners of the parent	24				
Share capital		205		200	
Additional paid-in capital		22,388		21,716	
Capital reserve from share-based payment transactions		366		352	
Translation differences		(124)		105	
Retained earnings		(2,195)		(2,781)	
			20,640		19,592
Non-controlling interests			375		383
TOTAL EQUITY			21,015		19,975

(*) comparative numbers were adjusted to reflect the merger, refer to note 27**.**

The financial statements on pages 4 to 51 were approved by the Board of Directors and authorised for issue on March 10, 2019, and were signed on its behalf by:

March 10, 2019			
Date of approval of financial statements	Moshe Borovitz Chief Finance Director	Dov Feiner Chief Executive Officer	Zvi Borovitz Non-executive Chairman of the Board

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31,		For the year ended December 31,	
	2018	2018	2017*	2017*
	$'000	$'000	$'000	$'000
Operating Activities:				
Profit for the year	2,329		2,008	
Adjustments for:				
Depreciation and amortization	589		623	
Loss (gain) from investments in financial assets	(29)		89	
Equity settled share-based payment expense	14		29	
Gain on disposal of property, plant and equipment	(7)		(1)	
Finance (income) expenses, net	(11)		99	
Income tax expense	321		440	
		3,206		3,287
Changes in working capital and provisions				
Increase in inventories	(634)		(294)	
Decrease (increase) in trade receivables	451		(1,491)	
Decrease (increase) in unbilled revenues	(509)		989	
Decrease (increase) in other accounts receivables	70		(152)	
Increase (decrease) in trade and other accounts payables	(111)		252	
Increase in employee benefits, net	(11)		122	
		(744)		(574)
Interest received	40		-	
Interest paid	(70)		(110)	
Income tax paid	(171)		(326)	
		(201)		(436)
Net cash provided by operating activities		2,261		2,277

(*) comparative numbers were adjusted to reflect the merger, refer to note 27**.**

The accompanying notes form an integral part of these financial statements.

M.T.I Wireless Edge Ltd.

Consolidated Statements of Cash Flows (Cont.)

	For the year ended December 31,		For the year ended December 31,	
	2018	**2018**	**2017***	**2017***
	$'000	**$'000**	**$'000**	**$'000**
Investing Activities:				
Proceeds from sale of property, plant and equipment	39		150	
Sale (purchase) of investments in financial assets, net	2,040		(2,000)	
Purchase of property, plant and equipment	(515)		(454)	
Net cash provided by (used in) investing activities		1,564		(2,304)
Financing Activities:				
Exercise of share options	-		101	
Dividend	(1,773)		(635)	
Share issuance due to the merger	677		-	
Short term loan from banks	(21)		(42)	
Long term loan received from banks	120		37	
Repayment of long-term loans from banks	(878)		(847)	
Net cash used in financing activities		(1,875)		(1,386)
Increase (decrease) in cash and cash equivalents		1,950		(1,413)
Cash and cash equivalents at the beginning of the year		3,508		4,887
Exchange differences on balances of cash and cash equivalents		(57)		34
Cash and cash equivalents at the end of the year		5,401		3,508

Appendix A - Non-cash transactions:

	For the year ended December 31,	
	2018	**2017***
	$'000	**$'000**
Purchase of property, plant and equipment with credit	47	3
Scrip dividend (Note 9)	677	283

(*) comparative numbers were adjusted to reflect the merger, refer to note 27**.**

The accompanying notes form an integral part of these financial statements.

1. General description of the Group and its operations

M.T.I Wireless Edge Ltd. (hereafter - the "Company", or collectively with its subsidiaries, the "Group") is an Israeli corporation. The Company was incorporated under the Companies Act in Israel on December 30, 1998, and commenced operations on July 1, 2000. Since March 2006, the Company's shares have been traded on the AIM market of the London Stock Exchange.

The formal address of the Company is 11 Hamelacha Street, Afek industrial Park, Rosh-Ha'Ayin, Israel.

The Company and its subsidiaries are engaged in the following areas:

- Development, design, manufacture and marketing of antennas for the military and civilian sectors.
- A leading provider of remote control solutions for water and irrigation applications based on Motorola's IRRInet state of the art control, monitoring and communication technologies.
- Providing consulting, representation and marketing services to foreign companies in the field of RF and Microwave.
- Providing engineering services in the field of floating systems and system engineering services.

2. Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, except for the measurement of Employee benefit assets and certain financial assets and financial liabilities at fair value through profit or loss.

The Company has elected to present the statement of comprehensive income using the function of expense method.

B. 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. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate and thereafter.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates used by the the Company and its subsidiaries (hereafter - 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.

- **Deferred tax assets:** Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the estimated timing and level of future taxable profits together with future tax planning strategies.

2. Accounting policies (Cont.)

C. New IFRSs adopted in the period:

1. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company has implemented the requirements of IFRS 9 retrospectively on the basis of the facts and circumstances that existed as of January 1, 2018 by recognizing the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings and other components of equity as of January 1, 2018. See note 2 (M) for the accounting policy applied

The adoption of IFRS 9 did not have an impact on the financial statements.

2. IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The Company elected to apply IFRS 15 retrospectively for the first time by recognizing the cumulative effect of the retroactive application as an adjustment to the opening balance of retained earnings as at January 1, 2018. See note 2 (D) for the accounting policy applied

The adoption of IFRS 15 did not have an impact on the financial statements.

D. Revenue recognition

The accounting policy applied until December 31, 2017 in regards of financial instruments is as follows:

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. In cases where the Company acts as an agent or as a broker without being exposed to the risks and rewards associated with the transaction, its revenues are presented on a net basis. Revenues are measured at the fair value of the consideration received or receivables less any trade discounts, volume rebates and returns and excluding amounts collected on behalf of third parties.

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

1. Revenues from services are recognized as follows:
   - Provided that amount of revenue can be measured reliably and it is probable that the Group will receive any consideration, revenue from services is recognised in the period in which they are rendered.
   - Revenues from Construction Contracts - according to IAS 11 “Construction Contracts" revenues are recognized based on the percentage of completion to date by the “percentage of completion” method. The percentage of completion is determined as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

2. Accounting policies (Cont.)

When a loss from a contract is anticipated, a provision for the entire loss that is anticipated is made in the period in which this first becomes evident, as assessed by the Group's management.

2. Revenues from the sale of goods are recognized when all of the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which risks and rewards pass.

Customer discounts

Customer discounts given at year end in respect of which the customer is not obligated to comply with certain targets, are recognized in the financial statements as the sales entitling the customer to said discounts are made.

Customer discounts for which the customer is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc., are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated.

The accounting policy applied as from January 01, 2018 in regards of financial instruments is as follows:

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services

1. Revenues from Construction Contracts are recognized based on the percentage of completion to date. The percentage of completion is determined by dividing actual completion costs incurred to date by the total completion costs anticipated. When a loss from a contract is anticipated, a provision for the entire loss that is anticipated is made in the period in which this first becomes evident, as assessed by the Company's management.

   The Company recognizes revenue from construction contracts over time, since the Company's performance does not create an asset with alternative use to the Company and the Company has enforceable right to payment for performance completed up to that date.

   The payment terms for these projects are based on milestones specified in the contract, which are determined in relation to the rate of progress. The Company believes that recognising revenue based on costs incurred to the satisfy performance obligations faithfully depicts its performance in construction contracts. Therefore, when revenue is recognized before a specified milestone is achieved, the Company recognizes the costs incurred to satisfy the related performance obligation as unbilled revenue.

   The Company estimates the total cost of completing each project based on estimates of material costs, labor costs, subcontractor performance, and other factors.

   Financing components **-** The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year.

2. Accounting policies (Cont.)

The Company elected not to adjust the transaction price for the effects of financing components in contracts where the period between when the Company transfers a promised good or a service to the customer and when the customer pays for it is one year or less.

2. Revenues from the sale of goods are recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery of the equipment.

   Volume rebates give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

   To estimate the variable consideration to which it will be entitled, the Company applied the 'most likely amount method' for contracts with a single volume threshold and the 'expected value method' for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The Company includes in the transaction price amounts of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

   At the end of each reporting period, the Company updates its estimates of variable consideration.

