

March 28, 2019

LUDAN ENGINEERING CO. LTD.

Petach - Tikva

Gentlemen,

At your request, attached is an English translation of:

1. The consolidated statements of the financial position of the Company as at December 31, 2018 and 2017.
2. The consolidated statements of income for the years ended December 31, 2018, 2017 and 2016.
3. Changes in shareholders' equity for the years ended December 31, 2018, 2017 and 2016.
4. The consolidated cash flows for the years ended December 31, 2018, 2017 and 2016.
5. Segment reporting for the years ended December 31, 2018, 2017 and 2016.

These documents were translated from the original Hebrew financial statement of the company.

For the convenience of the readers the Euro/Dollar/NIS exchange rate at 31.12.2018 is:

\$1 = 3.748 NIS.

€1 = 4.2916 NIS.

Sincerely yours,

Horowitz Idan Sabo Tevet & Cohen Tabach
Horowitz Idan Sabo Tevet & Cohen Tabach

Certified Public Accountants (Isr.)

LUDAN ENGINEERING CO. LTD**Consolidated statements of financial position as at December 31**

	December 31	
	2018	2017
	(Audited)	
	NIS thousands	
ASSETS		
<u>Current assets:</u>		
Cash and cash equivalents	26,165	28,301
Restricted bank deposits	482	1,393
Trade and income receivables	213,068	202,983
Other receivables and debit balances	13,475	(*) 16,008
Current tax receivables	2,464	4,153
Inventory	20,338	21,965
	275,992	274,803
Non-current assets held for sale	17,264	-
Total current assets	293,256	274,803
<u>Non-current assets:</u>		
Affiliates - investments and loans	465	27,952
Trade receivables and loans to others	3,452	7,021
Fixed assets	18,833	17,550
Intangible assets	25,806	(*) 28,357
Other assets	351	286
Deferred tax	9,947	12,305
Total non-current assets	58,854	93,471
Total assets	352,110	368,274

(*) Restated.

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD**Consolidated statements of financial position as at December 31**

	December 31	
	2018	2017
	(Audited)	
	NIS thousands	
LIABILITIES AND EQUITY		
<u>Current liabilities:</u>		
Short-term bank credit and others	59,253	39,258
Short-term bonds	11,110	11,110
Suppliers, Sub-contractors and Service-providers	65,102	65,997
Advances from customers	13,401	17,711
Other Payables and credit balances	69,263	67,962
PUT option to Minority Interest	11,945	8,728
Tax liabilities	3,142	5,273
Total current liabilities	233,216	216,039
<u>Non-current liabilities:</u>		
Long term loans to banks and others	13,095	22,190
Bonds	21,783	32,593
Non-current compensation liabilities	11,744	13,271
Deferred tax	900	806
Total non-current liabilities	47,522	68,860
Total liabilities	280,738	284,899
<u>Equity:</u>		
Share Capital	12,936	12,936
Share Premium	28,439	28,439
Currency translation adjustments	(7,037)	(7,032)
Other hedges	(6,780)	(6,795)
Retained earnings	36,899	49,543
Total equity attributable to shareholders	64,457	77,091
Total equity attributable to Minority Interest	6,915	6,284
Total Equity	71,372	83,375
Total liabilities and Equity	352,110	368,274

