



Shagrir Group Vehicle Services Ltd.

Report as of the year ending December 31, 2016, prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

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The Company satisfies the requirements for being defined as a "small corporation" pursuant to the provisions of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "Regulations"). The Company's board of directors has decided to adopt the leniencies for a small corporation included in the Regulations in full.

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Report date:	March 21, 2017

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Definitions

In this chapter, the following terms shall have the meaning ascribed to them unless explicitly stated otherwise:

“Supervision Division” or the “Division”	- The Division of Capital Markets, Insurance and Savings at the Ministry of Finance
“Stock Exchange”	The Tel Aviv Stock Exchange Ltd.
“Financial Statements”	- The Company’s audited consolidated financial statements as of December 31, 2016;
The “Privacy Protection Law”	- The Privacy Protection Law, 5741-1971
The “Companies Law”	- The Companies Law, 5759-1999;
“Control of Insurance Law”	- The Supervision of Financial Services (Insurance), 5741-1981;
The “Securities Law”	- The Securities Law, 5728-1968;
The “Business Licensing Law”	- The Business Licensing Law, 5728-1968;
The “Work and Rest Hours Law”	- The Work and Rest Hours Law, 5711-1951;
“Service Document”	- A document that accompanies an insurance policy, which sets for the rights and obligations of the Company vis-a-vis the subscribers, with respect to the services provided to them by the Company;
“Customers” or “Company Customers”	- The direct customers of the Company, meaning the insurance companies, the State, private corporations and individuals that directly acquire the Company’s services (not through insurance companies);
“Subscriptions” or the “Company’s Subscriptions”	- Policyholders of insurance companies, including customers of the Company in the field of the services to the insurance companies;
“Pointer”	- Pointer Telocation Ltd., the former controlling shareholder of the Company, an Israeli public company whose shares are listed for dual trade on the NASDAQ and Tel Aviv Stock Exchange.
“Insurance Policy”	- As defined in the Insurance Contract Law, 5741-1981;
“Traffic Ordinance”	- Traffic Ordinance [New Version]
“Income Tax Ordinance”	- Income Tax Ordinance [New Version], 5721-1961.
“Car 2 Go”	- Car 2 Go Ltd., a private company incorporated in Israel, which as of the date of the Report, is held by the Company at a rate of 72.4%.
“Traffic Regulations”	- Traffic Regulations, 5721-1961

1. Activity of the Company and Description of the Development of its Business

1.1 **General**

The Company was incorporated as a private company limited by shares on November 25, 2014 (the “**Incorporation Date**”), on behalf of Shagrir Group Vehicles Services (“**Shagrir**” or the “**Company**”). On June 23, 2016, the Company’s shares were distributed as dividend in kind to the shareholders of Pointer (who held, as of the same date, about 97.36% of the Company’s share capital) and were listed for trade based on the prospectus dated May 27, 2016 (the “**Prospectus**”). The Company’s shares began to be traded on the Stock Exchange as of June 28, 2016.

As of the reporting date, the Company has two primary areas of activity: (a) the services to the insurance companies; and (b) car sharing and rental through the subsidiary Car 2 Go.

1.2 **Nature and consequences of any structural change, merger or substantial acquisition**

1.2.1 **Acquisition of activity of Shagrir Systems (“Sale of Activity Agreement”)**

On December 30, 2014, a structural change process was completed within which the Company was transferred part of the activity of Shagrir Systems Ltd. (“**Shagrir Systems**”), including primarily the field of services to insurance companies constituting one of two areas of activity of the Company (the “**Transferred Activity**” and the “**Sale of Activity Agreement**,” as applicable). As part of the aforesaid, Shagrir Systems, a company fully owned by Pointer, was merged, as well as all of the activity remaining therein, with and into Pointer, and was removed from the Companies Registrar (the “**Structural Split**”). In consideration for the transferred activities, the Company paid Shagrir Systems a total of NIS 69,698,000, through a loan in the amount of the consideration provided by Shagrir Systems to the Company, bearing annual interest at a rate of 3.05% and lawful VAT (in accordance with the determination of the interest rate under Section 3(j) of the Income Tax Ordinance and bearing VAT, if applicable (the “**Loan of Shagrir Systems**”). Upon the completion of the Structural Split process and the removal of Shagrir Systems, the right to payment of the Loan of Shagrir Systems was assigned to Pointer. For additional information about the Loan of Shagrir Systems, see Section 11.1.2 below.

Within the sale agreement of the activity, the Company was assigned, *inter alia*, all of the employment agreements of employees of Shagrir Systems that are affiliated with the Transferred Activity, while maintaining continuity of employment. Within the same, the Company undertook all of the obligations arising from any claim and/or demand filed against Pointer until December 30, 2014 in connection with the Transferred Activity, and will be entitled to any rights arising from any claim filed by the aforesaid date by Pointer against third parties in connection with the Transferred Activity. As of the date of the Report, there are no claims as stated in substantial scopes. In addition, the agreement set forth conditions regarding non-competition terms of Shagrir Systems and Pointer in the field of the Transferred Activity, during three years from the signing of the agreement, and the cessation of use of the names “Pointer” and “Shagrir” and/or trademarks that they own.

In addition to the sales of operations agreements, on December 30, 2014, Pointer, Shagrir Systems and the Company signed inter-company agreements, including a services agreement between Pointer and the Company, a framework agreement to lease vehicles between Pointer and the Company and the assignment of guarantees of Pointer for the customers of the Company.

Additionally, and as part of the Structural Split process, the Company purchased from Shagrir Systems a real estate asset located in Haifa (as set forth in Section 6.8.1), and additionally, Shagrir Systems assigned to the Company a number of rental agreements, based on which the Company leases to Pointer a number of buildings with a sublease (as set forth in Section 6.8.1 below). For additional details regarding the agreement for the sale of the activity and accompanying details in connection with the transferred activity and the structural split as set forth above, see Section 7.2 of Chapter Four - Additional Details about the Company.

1.2.2 Acquisition of Shares of Car 2 Go

1.2.2.1 On July 1, 2015, the Company purchased from Pointer all of its shares in Car 2 Go Ltd., which constituted (on the closing date of the aforesaid acquisition) about 62.31% of the issued and paid up share capital of Car 2 Go, in consideration for the par value of the shares, i.e. in consideration for NIS 17,141. The remaining shares are held by various shareholders.

1.2.2.2 On June 26, 2016, the entire loan extended to Car 2 Go by the Company on April 9, 2014 was converted, with a remaining balance of NIS 3,490,000 on the date of conversion (including interest and adjustments) against the allocation of 11,542 preferred A shares of Car 2 Go (for details regarding the priority rights granted by the preferred A shares and the loan, see Section 11.1.1.1 below). As a result of the conversion of the loan as stated, the holdings of the Company in Car 2 Go increased to about 72.4%.

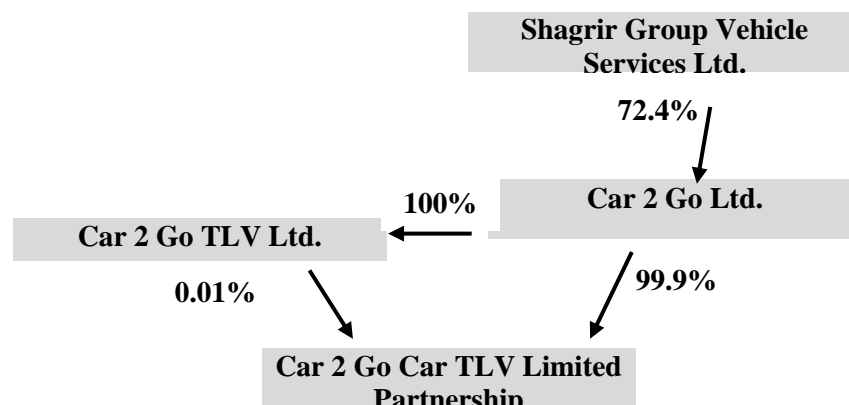
The activity to Car 2 Go constitutes the second area of activity of the Company - the area of car sharing and leasing, as set forth below.

1.2.2.3 Additionally, within the aforesaid transaction: (a) Pointer sold to the Company its rights in two shareholder loans provided to Car 2 Go, as set forth in Sections 11.1.1.2 and 11.1.1.3 below, in consideration for their book value of the aforesaid loans as of the transaction date, meaning in consideration for a total of about NIS 11,350,000 (including principal of the loans, interest and linkage differentials accrued thereon); and (b) the Company undertook guarantees of Pointer to secure a bank credit limit of Car 2 Go in the amount of about NIS 1.3 million.

The Company acquired the shareholder loans provided to Car 2 Go by Pointer as stated through a loan provided by Pointer to the Company in the amount of about NIS 11,350,000. For additional details, see Section 11.1.2 below.

1.2.3 Structure of the Company's Holdings

The following is a chart of the structure of holdings of the Company as of the date of the Report:



2. **Fields of activity of the Company**

2.1 **Sector of services to the insurance companies**

The Company provides various services including road services, services to homes, services provided by auto service centers for cars and other services. The aforesaid services are offered and sold to customers of the Company in the area of activity, including mainly the insurance companies, and are provided directly by the Company to subscribers and/or additional customers that purchase these services from the Company directly (and not through the insurance companies). For additional details, see Section 6.1 below.

2.2 **Field of car sharing and rental**

The Company provides private and commercial car rental services to customers from the general public for short periods of time (car sharing). As of the Report date, these services are provided through vehicles spread primarily throughout Tel Aviv, as well as Givatayim, Raanana, Ramat Gan and Herzliya.

3. **Investments in the capital of the Company and transactions in its shares**

3.1 For details about investments in the Company's capital and transactions performed in shares of the Company as of the corporation and until the date of the issuance, see Section 3.2.2 of Chapter C of the Prospectus.

3.2 **Material transactions outside of the Stock Exchange in shares of the Company by interested parties:**

<u>Date</u>	<u>Interested party</u>	<u>Number of Shares</u>	<u>Price per share in NIS</u>	<u>Total consideration in NIS thousands</u>	<u>Immediate report reference number</u>
1.8.2016	Yehudit Rakanti	200,000-	6.81	1,362	2016-01-096172
1.8.2016	DBSI Investments	200,000	6.81	1,362	2016-01-096163

4. **Distribution of Dividends**

4.1 The Company did not distribute dividends and has not declared a distribution of dividends in the last two years through the date of the Report. On March 21, 2017, the Company's board of directors approved a cash distribution of dividend in a total amount of NIS 600 thousand. The anticipated distribution date is April 2017.

4.2 As of December 31, 2016, the distributable profit balance is in the amount of NIS 2,156,000.

The Company undertook towards a financing entity to maintain the equity to balance sheet ratio as set forth in Section 9.2.1 below, which may limit the Company to the performance of a distribution of dividend. Additionally, the Company undertook towards a financing entity not to perform any distribution of any receipt to any shareholder of the Company or an affiliate of the shareholder, or an interested party of the shareholder or the aforesaid related entity, or a relative of any of them, without the prior written consent of the financing entity to the same, unless all of the following preconditions are met on the declaration date of the distribution and on the distribution date:

4.2.1 No breach event occurred (meaning, an event for which the financing entity may call for

immediate repayment any amounts provided to the Company), following a distribution/payment of the receipt as stated.

- 4.2.2 The distribution meets the profit test and solvency test, as defined in Section 302 of the Companies Law, and the financing entity is provided with confirmation of the Company's board of directors for the same.

4.3 Dividend Distribution Policy

On March 21, 2017, the Company's board of directors passed a resolution regarding a dividend distribution policy in a rate of at least 50% of the Company's net profit each year, subject to the distribution tests set forth in the law. A declaration of the distribution of dividend under the aforesaid policy may take place once per year or a number of times each year, on the basis of the reviewed or audited financial statements of the Company and at the discretion of the board of directors. In addition, the Company's board of directors may, at any time, considering business considerations, change the rate of the dividend distributed or resolve not to distribute any dividend at all.

Second Part - Other Information

5. **Financial information regarding the fields of activity of the Company**

Total in the Company's Consolidated Financial Statements	Adjustments	Field of car sharing and rental	Sector of services to the insurance companies	<u>Year 2016</u> (NIS thousands)
179,017	-	19,971	159,046	Revenue from external sources
-	(526)	-	526	Revenues from other operations in the Company
179,017	(526)	19,971	159,572	Total revenue
-	(526)	526	-	Costs constituting revenues from other operations in the Company
169,972	-	16,450	153,522	Other costs (that do not constitute revenues from other operations in the Company)
169,972	(526)	16,976	153,522	Total costs
45,099	(526)	1,997	43,628	Fixed costs
124,954	-	15,059	109,895	Variable costs
7,628		3,185	4,443	Profit (loss) from ordinary activity attributed to owners of the Company
1,286	-	1,286	-	Profit (loss) from ordinary activity attributed to non-controlling rights*
8,914		4,471	4,433	Total profit (loss) from ordinary activity
151,280	(4,967)	9,145	147,102	Total assets
77,044	(8,687)	14,138	71,553	Total liabilities
Total in the Company's Consolidated Financial Statements	Adjustments	Field of car sharing and rental	Sector of services to the insurance companies	<u>Year 2015</u> (NIS thousands)
156,623	-	14,289	141,794	Income from external
-	(818)	-	818	Revenues from other operations in the Company
156,623	(818)	14,829	142,612	Total revenue
-	(818)	818	-	Costs constituting revenues from other operations in the Company
155,015	-	14,113	140,902	Other costs (that do not constitute revenues from other operations in the Company)
155,015	(818)	14,931	140,902	Total costs
49,159	(818)	12,990	36,987	Fixed costs
105,856	-	1,941	103,915	Variable costs
(5,472)	-	(459)	(5,013)	Profit (loss) from ordinary activity attributed to owners of the Company

(278)	-	(278)	-	Profit (loss) from ordinary activity attributed to non-controlling rights*
(5,750)	-	(737)	(5,013)	Total profit (loss) from ordinary activity
130,878	(3,663)	2,787	131,754	Total assets
70,056	(11,824)	15,741	66,139	Total liabilities

*Reference in the financial statements to the profit attributed to non-controlling rights for 2015 is based on the as pooling method (business combination under the same control), meaning, Car 2 Go is considered to be held by the Company as of the date on which Shagrir Systems acquires its shares (and not July 1, 2015, the date of the acquisition of the shares by the Company from Pointer).