E. Assets and liabilities arising from contracts with customers

Contract assets (presented as "Unbilled revenue ")

A contract asset is the Company's right to consideration in exchange for goods or services the entity has transferred to a customer that is conditional on something other than the passage of time

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

F. Basis of consolidation

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the investee, including: the contractual arrangement with the other vote holders of the investee, the Group's potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

2. Accounting policies (Cont.)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative translation differences recorded in equity. (ii) Recognises the consideration received at fair value, recognises any investment retained at fair value of and recognises any surplus or deficit in profit or loss. (iii) reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

G. Consolidated financial statements

Where relevant, the accounting policy in the financial statements of the subsidiaries is adjusted to conform with the policy applied in the financial statements of the Group.

H. Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost of a business combination comprises the fair values of assets given, liabilities assumed and equity instruments issued. Any costs of acquisition are charged to profit or loss (if the costs of acquisition are related to the issue of debt or equity, they charged to equity or liability respectively).

Goodwill is recognized as an intangible asset with any impairment in carrying value being charged to profit or loss. Goodwill is not systematically amortized and the company reviews goodwill for impairment once a year or more frequently if events or changes in circumstances indicate that there may be an impairment.

I. 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 on initial recognition at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred. Intangible assets with finite useful lives are amortized over their useful lives and reviewed for impairment whenever there is an indication that the intangible 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 lives of these assets are reviewed annually to determine whether such assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful lives assessment from indefinite

2. Accounting policies (Cont.)

to finite is accounted for prospectively as a change in accounting estimate and on that date the intangible asset is tested for impairment.

J. Impairment of non-financial assets

Impairment tests on goodwill and infinite useful lives assets are undertaken annually on December 31 or sooner when there are indicators of impairment. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of the non-financial asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to dispose), the asset is written down and an impairment charge is recognized accordingly in the profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is performed on the asset's cash-generating level (i.e. the smallest Group of assets to which the asset belongs that generates cash inflow that are largely independent of cash inflows from other assets). Goodwill is allocated at initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the business combination giving rise to the goodwill. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) is lower 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 allocated to goodwill cannot be reversed in subsequent periods.

An impairment loss allocated to 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. A reversal of an impairment loss, as above, is limited to the lower of the carrying amount of the asset that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and the assets recoverable amount. The reversal of an impairment loss of an asset is recognized in profit or loss.

Impairment charges are included in general and administrative expenses line item in the statement of comprehensive income. During the years 2017 and 2018 no impairment charges of non-financial assets were recognized.

K. Foreign currency transactions

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate as of the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate as of that date. Exchange differences, other than those capitalized to qualifying assets are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate of initial recognition. 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 on which the fair value was determined.

2. Accounting policies (Cont.)

L. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

A. In the principal market for the asset or liability, or

B. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

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

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

Classification by fair value hierarchy:

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

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

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

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

M. Financial instruments:

The accounting policy applied until December 31, 2017 in regards of financial instruments is as follows:

1. Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only marketable securities. These assets are carried at fair value with changes in fair value recognized in profit or loss.

Loans and receivables: Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets initially recognized at fair value plus directly attributable transaction costs. After initial recognition, loans and receivables are measured using the effective interest method and less any impairment losses.

2. Accounting policies (Cont.)

2. <u>Financial Liabilities</u>

The Group classifies its financial liabilities as follows:

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 measured at amortized cost: Financial liabilities measured at amortized cost include the following items:

- Bank borrowings are initially recognized at fair value less any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest method, which ensures that any interest expense over the period is at a constant interest rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

3. <u>De-recognition of financial instruments</u>

Financial assets: A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group 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.

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 creditor.

- discharges the liability by paying in cash, other financial assets, goods or services; or
- Is legally released from the liability.

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

4. <u>Impairment of financial assets</u>

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:

There is objective evidence of impairment of loans and receivables if one or more loss events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments.

2. Accounting policies (Cont.)

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 (the effective interest rate at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. 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, which is limited to the amount of any previous impairment, is recognized in profit or loss.

<u>The accounting policy applied as from January 01, 2018 in regards of financial instruments is as follows:</u>

1. <u>Financial assets</u>

The Group classifies its financial assets into one of the following categories, based on the business model for managing the financial asset and its contractual cash flow characteristics. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value (see "Financial liabilities" section for out-of-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognized in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortized cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognized based on the simplified approach within IFRS 9 using a provision in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within general and administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Accounting policies (Cont.)

2. Financial Liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see "Financial assets" for in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities include the following items:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

3. *De-recognition*:

Financial assets - The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial Liabilities - The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

N. Government grants

Grants received from the Israel-U.S. Bi-national Industrial Research and Development Foundation (henceforth "BIRD") as support for a research and development projects include an obligation to pay back royalties conditional on future sales arising from the project. Grants received from BIRD, are accounted for as forgivable loans, in accordance with IAS 20 (Revised), pursuant to the provisions of IAS 39. Accordingly, when the liability for the loan is first recognized, it is measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grants received and the fair value of the liability is accounted for upon recognition of the liability as a grant and recognized in profit or loss as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method.

2. Accounting policies (Cont.)

Changes in the projected cash flows are discounted using the original effective interest and recorded in profit or loss in accordance with the provisions of IAS 39.

At the end of each reporting period, the Group evaluates, based on its best estimate of future sales, whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid. If there is such reasonable assurance, the appropriate amount of the liability is derecognized and recorded in profit or loss as an adjustment of research and development expenses. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate amount of the liability that reflects expected future royalty payments is recognized with a corresponding adjustment to research and development expenses.

O. Deferred tax

Deferred taxes are computed in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts attributable for tax purposes. Deferred taxes are recognized in Profit or loss, except when they relate to items recognized in other comprehensive income or directly in equity.

Deferred taxes are measured at the tax rates that are expected to apply in the period when the temporary differences are reversed in profit or loss, other comprehensive income or equity, based on tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or directly in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. In addition, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable. Any resulting reduction or reversal is recognized on "income tax" within the statement of comprehensive income. Taxes that would apply in the event of the disposal of investments in investees have not been taken into account, as long as the disposal of such investments is not expected in the foreseeable future and the group has control over such disposal. In addition, deferred taxes that would apply in the event of distribution of dividends have not been taken into account, if distributions of dividends involve an additional tax liability; the Group's policy is not to initiate distribution of dividends that triggers an additional tax liability.

All deferred tax assets and liabilities are presented in the statement of financial position as non-current items. Deferred tax assets are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred tax liabilities relate to the same taxpayer and the same taxation authority.

P. 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.

Q. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is calculated according to weighted average model.

2. Accounting policies (Cont.)

R. <u>Property, plant and equipment</u>

Items of property, plant and equipment are initially recognized at cost including directly attributable costs. Depreciation is calculated on a straight line basis, over the useful lives of the assets at annual rates as follows:

	Rate of depreciation	Mainly %
buildings	3 - 4 %	3.13
Machinery and equipment	6 - 20 %	10
Office furniture and equipment	6 - 15 %	6
Computer equipment	10 - 33 %	33
Vehicles	15 %	

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

S. <u>Cash and cash equivalents</u>

Cash equivalents are considered by the Group to be highly-liquid investments, including, inter alia, short-term deposits with banks, the maturity of which do not exceed three months at the time of deposit and which are not restricted.

T. <u>Provision for warranty</u>

The Group generally offers up to three years warranties on its products. Based on past experience, the Group does not record any provision for warranty of its products and services.

U. <u>Share-based payments</u>

Where equity settled share options are awarded to employees, the fair value of the options calculated at the grant date is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted.

V. <u>Employee benefits</u>

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

2. Accounting policies (Cont.)

services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. **Post-employment benefits:** The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law since 2004 under which the Group pays fixed contributions to a specific fund 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 simultaneously with receiving the employee's services and no additional provision is required in the financial statements except for the unpaid contribution. 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, retirement and several other events prescribed by that Law. The liability for post employment benefits is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases 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 yields on high quality corporate bonds with a term that matches the estimated term of the benefit plan. In respect of its severance pay obligation to certain of its employees, the Company makes deposits into pension funds and insurance companies ("plan assets"). Plan assets comprise assets held by a Long-term employee benefits 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 presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets.