The notes to the financial statements form an integral part thereof

Avi Winter
the board of Directors

Arnon Aharon - Co Chief
executive Officer

Gonen Betser - Chief
financial Officer

Approval date of the financial statements: March 28, 2019

LUDAN ENGINEERING CO. LTD**Consolidated statements of income for the year ended December 31**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>NIS Thousands</u>		
Revenue	578,951	577,170	581,799
Cost of revenue	502,670	(*) 498,542	(*) 500,083
Gross income	76,281	78,628	81,716
Marketing and sales expenses	3,962	(*) 5,178	(*) 5,720
Business and development expenses	2,286	2,183	2,065
Administrative and general expenses	52,208	47,847	46,854
Operating profit before other income, net	17,825	23,420	27,077
Other expenses, net	3,812	1,316	3,753
Operating profit	14,013	22,104	23,324
Financial expenses	(7,516)	(7,537)	(9,266)
Financial income	1,485	2,353	1,655
Financial expenses, net	(6,031)	(5,184)	(7,611)
Share in losses of affiliated companies, net	(7,698)	(1,553)	(1,133)
Income before income taxes	284	15,367	14,580
Income taxes expenses	8,668	5,731	5,551
Income (losses) for the year	(8,384)	9,636	9,029
Attributable to:			
Owners of the Company	(10,082)	7,826	7,277
Minority interest	1,698	1,810	1,752
	(8,384)	9,636	9,029
Earnings (losses) per share attributable to owners of the Company (in NIS):			
Basic and diluted earnings per share	(0.87)	0.68	0.63

(*) Restated.

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD**Consolidated statements of comprehensive income for the year ended December 31**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>NIS Thousands</u>		
Income (losses) for the year	<u>(8,384)</u>	<u>9,636</u>	<u>9,029</u>
Comprehensive Profit (losses):			
Items that can be reclassified into profit or loss:			
Reclassification of foreign currency translation differences to statement of income in respect of discontinued foreign operations	-	357	-
Foreign currency translation differences for foreign operations	83	51	(952)
Items that cannot be reclassified into profit or losses:			
Actuarial gain on defined benefit plans	<u>15</u>	<u>(61)</u>	<u>1</u>
Comprehensive profit (losses) for the year, net of tax	<u>98</u>	<u>347</u>	<u>(951)</u>
Total comprehensive profit (losses) for the year	<u>(8,286)</u>	<u>9,983</u>	<u>8,078</u>
Attributable to:			
Shareholders	(10,072)	7,944	6,553
Minority Interests	1,786	2,039	1,525
Total comprehensive income for the year	<u>(8,286)</u>	<u>9,983</u>	<u>8,078</u>

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD
Consolidated statements of changes in equity

Capital attributed to the owners of the company

	Share Capital	Share Premium Account	Cumulative Translation Reserve	Other Reserve	Retained Earnings	Attributable to the owners of the company	Non Controlling Share holders	Total
<i>NIS Thousands</i>								
As at January 1, 2018	12,936	28,439	(7,032)	(6,795)	49,543	77,091	6,284	83,375
Effect of initial application of IFRS 15	-	-	-	-	(2,861)	(2,861)	-	(2,861)
As at January 1, 2018 after initial implementation	12,936	28,439	(7,032)	(6,795)	46,682	74,230	6,284	80,514
Movement in 2018:								
Profit (losses) for the year	-	-	(5)	15	(10,082)	(10,072)	1,786	(8,286)
Dividend to non-controlling share holders	-	-	-	-	-	-	(1,155)	(1,155)
Share-Based Payment	-	-	-	-	299	299	-	299
Total capital as at 31 December , 2018	12,936	28,439	(7,037)	(6,780)	36,899	64,457	6,915	71,372
As at January 1, 2017	12,936	28,439	(7,211)	(6,734)	41,237	68,667	5,372	74,039
Movement in 2017:								
Profit for the year	-	-	179	(61)	7,826	7,944	2,039	9,983
Dividend to non-controlling share holders	-	-	-	-	-	-	(1,127)	(1,127)
Share-Based Payment	-	-	-	-	480	480	-	480
Total capital as at 31 December , 2017	12,936	28,439	(7,032)	(6,795)	49,543	77,091	6,284	83,375

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD
Consolidated statements of changes in equity

	Capital attributed to the owners of the company						Non Controlling Share holders	Total
	Share Capital	Share Premium Account	Cumulative Translation Reserve	Other Reserve	Retained Earnings	Attributable to the owners of the company		
As at January 1, 2016	12,936	28,439	(6,486)	(6,735)	33,480	61,634	4,828	66,462
Movement in 2016								
Profit for the year	-	-	(725)	1	7,277	6,553	1,525	8,078
Dividend to non-controlling share holders	-	-	-	-	-	-	(981)	(981)
Share-Based Payment	-	-	-	-	480	480	-	480
Total capital as at 31 December 2016	12,936	28,439	(7,211)	(6,734)	41,237	68,667	5,372	74,039