5.1 **Economic environment and effects of external factors on activity of the Company**

Below is a description of the main trends, developments and events in the macro-economic environment in which the Company operates, which the Company believes have or may have a substantial impact on the business results of the Company or the development of its business:

5.1.1 **Israeli insurance market**

As of the date of the Report, 13 insurance companies operate in Israel. To the best of the Company's knowledge, the insurance companies that operate in the Israeli market offer the insurance policies primarily through insurance agents, other than two insurance companies that market the insurance policies to their policyholders through direct marketing. As of the date of the Report, the services (in whole or in part) of the Company in the area of activity are sold to all of the insurance companies. Changes to the insurance market in Israel, mainly with respect to the manner of marketing the insurance policies to the aforesaid market, may have a material impact on the Company's operations.

5.1.2 **The number of vehicles in Israel**

The Company's operations may be affected by the number of vehicles on the roads in Israel. The number of vehicles compared to 1,000 residents (the "**Motorization Level**") in Israel is lower by about half compared to the Motorization Level in developed countries around the world. According to the data from the Central Bureau of Statistics, in 2015, the Motorization Level in Israel amounted to about 365 vehicles (of which 305 are private vehicles), and 358 vehicles in 2014 and about 350 vehicles in 2013, while in the developed countries around the world, the Motorization Levels are an average of about 700 vehicles. However, within the local market in Israel, the Motorization Levels have recently experienced a consistent trend of increase at a rate of about 1%-2.5% each year.

Additionally, based on the data of the Central Bureau of Statistics, as of the end of 2015, the number of motor vehicles in Israel amounts to about 3,092,000, of which about 2,583,000 are private vehicles - an increase of about 4.2% compared to the end of 2014, compared to an increase of about 4% in 2014 and about 3.2% in 2013.

An increase to the number of vehicles in Israel may have a positive impact on the scope of the Company's operations in the field of services to insurance companies, since the Company estimates that the same will increase the quantity of sales of subscriptions for the road services

that it provides.

5.1.3 **Transportation Levels in Israel**

Data from the Central Bureau of Statistics indicates that in 2015, the transportation levels in Israel, meaning the number of kilometers that all motor vehicles in Israel traveled per year (the “**General Transportation Level**”) amounted to about 55 billion, an increase of about 4.6% compared to 2014.¹ The aforesaid increase is comprised, *inter alia*, from an increase of about 4.4% in the number of vehicles active in Israel in the same year, and an increase of about 0.2% in the average annual transportation that a single vehicle travels on average per year (the “**Average Transportation Level Per Vehicle**”). The Company estimates that these results arise from an increase in the number of vehicles, as set forth above.

The combination of the increase in the number of vehicles in Israel, together with a decrease in the Average Transportation Level Per Vehicle, may positively impact the Company’s business results. This is the case since, in addition to the positive impact that may arise as a result of the increase in the number of vehicles, a decrease in the Average Transportation Level Per Vehicle may cause a decrease in the average consumption of the road services provided by the Company, when the Company’s main income from these services arises from the sale of subscriptions in a fixed amount on a basis of actual consumption. For details in this regard, see Section 6.2.3 below.

5.1.4 **The number of road accidents in Israel**

An increase in the number of vehicles in Israel and the general transportation level directly impact the increase in the number of road accidents and vehicle malfunctions. This increase may have a mixed effect on the Company’s business results, as an increase in the number of road accidents may lead to an increase in the scope of the vehicle repair services that the Company provides from the service centers, the payment for which is primarily made on the basis of the actual consumption; however, in parallel, the Company provides replacement vehicles on a fixed price basis regardless of the days of consumption of replacement vehicles that the Company provides subscribers.

5.1.5 **Turnover of vehicles in Israel**

In recent years, there has been a trend of rapid turnover of vehicles in Israel. The aforesaid turnover as stated has a positive impact on the Company’s business results, as newer vehicles consume less roadside services that the Company provides, and in light of the Company’s business model, whereby the main income of the Company in the field is fixed and does not vary based on the scope of the services consumed by the subscribers, excluding vehicle repair services after accidents in the service centers, the trend of rapid turnover may have a positive impact on the Company’s business results.

5.1.6 **Theft of vehicles in Israel**

The rate of vehicle theft in Israel has a direct impact on the scope of the services provided by the Company, particularly the services for the supply of an alternative vehicle for the subscribers. If the theft rate decreased, the scope of services provided by the Company to its

subscribers decreases as well, particularly, the number of lease days of replacement vehicles provided to subscribers is decreased as well. The aforesaid decrease may also have a positive impact on the Company's business results, mainly due to the Company's business model, whereby the services of the alternative vehicle offered by the Company are provided in consideration for fixed subscription fees. In recent years, stability has been recorded in the scopes of vehicle thefts in Israel. Based on the data of the Israel Police, the number of vehicle thefts in Israel decreased in 2015 to 17,130 compared to 16,351 vehicles in 2014.² This trend arises from intense activity of the Israel Police to reduce the vehicle thefts in Israel, while performing extensive operations to do so, and from changing the legislation that sets forth restrictions and various conditions with respect to use of used vehicle parts.

5.1.7 **Oil and gas prices**

The decrease in fuel prices may have a positive impact on the Company's activity in two areas of activity in light of the reduction in the operating costs.

In recent years, the consumer fuel prices have decreased. The average price in the gas stations per liter of fuel at 95 octane unleaded in 2017 (until the publication date of the Report) was NIS 6.1, in 2016, the price was NIS 5.78, in 2015, NIS 6.31 and in 2014, NIS 7.38 (all of the prices above include VAT).

Additionally, in recent years, there has been a decrease in the prices of ORL. The average per liter price of diesel was NIS 1.61 in 2017 (up to the publication date of the Report), NIS 1.25 in 2016, NIS 1.87 in 2015, and NIS 2.81 in 2014. The impact on the fluctuations in the prices of ORL on the Company are lower compared to the impact of the rate of fluctuations in prices of diesel on the Company, *inter alia*, due to the taxation components included in the diesel prices.

5.1.8 **Extreme weather changes**

Under extreme weather conditions (winter and summer), the Company provides services in scopes higher than the average amount of the services that it provides over the year, under normal weather conditions. In the winter, the impact is mainly in the increase in road services and home services, including repairs of pipe damages which occur more frequently in the winter months. In the summer, the impact is expressed mainly in the higher demand for road services. Although the high consumption of the services that the Company provides within a permanent subscription may have a negative impact on the results of the Company, in light of the variety of services that the Company provides and in light of their reverse impact of the weather conditions on the services that the Company provides in the area of activity, seasonality cannot be indicated in connection with the area of operations.

It is clarified that the projections and estimations of the Company regarding the impact of the various parameters, as stated above, on the Company's operations, are forward-looking information as defined in the Securities Law, based on subjective projections and estimates of the Company and an analysis of the market in which the Company operates on the date of the Report. This information is based, in part, on estimates based on current

² The figures are from a "Statistical Yearbook" for 2015 and 2014, published by the Department of Planning and Organization of the Israel Police. As of the date of the Report, similar data has not yet been published regarding 2016.

trends in the insurance and transport sector in recent years and expected developments therein and on the economic, security and geopolitical situations in the world and in Israel as of this date. Therefore, the effect of the aforesaid factors on activity of the Company may be substantially different from that predicted as stated, if the estimations of the Company are not realized, and for the realization of risk factors, as set forth in Section 6.17 below.

Third Part - Description of the Company's Business by field of activity

Sector of services to the insurance companies

6. General information on the field of activity

6.1 Structure of the field of activity and changes therein

Within the services to the insurance companies, the Company provides services that include three central categories: road services, apartment services and service centers, used also as arrangement garages of the insurance companies, in which the Company provides auto repair services after accidents.

Road services -

The road services include, *inter alia*: road and towing services for all kinds of vehicles, in cases of an accident and/or technical malfunction; light roadside repair services (starting, changing a tire, battery, etc.); replacement care services, transportation services for a subscriber from the event location; storage and vehicle keeping services; ancillary services for vehicles including passing an annual licensing test, taking the vehicle for periodic maintenance, vehicle fueling, vehicle entering services, and more (all of the above services are hereinafter and above jointly: the “**Road Services**”).

In order to provide replacement vehicles, the Company manages vehicle rental operations and owns, as of the Report date, about 91 vehicles ready for rental to its customers in accordance with entitlement and based on the terms of the rental contract. In addition, the Company rents hundreds of additional cars from about 12 rental companies with which the Company has engaged with different rates and payment terms.

Services to the apartment –

The apartment services include, *inter alia*: plumbing services and water damage repairs in homes and shared property; water heater device repair services and repairing damage resulting from inadequate sealing; emergency services in the case of a short to the apartment electrical system; break-in services, and more (all of the aforesaid services will be hereinafter and above jointly: the “**Apartment Services**”).

Service Centers -

The service center services include, *inter alia*: body work and paint services in cases of damage and accidents; repair and/or replacement service of lights and side mirrors (all of the services will be hereinafter and above jointly: the “**Service Center Services**”).

It is noted that the distinction between the various services provided by the Company in the area

of activity is not dichotomous and is intended for the description of the Company's operations in the area of activity. Therefore, services of a specific kind will not necessarily include a different kind of services at the same time. There is synergy from the joint operation of the various services that the Company provides in its areas of activity. Accordingly, there is also a shared management of knowledge that allows for a more efficient planning, management and operation of the Company's activity in the area of activity, which allows for the expansion of the services offered by the Company to its customers.

The Company sees strategic value in its ability to provide its customers with a wide variety of the aforesaid services, constituting a comprehensive solution to the requirements and needs of companies and insurance agencies, which are included in the main customers of the Company in the area of activity. The ability to provide the wide variety of the Company's services in the area of activity gives the Company a relative advance over its competitors, as set forth in Section 6.6 below.

The Company has three branches: in Holon (the corporate headquarters), Jerusalem and Haifa, used for the ongoing operation of the Road Services and Apartment Services, and eight service centers spread throughout the country, as set forth in Section 6.8.1 below.

6.1.1 Restrictions, legislation, regulations and special circumstances applicable to the field of activity

Insurance market

The insurance industry in Israel is regulated by the Supervisory Division. Within its functions, the Division supervises the insurance companies and agencies, and acts, *inter alia*, to maintain the policyholders' rights, even with respect to the ancillary products of the insurance policy, such as the services that the Company provides in the area of operations. Therefore, the supervisory and regulation activity of the Supervisory Division in the insurance market may have an impact on the activity of the Company in the area of activity, as will be set forth below.

- 6.1.1.1 As of June 30, 2016, the "Service Documents and Their Marketing" circular³ (the "**Circular**"), which is intended to determine rules for the managements of the service documents for the ancillary services to the insurance policies and their marketing, and it was applied regarding service documents marketed or updated as of the same date.

The following is a summary of the provisions of the Circular relevant to the services provided by the Company in the fields of activity:

6.1.1.1.1 Service Document

An insurance company may issue a Service Document if the Service Document meets the following tests and instructions:

- (a) Tests for issuing a Service Document:

³ On December 16, 2014, the Insurance Supervision Law was amended, such that Section 40 of the Law determined that the service document was a "document attached to the insurance policy including conditions for providing service to a policyholder by a service provider" (the "**Service Document**"). It was further determined that the provisions of Section 40 regarding the insurance plan will apply, *mutatis mutandis*, and with the changes instructed by the Commissioner regarding the Service Document. In light of this amendment, the Supervisory Division published this Circular on December 14, 2015.

- The service under the Service Document will be provided only for an insurance event listed in the insurance plan (the insurance policy). The above will not apply regarding a Service Document that provides road services to a vehicle, replacement vehicle services or windshield repair services.
- There is a direct relationship between the service provided under the Service Document and the insurance plan.
- The Service Document does not provide maintenance services, periodic service, preventative treatment or product repair.

(b) The provisions regarding a Service Document:

- The Service Document will clearly and conspicuously list the details of the service provided and its contact information, as well as exceptions to the Service Document.
- Termination of the Service Document will be in accordance with the relevant provisions of the insurance plan to which the Service Document is attached and the provisions of the law. Notwithstanding the above, an insurer may include in the Service Document a condition that allows it to cancel the Service Document for all of the recipients of the service in the case of the termination of the engagement of the insurer with the service provider, if the insurer does not reach an agreement with an alternative service provider, subject to approval of the supervisor. Cancellation of the Service Document as stated will enter into force immediately from the notice of the termination, and the recipient of the service will be entitled to a relative reimbursement of the price of the service document paid.
- The Service Document will not include a condition for application that could have been clarified upon the acquisition of the Service Document therein.
- The Service Document will include an undertaking of the service provider (such as the Company) to the recipient of the service, whereby (1) the service provided thereby will be provided by suitable professional entities that are relevant to the type of service; (2) there is effective and available communications with the recipients of the service; (3) the service is provided with an adequate geographical spread.