W. Earnings per Share (EPS)

Earnings per share is calculated by dividing the net profit or loss attributable to owners of the parent by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential ordinary shares (convertible securities such as employee options) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential ordinary shares that are converted during the period are included in the diluted earnings per share only until the conversion date, and since that date they are included in the basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

X. Segment reporting

An operating segment is a component of the Group that meets the following three criteria:

1. Is engaged in business activities from which it may earn revenues and incur expenses;

2. Accounting policies (Cont.)

2. Whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about allocated resources to the segment and assess its performance; and
3. For which separate financial information is available.

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be allocated to segments. Items that cannot be allocated to segments include the Group's financial income and expenses and income tax.

Y. <u>New IFRSs in the period prior to their adoption</u>

- **IFRS 16 Leases:**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset, until the carrying amount is reduced to zero. Any remaining amount of re-measurements will be recognised in profit or loss. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

According IFRS 16 the lessees will be implemented retrospectively in one of two ways:

- Cumulative effect method, without restatement of comparative information.
- retrospectively to each prior reporting period presented

The Group plans to apply IFRS 16 initially from its effective adoption date of 1 January 2019, using the modified retrospective approach. Accordingly, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

2. Accounting policies (Cont.)

New IFRSs in the period prior to their adoption (cont.)

The following are the Company's estimates regarding the expected effects:

- leases in which the Group is the lessee, which are currently classified as operating leases, the Group is required to recognize on the initial implementation date a right of use and lease liability for all leases in which it is found to have the right to control the use of identified assets for a specified period of time. These changes are expected to result in an increase of approximately $970 thousand in the balance of the right to use assets at the date of initial implementation and an increase of about $970 thousand in the balance of the lease liability as at the date of initial implementation.
- At the initial implementation date, the lease liability will be recognized in the present value of the future lease fees. The Company intends to measure the right to use asset at that date in accordance with the amount equal to the lease liability at the initial application date, adjusted for the amount of any prepaid or accrued lease payments relating to this lease , which were recognized in the statement of financial position immediately prior to the initial implementation date.
- The range of nominal discount rates used to measure the liability described above in respect of a lease ranges from 2.0% to 3.5%, which, as at the date of the interim financial statements, constitutes the incremental interest of the lessee. The Company intends to continue examining the range of nominal interest rates.
- In the statement of cash flows, lease payments in respect of leases to be recognized as an asset of a right to use and a lease undertaking will no longer be presented as part of current operations, and therefore an increase in cash flow from operating activities is expected. Instead, the principal repayment component of the lease liability and the interest component on the liability will be presented in the financing activity.
- The Group expects a change in the main financial ratios, such as: an increase in the leverage rate, a decrease in the ratio of capital to the balance sheet and a decrease in working capital.

With respect to all of the above, the principal leases expected to be affected as a result of the implementation of the new standard derive mainly from the leasing of vehicles and warehouses used for the Company's operations.

3. Revenues

	For the year ended December 31,	
	2018	**2017**
Revenues arises from:	**$'000**	**$'000**
Sale of goods	27,734	27,661
Rendering of services	4,209	4,379
Projects	3,528	2,613
	35,471	34,653

4. Profit from operations

	For the year ended December 31, 2018	2017
This has been arrived at after charging:	$'000	$'000
Material and subcontractors	16,509	16,256
Wages and salaries	11,649	10,771
Plant, Machinery and Usage	1,407	1,024
Depreciation and amortization	579	623
Travel and Exhibition	566	474
Advertising and Commissions	552	624
Consultants	488	582
Operating lease expense	67	81
Others	737	647
	32,554	32,243

5. Operating segments

The Company and its subsidiaries are engaged in the following segments:

- Antennas: development, design, manufacture and marketing of antennas for the military and civilian sectors.
- Water Solutions: development, design, manufacture and marketing of remote control solutions for water and irrigation applications based on Motorola's IRRInet.
- Representation: providing consulting, representation and marketing services to foreign companies in the field of RF and Microwave.
- System Engineering: providing engineering services in the field of floating systems and system engineering services.

1. Segment information

	For the year ended December 31, 2018					
	Antennas	Water Solutions	Representation	System Engineering	Adjustment & Elimination	Total
	$'000					
Revenues						
External	12,670	14,298	7,160	1,343	-	35,471
Inter-segment	-	-	238	-	(238)	-
Total	12,670	14,298	7,398	1,343	(238)	35,471
Segment profit	630	1,395	725	3	171	2,924
Finance expense, net						274
Tax expenses						321
Profit						2,329

5. Operating Segments (cont.)

	December 31, 2018					
	Antennas	**Water Solutions**	**Representation**	**System Engineering**	**Adjustment & Elimination**	**Total**
	$'000					
Segment assets	18,300	8,772	2,961	271	(1,549)	28,755
Unallocated assets						511
Segment liabilities	4,214	2,025	1,621	331	-	9,463
Unallocated liabilities						59

	For the year ended December 31, 2017					
	Antennas	**Water Solutions**	**Representation**	**System Engineering**	**Adjustment & Elimination**	**Total**
	$'000					
Revenues						
External	13,267	13,109	6,707	1,570	-	34,653
Inter-segment	-	-	382	-	(382)	-
Total	13,267	13,109	7,089	1,570	(382)	34,653
Segment profit	67	1,536	529	129	149	2,410
Finance expense, net						38
Tax expenses						440
Profit						2,008

	December 31, 2017					
	Antennas	**Water Solutions**	**Representation**	**System Engineering**	**Adjustment & Elimination**	**Total**
	$'000					
Segment assets	18,801	8,396	2,828	376	(1,512)	28,889
Unallocated assets						587
Segment liabilities	4,719	1,914	2,181	365	284	9,463
Unallocated liabilities						38

5. Operating Segments (cont.)

2. Entity wide disclosures External revenue by location of customers.

	For the year ended December 31,	
	2018	**2017**
	$'000	**$'000**
Israel	19,717	18,962
Europe	4,662	5,840
North America	5,022	4,975
Africa	1,479	1,864
Asia	2,717	1,800
Other	1,874	1,212
	35,471	34,653

3. Additional information about revenues:

There is no single customer from which revenues amount to 10% or more of total revenues reported in the financial statements.

6. Finance expense and income

	For the year ended December 31,	
	2018	**2017**
	$'000	**$'000**
Finance expense		
Interest on bank loans	70	110
Net Foreign exchange loss	84	-
Interest and bank fees	160	139
	314	249
Finance income		
Interest from bank deposits	40	26
Net Foreign exchange gain	-	261
	40	287
	274	(38)

7. Tax expenses

A. Tax Laws in Israel

1. <u>Amendments to the Law for the Encouragement of Capital Investments, 1959 (the “Encouragement Law”):</u>

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments to the Law. The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. Commencing from the 2011 tax year, the Group will be able to opt to apply (the waiver is non-

7. Tax expenses (cont.)

recourse) the Amendment and from the elected tax year and onwards, it will be subject to the amended tax rates that are: 2014 and thereafter will be 16% (in development area A - 9%).

The Group applied the Amendment effectively from the 2011 tax year.

2. Tax rates:

On December 29, 2016, the Law for Economic Efficiency (Legislative Amendments for Achieving the Budgetary Goals for 2017-2018) was published in Reshumot (the Israeli government official gazette), which enacts, among other things, the following amendments:

- Decreasing the corporate tax rate to 24% in 2017 and to 23% in 2018 and thereafter (instead of 25%).
- Commencing tax year 2017 and thereafter the tax rate on the income of preferred enterprises of a qualifying Company in Development Zone A as stated in the Encouragement of Capital Investment Law, shall decrease to 7.5% (instead of 9%) and for companies located in zones other than Zone A the rate shall remain 16%.
- In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).