NIS Thousands

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD**Consolidated statements of cash flows for the year ended December 31**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	NIS Thousands		
Cash flows from operating activities:			
Cash derived from operating activities before finance and taxes, net (Appendix A)	17,352	16,475	2,465
Interest paid	(6,829)	(6,187)	(7,303)
Interest received	641	1,619	1,160
Income tax paid	(7,055)	(6,835)	(5,268)
Income tax refund received	384	1,022	1,565
Net cash derived from (used in) operating activities	<u>4,493</u>	<u>6,094</u>	<u>(7,381)</u>
Cash flows from investing activities:			
Withdrawal bank investments, net	946	1,840	4,334
Withdrawals (investments) in affiliates, including loans	1,914	(4,218)	(6,970)
Proceeds from sales of affiliates	1,139	-	-
Purchase of fixed assets, net	(5,996)	(4,610)	(4,115)
Purchase of intangible and other assets, net	(1,943)	(1,738)	(1,404)
Loans granted, net	-	2,365	2,338
Net cash used in investing activities	<u>(3,940)</u>	<u>(6,361)</u>	<u>(5,817)</u>
Cash flows from financing activities:			
Receipt of long term loans from banks and others	8,739	1,996	517
Payment of long term loans to banks and others	(12,559)	(9,169)	(11,068)
Payables repayment obligation for the acquisition of rights in subsidiary	-	(2,365)	(2,338)
Proceeds from issuance of bonds	(11,110)	(5,555)	-
Dividends to minority interests in subsidiaries	(1,155)	(1,127)	(981)
Short term credit changes	14,187	10,058	(1,536)
Net cash derived used in financing activities	<u>(1,898)</u>	<u>(6,162)</u>	<u>(15,406)</u>
Translation differences in respect of overseas units	<u>(791)</u>	<u>(93)</u>	<u>(495)</u>
Decrease in cash and cash equivalents	<u>(2,136)</u>	<u>(6,522)</u>	<u>(29,099)</u>
Cash and cash equivalents at the beginning of the year	<u>28,301</u>	<u>34,823</u>	<u>63,922</u>
Cash and cash equivalents at the end of year	<u>26,165</u>	<u>28,301</u>	<u>34,823</u>

The notes to the financial statements form an integral part thereof

LUDAN ENGINEERING CO. LTD**Appendices to the consolidated statements of cash flows for the year ended December 31****Appendix A. Cash derived from (used in) operating activities before finance and taxes:**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<i>NIS Thousand</i>		
Profit (losses) for the year	(8,384)	9,636	9,029
Income and expenses not affecting cash flows:			
Partial share of losses in of affiliated companies	7,698	1,553	1,133
Depreciation and amortization	9,137	8,419	8,697
Impairment of assets, net	3,819	1,364	3,351
Cost of share-based payment	299	480	480
Income taxes	8,668	5,731	5,551
Income (loss) from sale of fixed assets, net	(7)	(48)	402
Increase (decrease) in employee benefits liabilities, net	(1,611)	211	537
Financial expenses, net	5,047	4,777	6,116
	<u>24,666</u>	<u>32,123</u>	<u>35,296</u>
Changes in operating assets and liabilities:			
Increase in Trade and income receivables	(5,847)	(19,412)	(6,691)
Decrease (increase) in Other receivables and debit balances	3,238	(495)	(505)
Decrease (increase) in Inventory	1,627	(5,281)	(1,504)
Increase (decrease) in Suppliers, Sub-contractors and service-providers	(1,669)	13,440	(3,511)
Decrease in Advances from customers	(4,569)	(4,832)	(14,934)
Increase (decrease) in Other Payables	(94)	932	(5,686)
	<u>(7,314)</u>	<u>(15,648)</u>	<u>(32,831)</u>
Cash derived from operating activity before finance and taxes, net	<u>17,352</u>	<u>16,475</u>	<u>2,465</u>

LUDAN ENGINEERING CO. LTD

Notes to Financial Statements

Segment reporting

The reporting format of the Group in accordance with the implementation of the "management approach", as defined by IFRS 8, is depending on the reporting format operating decision makers for allocating resources and assessing performance of the segments.