(c) An insurance company will be responsible for the service provided within the Service Document.

(d) An insurance company will allow the recipient of the service to select one service provider from at least two service providers.

6.1.1.1.2 Marketing a Service Document -

(a) General provisions for marketing a Service Document -

- The price of the Service Document will be presented separately from the price of the insurance policy.
- The acquisition of an insurance plan will not be contingent on the acquisition of a

Service Document.

- (b) An insurance agent may market a Service Document without the involvement of an insurance company, provided that it meets the general provisions as stated in Section A above, and the following conditions set forth in the Circular.

It should be noted that the provisions of the Circular do not apply directly to the Company (rather to insurance companies and agencies); however, the Company believes that they may impact its activity, primarily with respect to the road services, as follows: generally, the Company believes that the sale of service documents separately from an insurance policy may be reduced following the increased strictness of the conditions for the sale of such a service document. In light of the above, the insurance agents may increase sales of insurance policies that include a service document as an integral part of the policy, meaning in accordance with the sales method within the Company's activity, and thus increase the Company's operations. Additionally, according to the provisions of the Circular, the requirement that insurance companies offer within the service document at least two service providers from which the recipient of the service will select the preferred supplier may increase the Company's activity compared to insurance companies that operate on a larger scale than the Company, and conversely decrease the Company's activity compared to insurance companies that operate on a smaller scale than the Company. In light of the above, the Company cannot assess the degree of impact of the provisions of the Circular on its operations.

Additionally, to the best of the Company's knowledge, and as it was informed by the insurance companies, the relevant Service Documents of the Company were approved by the Supervisory Department of Capital Markets, Insurance and Savings of the Ministry of Finance. Additionally, to the best of the Company's knowledge, the Company meets the provisions of the Circular with respect to most of the relevant Service Documents.

- 6.1.1.2 On November 30, 2016, the Supervisory Division published an amendment to the provisions of the consolidated circular intended to provide a response to the existing practice in handling water damage in apartments, which is partly regulated by the Regulations⁴ which will enter into force as of September 1, 2017.

The following is a summary of the main provisions set out in the Circular Draft:

- 6.1.1.2.1 The list of plumbers provided on behalf of an insurance company will be broad and grant high quality service with a proper geographic distribution in accordance with the various districts. In addition, a "plumbers company" (such as the Company, for this purpose) will employ at least 20 service providers in order to help improve the service in this field.
- 6.1.1.2.2 An insurance company will allow the insurer to select in advance in the insurance policy

⁴ The Supervision of Insurance Regulations (Terms of an Insurance Contract for Household Insurance), 5746-1986, set forth conditions regarding coverage for water damage, both within the expansion for water damage that the insurer may purchase, both within the basic risks covered in the policy in the chapter for the structure or contents (for example, risk of a flood or floor from an external water source). Within the amendment to the Regulations mentioned, which will enter into force in July 2015, the terms of the expansion were expanded to also include third party damage and blockage of boilers and pipes.

whether, upon the occurrence of an insurance event, the repair to the apartment or its content lost or damaged will take place: (a) through any plumber selected by the insured party; or (b) through a plumber on behalf of the insurance company (a “**Plumber in an Arrangement**”) selected by the insured party.

6.1.1.2.3 Additionally, an insurance company will have a list of professionals in the arrangement, which will be updated from time to time and available to the public, including through the website of the insurance company. This list will allow the insurance company to provide proper services to its policyholders (considering, *inter alia*, the geographic distribution within the district), and in any event, will include no less than 12 professionals. In counting the number of plumbers, one Plumber Company, such as the Company, will be considered to be about three plumbers.

6.1.1.2.4 The quality of the repair and the services provided to the insured party by a Plumber in the Arrangement, including availability of the service and the conclusion of the repair within a reasonable time is the responsibility of the insurance company only.

The Company estimates that the Circular may reduce the scope of home services that the Company provides (constituting, as of the date of the Report, about 10.4% of the Company’s turnover in the field of activity). However, the Company estimates that in light of the expected change in the manner of the engagement with respect to these services (from the engagement on the basis of the sale of subscriptions for engagements on a consumption basis) and accordingly, a change in the pricing of these services would not materially impair the Company’s business results.

It is clarified that the projections and estimations regarding the impacts on the Company’s activities of regulatory changes applicable to the Company, as stated above, are forward-looking information as defined in the Securities Law, based on subjective projections and estimates of the Company and an analysis of the market in which the Company operates as of the publication date of the Report. This information is based, in part, on estimates based on current trends and changes in the insurance sector in recent years and its expected developments and the economic situation, security and geopolitical situation in the world and in Israel as of this date. Therefore, the effect of the aforesaid factors on activity of the Company may be substantially different from that predicted as stated, if the estimations of the Company are not realized, as a result of a large number of factors, including a change to the economic, insurance and geopolitical condition in Israel and globally, and for legislative and other regulatory changes that may impact the markets in which the Company operates, and for the realization of risk factors, as set forth in Section 6.17 below.

6.1.1.3 Service Centers

In order to operate the bodywork and paint service centers, the Company must meet the conditions listed in the Supervisory Order of Goods and Services (Garages and Factories for Vehicles), 5730-1970 (in this subsection: the “**Order**”), as a condition for receipt of a license from the director of the vehicle and maintenance services division of the Ministry of Transportation to manage a factory for repair and paint vehicle parts (with the “factory”

being defined as a place at which work is performed with cars or automotive vehicles, as defined in the Transportation Ordinance [New Version], or at which they are provided with service, including a mobile garage).

The main conditions for receipt of the license as stated are as follows: a minimum work area of about 370 sq.m and a suitable structure, equipment such as a car lift, a paint oven and other designated devices, and the employment of a professional manager with suitable qualifications for body work and painting.

To the best of the Company's knowledge, the Company meets the provisions of the law and regulation relevant for the operation of the service centers, including the terms of the license required under the order. The Company has a valid license for the operation of each of the service centers.

6.1.2 Changes to the Scope of Activity in the Field and its Profitability

The scopes of activity and profitability of the Company in the area of operations are impacted by a number of factors - internal and external to the Company - the main ones being: (a) the terms of the agreements with insurance companies or other customers of the Company in the area of operations, (b) regulatory changes to the insurance market, (c) the number of vehicles in Israel and the transportation levels; (d) the age of the apartment of vehicle and the replacement of old vehicles with new ones, (e) the amount of car theft, (f) extreme weather changes, (g) technological changes, (h) fuel prices. For a description of the potential impact of the aforesaid factors on the activity of the Company in the field of activity, see Section 5.1 above.

In light of the changes that occurred in recent years in the factors that may impact the Company's activity, the scope of the Company's activity in terms of the number of subscribers to services provided to the insurance companies is in a trend of increase, primarily due to the increase of the basket of services that the Company offers to the insurance companies, and the Company's engagement with additional insurance companies as described in Section 6.4.4 below.

6.1.3 The developments in the markets of the area of operations or changes to the customer characteristics

For information regarding the sales channels, and manner of marketing services of the Company in the field of activity, see Section 6.5 below.

6.1.4 Technological changes that may have a material impact on the segment

The developments that occurred in the last two decades in technology applied in vehicles have led to a decrease in malfunctions and improved ability to locate malfunctions and prepare them ahead of time (due to the installation of advanced monitoring and control systems of new vehicles). As a result, consumption of the road services that the Company provides decreased, which may improve the Company's business results, in light of the business model of the Company that is based, essentially, on the sale of subscriptions against a fixed charge. Additionally, aids and technological means have recently been developed that monitor activity in an apartment; however, since they are not yet become ubiquitous, the Company is unable to assess their impact on the services to apartments provided by the Company at this stage.

However, it is noted that the technological changes may also have a reverse effect on the

Company with respect to the auto service center activity, since the aforesaid changes might limit the number of accidents and malfunctions in vehicles, and as a result, limit the scope of activity of the auto service centers.

6.1.5 Critical success factors in the field of activity and changes therein

The Company estimates that the main factors on which the success of the Company's activity relies in the area of activity are: (a) The Company's ability to provide varied and comprehensive services; (b) a high level of service, which is professional and emphasizes broad national deployment; (c) the ability to provide services at competitive prices; (d) experience, goodwill and branding - the Company's reputation, based on a professional and senior management, on the advanced service and operation systems, and the Company's ability to provide high quality, professional, reliable and highly accessible services to financial entities and main service providers, advances the activity of the Company in its field, both in terms of customers and in terms of suppliers. In terms of customers, the Company's reputation helps strengthen its relationships with customers and increase the Company's strength in the industry, as the Company estimates that its customers attribute great significance to the reputation, which is related to the Company's ability to provide high quality, professional and reliable service. In terms of suppliers, the Company's reputation helps it to utilize the economies of scale, reduce costs and obtain preferential contract terms; (e) economies of scale - the activity in the industry is characterized by high fixed costs arising, *inter alia*, from the need for an extensive logistical system. Under these conditions, there is an advance to a customer with a large scope of operations and broad distribution of branches, which allow it to use existing infrastructures optimally, and lower costs with various suppliers; and (f) good working relationships with the insurance companies and insurance agencies, which constitute the main source of the Company's income in the field of activity.

6.1.6 Main entry and exit barriers of the area of activity and changes therein

The entry barriers for providing services in high scopes, which are similar to those that the Company provides, are significant and include: (a) engagement in contracts with the insurance companies; (b) the system of service with broad geographical distribution; (c) branding and goodwill, including a high level of service, experience, reliability and professionalism; (d) the ability to provide services at competitive prices; and (e) close working relationships with the insurance companies and agencies; and (f) high initial equity for the purchase of equipment.

Conversely, in the Company's opinion, the main exit barriers from activity in the field are the ability to terminate long-term contractual engagements with its customers (meaning, with the insurance companies), the receipt of consent from the financing entities of the Company and the ability to exercise property and equipment (mainly with respect to the vehicle fleet).

6.1.7 Alternatives to the products in the field of activity and changes therein

There are a number of alternative products in the area of activity of services to insurance companies. Generally, in light of the nature of the services that the Company provides, which are marketed primarily to subscribers, any service similar to the Company's services, provided on the basis of payment for consumption, constitutes an alternative product to the Company's services in the field. Therefore, most of the alternative products of the Company do not differ in quality of the service, but rather in the payment model on the basis of which payment is

possible.

For example, the vehicle importers offer same services to road services and service center services offered by the Company, such as special services for various treatments in the importer garage (mechanics, bodywork, and the like), and road and towing services.

Another example relates to apartment services - some of these contain “private plumber” coverage, marketed through the insurance companies, which allows for the receipt of services through private plumbers the cost of which is covered by the insurance companies. However, the cost to the customer of the service, including the amount of the deductible in the case of damage, is substantially higher than the deductible required to be paid by a subscriber that purchases a Service Document of the Company from the insurance company.

6.1.8 The structure of the competition in the field of activity and the changes therein

See Section 6.6 below.

6.2 The Company's services in the field of activity

6.2.1 General

Within the area of activity, the Company sells, mainly through insurance companies, services to subscribers, including roadside services, services to apartments and services in service centers that the Company operates (as set forth in Section 6.1 above). The services are purchased mainly by the insurance companies (for the Company's subscribers) and are provided by the Company directly to the subscribers. In light of the above, the Company is not dependent on the insurance companies to distribute the services in this area of activity (for additional information regarding the Company's engagements with the insurance companies, see Section 6.4.4 below).

The Company has additional engagements with various companies and entities, for providing its services in the field of activities both with subscribers and by charging for consumption.

As of the Report date, the Company has agreements with 13 insurance companies in Israel, based on which each of the insurance companies offer their policyholders, during the sale of the car insurance and/or apartment insurance policies, to join, together with the production of the insurance policy, as subscribers of services provided by the Company as well (in whole or in part) or to engage with the Company to receive services of the Company's service centers (without a subscriptions) - all based on the terms of the Service Documents with the Company. The Company updates the insurance companies of new services that it offers periodically, and allows them to purchase and distribute these services to their subscribers.

The following is a segmentation of the number of subscriptions⁵ sold in 2016, 2015 and 2014, based on the types of main services of the Company in the area of activity:

Type of subscription	No. subscribers
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⁵ It is clarified that the number of subscriptions listed below includes all of the Company's subscribers for various services, while it is possible that the same person or entity has engaged with the Company in subscriptions for more than one type of services. It is also possible that one service document for the Company's services includes more than one kind of services provided by the Company. Therefore, the number of subscriptions as stated does not refer to the number of persons or entities that have engaged with the Company and does not refer to the number of service documents for the Company's services.

	2016	2015	2014
Towing services	900,600	712,810	620,115
Replacement vehicle	378,153	348,967	344,539
Windshields	11,898	11,526	1,449
Water damage	161,301	174,930	168,324
Boilers	12,370	8,749	6,536
Sealing	111,672	119,076	119,155
Lights and side mirrors	168,880	84,981	2,273
Total:	1,744,874	1,461,039	1,262,391

In light of the broad scope of the services provided by the Company, it is able to offer various services including various compositions of the subscriptions listed in the table above. Additionally, some of the subscribers listed on the table above have various expansions of additional services, added to the basic subscriber services, through which the Company can offer subscriptions to its subscribers that are adjusted to their various needs.