Therefore the applicable corporate tax rate for 2014 and thereafter is 16%. The real capital gains tax rate and the real betterment tax rate for the years 2014-2015 are 26.5% and 25%, 24% in 2016 and 2017 respectively.

B. The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

A company incorporated in India - The statutory tax rate is 28% and the Company was in an exempt zone until end of March 2013 and further in a 50% tax exempt zone until end of March 2018. Nevertheless from the Tax Year 2011-12, in the absence of taxable income or tax due on taxable income (calculated as per normal rates) being less than 18.5% of the Accounting Book Profits during a particular year, the Indian regulation states that the company has to pay a Minimum Alternate tax at a rate of 18.5% of the Accounting Book Profits for that year. Such excess Minimum Alternate Tax paid on book profits over the Tax due on Actual Taxable Income (calculated as per normal rates) of each year is capable of set off against the taxable profits of future years.

A company incorporated in Switzerland - The weighted tax rate applicable to a company operating in Switzerland is about 25% (composed of Federal, Cantonal and Municipal tax). Provided that the company meets certain conditions, the weighted tax rate applicable to its income in Switzerland will not exceed 10%.

A company incorporated in South Africa - The statutory tax rate is 28%

A company incorporated in Australia - The statutory tax rate is 30%

A company incorporated in United States of America - The statutory tax rate is 21%.

A Company incorporated in Russia – the statutory tax rate is 20%.

7. Tax expenses (cont.)

A Company incorporated in China - the statutory tax rate is 25% but for small entities the tax rate is 10%. To be classified as small entity all following should apply (i)Annual taxable income not exceeding 3 million yuan, (ii) Number of employees not exceeding 300 and (iii) Total assets not exceeding 50 million yuan.

C. Income tax assessments

The Company has tax assessments considered as final up to and including the year 2016.

	For the year ended December 31,			
	2018	**2018**	**2017**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Current tax expense				
Income tax on profits for the year (including past years)	408		526	
		408		526
Deferred tax income (see note 12)				
Origination and reversal of temporary differences	(87)		(86)	
		(87)		(86)
Total tax expenses		321		440

The adjustments for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:

	For the year ended December 31,	
	2018	**2017**
	$'000	**$'000**
Profit before income tax	2,689	2,448
Tax computed at the corporate rate in Israel of 16%	431	392
Non-deductible expenses (Tax-exempt income)	58	23
Taxes resulting from different tax rates applicable to foreign and other subsidiaries	(25)	55
Adjustments for current income tax of prior years	(186)	-
Other	43	(30)
Total income tax expense	321	440

8. Earnings per share

Net earnings per share attributable to equity owners of the parent

	For the year ended December 31,	
	2018	2017
	$'000	$'000
Net Earnings used in basic EPS	2,337	1,949
Net Earnings used in diluted EPS	2,337	1,949
Weighted average number of shares used in basic EPS	86,565,298	84,466,788
Effects of:		
Employee options	421,619	442,834
Weighted average number of shares used in diluted EPS	86,986,917	84,909,632
Basic net EPS (dollars)	0.0270	0.0231
Diluted net EPS (dollars)	0.0269	0.0230

The employee options have been included in the calculation of diluted EPS as the weighted average share price during the year greater than their exercise price (i.e. they are in-the-money) and therefore it would be advantageous for the holders to exercise those options. The total number of options in issue is disclosed in note 24.

9. Dividends

	For the year ended December 31,	
	2018	2017
	$'000	$'000
Dividend paid (1)	1,096	635
Scrip dividend (2)	677	283
	1,773	918

(1) A dividend of 2 cents (2017- 1 cents) per ordinary share was proposed and paid during the year relating to the previous year's results.

(2) Under the scrip dividend policy, shareholders have the option to elect to receive dividends in new shares of the Company rather than in cash. The default arrangement will be for the payment of dividends in cash, and if the shareholder prefers to receive their dividends in new shares of the Company, then they would have to make an election. There would be no ability to make mixed elections and each shareholder would be able to choose either cash or new shares but not both. The decision to offer shareholders a scrip dividend alternative for future dividend payments will be at the sole discretion of the board.

10. Property, plant and equipment

	Building	Machinery & equipment	Office furniture & equipment	Computer equipment	Vehicles	Total
				$'000		
Cost:						
Balance as of January 1, 2018	5,065	5,318	631	2,311	680	14,005
Acquisitions	4	363	12	19	161	559
Disposals	-	-	-	-	(104)	(104)
Exchange differences	-	(1)	(3)	(5)	(30)	(39)
Balance as of December 31, 2018	5,069	5,680	640	2,325	707	14,421
Accumulated Depreciation:						
Balance as of January 1, 2018	2,153	4,697	568	2,132	244	9,794
Additions	91	190	17	65	112	475
Disposals					(78)	(78)
Exchange differences	-	-	(2)	(4)	(9)	(15)
Balance as of December 31, 2018	2,244	4,887	583	2,193	269	10,176
Net book value as of December 31, 2018	2,825	793	57	132	438	4,245

	Building	Machinery & equipment	Office furniture & equipment	Computer equipment	Vehicles	Total
				$'000		
Cost:						
Balance as of January 1, 2017	5,060	5,217	618	2,257	689	13,841
Acquisitions	5	95	11	49	291	451
Disposals	-	-	-	-	(309)	(309)
Exchange differences	-	6	2	5	9	22
Balance as of December 31, 2017	5,065	5,318	631	2,311	680	14,005
Accumulated Depreciation:						
Balance as of January 1, 2017	2,059	4,479	542	2,054	306	9,440
Additions	94	214	24	75	102	509
Disposals	-	-	-	-	(159)	(159)
Exchange differences	-	4	2	3	(5)	4
Balance as of December 31, 2017	2,153	4,697	568	2,132	244	9,794
Net book value as of December 31, 2017	2,912	621	63	179	436	4,211

11. Intangible assets

	Goodwill from business combination	Other assets recognizable *	Total
		$'000	
Cost:			
Balance as of December 31, 2018	2,007	523	2,530
Accumulated Amortization:			
Balance as of January 1, 2018	1,227	308	1,535
Amortization charge	-	114	114
Balance as of December 31, 2018	1,227	422	1,649
Net book value as of December 31, 2018	780	101	881

	Goodwill from business acquisitions	Other assets recognizable *	Total
		$'000	
Cost:			
Balance as of December 31, 2017	2,007	523	2,530
Accumulated Amortization:			
Balance as of January 1, 2017	1,227	194	1,421
Amortization charge	-	114	114
Balance as of December 31, 2017	1,227	308	1,535
Net book value as of December 31, 2017	780	215	995

(*) customer relations, backlog and non-competition.

12. Deferred tax assets

Deferred tax asset is calculated on temporary differences under the liability method using the tax rates that are expected to apply to the period when the asset is realised.

The movement in the deferred tax asset is as shown below:

	2018	2017
	$'000	$'000
At January 1	600	514
Charged to other comprehensive income	-	1
Charged to profit or loss	87	85
At December 31	687	600

Deferred tax assets have been recognized in respect of all differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

12. Deferred tax assets (Cont.)

Composition:

	31.12.2018	31.12.2017
	$'000	$'000
Accrued severance pay	96	65
Other provisions and employee-related obligations	87	90
Research and development expenses deductible over 3 years	259	171
Depreciable intangibles	-	(36)
Carry forward tax losses	245	310
	687	600

Deferred tax assets relating to carry forward capital losses of the Group total approximately $1,020 and $841 thousand as of December 31, 2018 and 2017 respectively were not recognized in the financial statements because their utilization in the foreseeable future is not probable.

13. Inventories

	31.12.2018	31.12.2017
	$'000	$'000
Raw materials and consumables	4,518	4,174
Work-in-progress	310	81
Finished goods and goods for sale	1,177	1,226
	6,005	5,481

14. Trade receivables, other receivables and unbilled revenue

	31.12.2018	31.12.2017
	$'000	$'000
Trade receivables	8,685	9,265
Unbilled revenue – Projects	2,271	1,762
Other receivables	906	979
	11,862	12,006

Trade receivables:

	31.12.2018	31.12.2017
	$'000	$'000
Trade receivables (*)	8,505	9,092
Notes receivable	364	355
Allowance for doubtful accounts	(184)	(182)
	8,685	9,265

(*) Trade receivables are non-interest bearing. They are generally on 60-120 day terms.