A. The group consists of the following main business segments:

(1) Engineering Services

The Group provides engineering and operations management group projects in Israel and worldwide, through professional engineering and technical staff.

Engineering services provided through the establishment of industrial projects (mainly the construction of industrial plants manufacturing facilities) are services management, design, procurement and construction.

The Group also currently provides engineering services through the company's human resources available to the customers for limited periods.

In addition, the Group provides engineering services in the form of Turn-Key projects, whereby they are responsible for the total of all stages of the project.

(2) Software and Control Services

The Group, through its subsidiaries Symcotech and Ludan System and Control, develops and manufactures automated test systems, computerized ticketing systems and access control in the area of public transportation.

The group also provides software services, including marketing software products and their application for the client. It also specializes in instrumentation and control systems used for command and control of the operation of enterprises, mainly in process industries.

(3) Energy and Environment

The Group, through Ludan Technologies, operates all group activities in environmental and energy in the country and abroad. Activity involves industrial wastewater technology solutions, consulting and implementation of land rehabilitation and groundwater, invasion gas treatment and contaminated waste water treatment.

Since 2010, energy operations are consolidated under "Energy and Environment" department. This activity, in that sector, includes the Group's activities in the energy sector and the design and construction of energy facilities and integrated normal cycle projects in the various stages of testing and programming in the green energy field.

B. The results of the business segments include the segment's revenues and costs and expenses relating directly to each segment. Joint expenses are reasonably allocated to segments.

C. Segment assets include all operating assets used by a segment and consist mainly of cash and cash equivalents, accounts receivable, inventory and fixed assets.

Segment liabilities include all operating liabilities and mainly include commitment to suppliers, payables to banks and liabilities for employee severance benefits.

D. The segment results include transfers between segments. Transfers are recorded in accordance with the agreed transfer prices and are eliminated in the consolidated financial statements.

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting – continued

	For the year ended December 31, 2018				
	Engineering Department	Software and Control Department	Energy and Environment Department	Reconciliations	Total
	NIS thousands				
Revenues from Israelis external customers	120,346	137,972	13,394		271,712
Revenues from abroad external customers	283,710	-	23,529		307,239
Inter-segment transfers	9,549	758	231	(10,538)	-
	<u>413,605</u>	<u>138,730</u>	<u>37,154</u>	<u>(10,538)</u>	<u>578,951</u>
Segment results in Israel	8,811	(582)	559	563	9,351
Segment results abroad	13,306	-	(4,832)	-	8,474
Segment results	<u>22,117</u>	<u>(582)</u>	<u>(4,273)</u>	<u>563</u>	<u>17,825</u>
Other expenses, net	-	(3,210)	(602)	-	(3,812)
Share in profit of affiliated companies			(7,698)	-	(7,698)
Financial expenses, net not allocated					(6,031)
Income taxes expenses					(8,668)
Losses for the year					<u>(8,384)</u>

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting - continued

E. Segment data - continued:

	For the year ended December 31, 2017				
	Engineering Department	Software and Control Department	Energy and Environment Department	Reconciliations	Total
	NIS thousands				
Revenues from Israelis external customers	110,672	142,306	11,541		264,519
Revenues from abroad external customers	262,737	-	49,914		312,651
Intersegment transfers	5,791	406	100	(6,297)	-
	<u>379,200</u>	<u>142,712</u>	<u>61,555</u>	<u>(6,297)</u>	<u>577,170</u>
Segment results in Israel	(3,006)	10,691	(538)	32	7,179
Segment results abroad	12,700	-	3,541	-	16,241
Segment results	<u>9,694</u>	<u>10,691</u>	<u>3,003</u>	<u>32</u>	<u>23,420</u>
Other expenses, net	<u>(601)</u>	<u>(715)</u>	<u>-</u>	<u>-</u>	<u>(1,316)</u>
Share in profit of affiliated companies	<u>-</u>	<u>-</u>	<u>(1,553)</u>	<u>-</u>	<u>(1,553)</u>
Financial expenses, net not allocated					(5,184)
Income taxes expenses					(5,731)
Income for the year					<u>9,636</u>