In addition to the services that the Company provides to subscribers through the insurance companies as stated above, at times, the Company also performs replacements of defective parts in subscriber vehicles and/or for other customers of the Company outside of the framework of the Service Documents for subscribers. To do so, the Company's service cars are equipped with standard spare parts that are suitable for most vehicles, including batteries, lights, windshield wipers and more. The payment for the spare parts and their installation is carried out separately and in accordance with the Company's price list.

6.2.2 Service Centers

As part of the services provided by the Company in the field of activity, the Company operates service centers scattered nationwide, in order to provide bodywork and paint repair services, lights and side mirrors, both for the insurance companies (as garages in the arrangement) and for government institutions and for fleets of vehicles for other private customers that use the service centers of the Company outside of the framework of a subscription as well. Additionally, the Company makes use of the service centers to provide service to the Company's own fleet.

The following is data regarding the number of service centers of the Company in 2016, 2015 and 2014:

	2016	2015	2014
Service Centers	8	7	5

6.2.3 Payment arrangements

As stated, the Company markets a substantial part of the services in the area of activity on the basis of subscriptions (of various kinds) at a fixed price based on type of coverage, and a smaller part of the services in the area of activity on a consumption basis.

For the services provided to the insurance company subscribers, the payment to the Company is performed by the insurance company. If a deductible applies, the Company collects the deductible from the subscriber directly, as set forth in the insurance policy, or part thereof, on the date on which the service is provided. For most of the road services provided by the Company, the subscriber is not required to pay a deductible. Conversely, for most of the

services to apartments and in certain cases in the services provided by the Company's service centers, the subscriber is required to pay a deductible. Additionally, in the case in which the total deductible is limited to a maximum determined by the Company and the insurance company, the insurance company pays the Company the aforesaid difference.

The payment for the Company's services in the service centers (arrangement garages) is performed on the basis of the scope of the service actually provided, subject, in certain cases, to the discount determined in advance with the insurance company. However, in some of the agreements between the Company and the insurance companies in connection with the service center services, a uniform amount of consideration is determined for an hour of work, with the cost of additional repairs, including the cost of replacement parts, being determined by an assessor in accordance with the circumstances. In addition, some of the agreements with the insurance companies include quantity discounts provided to the insurance companies. Some of the agreements include an undertaking by the Company to collect the deductibles and the cost of the treatment directly from the policyholder, who is later indemnified by the insurance company, if entitled.

6.2.4 Replacement Vehicles

As stated above, the Company makes comprehensive and efficient use of the Company's infrastructure for its operations in the field of activity, including its branches, systems and human resources, while combining its activities in the field of services. The Company provides replacement vehicles both to parties insured by insurance companies who have purchased replacement vehicle insurance coverage in case of accident or theft, as well as customers coming to the Company's service centers.

The shared need of the various activities of the Company in the area of activity allows for satisfactory use of the Company's vehicles, while adjusting the scope of the fleet of replacement vehicles of the Company to the scope of its activity. In excess of the operational efficiency improvement and the overall service provided to the Company's customers in the area of activity as stated above, the manner of this action also leads to an improvement in the financial results in the area of activity, arising, *inter alia*, from direct savings in cost sections of manpower, vehicle maintenance, depreciation, insurance, fees and financing expenses.

6.2.5 Service Center

The Company has a uniform service center, which serves as the umbrella for the phone and service responses to the Company's subscribers with respect to the services in the area of activity. Through this system, the Company makes efficient use of the human and technological resources for all of its operations in the area of activity. The response in the service center of the Company is provided at all hours of the day and all days of the year, and is the "gateway" to contact between the subscriber of the Company and the Company.

6.2.6 Scope of the services to subscribers

The Company has Service Documents for the various kinds of services that it offers, which govern the rights and obligations with the subscribers that have purchased insurance policies. The Service Document may include a number of kinds of services, including base services and expansions (or a number of expansions) to the base service, while distinguishing between the base service and the expanded service, and the conditions applicable with respect to each of

them. In any event, the Service Document provides that it is personal for the subscriber with respect to the policyholders property (as defined in its insurance policy), and is not transferable. Additionally, the Service Document provides that the service will be provided to a subscriber through the Company alone.

The Service Document lists the types of damage and services included therein, and those that are not included therein. The damages covered within the Service Document are those that were caused during the term of the subscription, as determined in the insurance policy. In the event that there are deductibles in accordance with the policy, the Service Document will list the conditions related to payment of the deductibles, and the amount of the liability, if relevant. Additionally, the Service Document will list the warranty period for the services provided thereunder and its conditions. In addition, the Service Document defines the timeframe for carrying out the service by the Company from the moment at which the service call is received from the service center of the Company. The Company also provides its subscribers services that are not covered in the Service Document, including replacement of spare parts in vehicles, in consideration for additional payment on their behalf.

6.3 **Segmentation of income and profitability of services**

The information below relates to the Company's income in the area of operations in 2016, 2015 from groups of similar services provided in the area of operations, the ratio of which is 10% or more of its income (NIS thousands):

The service	2016		2015	
	Income	Rate of total income of the Company	Income	Rate of total income of the Company
Services on a subscription basis	88,665	49.53%	80,167	51.2%
Services on a consumption basis*	40,228	22.47%	37,943	24.3%
Sale of spare parts	30,679	17.14%	24,502	15.6%
Total	159,572	89.14%	142,612	91.1%

* Including income from the car sharing and rental area of operations in 2016 and 2015 in the amount of NIS 526,000 and 818,000, constituting a rate of 0.33% and 0.52% of the total income of the Company in the area of activity in the same years, respectively. As set forth on the table above, the total income from services on a subscription basis in 2016 increased in the amount of about NIS 8,498,000 compared to 2015, reflecting an increase in the rate of 10.6% compared to 2015. However, an analysis of the income per subscriber (i.e. the amount of income from services of a subscription basis each year, compared to the total number of subscriptions⁶ sold each year, as set forth in Section **שגיאה! מקור ההפניה לא נמצא.** above), it arises that the income per subscriber in 2016 decreased at a rate of 7.4% compared to income per subscriber in 2015. The aforesaid decrease arises mainly from the fact that the increase rate in income from services on a subscription basis in 2016 was lower than the rate of increase in the number of subscriptions sold in 2016, as set forth in Section **שגיאה! מקור ההפניה לא נמצא.** above. The Company estimates that the reason for the same arises mainly from the change in

⁶ See footnote **שגיאה! הסימניה אינה מוגדרת.** above.

composition of the services sold in 2016, such that an increase occurred in the sales of certain services whose prices are lower compared to other services of the Company in the field of activity; for instance, in 2016, an increase occurred in sales of side mirror and headlight repair services, the consideration for which is lower compared to the prices of the other services. Another reason for the aforesaid decrease is the reduction in the prices of subscriptions performed by the Company in 2015.

6.4 **Customers**

6.4.1 **General**

The Company's customers in the area of activity include the insurance companies, government institutions, business and private customers. For details regarding the agreements and engagements of the Company with its customers, see Sections 6.4.4 through 6.4.6 below.

6.4.2 The following are details of the Company's income in the area of activity from customers whose sales in 2016, 2015, constitute 10% or more of the total sales of the Company in the same year (in NIS thousands):

	2016		2015	
	Income	Rate of total income of the Company	Income	Rate of total income of the Company
Customer A *	16,192	9.0%	19,670	12.6%
Customer B *	24,880	13.9%	16,244	10.4%

* For details regarding the description of the engagements with the aforesaid customers, see Section 6.4.4 below.

6.4.3 The following is a breakdown of the Company's income in the area of activity from customers of the Company based on their territorial association, for 2016, 2015 (NIS thousands):

			2015	
	Income	Rate of total income of the Company	Income	Rate of total income of the Company
Insurance companies	109,739	61.3%	95,154	60.8%
Government institutions	13,770	7.7%	13,647	8.7%
Business customers	16,905	9.4%	16,597	10.6%
Private customers	10,158	10.7%	17,214	11.0%
Total	159,572	89.1%	142,612	91.1%

6.4.4 **Agreements with insurance companies**

As stated above, the main customers of the Company in the area of activity are the insurance companies, as of the Report date, the Company is reliant on the sale of subscriptions through them. The Company estimates that the termination of the engagement with some of the insurance companies may materially harm the area of activity for a limited period of time.

An insurance company that engages with the Company in a services agreement does not receive the final service, which is provided to its policyholders that choose to purchase a subscription for the Company's services in addition to the insurance policy, through the Service Document attached to the policy.

The manner and conditions for granting the Company's services to policyholders of the insurance companies are set forth in the various agreements of the Company with the insurance companies, including the main provisions below:

Engagement in the agreements takes place for an initial period of one to two years (the "**Initial Period**"), and thereafter, the agreement is automatically renewed for additional periods of one year each, unless one of the parties notifies the other of its intention to terminate the agreement with prior notice. In most of the current agreements of the Company, the initial period has transpired and they are within the extension period. Some of the agreements are for an indefinite period, with each party being able to terminate the agreement with prior notice.

Some of the agreements provide that notwithstanding the above, the insurance company may terminate the agreement immediately upon the occurrence of extraordinary events that prevent the Company from supplying the services and/or in cases of a material breach of the agreement on the part of the Company. Most of the agreements provide that if the Company does not provide its services within a reasonable amount of time, the subscriber may, after providing notice to the Company, request a service from another entity and charge the Company at the agreed price. In reality, there are few cases in which service is provided by another entity that is not coordinated with the Company.

In most of the agreements, the Company undertook to indemnify the insurance company for any loss or damage caused to it as a result of the performance of non-performance of the services of the Company or its obligations under the agreement. Additionally, the Company undertook to hold and keep, at its expense, various insurance policies for damages caused, if any, for any action or omission of the Company and/or those acting on its behalf.

In addition, in some of the agreements with the insurance companies, the Company undertook to immediately make available to the policyholder a replacement vehicle for the duration of the stay of the insured car in the service center garage.

In most of the agreements, consideration for the services is provided for annual or monthly subscription fees for each Service Document sold, based on the price list determined in the agreement. The payment terms range from 45-90 days from the date of the engagement with the subscriber in the relevant service document.

The payment for the service center services is performed on the basis of the work actually performed (and is not included in the subscription fees). For details in this regard, see Section 6.2.3 above.

The Company's agreements with the insurance companies do not include an undertaking to direct customers to the Company's service centers, and such direction of the customers as stated takes place at the initiative of the customer alone, who may choose which garage to use for the treatment from a list of service centers affiliated with the insurance company in a similar arrangement, and garages that are not garages in an arrangement.

6.4.5 Agreements with government institutions

6.4.5.1 Framework agreement with the Government of Israel⁷

In accordance with this agreement, which was signed on October 1, 2013, the Company provides roadside, towing and emergency services to government institutions, including the Israel Postal Service, the Ministry of Defense, the Prime Minister's Office, the Prison Service, the Magen David Adom, Mekorot, and more, with the consideration for the same services being in accordance with the price list set out in the agreement. The end of the term of the agreement is October 1, 2017, while the Government of Israel reserves its right to terminate the engagement at any time, with written notice 90 days in advance.

6.4.5.2 Agreement with the Israel Police⁸

As of 2010, the Company provides the Israel Police, after winning a tender on behalf of the Israel Police, with towing services for vehicles and their storage as needed by the Police. On March 1, 2017, the Company won a new tender on behalf of the Israel Police. The term of the tender is 12 months, while the Police has the option to extend the term of the engagement by one additional year or part thereof, up to four additional years. The estimate of the annual income under the tender is NIS 17 million. This amount includes a fixed amount and additional amounts contingent on the scope of the services that will be actually provided (such that the scope of actual income may be different from the aforesaid estimate). The Company's rights in the tender are further to the previous tender on behalf of the Police for the supply of similar services, which the Company won in 2010, as stated above. Upon the commencement of the provision of the services under the tender term, the engagement under the previous tender is concluded.

The Company considers the engagement with the Israel Police to be a material engagement, and the non-renewal of the engagement with the Israel Police may have a periodic negative impact on the Company's results. It is noted that from time to time, during the ordinary business of the Company, the Company is dealing with other tenders on behalf of the Police as well as various government tenders for the provision of the services in the field of activity.

6.4.6 Engagement with business and private customers

The Company has a limited number of business customers that manage fleets of vehicles (most of which are rental and car leasing companies) and has periodic private customers. As of the date of the Report, the Company does not have agreements for the provision of services to these customers, and most of the engagements therewith are carried out on the basis of work orders, based on the work actually performed, and in accordance with the price list of services agreed upon in advance.

The Company provides services periodically to car rental and leasing companies, and operates to increase the scope of activities therewith. However, the Company estimates, as of the date of the Report, that these engagements do not have substantial potential to expand the scope of the services offered by the Company in the field of activities, since a considerable part of the car lease and rental companies provide services similar to the services provided by the Company in

⁷Within the structural split, the framework agreement with the Government of Israel was assigned, as well as all of the agreements thereunder from Shagrir Systems to the Company.

⁸See footnote 11 above, *mutatis mutandis*.

the field of activity, and therefore do not need to engage with an external service provider for the same.