14. Trade receivables, other receivables and unbilled revenue (cont.)

As at 31 December 2018 trade receivables of $ 632K (2017 – $940K) were past due but not impaired.

They relate to the customers with no default history. The aging analysis of these receivables is as follows:

	31.12.2018 $'000	31.12.2017 $'000
Up to 3 months	627	818
3 to 6 months	5	117
6 to 12 months	-	5
	632	940

Unbilled revenue:

	31.12.2018 $'000	31.12.2017 $'000
Actual completion costs	4,172	2,776
Revenue recognised	2,405	976
Billed revenue	(4,307)	(1,990)
Total Unbilled receivables – Projects	2,271	1,762

Other receivables:

	31.12.2018 $'000	31.12.2017 $'000
Prepaid expenses	409	355
Advances to suppliers	163	113
Employees	62	74
Tax authorities – V.A.T	102	120
Other receivables	170	317
	906	979

15. Other current financial assets

	31.12.2018 $'000	31.12.2017 $'000
Deposits with banks	-	2,011

The deposits are not linked and bear interest of 2% as of December 31, 2017.

16. Cash and cash equivalents

	31.12.2018 $'000	31.12.2017 $'000
In U.S. dollars	4,332	2,774
In other currencies	1,069	734
	5,401	3,508

17. Loans from banks

	31.12.2018	31.12.2017
	$'000	$'000
US Dollars - unlinked	563	813
NIS	374	929
South African Rand	71	82
Less - current maturities	(581)	(869)
	427	955

In 2011 the Company received a US$ 2.5 Million loan for the purchase of the company building in Rosh ha'ayin, Israel, secured by a mortgage on the said asset. The loan is for 10 years, with repayment on a quarterly basis from April 2011 until January 2021 and bears interest at a fixed rate of 4.9%.

On August 2016, the Company received NIS 100,000 (approximately US$ 29 thousand) loan respectively for purchase of car. The loan is for 4 years with a monthly repayment starting August 2016 and bears interest of Prime +0.6% (2.35% as of December 31, 2018).

During 2018 two additional loans for purchases of cars were taken, which total NIS 320,000 (approximately US$ 85 thousand). These loans are for 4 years with a monthly repayment and bears interest of Prime +0.4% (2.15% as of December 31, 2018). All bank loans for the purchase of cars are secured by a fixed lien on the car.

On June 2015 the Company received NIS 8 Million (approximately US$ 2.08 Million) loan for funding the acquisition of Mottech. The loan is for 4 years, with repayment on a quarterly basis from September 2015 until June 2019 and bears interest at a fixed rate of 3.5%.

During 2017 Mottech South Africa entered into loan agreement of approximately US$ 37 thousand for purchase of cars payable in 60 months on a monthly basis. Interest rate is linked to the South Africa prime lending rate.

During 2018 Mottech South Africa had entered into loan agreement of approximately US$ 30 thousand for the purchase of cars, which is payable in 36 - 48 months on a monthly basis. The interest rate is linked to the South Africa prime lending rate.

At December 31 2018	First year	Second year	Third year	Fourth year	Fifth year and thereafter
			$'000		
Long-term loan	581	309	100	18	-

18. Employee benefits

A. Composition:

	As at December 31	
	2018	2017
	$'000	$'000
Present value of the obligations	1,691	1,834
Fair value of plan assets	(987)	(1,100)
	704	734

B. Movement in plan assets:

	As at December 31	
	2018	2017
	$'000	$'000
Year begin	1,100	1,126
Foreign exchange gain	(82)	122
Interest income	21	21
Contributions	16	25
Benefit paid	(15)	(220)
Re measurements gain (loss)		
Actuarial profit (loss) from financial assumptions	(2)	2
Return on plan assets (excluding interest)	(51)	24
Year end	987	1,100

C. Movement in the liability for benefit obligation:

	As at December 31	
	2018	2017
	$'000	$'000
Year begin	1,834	1,791
Foreign exchange loss	(135)	191
Interest cost	47	49
Current service cost	46	62
Benefits paid	(26)	(232)
Re measurements loss (gain)		
Actuarial loss (gain) from financial assumptions	(46)	48
Adjustments (experience)	(29)	(75)
Year end	1,691	1,834

18. Employee benefits (cont.)

Supplementary information

1. The Group's liabilities for severance pay retirement and pension pursuant to Israeli law and employment agreements are recognized by full - in part by managers' insurance policies, for which the Group makes monthly payments and accrued amounts in severance pay funds and the rest by the liabilities which are included in the financial statements.
2. The amounts funded displayed above include amounts deposited in severance pay funds with the addition of accrued income. According to the Severance Pay Law, the aforementioned amounts may not be withdrawn or mortgaged as long as the employer’s obligations have not been fulfilled in compliance with Israeli law.
3. Principal nominal actuarial assumptions:

	As at December 31,	
	2018	**2017**
Discount rate on plan liabilities	3.02%	3.02%
Expected increase in pensionable salary	2%	2%

4. Sensitivity test for changes in the expected rate of salary increase or in the discount rate of the plan assets and liability:

	Change in defined benefit obligation	
	As at December 31,	
	2018	**2017**
	$'000	**$'000**
The change as a result of:		
Salary increase of 1 %	61	80
Salary decrease of 1 %	(53)	(60)
The change as a result of:		
Increase of 1% in discount rate	(51)	(66)
Decrease of 1% in discount rate	61	79

	Year ended December 31,	
	2018	**2017**
	$'000	**$'000**
Expenses in respect of defined contribution plans	337	438

19. Trade and other payables

	As at December 31,	
	2018	2017
	$'000	$'000
Trade payables	3,998	4,186
Employees' wages and other related liabilities	1,377	1,343
Advances from trade receivables	134	178
Accrued expenses	471	431
Government authorities	46	146
Others	504	422
	6,530	6,705

20. Current maturities

	Interest rate as at December 31, 2018	As at December 31,	
		2018	2017
	%	$'000	$'000
Current maturities In NIS	Prime+0.6	40	28
Current maturities In NIS	3.5	267	577
Current maturities In SA ZAR	9.5 - 11	24	14
Current maturities In US $	4.9	250	250
Total Current maturities and short-term bank loans		581	869

Changes in liabilities arising from financing activities

Reconciliation of the changes in liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows

	Loans and borrowings
	$'000
At 1 January 2018	1,824
Changes from financing cash flows:	
Proceeds from long term loan received from banks	116
Repayment of long-term loans from banks	(878)
Total changes from financing cash flows	(762)
Effects of foreign exchange	(54)
At 31 December 2018	1,008

21. Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Foreign currency risk
- Liquidity risk
- Credit risk

Foreign currency risk

Foreign exchange risk arises when Group companies enter into transactions denominated in a currency other than their functional currency.

The Group's policy is to allow the Group's entities to pay liabilities denominated in their functional currency using the cash flows generated from the operations of each entity. When the Group's entities have liabilities denominated in a currency other than their functional currency (and the entity does not have sufficient cash balances in this currency to settle the liability) the Group, if possible, transfers cash balances in one entity to another entity in the group. The Group's currency risks are as follows:

A. Most of the Company's revenues are in US dollars or linked to that currency, and the Company's inputs are mainly linked due to the importation of raw materials into the US dollar, but the wages and salaries expenses (which constitutes a material input in the Company's operations) are in NIS. Therefore, there is an exposure to changes in the exchange rate of the NIS against the dollar.

B. The exercise price of the options granted to employees is denominated in British pounds (GBP) while the functional currency is the US dollar, and therefore the Company is exposed to changes in the exchange rate in respect of these options.

Management mitigates that risk by holding some cash and cash equivalents and deposit accounts in NIS. The company also purchases from time to time some forwards on the NIS/$ exchange rate to hedge part of the salaries costs. As of December 31, 2018 no such transactions were open. Since the purchase of Mottech the Group has an additional currency risk due to its subsidiaries activity.