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting - continued

E. Segment data - continued

	For the year ended December 31, 2016				
	Engineering Department	Software and Control Department	Energy and Environment Department	Reconciliations	Total
	NIS thousands				
Revenues from Israelis external customers	105,870	159,547	14,552	-	279,969
Revenues from abroad external customers	277,734	-	24,096	-	301,830
Inter segment transfers	5,780	32	-	(5,812)	-
	<u>389,384</u>	<u>159,579</u>	<u>38,648</u>	<u>(5,812)</u>	<u>581,799</u>
Segment results in Israel	349	13,997	121		14,467
Segment results abroad	12,079	-	531		12,610
Segment results	<u>12,428</u>	<u>13,997</u>	<u>652</u>		<u>27,077</u>
Other expenses, net	<u>(1,615)</u>	<u>(937)</u>	<u>(1,201)</u>	-	(3,753)
Share in profit of affiliated companies	<u>-</u>	<u>-</u>	<u>(1,133)</u>	-	(1,133)
Financial expenses, net not allocated					(7,611)
Income taxes expenses					<u>(5,551)</u>
Income for the year					<u>9,029</u>

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting - continued

E. Segment data - continued:

	December 31, 2018			Total
	Engineering Department	Software and Control Department	Energy and Environment Department	
NIS thousands				
Segment assets	176,546	140,816	31,368	348,730
Joint assets that are not allocated				3,380
Total consolidated assets				352,110
Segment liabilities	108,281	105,970	64,391	278,642
Joint liabilities that are not allocated				2,096
Total consolidated liabilities				280,738
Capital investment	4,143	4,457	1,628	10,228
Joint capital investment that are not allocated				-
				10,228
Sale of investments and return on investments	-	-	(4,190)	(4,190)
Depreciation and amortization	5,489	2,987	570	9,046
Joint depreciation and amortization that are not allocated				91
				9,137

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting - continued

E. Segment data - continued:

	December 31, 2017			
	Engineering Department	Software and Control Department	Energy and Environment Department	Total
	NIS thousands			
Segment assets	<u>157,663</u>	<u>156,352</u>	<u>50,485</u>	364,500
Joint assets that are not allocated				<u>3,774</u>
Total consolidated assets				<u>368,274</u>
Segment liabilities	<u>98,760</u>	<u>116,240</u>	<u>67,383</u>	282,383
Joint liabilities that are not allocated				<u>2,516</u>
Total consolidated liabilities				<u>284,899</u>
Capital investment	<u>4,618</u>	<u>1,808</u>	<u>4,404</u>	10,830
Joint capital investment that are not allocated				<u>-</u>
				<u>10,830</u>
Depreciation and amortization	<u>4,773</u>	<u>2,549</u>	<u>697</u>	8,019
Impairment of assets, net		<u>266</u>		<u>266</u>
Joint depreciation and amortization that are not allocated				<u>134</u>
				<u>8,419</u>

LUDAN ENGINEERING CO. LTD
Notes to Financial Statements

Segment reporting - continued

F. Geographic regions

The Group operates to main geographical areas, as follows:

1. Israel.
2. Western Europe.
3. Eastern Europe.

Following is a summary of data to geographic areas:

	Sales revenue by geographic market		
	2018	2017	2016
	NIS thousands		
Israel	271,222	264,519	279,968
Western Europe	285,596	292,149	282,811
Eastern Europe	22,133	20,502	19,020
	578,951	577,170	581,799

	Segment assets		Capital investment	
	December 31		December 31	
	2018	2017	2018	2017
NIS thousands				
Israel	230,242	240,925	1,733	7,113
Western Europe	110,956	115,157	4,105	3,383
Eastern Europe	10,912	12,652	200	334
	352,110	368,734	6,038	10,830