With respect to the engagements of the Company with business customers that manage vehicle fleets (that are not car leasing and rental companies), which, as stated, constitute an immaterial part of the Company's corporate customers as of the Report date, the Company estimates that there is potential to expand the scope of the services provided by the Company to the aforesaid customers, both in terms of the expansion of the scope of the services provided by the Company to the existing customers and by way of expanding this kind of customer base. To do so, the Company is considering the need to expand the marketing activities among these customers as well as the conditions for providing the service offered to them.

6.5 Marketing and distribution

Generally, the market in which the Company operates has a number of potential sales and marketing channels for services on a subscription basis (in this Section 0: the “**Services**”), as set forth below.

- 6.5.1.1 The engagement is formed with the insurance companies only. In this form of engagement, the insurance companies offer their policyholders the Services within the service documents included in the insurance policies marketed to the policyholders, as an integral part of the policies. It is noted that the engagement of the insurance companies with the policyholders for the sale of the insurance policies may be executed in two manners, depending on the marketing method of the insurance company: (a) the sale of the insurance policy (which includes the service document) through an insurance agent; (b) the direct sale of the insurance policy (including the service documents) by the insurance companies to their policyholders;
- 6.5.1.2 The engagement is formed with the insurance agents only. In this form of engagement, the insurance agents market the Services to subscribers “outside of the policy” (i.e. not as part of the insurance policy), without the involvement of the insurance companies;
- 6.5.1.3 The engagement directly with the subscribers. In this form of engagement, companies such as the Company market the Services directly to the subscribers without the involvement of insurance companies or insurance agents;
- 6.5.1.4 The engagement to market the Services formed by a combination of all or some of the above channels.
- 6.5.2 As stated above, marketing the Services on a subscriptions basis by the Company is performed largely in accordance with the first option, as set forth in Section 6.5.1.1 above. Meaning, the Company engages with the insurance companies in order to sell services on a subscription basis, while offer their policyholders, *inter alia*, insurance policies that include service documents for the Company's services (in various compositions). It is noted that although the Company does not engage with the insurance agents for the sale of its services in the field of activity (as set forth in option (2) above), the Company still considers the insurance agents to be an important marketing channel, as the insurance agents advice potential subscribers of the Company regarding the selection of the insurance policies that are offered by various insurance companies (some of which, as stated, also include service documents for the Company's services), and may therefore impact the scope of the services that the Company sells. In addition, the insurance

agents consult regarding the selection of the services provider from among those offered by the insurance companies (in accordance with the provisions of the Circular, as of June 30, 2016, as set forth in Section 6.1.1.1 above). Therefore, the Company is working to reinforce its relationships with the insurance agents and to advertise its services among the insurance agents as well.

6.5.3 In addition, an immaterial part of the services on a subscription basis that are sold by the Company in the area of activity are marketed to subscribers directors, without the involvement of insurance companies or insurance agents, primarily to government institutions or private and corporate customers as set forth in Sections 6.4.5 and 6.4.6 above.

6.5.4 To the best of the Company's knowledge, some of its competitors in the field of activity market the services, *inter alia*, through the insurance agents (as stated in Section 6.5.1.2 above), as stated, contrary to the Company.

The Company estimates that at the end of 2016, about 70% of the roadside and towing services in Israel are sold as part of the insurance policies, and the remainder are sold through the insurance agents (without the involvement of the insurance companies).

6.5.5 For the purpose of the Company's sales and marketing activity, as set forth above, the Company operates a sales and marketing department. The Company's sales team is mainly responsible for contacts with companies and insurance agents. Also, the salespeople are engaged in marketing the Company's services to various companies, institutions and car fleets. The Company markets its products through the various media outlets, such as professional literature, the internet, social media, and the like. The Company is acting to increase its marketing efforts and increase the related personnel.

6.6 **Market and competition**

The Company has a number of competitors, which offer services similar to those offered by the Company. To the best of the Company's knowledge, the market of services to the insurance companies does not have competition that provides the same variety and extensive composition of services, as offered by the Company to its customers. Therefore, the Company is unable to assess its total market share in the market of the services to the insurance companies.

The following details the main competitors of the Company that offer (to the best of the Company's knowledge) services similar to some or most of the services offered by the Company: Shahr Group Holdings and Management Ltd. (which owns the brand "Drachim" in the field of roadside and towing services, and "Shahr" in the field of pipeline damage), S. Shlomo Holdings Ltd., Pami Premium Ltd., Mamsi Road and Towing Services Ltd., Zebra Car Services Ltd., and Start Car Services Ltd.

The Company estimates that at the end of 2016, its subscribers for the roadside and towing services will constitute about one third of the total subscribers for the roadside and towing services sold in Israel. The remaining subscriptions in this field of services are divided between other providers of roadside and towing services.

As to the other services that the Company provides in the field of activity, the Company is unable to provide the rate of the services provided by the Company compared to its competitors.

The market of bodywork and paint garages for vehicles is characterized by a large number of

small businesses that are privately owned, spread geographically through the State. In recent years, the number of large entities, some of which include competitors of the Company listed above, have begun to operate in the field. The competition for customers with respect to the services provided by the service centers is mainly geographic and focuses on creating relationships with the various insurance agents that operate in the same geographic area (which may have an impact on the selection of the garage by the policyholder).

Additionally, as stated above, the Company's competitors are different from the Company in terms of the various marketing methods with which they market the services. While for some of the Company's competition (particularly in the field of roadside services and towing), the insurance agents are not only a marketing channel, but also a sales channel and the collection of receipts (without the involvement of the insurance company), for the Company, the insurance agents are a marketing channel alone, while the sales of the Company and collection of the Company's receives in the area of activity is performed through the insurance companies, which are the main customers of the Company in the area of activity as stated above.

It is clarified that the projections and estimations of the Company regarding the structure of the market and the impact of the competition therein, as stated above, are forward-looking information as defined in the Securities Law, based on subjective projections and estimates of the Company and an analysis of the market in which the Company operates as of the date of the Report. This information is based, in part, on estimates based on current trends and changes in the transport sector in recent years and its expected developments and the economic situation, security and geopolitical situation in the world and in Israel as of this date. Therefore, the effect of the aforesaid factors on activity of the Company may be substantially different from that predicted as stated, if the estimations of the Company are not realized, as a result of a large number of factors, including a change to the economic, insurance and geopolitical condition in Israel and globally, and for legislative and other regulatory changes that may impact the markets in which the Company operates, and for the realization of risk factors, as set forth in Section 6.17 of the Report.

6.7 Production capacity

In general, the Company has no restrictions on communication with customers and/or new subscribers, in most of the services that it provides under this area of activity, since it has the ability to increase the number of subcontractors with whom it interacts in short time frames. However, with regard to services provided by the Company as part of the auto service center, the Company may have certain limitations in taking on new clients, but this limitation is not significant since the Company is ready to establish additional service centers in a short period of time and/or engage with external subcontractors for the supply of the service. The Company estimates that, as of the Report date, it is not close to full capacity in the service centers.

6.8 Fixed assets, land and facilities

6.8.1 Real property

The following are details of the real estate assets used by the Company for its ongoing activity in the field of activity, as set forth below:

Property and location	Company's right in the property	General Description
Real Estate in Haifa, near the Check Post junction* - Service and operation center	Ownership	An asset with an area of 1,608 sq.m, part of which is leased to Pointer. For additional details, see Section 7.2.2 of Chapter Four - Additional Details about the Corporation.
Asset on 8 Maaseh Hoshav Street, Jerusalem** - A service and operations point and service center	Rent	An asset with an area of about 1,473 sq.m leased in consideration for monthly rental fees of NIS 49 thousand (while every three years, the rental fees will increase at a rate of 3%), and in addition to linkage to the index and lawful VAT until December 31, 2022. The Company has an option to extend the term of the lease by five years. The Company leases to Pointer, with a sublease, about 18% of the leasehold area. For additional details, see Section 7.2.2 of Chapter Four - Additional Details about the Corporation.
Asset on 8 Hanefach Street, Holon ** - A service and operations center and Company headquarters	Rent	An asset with an area of about 5,320 sq.m leased in consideration for monthly rental fees of NIS 123 thousand, in addition to linkage to the index and lawful VAT until December 31, 2023. The Company has an option to extend the term of the lease by five additional years, while the rental fees will increase in the option period by 5% compared to the current rental fees.
Asset on 4 Hapelda St., Northern Ashdod Industrial Area ** - A service center	Rent	An asset with an area of about 1,580 sq.m leased in consideration for monthly rental fees of NIS 20 thousand, in addition to linkage to the index and lawful VAT until July 31, 2019.
Asset on 26 Hashoftim Street, Holon ** - A service center	Rent	An asset with an area of about 1,845 sq.m leased in consideration for monthly rental fees of NIS 56 thousand, in addition to linkage to the index and lawful VAT until August 31, 2017. The Company has an option to extend the term of the lease by three years.
Asset on 6 Hayezira Street, Raanana Industrial Area** - Service center	Rent	An asset with an area of about 550 sq.m on a defined lot with an area of about 950 sq.m, leased in consideration for monthly rental fees of NIS 6 thousand in addition to VAT until February 21, 2018. The Company also has an option to extend the term of the lease by three years.
Asset on 3 Hamikzoa Street, Tel Aviv** - service center	Rent	An asset with an area of about 450 sq.m leased in consideration for monthly rental fees of NIS 26 thousand, in addition to linkage to the index and lawful VAT until April 30, 2018. In addition, the Company has an option to extend the term of the lease by four years (in addition to 3% of the current rental fees).
Asset of 10 Haashlag Street, Haifa - service center	Rent	An asset with an area of about 350 sq.m and an adjacent operating lot of about 500 sq.m, leased for a period of 60 months (five years), in consideration for monthly rental fees of NIS 15,000 thousand, in addition to linkage to the index and lawful VAT until June 15, 2020. The Company has an option to extend the term of the lease by five additional rental terms of 12 months each.
Asset on 8 Yad Harutzim Street, Poleg, Netanya - service center	Rent	An asset with an area of about 830 sq.m for a period of 66.5 months (about five and a half years), until May 31, 2021, leased with a subleased in consideration for monthly rental fees of NIS 45,000, in addition linkage to the interest and lawful VAT. The Company has an option to extend the term of the lease for additional rental terms of 12 months each, subject to the extension of the term of the lease in the main lease agreement.
Asset on 6 Bergman	Rent	An asset with an area of about 470 sq.m for a period of 59.5

Property and location	Company's right in the property	General Description
Tzvi Street, Petach Tivka - service center		months (about five years), beginning on August 31, 2021, in consideration for monthly rental fees of NIS 35,000, in addition linkage to the interest and lawful VAT. The Company has an option to extend the term of the lease by five additional years (in addition to 3.5% of the rental fees paid for the last month in the lease term).
Asset on 7 Maaseh Hoshav Street, Jerusalem - service center	Rent	An asset with an area of about 750 sq.m for a period of four years until February 15, 2021, in consideration for monthly rental fees of NIS 43,000 thousand, in addition to linkage to the index and lawful VAT. The Company has an option to extend the term of the lease by two additional terms (the total of the terms is five years and 11 months).

* Asset purchased by the Company from Shagrir Systems as part of the structural split.

** Asset whose rights and undertakings arising from the lease agreement in the asset were transferred to the Company within the structural split.

6.8.2 Vehicles fleet

The following details the fleet of vehicles owned by the Company as of December 31, in the years 2016, 2015 and 2014:

Type of vehicle / year	2016	2015	2014
Tow trucks and emergency service vehicles	84	84	86
Rental / replacement cars	91	79	130
Connecting vehicles	25	33	21
Total	200	196	237

The Company's policy is generally to sell the towing and emergency service vehicles after a term of use of about 7.5 years on average, and to sell vehicles from the replacement car fleet after use of about 2.5 years on average. The depreciation rate adjusted on the vehicles is as customary in the industry and is considered to be enough to reduce the assets over their estimated useful lives. The capital gains or loss (as applicable), if created, is impacted from the state of the used vehicles market in Israel.

The cost of maintaining a towing vehicle, service car and the replacement car fleet (excluding depreciation) amounted in 2016 to NIS 8,580,000, in 2015 to NIS 8,896,000, and in 2014 to NIS 10,308,000.

6.8.3 Information systems in the area of activity

The Company has a network of computers around all of its branches in Israel, which connects each of the branches to the computerization system of the Company, located in the Company's headquarters. In addition, the Company uses a management, control and monitoring system, responsible for the management and control of all of the work processes in the area of activity. The use of one computer system, which is managed by a team of employees that supports all of the Company's activities in the area of activity, allows for easy and efficient maintenance of the Company's computerization systems.

6.9 Intangible assets

6.9.1 Trademarks

The name “Shagrir” is registered under the ownership of the Company as a trademark in Israel within the group of services of “towing and roadside services.” The aforesaid trademark is valid until February 2, 2019. In addition, the Company owns three trademarks (logo design) as trademarks in Israel: “Shagrir” (within the group of services of “towing and roadside services”), “Shagrir Service Centers” (within the group of services of “bodywork and paint services”) and “SCL - Total Customer Service” (within the group of services of “services handling water damage”).