The following is a sensitivity analysis of a change of 5% as of the date of the financial position in the NIS exchange rates against the functional currency, while the rest of the variables remain constant, and their effect on the pre-tax profit or loss on equity:

	Profit (loss) from change	Book value	Profit (loss) from change
		December 31, 2018	
NIS exchange rate	0.280	0.269	0.255
Total assets, net	**87**	**1,749**	**(87)**
		December 31, 2017	
NIS exchange rate	0.303	0.288	0.274
Total assets, net	**149**	**2,971**	**(149)**

The Company's exposure to changes in foreign currency in all other currencies is immaterial.

21. Financial instruments - Risk Management (Cont.)

	USD	NIS	Other currencies	Total
	As at December 31, 2018			
Assets				
Current assets:				
Cash and cash equivalents	4,396	642	363	5,401
Other current financial assets	-	-	-	-
Trade receivables	5,511	5,189	256	10,956
Other receivables	187	719	-	906
Liabilities				
current liabilities:				
Current maturities and short term bank credit and loans	250	307	24	581
Trade payables	1,583	2,029	386	3,998
Other accounts payables	134	2,398	-	2,532
non- current liabilities:				
Loans from banks, net of current maturities	313	67	47	427
Total assets, net	**7,814**	**1,749**	**162**	**9,725**

	USD	NIS	Other currencies	Total
	As at December 31, 2017			
Assets				
Cuurent assets:				
Cash and cash equivalents	2,948	194	366	3,508
Other current financial assets	2,011	-	-	2,011
Trade receivables	3,708	7,025	294	11,027
Other receivables	180	757	42	979
Liabilities				
current liabilities:				
Current maturities and short term bank credit and loans	250	605	14	869
Trade payables	2,022	1,715	449	4,186
Other accounts payables	119	2,361	-	2,480
non- current liabilities:				
Loans from banks, net of current maturities	563	324	68	955
Total assets, net	**5,893**	**2,971**	**171**	**9,035**

Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of insufficient liquidity means to fulfil its immediate obligations. The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group have sufficient availability of cash including the short-term investment of cash surpluses and the raising of loans to meet its obligations by cash management, subject to Group policies and guidelines.

21. Financial instruments - Risk Management (Cont.)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

December 31, 2018	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
	$'000					
Loans from banks	581	309	100	18	-	1,008
Trade payables	3,998	-	-	-	-	3,998
Payables	2,532	-	-	-	-	2,532
	7,111	309	100	18	-	7,538

December 31, 2017	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
	$'000					
Loans from banks	928	607	320	63	-	1,918
Trade payables	4,186	-	-	-	-	4,186
Payables	2,167	-	-	-	-	2,167
	7,281	607	320	63	-	8,271

Credit risks

Financial instruments which have the potential to expose the Group to credit risks are mainly deposits accounts, trade receivables and other receivables. The Group holds cash and cash equivalents in deposit accounts in big banking institutions in Israel, thereby substantially reducing the risk to suffer credit loss. With respect to trade receivables, the Group believes that there is no material credit risk which is not provided in light of Group's policy to assess the credit risk of customers before entering contracts. Moreover, the Group evaluates trade receivables on a day to day basis and adjusts the allowance for doubtful accounts accordingly and since January 2019 had entered into an agreement with credit insurance company to further mitigate this risk.

The aging analysis of these trade-receivable balances by business segment:

December 31, 2018				Past due trade receivables with aging of	
	Revenues	Total trade receivables	Neither past due nor impaired	< 30 days	>30 days
Antennas - other receivables	12,670	5,919	5,485	132	302
Water Solutions - other receivables	14,298	3,097	2,927	153	17
System Engineering - other receivables	1,350	171	171	-	-
Representation - other receivables	7,398	1,769	1,741	17	11
intercompany	(238)	-	-	-	-
total	**35,478**	**10,956**	**10,324**	**302**	**330**

21. Financial instruments - Risk Management (Cont.)

December 31, 2017				**Past due trade receivables with aging of**	
	Revenues	**Total trade receivables**	**Neither past due nor impaired**	**< 30 days**	**>30 days**
Antennas - main receivables	2,476	834	834	-	-
Antennas - other receivables	10,791	3,519	3,272	220	27
Antennas - total	**13,267**	**4,353**	**4,106**	**220**	**27**
Water Solutions - other receivables	13,109	2,987	2,860	37	90
System Engineering - other receivables	1,570	290	290	-	-
Representation - other receivables	7,089	1,635	1,634	1	-
intercompany	(382)	-	-	-	-
total	**34,653**	**9,265**	**8,890**	**258**	**117**

Fair value

The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, credit from banks and others, trade payables and other accounts payable approximate their fair value.

Sensitivity tests relating to changes in market price of listed securities

The Group has performed sensitivity tests of the principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant. The sensitivity tests for listed investments with quoted market prices (bid price) were performed on possible changes in these market prices.

The Group is not exposed to cash flow risk due to interest rate since the long-term loan bears fixed interest.

The following table demonstrates the carrying amount and fair value of the groups of financial instruments that carrying amounts does not approximate fair value:

	Carrying amount		**Fair value**	
	2018	**2017**	**2018**	**2017**
Financial liabilities:	**$'000**			
Long-term loan with interest (1)	1,008	1,824	1,011	1,814

(1) The fair value of the long-term loan received with fixed interest is based the present value of cash flows using an interest rate currently available for a loan with similar terms.

21. Financial instruments - Risk Management (Cont.)

Linkage terms of financial liabilities by groups of financial instruments pursuant to IAS 39

December 31, 2018:

	NIS	Unlinked	S.A Rand	Total
	$'000			
Financial liabilities measured at amortized cost	374	563	71	1,008

December 31, 2017:

	NIS	Unlinked	S.A Rand	Total
	$'000			
Financial liabilities measured at amortized cost	929	813	82	1,824

Capital management

Group’s objective is to maintain, as much as is possible, a stable capital structure. In the opinion of Group's management its current capital structure is stable. Consistent with others in the industry, the Group monitors capital, including others also, on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ‘current and non-current borrowings’ as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	31.12.2018	31.12.2017
Loans from banks	1,008	1,824
bank credit	-	-
Total liabilities	**1,008**	**1,824**

	31.12.2017	31.12.2017
Share capital	205	200
Additional paid-in capital	22,388	21,716
Retained earnings	(2,195)	(2,781)
Capital reserves	242	457
Non-controlling interest	375	383
Total equity	**21,015**	**19,975**
Leverage ratio	**4.8%**	**9.1%**

The net debt ratios stem from the Board of Directors' decision to continue to invest in the Company's development, but without the use of excessive leverage. The Group intends to examine the leverage ratio from time to time and to define it according to its needs. The decrease in the net debt ratio in 2018 derived mainly from the repayment of credit, in accordance with the repayment schedules, alongside an increase in the Company's equity as a result of the Company's profits. The Group intends to maintain the leverage ratio in future periods as well. Beyond that stated above, there were no other material changes in the objectives, policies or processes of managing the Group's capital during the year, as well as in the Group's definition of capital.

22. Subsidiaries:

The principal subsidiaries of Company, all of which have been consolidated in these consolidated financial statements, are as follows:

Name	**Country of incorporation**	**Proportion of ownership interest at 31 December**		**Held by**
		2018	**2017**	
AdvantCom Sarl	Switzerland	100%	100%	M.T.I Wireless Edge
Global Wave Technologies PVT Limited	India	80%	80%	AdvantCom Sarl
Ginat Wave India Private ltd.	India	49%	49%	M.T.I Wireless Edge
Mottech water solutions ltd.	Israel	100%	100%	M.T.I Wireless Edge
Aqua water control solution ltd	Israel	100%	100%	Mottech water solutions
Mottech Water Management (pty) ltd.	South Africa	85%	85%	Mottech water solutions
Mottech Water Management (pty) ltd.	Australia	97.5%	97.5%	Mottech water solutions
Mottech USA Inc.	United states	100%	100%	Aqua water control solution
M.T.I Engineering ltd.	Israel	100%	100%	M.T.I Wireless Edge
Summit electronics ltd.	Israel	100%	100%	M.T.I Engineering ltd.
M.T.I Summit electronics ltd.	Israel	100%	100%	M.T.I Wireless Edge
M.T.I Summit SPB ltd.	Russia	99.9%	99.9%	M.T.I Summit electronics ltd.
Mottech Water Management (Shenzhen) Ltd.	China	60%	60%	Mottech water solutions ltd.

23. Share capital

	Authorized			
	2018	**2018**	**2017**	**2017**
	Number	**NIS**	**Number**	**NIS**
Ordinary shares of NIS 0.01 each	100,000,000	1,000,000	100,000,000	1,000,000

	Issued and fully paid			
	2018	**2018**	**2017**	**2017**
	Number	**NIS**	**Number**	**NIS**
Ordinary shares of NIS 0.01 each at beginning of the year	85,224,754	852,248	84,402,254	844,023
Changes during the year				
Scrip dividend	1,813,970	18,140	-	-
Exercise of options to share capital	-	-	822,500	8,225
At end of the year	87,038,724	870,388	85,224,754	852,248

24. Share-based payment

An Option Plan was adopted by the Company at the shareholders meeting held on July 5, 2013. Under the Plan, all previous plans were cancelled and the new plan entered into effect. The new plan includes a total of 2 million options to be converted to 2 million shares of the Company (approximately 4% of the company's outstanding shares) at a price of 9.5 pence per share (approximately 15 cents).

The vesting period of the options is as follows: 2 years for 50% of the options, 3 years for an additional 25% of the options and 4 years for the rest of the options. An approval for the replacement of plans was received from the tax

24. Share-based payment (Cont.)

authorities on July 22, 2013, providing the Company, the employees and the trustee of the plan to submit the documentation required within 60 days from approval. As part of the grant of this plan an allocation of 280,000, 250,000 and 200,000 options was granted to the CEO, CFO and the Chairman of the board, respectively.

The weighted average fair value of the options as at the grant date was 2 pence (approximately 3 cents) per option, and was estimated using a Black and Scholes option pricing model based on the following significant data and assumptions:

Share price - 7 pence (representing approximately 11 cents)

Exercise price - 9.5 pence (representing approximately 15 cents)

Expected volatility - 25.90%

Risk-free interest rate - 0.8%

And expected average life of options 4.375 years

On May 18, 2016 a new option scheme for key Employees was approved at the Company's Annual General Meeting. Under the plan, options to purchase 800 thousand ordinary shares were granted (each option to one ordinary share) at a price of 27 pence per share (approximately 33 cents). This represents approximately 1.5% of the Company's current issued and voting share capital on a fully diluted basis. The vesting period of the options shall be as follows: 2 years for 50% of the options, 3 years for an additional 25% of the options and 4 years for the reminder of the options. Unexercised options expire nine years after the date of the grant after which they will be void. Options are forfeited when the employee leaves the Company.

There is no cash settlement of the options. The weighted average fair value of the options as at the grant date is 6 pence (approximately 9 cents) per option, and was estimated using a Black and Scholes option pricing model based on the following significant data and assumptions:

Share price - 19.88 pence (representing approximately 29 cents)

Exercise price - 27 pence (representing approximately 39 cents)

Expected volatility - 45.34%

Risk-free interest rate - 0.85%

And expected average life of options 4.375 years

The volatility measured the standard deviation of expected share price returns is based on the historical volatility of the Company. The options were granted as part of a plan that was adopted in accordance with the provision of section 102 of the Israeli Income Tax Ordinance.

The expense recognized in the financial statements for employee services received for the year ended December 31, 2018 and 2017 was US $14,000 and US $29,000 respectively.

24. Share-based payment (Cont.)

The following table lists the number of share options, the weighted average exercise prices of share options and modification in employee option plans during the current year:

	2018 weighted average exercise price	2018 Number	2017 weighted average exercise price	2017 Number
	$		$	
Outstanding at beginning of year	0.36	1,500,000	0.23	2,342,500
Exercised during the year	-	-	0.12	(822,500)
Granted during the year	-	-	-	-
Forfeited during the year	-	(-)	0.12	(20,000)
Outstanding at the end of the year	0.35	1,500,000	0.36	1,500,000
Exercisable at the end of the year	0.20	1,100,000	0.15	700,000

The weighted average remaining contractual life for the share options outstanding as of December 31, 2018 was 0.67 years.

25. Commitments and guarantees

A. Royalty commitments

(i) The Group is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government of Israel participates by way of grants. Under the terms of Group's funding from Government of Israel, royalties of 2%-3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received, including amounts received by the Parent Company and its subsidiaries through July 1, 2000.

The maximum royalty amount payable by the Group at December 31, 2018 is US$ 470,000.

No provision is recognized due to the lack of expectation to sale relevant products in the foreseeable future.

During 2018 the Group did not pay any royalties.

(ii) The Group is committed to pay royalties to the Government of Israel on proceeds from growth in sales of Mottech's products in China of which the Government of Israel participates by way of grants. Under the terms of the Group's funding from Government of Israel, royalties of 3% from the increase of sales in China (base year was 2017) shall be paid up to 100% of the amount of the grant received. Payment of royalties shall begin after completion of the grant receipt, which is expected in 2020. The maximum royalty amount payable by the Group at December 31, 2018 is US$ 45,000.

B. Guarantees

The Group has provided guarantees in favour of customers and government institutes in the amount of US$ 600,000 and US$ 2,100,000 respectively. The guarantees are mainly to guarantee advances received from customers and performance of contracts signed.

25. Commitments and guarantees (cont.)

C. Charges

In order to secure the Group's liabilities, real estate properties were mortgaged and fixed charges were recorded on property and some bank deposits (see also note 17).

26. Transactions with related parties:

A. **Service Agreement with controlling shareholder:**

As part of the new policy, a shareholders' meeting on July 5, 2013 approved a change to the share option plan of the Company, subject to the approval of the Israeli Tax Authorities. As part of the new option plan Mr. Zvi Borovitz was granted 200,000 options and Mr. Moni Borovitz was granted 250,000 options. Further details of the new option plan are detailed in section 24 above.

Following the receipt of recommendations from both the remuneration committee and the board of directors of the Company, an amendment to the service agreement between the Company and the controlling shareholders (via their management company) was approved at a shareholders' meeting held on May 18, 2016. According to the amendment, the agreement is in place for 3 years starting June 1, 2016, after which it will be renewed for periods of 3 years in accordance to the relevant rules and regulations. Nevertheless the agreement can be terminated by either party by providing 90 days' notice. The agreement includes remuneration (per month) of:

1. 25,000 NIS to Mr. Zvi Borovitz (raised from 20,000 NIS prior to this approval) for his service as a chairman of the board of the Company in capacity of at least 25% and
2. 65,000 NIS to Mr. Moni Borovitz (raised from 60,000 NIS prior to this approval) for his service as CFO of the Company in capacity of at least 80%.

All amounts are prior to VAT which will be added to the invoices and are linked to the increase in the consumer price index. In addition to the above, and in accordance with the remuneration policy adopted by the Company, as required under rule 20 to the Israeli Companies Law, a bonus scheme was granted to each of the managers. The bonus scheme states that Zvi Borovitz and Moni Borovitz will be entitled (each one of them) to a bonus amounting 2.5% of the company's net profit exceeding US$400,000 per year (raised from US$250,000 prior to this approval), prior to any bonuses grant in the Company. In the case of a loss in a year the bonus for the next year will be for a net profit exceeding US$400,000 above the loss made in the previous year. In addition Mr. Moni Borovitz shall be entitled to a bonus equal to two months management fee, based on the meeting of targets specified by the remuneration committee at the beginning of each year or per the remuneration committee decision to give such for special performance. A ceiling to the bonuses was set at 8 months management fees for Mr. Moni Borovitz and US$100,000 for Mr. Zvi Borovitz. The agreement also states that the Company shall reimburse the management of the Company for any expense made in performance of the manager's duty. The Company shall also provide each of the managers with a car and phones and will be responsible for all its related expenses, including all relevant taxes.