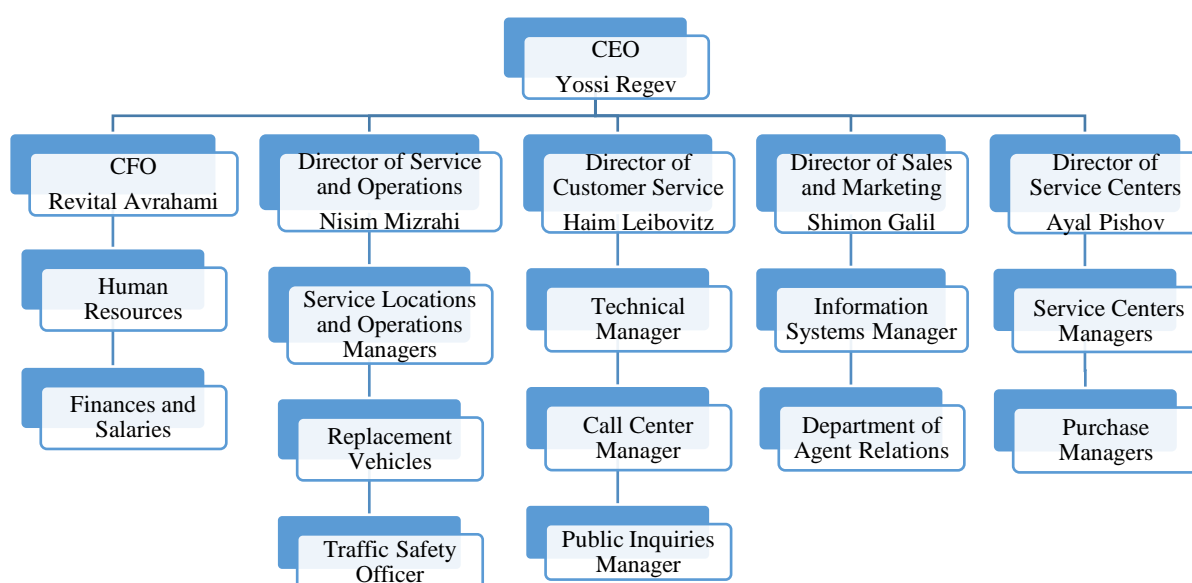
Additionally, the Company holds the following domain names: shagrir.co.il, shagrir.com, shagrir.biz, shagrir.info, shagrir.site, shagrir-group.co.il, eboost.co.il, 8888.co.il. The domain names listed above are valid until 2017-2019 (excluding shagrir.co.il, which is permanently valid). The Company makes sure to renew the domain names from time to time as needed.

For details regarding the intangible assets of the Company to which value is charged in the Company’s financial statements, see Note 9 of the Company’s financial statements.

6.10 Human Capital

6.10.1 Organizational structure

The following chart describes the organizational structure of the Company in the area of activity:



6.10.2 Headcount

The following are details about the number of employees employed by the Company in the field of activity and in accordance with the organizational structure:

31.12.2014	31.12.2015	31.12.2016	Department
278	306	334	Operation
14	16	20	Sales and Marketing
18	18	18	Management, staff and funds
310	340	372	Total

6.10.3 Benefits and nature of employment agreements

The Company has a number of types of employment agreements, including: daily employment agreements and monthly employment agreements. The Company rewards most of its employees with various incentives at its discretion and in accordance with the performances of the Company and specific employee. In addition, the Company rewards its senior employees with options based on the Company's options plan. On the basis of the same plan, restricted share units (RSUs) were granted in March 2015 to a number of employees and officers. For additional details about the remuneration to the officers of the Company, see Section 5 of Chapter Four - Additional Details about the Corporation.

The Company typically insures its employees with pension insurance and sets aside each month to managers insurance and/or pension funds in accordance with the employee's salary and subject to the provisions of the Law. Some of the employees have a provision for an advanced study fund.

As of mid-2012, some of the employment agreements of new employees that were absorbed in the Company include an undertaking under Section 14 of the Severance Pay Law, 5723-1963 ("Section 14"). In accordance with the above obligation, on the termination of the employment, the aforesaid employees will be entitled to the balances for the severance pay component that have accrued for them in the funds and relevant policies, and the Company will not be required to carry out additional payments for severance pay for these employees. As of August 2014, all of the employment agreements of the employees absorbed into the Company include an undertaking under Section 14.

6.10.4 Compensation Plan

For details about the Company's compensation plan for employees, officers and consultants, see Section 3.2.3 of Chapter C of the Prospectus.

6.11 Suppliers and service providers

Within its operations in the area of activity, the Company regularly purchases services from service providers in various fields (usually from subcontractors through which the Company provides part of its services in the area of activity). In addition, the Company acquires car rental services for the supply of replacement cars to its subscribers as well as purchasing from suppliers primarily replacements and parts for vehicles in order to provide its services in the field of operations. In addition, the Company purchases fuel for providing the roadside and towing services and the ongoing operation of its activities.

Generally, the Company conducts negotiations with its suppliers periodically to improve the service and/or products supplied to it, and the rates at which it purchases the products and/or services are in accordance with market conditions. The engagements with the suppliers and service providers are performed on the basis of a framework agreements signed between the Company and most of the service providers and suppliers as stated, including a fixed price list for the services provided by the same supplier or service provided to the Company. From time to time, the Company performs work orders from the supplier or relevant service provider for the receipt of the service. At times, the Company must receive exceptional service, in a scope or area in which the service is provided. In such cases, the Company pays the supplier or service provider a rate that is different from the rate determined in the agreement.

The Company is not dependent on any supplier. The Company estimates that as needed and/or to improve its profitability, the Company may replace a supplier or suppliers in the case in which the present suppliers, without having a material impact on the activity of the Company and/or without the same constituting a substantial difficulty in the fulfillment or availability of alternative suppliers.

Within the engagements of the Company with the service providers and suppliers as stated above, the Company has a number of main suppliers as described below:

- 6.11.1 Replacements - The Company purchases tin and shell parts, headlights, side mirrors, batteries and other spare parts. The purchase is primarily performed on a consumption basis, and therefore the Company is not required to hold inventory in large amounts, but rather has basic inventory alone.
- 6.11.2 Paint, auxiliary materials and equipment - The Company is required to hold a large variety of paint materials and auxiliary materials for the ongoing work process and suitable equipment. In this context, there are currently four main companies that import and distribute paint and auxiliary materials for the performance of bodywork repairs and painting vehicles, with which (or part of which) the Company engages based on its needs. The aforesaid companies represent the paint manufacturers that supply the materials to the car manufacturer industry. The competition between the companies is focused mainly on aspects of price and service.
- 6.11.3 Car rental companies - The Company provides replacement cars for its subscribers and customers of the service centers through 12 rental companies, in order to improve the geographic deployment of the replacement car supply points and to improve the economic viability for the Company. The Company pays the rental companies the rent fees only. Expenses such as fuel, vehicle upgrades, etc., are paid for by the subscriber. In the case of a shortage of rental vehicles in one of the rental companies, the Company directs its subscriber to other companies, and in certain cases, pays the subscriber for public transportation in accordance with the terms of the Service Document.
- 6.11.4 Car Importers

The purchase of the various cars used by the Company takes place with different importers as needed and based on various parameters, including cost of the car, cost of the car's maintenance, cost of the insurance, relationship with the importer and the like.
- 6.11.5 Subcontractors - The Company uses subcontractors in addition to its hired employees. To do so, the Company has engaged with hundreds of subcontractors that operate around the

country and uses their services, upon request, based on its needs. The Company is not dependent on any subcontractor or otherwise. The engagements with the subcontractors are performed usually on the basis of one-time work orders, which at times are subject to the agreed price list determined in advance between the Company and the subcontractor, and at times the consideration for the services is determined with respect to each service order separately. In view of the nature of the area of activity, the availability of subcontractors is high. About 55% on average of the road and towing services that the Company provides are performed by the towing and emergency service vehicles of the Company. Use of subcontractors increases at times of peak demand. Additionally, and for reasons of efficiency, use is made of local subcontractors for services required in remote areas (even not at peak times). In addition, most of the services provided by the Company to its subscribers within the apartment services are provided through subcontractors.

- 6.11.6 Fuel - As of the Report date, the Company has a single fuel supplier, from which the Company purchases the fuel required for the operation of its vehicles in the area of activity. The Company does not depend on the aforesaid supplier, and can replace it at any time without any additional costs.
- 6.11.7 Insurers - The Company contracts with several insurance companies in order to purchase policies to insure the activity of the Company and its assets, as set forth in Section 6.15 below.

6.12 **Environmental risks and their management**

The Company is subject to the provisions of the law in connection with maintaining environmental protection, including preventing pollution from the vehicles that it owns, including the Law to Prevent Nuisances, 5721-1961 and the Traffic Ordinance [New Version] and the regulations thereunder.

The Company operates in accordance with the guidelines of the Ministry for Environmental Protection regarding the manner of handling used oil, water and sewage, used replacement parts, waste and hazardous substances, solid waste and used tires.

As of the Report date, to the best of the Company's knowledge, there are no environmental risks that may have a material impact on the Company. Additionally, as of the Report date, there is no legislation regarding environmental protection that has a material impact on the Company's activity. Furthermore, the Company and/or its senior officers are not party to a legal or administration proceeding in connection with environmental protection matters. As of the date of the Report, the amounts paid by the Company for environmental protection and complying with the provisions of the law are immaterial.

6.13 **Limitations and supervision over the Company**

The Company's operations in the field of activity require it to hold various licenses and permits as stated (excluding as set forth in Section 6.13.6 below), as stated below:

- 6.13.1 The licenses to have a factory for all of the Company's services centers, including mobility for intercity road repairs in accordance with the Supervision of Goods and Services Order (Garages and Factories for Vehicles), 5730-1970.
- 6.13.2 Operating licenses from the Ministry of Car Rentals for Independent Driving and for

operation of a branch for car rental (leasing), in accordance with the Supervisory Order over Goods and Services (Sightseeing, Special Transportation and Car Rental), 5745-1985.

- 6.13.3 A transporter license under the Transportation Service Regulations, 5761-2001.
- 6.13.4 Confirmation of the Company as a “recognized supplier” of the Ministry of Defense.
- 6.13.5 A special permit, under the Work and Rest Hours Law, to work on Saturdays with a specific number of employees, as determined in the permit.
- 6.13.6 Business licenses for the Company’s facilities in the various cities in the country under the Business License Law.

All of the licenses listed above, excluding the business license for the service centers in Netanya and Petach Tikva (undergoing validation processes), are in force and some are set in time. Before the expiration of validity of any license, the Company works to renew and/or extend it; however, it is possible that due to bureaucratic reasons, the renewal of the aforesaid licenses only is received by the Company after the license expires, such that a short period of time may exist between the expiry of the license and its renewal, and the same does not harm the Company’s operations.

In addition to the licenses and permits set forth above, the following regulatory or legislative provisions apply to the Company’s operations, and as of the date of the Report, the Company complies with them and acts accordingly:

- 6.13.7 In accordance with the Transportation Regulations, the Company’s towers must meet a number of conditions and standards, including a suitable vehicle license for the towing vehicle, rules and provisions regarding the manner of the towing, the existence of proper safety measures before and during the towing, restrictions of towing, all as set forth in the aforesaid regulations.
- 6.13.8 The Company’s activities are subject to the provisions of the law relating to the prevention of pollution, including pollution created from a vehicle, constituting part of the fleet of vehicles in its possession. For additional details, see Section 6.12 above.
- 6.13.9 The Company employs a safety officer in accordance with the Traffic Regulations.
- 6.13.10 The Company has information databases that are registered in the database registrar of the Ministry of Justice in accordance with the Privacy Protection Law.
- 6.13.11 The Company operates in accordance with the provisions of the Restriction of Use and Registration of Activity with Used Car Parts (Preventing Theft), 5758-1998 and the regulations thereunder, which provide, *inter alia*, a prohibition of the installation of used car parts in vehicles harmed, if two years have not yet transpired from the date of their registration on the car license.
- 6.13.12 In accordance with the provisions of the Sale of Used Vehicles Law (Entitlement to Information and Proper Disclosure), 5768-2008, a garage will retain information about a vehicle repaired or treated for seven years from the date of the repair or treatment or from the fate of receipt of the same information.
- 6.13.13 According to the provisions of the Traffic Ordinance, *inter alia*, it is prohibited to drive vehicles unless the vehicle has a car license under the Traffic Ordinance and is registered at

the Licensing Authority. The vehicles owned by the Company have valid licenses that are renewed each year and that are registered in the Licensing Authority as required.

6.14 **Legal proceedings**

For details, see Note 17d of the Company's financial statements.

6.15 **Insurance**

The Company has a property and liability insurance system as follows:

6.15.1 **Property Insurance**

- An "extended fire" policy applicable to the structures, leasehold improvements, content and inventory owned by the Company and/or property of others that the Company has undertaken to insure. The insurance is expanded to cover natural damage and earthquakes.
- The Company did not acquire consequential loss insurance against "expanded fire" risks (excluding break-in) at full capacity, but rather covers only loss of rent and has purchased an expansion in a limited amount for increased operational expenses.
- Electronic equipment insurance, financial insurance, property insurance in a transfer, employee loyalty insurance.

The aforesaid insurance policies are pledged in favor of Bank Hapoalim Ltd. and Bank Leumi of Israel Ltd.

6.15.2 **Liability Insurance**

- Employer liability insurance.
- General third party liability insurance including an expansion for liability for garages.