As part of the Merger (as detailed in note 27 below) agreement it was concluded that Mr. Zvi Borovitz who served as the Chair of MTI Computers & Software Services (1982) Ltd ("**MTIC**") and serves as the Chair of the

Company's board of directors, will cease to serve, on the Date of Completion, as the Chair of MTIC board of directors, but will

A. **Service Agreement with controlling shareholder:**

continue to serve as the Chair of the Company's board of directors, at a cumulative scope of employment that reflects his employment as the Chair of MTIC board of directors and as the Chair of the Company's board of directors (that is, at a cumulative scope of employment that will not be less than 55%), with no change in the terms of his service and employment, other than as set forth below. The consideration to which Mokirey Aya Management Ltd. (hereinafter: the **"Management Company"**) will be entitled with respect to Mr. Borovitz's service as the Chair of the Company's board of directors, starting on the Date of Completion, will reflect a cumulative consideration with respect to his service as the Chair of MTIC board of directors and as the Chair of the Company's board of directors up to the Date of Completion, with no change (and specifically, the cumulative monthly management fees will continue to be in the amount of NIS 52,000, linked to the increase in the Consumer Price Index from the month of April 2016, plus VAT as provided by law). Nonetheless, with respect to the variable remuneration to which Mr. Zvi Borovitz is entitled with respect to his service as the Chair of MTIC of directors and as the Chair of the Company's board of directors: (1) he will not be entitled, starting on the Date of Completion, to the variable remuneration to which he was entitled with respect to his service as the Chair of the MTIC board of directors; (2) he will continue to be entitled, starting on the Date of Completion, without change, to the variable remuneration with respect to his service as the Chair of the Company's board of directors.

At the time of the Merger, MTIC's interest in the Company's issued ordinary share capital was 53.2%. As such, MTIC was classified as a related party of the Company under Rule 13 of the AIM Rules for Companies and the Merger was therefore classified as a transaction with a related party. Details of the consideration for the Merger can be found in note 27 below.

B. Transaction with the Parent Group:

The following transactions occurred with the Controlling shareholder and other related parties:

	2018	**2017**
	$'000	**$'000**
Management Fee	657	619

Compensation of key management personnel of the Group:

	2018	**2017**
	$'000	**$'000**
Short-term employee benefits *)	1,052	1,041

*) Including Management fees for the CEO, Directors, Executive Management and other related parties including the Controlling shareholder.

Balances with related parties:

	2018	**2017**
	$'000	**$'000**
Other accounts payables	187	227

27. Merger

During March 2018 the Company announced that it was in preliminary discussions with its majority shareholder, MTI Computers & Software Services (1982) Ltd (“**MTIC**”), regarding a potential merger between the two companies. MTIC, whose shares were listed on the Tel Aviv Stock Exchange, at that point held 53.2% of the Company’s issued ordinary shares. Following the announcement in March 2018, on 1 May , 2018 the Company announced that it had entered into a merger agreement (the “**Merger Agreement**”) with its majority shareholder, MTIC and the Company together being the “Merging Companies”, according to which, and in accordance with the provisions of Sections 350-351 of the Israeli Companies Law, 5759-1999 (the "**Companies Law**"), as a court approved scheme of arrangement between the Company, MTIC and their shareholders (the “**Scheme of Arrangement**”), MTIC was to be merged into the Company in a statutory merger, so that MTIC would be dissolved and all of its activities, assets and liabilities, subject to certain qualifications, would be transferred to the Company in consideration for the allotment of new ordinary shares of the Company and the transfer of MTIC’s existing holdings in the Company, to all of MTIC's shareholders (the "**Merger**").

The Merger does not constitute a business combination within the scope of IFRS 3 and accordingly is treated by the Company in the financial statements as a pooling of interest. According to this method, the Company prepared its financial statements in order to reflect as if the Merger was in effect as of the establishment of the Company, while making the adjustments as follows:

The capital balance of the transferred activities was classified in the statement of changes in equity as part of the additional paid-in capital. Dividend distribution to the owners prior to the date of the merger were classified to the statement of changes in equity as retained earnings.

As consideration for the Merger, the Company was to allocate to the shareholders of MTIC 31,600,436 new ordinary shares in the Company, subject to a Conversion Ratio Mechanism (as defined below). In addition, MTIC’s existing holdings in the Company were also to be transferred to all of the shareholders in MTIC, pro rata to their holdings of shares in MTIC.

On the date of record for the Merger the Company was to allocate to the shareholders of MTIC (the "**Date of Record for the Merger**" and the "**Shareholders of MTIC**" respectively) 31,600,436 new ordinary shares in the Company, according to the Conversion Ratio (as defined below) as of the date of the Merger Agreement, subject to the Conversion Ratio Mechanism (as defined below) (the "**Allotted Shares**") and was to transfer them, together with MTIC’s Holdings in the Company (the "**Sold Shares**"), to all of the shareholders in MTIC, pro rata to their holdings of shares in MTIC on the Date of Record for the Merger, according to the Conversion Ratio. With respect to the Merger Agreement, the "**Conversion Ratio**" **-** a ratio of 5.2689055 Sold Shares for each share in MTIC as of the date of entry into the Merger Agreement, was determined according to a valuation of the business activities of MTIC and the Company, on the basis of the consolidated and audited financial statements for the year ended 31 December 2017 of each company as valued by an independent appraiser (the "**Appraiser**"), was subject to updates, as necessary, according to the Conversion Ratio Mechanism (as defined below). According to the aforesaid valuation, which constituted part of the Merger Agreement (the "**Valuation**"), the equity ratio as of 31 December 2017, between the value of MTIC excluding MTIC's holdings in the Company (approximately US$ 10.7 million as

27. Merger (cont.)

of 31 December 2017) when compared with the value of the Company (approximately US $ 18.8 million as at 31 December 2017) was approximately 1.75: in favor of the Company.

Following completion of the Merger, assuming the Conversion Ratio is not adjusted in accordance with the Conversion Ratio Mechanism (5.26891) and provided none of the options granted by the Company are exercised, the issued share capital of the Company was to be 87,038,724 ordinary shares.

The Merger was completed on 20 August, 2018.

28. Subsequent events

A. The Board of directors has decided to declare a cash dividend of 1.5 cent per share being approximately $1,306,000. This dividend will be paid on 5 April 2019 to shareholders on the register at the close of trading on 22 March 2019.

B. The financial statements were authorized for issue by the board as a whole following their approval on March 10, 2019.

C. On January 24 2019 the Company announced a share repurchase program to conduct market purchases of ordinary shares of par value 0.01 Israeli Shekels each ("**Ordinary Shares**") in the Company up to a maximum value of £150,000 (the "**Programme**"). The Programme will be managed by Peterhouse Capital Limited ("**Peterhouse Capital**").

The Company has entered into an arrangement with Peterhouse Capital in relation to the Programme where Peterhouse Capital will make the trading decisions concerning the timing of the market purchases of Ordinary Shares independently of and uninfluenced by the Company, with such trading decisions being in line with the terms of the Programme. Purchases may continue during any prohibited periods of the Company, as defined by the Market Abuse Regulation 596/2014/EU (“MAR”), which may fall during the term of the Programme. The Company reserves the right to bring a halt to the Programme under circumstances that it deems to be appropriate, provided that it is permissible for this to occur in compliance with MAR.

The Programme commenced on 28 January 2019 and will continue until no later than 26 July 2019.

Ordinary Shares acquired as a result of the Programme will be held by MTI Engineering and in accordance with the Israeli Companies Law, 1999 will not have any voting rights. An objective of the Programme is that Ordinary Shares acquired by MTI Engineering will be resold, provided that this occurs under circumstances that the Board of MTI deems to be appropriate and in compliance with MAR. Cash generated from any eventual resales of Ordinary Shares acquired by MTI Engineering under the Programme will be credited to an account held with a third party, which will be under the direction of Peterhouse Capital and such cash may be used by Peterhouse Capital to make future purchases of Ordinary Shares under the Programme.

As at 10 March 2019, a total 510,000 shares Ordinary Shares had been repurchased under the Programme.