6.15.3 **Professional liability insurance**

Professional liability insurance combined with product liability insurance for the apartment services and providing emergency services. Professional liability insurance of the road and towing services.

6.15.4 **Car Insurance**

The Company holds compulsory insurance policies under law for each vehicle that it uses which it purchases from the various insurance companies. For economic considerations, the Company does not insure some of the vehicles that it owns with comprehensive insurance, but rather other third party insurance, and examines, from time to time, the cost of purchasing comprehensive insurance compared to the alternative cost for lack of comprehensive insurance (meaning the cost for repairing accidents, vehicle theft and total loss); the frequency of total loss and theft, to the best of the Company's knowledge according to statistics (considering the fact that there is a dispersion of the risk for loss of the Company's cars due to their physical dispersal throughout the country, and considering the decrease in the quantity of car thefts in Israel generally, as stated in Section 5.1.6 above) and on the basis of the Company's past experience. For the purpose of comparing the cost of comprehensive insurance compared to the alternative costs as stated, the Company also takes into account the overhead costs that accompany these events, which it bears when it does not

have a comprehensive insurance policy. According to the Company's estimate, the alternative costs as stated are not material, and in any event are substantially lower than the cost of comprehensive insurance. This is the case in light of the low frequency of car thefts in Israel generally and the Company specifically, as stated above, and in light of the cost for the repair of damage to the Company's cars, which, based on the Company's experience, is not substantial both due to the relatively limited scope as well as the fact that the same damage is repaired in the Company's service centers, which substantially reduces the cost of the repair for the Company.

6.16 **Business strategy and objectives**

The Company intends to expand the variety of its services in the field of activity and deepen the sales of the existing services of the Company in the field of activity. Additionally, the Company is operating to expand the basis of subscriptions with its customers and potential customers in the insurance company market and large vehicle fleets, all in order to strengthen the "Shagrir" brand. For the same purpose, the Company acts in a number of channels as follows:

- 6.16.1 The increase in the range of the services that the Company provides its existing customers in the area of activity, primarily by maintaining ongoing contact with the insurance companies to which the Company provides certain services and their update from time to time regarding additional or new services of the Company in the area of activity;
- 6.16.2 The expansion of the scope of the Company's engagement with insurance companies with which the Company has limited activity;
- 6.16.3 The expansion of the Company's customer base by way of the sale of services to additional customers other than the insurance companies and including government institutions and other business entities such as private companies that manage vehicle fleets and/or car rental companies;
- 6.16.4 Examining the possibility of the future expansion of the types of services offered by the Company in the area of activity (development of new services);
- 6.16.5 The establishment of additional service centers of the Company around Israel. At the same time, the Company is examining the methods of expanding the scope of activities of the Company's existing service centers;
- 6.16.6 Examining additional marketing channels and more ways of using the "Shagrir" brand.
- 6.16.7 The Company is working to improve the use of the service units while adjusting its vehicle fleets to the scope of activity and improve the terms of the engagement with service providers and suppliers of the Company. In addition, the Company is evaluating the further investments in information systems in order to improve work processes and increase efficiency.
- 6.16.8 **Branding and improved service**

The Company is working to improve the level of service by training employees and measuring the quality of the service by satisfaction surveys. The Company is working to strengthen its relationships with the central customers, meaning, with the insurance companies and insurance agents. Additionally, the Company is performing processes to brand the service centers spread in various places in the country.

It is clarified that the projections and estimations of the Company, as stated above, and their impact on the Company's operations, are forward-looking information as defined in the Securities Law, based on subjective projections and estimates of the Company and an analysis of the market in which the Company operates on the date of the Report. This information is based, in part, on estimates based on current trends and changes in the transport sector in recent years and its expected developments and the economic situation, security and geopolitical situation in the world and in Israel as of this date. Therefore, the effect of the aforesaid factors on activity of the Company may be substantially different from that predicted as stated, if the estimations of the Company are not realized, as a result of a large number of factors, including a change to the economic, insurance and geopolitical condition in Israel and globally, and for legislative and other regulatory changes that may impact the markets in which the Company operates, and for the realization of risk factors, as set forth in Section 6.17 below.

6.17 Discussion of risk factors

The following is a review of the risk factors that the Company is facing within its activity:

6.17.1 Macro Risks

- (a) Material deterioration in the financial situation in the economy - detrimental change or slowdown to the state of the economy, as well as a reduction to the number of individuals employed, may detrimentally impact the state of the Company's business due to the potential limitation of the quantity of sales and the limitation of the number of subscriptions purchased.

6.17.2 Industry risks

- (b) Competition - an increase in the level of competition in the area of activity may harm the profitability of the Company and impact its business results.
- (c) Change in regulation/legislation - activity of the Company in the area of activity is subject to legislative and regulatory restrictions, as set forth in Section 6.1.1 above. In addition, the Company is indirectly impacted by legislative and regulatory restrictions applicable to the insurance companies and that are relevant to the Company's activity. Therefore, changes to the provisions of the law and/or regulatory provisions as stated, which may limit the activity of the Company in the area of activity, may detrimentally impact the Company's activity and financial results.
- (d) Increase in the prices of fuel - a substantial increase in the prices of fuel may harm the financial results of the Company. For details see Section 5.1.7 above.

6.17.3 Risks unique to the activity of the Company

- (e) Reputation risks - the Company's reputation is an essential element in its ability to operate and develop the field of activity. Harm to the image of the Company and/or its reputation may adversely affect the Company's operations and financial results.
- (f) Loss of licenses required for the Company's activities - as set forth in Section 6.13 above, the Company is required to hold a number of licenses in order to provide its services in the area of activity. Loss of a specific material license and/or its non-renewal

may impact the Company's ability to supply the services in the area of activity and cause harm to the Company's financial results.

- (g) Loss of customers - the insurance companies with which the Company is engaging are central customers of the Company. The termination of the engagement with one of the main customers of the Company, as stated in Section 6.4.4 above, and/or with a number of insurance companies, may adversely affect the Company's financial results.
- (h) Extreme weather conditions - extreme weather conditions, particularly during the winter months, which extend longer than usual, may increase the scope of the services that the Company provides to its subscribers that pay fixed rental fees. Therefore, an increase in the scope of the services as stated may have a negative impact on the financial results of the Company.
- (i) Labor laws - since the Company has a large number of employees, changes in the labor laws, which may require the Company to increase its payments to employees and/or perform provisions for hiring employees, may have a substantial harmful impact on the Company's financial results.

6.17.4 Presentation of risk factors by type on the table

Identification of the risk factors and the degree of their impact on the Company is based on the valuation of the Company alone, and it is possible that in reality, there are risk factors that have not yet been identified or whose impact is different from the above.

	Extent of Impact of the Risk Factor on the Company's Business		
	Major effect	Moderate impact	Little effect
Macro Risks			
Material worsening of the economic situation			+
Industry risks			
Competition		+	
Changes in regulation / legislation		+	
Increase in gas prices		+	
Risks unique to the Company			
Reputation risks		+	
Loss of the licenses required for the Company's activities		+	
Loss of customers	+		
Extreme weather conditions		+	
Employment fees			+

Field of car sharing and rental

7. General information on the field of activity

7.1 Structure of the field of activity and changes therein

Development of the cities around the world and the increase in urban populations, particularly the increase in the number of vehicles and use thereof, has created congestion and severe traffic issues. Car sharing may reduce traffic congestion and air pollution and provide a less expensive and more convenient alternative compared to maintenance of private vehicles. The car sharing system is designed mainly for customers who need a car for only a few hours or customers who do not need a car on a daily basis. The car sharing system is intended to provide its customers with the freedom and flexibility of a private vehicle, without the costs and hassles involved in maintaining a vehicle. The price is comprised of membership fees, monthly or annual subscription fees, an hourly fee and a price per km that also reflects the fuel cost.

A number of criteria distinguish between the activities of the traditional rental companies and car sharing companies, particularly Car 2 Go: the manner of ordering the vehicle, its collection and return independently, the ability to order a car through the internet or an app, or through a phone customer service center that is available at all times; technology that allows the customer to independently open the vehicle through a smart card; high distribution of cars in the customers' surroundings such that there is always a car in walking distance, from any subscriber who would like to order a car, at any time and any place; flexibility in the periods of time in which the car can be rented; service to subscribers alone (in Car 2 Go - a ratio of at least 35 subscribers to a car); and the fuel costs being included in the service price.

The car sharing and rental field has a number of potential models for vehicle sharing: (a) classic car sharing (the "**A2A Model**") in which the subscriber returns the vehicle to the same point from which it was collected; (b) the one way / open ended reservation in which the subscriber collects the vehicle from one point and returns the vehicle to another point; (c) the model in which the subscriber collects the vehicle from one of the designated stations and returns to vehicle to any of the designated stations (the "**A2B Model**"); and (d) the A2Z model in which the subscriber collects the vehicle from any legal parking (in non-permanent locations) and returns it to any other permissible parking space, under predefined distance restrictions ("**A2Z Model**").

7.1.1 Restrictions, legislation, regulations and special circumstances applicable to the field of activity

7.1.1.1 Car 2 Go has a valid license from the Ministry of Car Rentals for Independent Driving, in accordance with the Supervisory Order over Goods and Services (Sightseeing, Special Transportation and Car Rental), 5745-1985. The aforesaid license is renewed every two years, and Car 2 Go is making efforts to renew it on an ongoing basis.

7.1.1.2 The vehicles in the Car 2 Go fleet have valid licenses under the provisions of the Traffic Ordinance [New Version], which it renews each year and that are registered in the Licensing Authority as required.

7.1.1.3 Car 2 Go employs safety officers in accordance with the Traffic Regulations.

7.1.1.4 With respect to agreements with which Car 2 Go engages upon some of its customers, Car 2

Go may be subject to provisions of the Uniform Contracts Law, 5743-1982.

- 7.1.1.5 Car 2 Go operates one branch of offices in Tel Aviv, which was given a business license in accordance with the Business Licensing Law.
- 7.1.1.6 The vehicles in the Car 2 Go fleet are insured with compulsory insurance and third party insurance as required by law.
- 7.1.1.7 As of the date of the Report, Car 2 Go is not aware of any failure to comply with the limitations applicable to its business activity in the field of car rental under any law, and that may impact its activity materially.
- 7.1.1.8 Car 2 Go operates a phone center that is available seven days per week, 24 hours per day, with a technical and operational emergency staff to rescue vehicles only as needed, and therefore holds a permit for employment during overtime and weekly rest hours from the Ministry of Economy, under the Work and Rest Hours Law.
- 7.1.1.9 Car 2 Go has a database for the details of its customers in the database registrar of the Ministry of Justice in accordance with the Privacy Protection Law.

7.1.2 Changes to the Scope of Activity in the Field and its Profitability

In accordance with the industry surveys conducted in recent years, and to the best of the Company's knowledge, in recent years, the car rental industry has not experienced changes of a substantial scope. The Company estimates that in the upcoming year, the trend of stability in this market will continue, which characterized 2016.

To the best of the Company's assessment, rental of cars for short periods of time in Israel, in a business model similar to the model based on which Car 2 Go operates, may grow significantly in the upcoming years, *inter alia*, following the response of a number of different authorities for the operation of a car sharing venture, mainly due to considerations of environmental quality and traffic congestion.

7.1.3 Technological changes that may have a material impact on the segment

For the operation of a car sharing and car rental system, Car 2 Go may use dedicated hardware and software for the management and operation of the car sharing system. For details regarding the engagement of Car 2 Go with the relevant software providers for its activity, see Section **שגיאה! מקור ההפניה לא נמצא.**

To the best of the Company's knowledge, there are various technological developments in the market that are relevant to the operation of the car sharing system, which is updated periodically. The Company estimates that such changes may impact the structure of the market in which Car 2 Go operates.

7.1.4 Critical success factors in the field of activity and changes therein

The Company estimates that the main factors on which the success of its activities in the field of operations relies are:

- 7.1.4.1 (a) Demand for short-term car rental services - the level of demand for car rental services short term is a critical success factor for Car 2 Go. (b) a high level of service, which is professional and emphasizes broad national deployment; (c) experience, goodwill and

branding - the Company's reputation, based on advanced service and operation systems, and the Company's ability to provide high quality, professional, reliable and highly accessible services to financial entities and main service providers; (d) the ability to provide services at competitive prices; (e) Agreements with municipalities - the ability to engage in agreements with municipal authorities that support the operation of a car sharing system in the city, *inter alia*, by allocating parking spaces, sharing costs and promoting awareness of the services; (f) Regulatory regulation of the field - government or regulatory involvement that may support the business model based on which Car 2 Go operates is important for the development of the activity; (g) Ability to finance and raise funds - the car sharing and rental field is a capital intensive field, and the operations in this field are characterized by high financial leveraging. For the purpose of activity in this field, large amounts of funds and credit cycles must be raised. (h) Technological basis (software) - The Company has dedicated hardware and software for the management and operation of the car sharing system. These tools distinguish it from the other standard rental companies.

7.1.5 Main entry and exit barriers of the area of activity and changes therein

The entry barriers to the car sharing and rental industry are high, *inter alia* for the following reasons:

(a) Equity and/or the ability to raise high initial capital for the establishment of the car sharing system required, *inter alia*, for the acquisition of vehicles, investment in software systems for the management and operation of the system, providing guarantees for entities financing and the engagement in collaborations with government and/or municipal entities; (b) Branding and reputation, including a high level of service, experience, reliability and professionalism; (c) Knowledge and technological basis that allow the creation of a car sharing system; (d) Cooperation agreements with local authorities that support the operation of a car sharing system in the city, *inter alia* by the allocation of parking spaces and participation in costs and promoting awareness of the service; (e) The ability to provide services at competitive prices.

Conversely, in the Company's opinion, the exit from the industry also involves considerable obstacles, including the termination of the long-term contractual engagements with service providers and suppliers, termination of the agreements with customers and the sale of the fleet of vehicles owned by Car 2 Go.

7.1.6 Alternatives to the product in the field of activity and changes therein

The service that Car 2 Go offers has a wide variety of alternatives including privately owned cars and all of the public transportation services (taxis, buses and the like).

7.2 Car 2 Go Services in the Area of Activity of Car Sharing and Rental

7.2.1 General

Car 2 Go, which commenced its operation in 2008, is the leading company in Israel that operates in the field of car sharing and rental, on the basis of a car rental model for subscribers for short periods of time on the basis of a daily or hourly payment.

Car 2 Go operates its services primarily in Tel Aviv, and additionally in Givatayim, Ramat Gan, Raanana and Herzliya. To do so, Car 2 Go has a fleet of vehicles (that it owns or

leases) that are located in designated parking spaces or driveways in the area of activity. Currently, the Car 2 Go system of operations is based on the A2A Model; however, it is preparing to adjust its system of operations and to expand its service with the A2B and A2Z Models as well. In the aforesaid models, the customers of Car 2 Go are not required to return the vehicle to the same point from which it was collected, as opposed to the A2A Model based on which Car 2 Go currently operates. This preparation includes, *inter alia*, procurement and development of the designated technological abilities for pinpointing Car 2 Go vehicles at any point and any time; transport of Car 2 Go vehicles between different points around the city in order to optimally distribute the vehicles in the city in order to ensure availability for use of the customers of Car 2 Go, and the performance of suitable training for employees of Car 2 Go. Car 2 Go sees these preparations as the formation of an infrastructure to expand its operations for growth in the future.

The demand for services of Car 2 Go in recent years has been stable with moderate growth. As of the date of the Report, Car 2 Go has 8,600 registered customers in the Car 2 Go customer system, who consumes its services regularly.

In order to use the service provided by Car 2 Go, the customer is required to purchase a monthly or annual subscription, which is provided in distinct tracks with scopes of use and for subscription periods, and in consequence the price collected from the customer is for each hour of use and each km of travel on the car.

Customers of Car 2 Go may order a vehicle in advance or immediately, and the customers may perform the order through the website, an optimized mobile site or the call center. At the appointed time, the customer comes to the ordered vehicle, places the smart card on the windshield, the card reader in the car identifies the customers with an active order and the customer opens the car doors. The customer performs a test for damage to the vehicle, starts the engine with the vehicle key and travels to his destination. At the end of the trip, the customer must return the car to the parking spot from which it was taken. Customers of Car 2 Go may book cars in advance, and cancel such order before the order date.

The main target audience addressed by Car 2 Go, as of the date of the Report, is divided into the private and business sectors. In the private sector, Car 2 Go is directed primarily to young people aged 25-45 that reside in urban centers, who do not own vehicles for various considerations (such as the cost and time involved in parking the car, other cost-benefit considerations and the convenience of use of the car sharing and rental services or other transportation services). The Company estimates that these customers mainly require vehicle renting services for short periods of time (for about 2-5 hours per order on average) and short ranges (usually up to 50 km per order).

In the business sector, Car 2 Go is aimed primarily at companies that require vehicle renting services for short periods of time for business purposes as an alternative or supplement to their vehicle fleets. The Company estimates that the primary use by these companies of Car 2 Go services is during the daytime hours to reach meetings held outside of the office. It is noted that as of 2015, Car 2 Go has increased its marketing activities among the business sector and made the adjustments required to its services, and there has therefore been an increase to the services provided by Car 2 Go in this sector.

7.2.2 Scope of the Services

The following is information regarding the number of rentals and number of rental hours of Car 2 Go by quarters in 2016, 2015 and 2014:

	2016		2015		2014	
	Lease hours	Number of rentals	Lease hours	Number of rentals	Lease hours	Number of rentals
Q1	96,395	22,835	85,559	20,344	72,726	19,710
Q2	97,411	22,472	90,856	20,697	81,076	19,203
Q3	100,808	22,979	82,063	20,383	76,327	18,642
Q4	97,779	21,816	83,889	22,224	81,037	19,572
Total	392,393	90,112	342,367	83,648	311,166	77,127

The following is information regarding the number of subscribers of Car 2 Go as of the end of each quarter in 2016, 2015 and 2014:

Number of subscribers	2016	2015	2014
March 31	8,246	7,510	6,905
June 30	8,355	7,661	6,963
September 30	8,406	7,881	7,060
December 31	8,567	8,021	7,238

7.3 Segmentation of income and profitability of services

Car 2 Go provides one type of services, which constitutes all of its operations. The Company's income arising from the services as stated in years 2016 and 2015 constitutes 11.2% and 9.5% of the total income of the Company in the same years, respectively.

7.4 Customers

7.4.1 General

For additional details regarding the characteristics and number of customers, see Sections 7.2.1 and 7.2.2 above. Car 2 Go is not dependent on any single customer or a limited number of customers, and does not have a substantial customer or customers. Additionally, Car 2 Go does not have a customer whose income constitutes, or constituted in the past, 10% or more of the total income of Car 2 Go. The Company estimates that termination of the engagement with the Tel Aviv Municipality (the Autotel venture) may have a material impact on the area of activity.

7.4.2 Agreements with private and business customers - A customer that joins the service signs an agreement with Car 2 Go for the services. This agreement includes, *inter alia*, the terms of the subscription service, the obligations of the subscriber and his responsibility for the car during the order, rates and the billing method (including additional charges and credits), the use of the services of Car 2 Go, the insurance rules, consent to receive marketing messages, protection of confidentiality and privacy, and additional conditions.

7.4.3 During February 2017, a number of collaborations were completed between Car 2 Go in the industrial area of Herzliya with the Ampa Group and Bayside Group (the "**Holding**

Companies”), including about nine vehicles that would be used by the employees in the area and the companies operating in the compound. The cooperation agreements include, *inter alia*, the allocation of parking spaces by the Holding Companies in consideration for the distribution of profits arising from these collaborations.

- 7.4.4 Agreements with municipal authorities - Car 2 Go has engaged in a number of agreements with municipal entities with which it operates. The general nature of these agreements is the establishment of a car sharing and rental system in the jurisdiction of the municipal authority, including rental of parking spaces at no cost and/or at reduced parking fees. The arrangements with each authority may differ, as set forth below.

The engagement with the Tel Aviv-Jaffa municipality - Autotel venture

In June 2016, Car 2 Go engaged with the Economic Development Authority of Tel Aviv Ltd. (the “**Tel Aviv Development Authority**”) in an agreement that enters into force as of July 1, 2016 for the construction, operation and maintenance of a car sharing system in Tel Aviv-Jaffa with the A2B and A2Z models (in this section: the “**Agreement**” or the “**Venture**,” as applicable), held through a special purpose partnership (with a dedicated staff) Car 2 Go TLV Limited Partnership, fully held by Car 2 Go, as activity that is completely separate from the currently existing activity in Car 2 Go (A2A Model). The Venture is being built with the aim of providing a transportation response that will allow residents of and visitors to the city to forego their private vehicles and travel the city with public transportation only, which will lead to the reduction in the number of vehicles in the city, thus easing traffic congestion in the city, providing a response to the lack of parking and lead to the reduction of air pollution in the city.

The term of the agreement is about 11.5 years, when the Tel Aviv Development Authority is given the option of extending the engagement by two additional terms of 36 months each. Additionally, the Tel Aviv Development Authority will have the right to terminate the engagement with notice to Car 2 Go 180 days in advance. Upon signing the agreement, Car 2 Go began to establish the infrastructure required for the venture’s activity, including the preparatory work, construction, hiring and training of employees, purchase of vehicles, property or development of other equipment (such as registration terminals), establishment of a dedicated website and app, establishment of a phone service center and development of a system including all of the software, hardware, technologies, interfaces, functions and information required for the establishment and operation of the venture (the “**System**”). As of the date of the Report, the development of the System is nearing conclusion and is in the process of adjustments for the Autotel venture. For additional details, see Section 7.4.11(b) below.

The purchase of the registration terminals and the cars for the venture will be financed by the Tel Aviv Development Authority, with the cars purchased being owned by the dedicated partnership of Car 2 Go (hereinafter: the “**Partnership**”) and pledged for the benefit of the Tel Aviv Development Authority. The aforesaid vehicles will be branded in a unique manner and distinct from the branding of the cars in the existing car sharing system of Car 2 Go (no use will be made of the cars used by the existing car sharing system of Car 2 Go). In addition, upon the commencement of the establishment of the venture, the Tel Aviv Development Authority will pay a non-recurring sum to finance the venture’s establishment

in a number of payments during the establishment stage based on the milestones set forth in the agreement.

Additionally, an ongoing calculation mechanism was determined for the project expenses intended to provide a “security net” of the Tel Aviv Development Authority for the partnership in order to finance the expenses of the venture’s establishment and the ongoing expenses for its operation. This mechanism is based on a formula such that, if the agreed expense components for the services exceed the income components from the services, the Tel Aviv Development Authority will transfer to the partnership each period a subsidy in the amount of the difference between the components, and vice versa (the partnership will reimburse the Tel Aviv Development Authority part of the subsidy if the agreed income components are higher than the agreed expenses components). Beyond this, the partnership will bear all of the fixed or current expenses incurred in connection with the establishment and operation of the venture. In light of the above, the Company does not anticipate that the partnership will be required to invest a material sum for the establishment of the venture.

The launch of the service to the public is expected to occur on October 1, 2017 (the “**Launch Date**”) and include at least 260 cars that the users of the service can pick up from any designated parking space allowed in the city and return it to any other permitted designated parking space in the city. For the same, the Tel Aviv Development Authority is acting through the Tel Aviv Municipality to allocate dedicated parking spaces for the venture throughout the city. Subscribers of the services can also book a car immediately through a call center, website, application or a “spontaneous order” by placing the card reader on the windshield of an available car. The payment for the service is expected to be comprised of monthly subscription fees as well as a fixed price for each minute of use of the vehicle (as opposed to the price currently collected by Car 2 Go, based on an hour of use of the vehicle). As of the date of the Report, the rates of prices collected within the new system have not yet been determined.

In the framework of the agreement, the Company provided a guarantee for the Tel Aviv Development Authority in the amount of up to NIS 6 million to secure their full and precise execution of Car 2 Go’s undertakings towards the Authority under the agreement. For providing the guarantee, a pledge was recorded in favor of the Company on Car 2 Go’s share capital, which is ranked secondary to the pledge to be recorded in favor of the bank in which the guarantee was produced. In addition, Car 2 Go provided a bank guarantee for the Authority for Economic Development of Tel Aviv-Jaffa Ltd. (the “**Authority**”) amounting to NIS 3.5 million, that is owed or is likely to be owed to the Authority by Car 2 Go Car Sharing TLV Limited Partnership, in connection with a contract to erect, maintain and operate a car sharing system in Tel Aviv-Jaffa. The guarantee amount will be reduced to NIS 2.5 million at the beginning of the “alpha stage” (as set forth below) and to NIS 1.5 million on the date of the expected launch.

“The alpha stage” of the venture began during March 2017 and includes a pilot of 40 vehicles that will work in a partial configuration, which will be operated by 500 testers who will provide the Company with feedback after each trip.

As of the date of the Report, Car 2 Go has met two of the six milestones determined in the agreement, for which about NIS 4.5 million of the NIS 8.1 million for the establishment

stage has been received. For compliance with each of the three following milestones (technological in nature), NIS 1 million will be received (an additional NIS 3 million in total) and the balance on the expected launch date.

The Company estimates that the target audience of the venture is expected to primarily overlap with the current target audience of Car 2 Go in Tel Aviv, and therefore the venture may, to a certain degree, cause part of the existing Car 2 Go customers to transfer to use of the venture (primarily for customers who require car sharing and rental services for very short periods of time and trips through only Tel Aviv). However, Car 2 Go considers the services currently provided thereby and the services that will be provided within the venture to be parallel and supplementary, which together may substantially increase the availability and dispersion of the car sharing and rental services in Tel Aviv, as well of their convenience of use, thus encouraging more existing and/or potential customers of Car 2 Go to forego their private vehicles and transition to use of the car sharing and rental services.

Additionally, the Company estimates that increasing the volume of use of the Company's services and advertising within the venture may increase the scope of potential customers of Car 2 Go, which may also impact the current activity of Car 2 Go.

Additional engagements for cooperation

In July 2015, Car 2 Go engaged in an agreement with the Ramat Gan Municipality for the granting of a usage right in about 20 defined parking spaces around the city of Ramat Gan for the operation of the car sharing system. The term of use was defined to be 12 months from the signing of the agreement, while the Authority reserves the right to extend the agreement by four terms of 12 months each, up to a total period of five years at its sole discretion. In January 2017, the Ramat Gan Municipality increased the number of parking spaces for the venture from ten to 20.

In addition, Car 2 Go operates a car sharing and rental system in a limited scale in Raanana and Givatayim. Similarly, the Company expects that if similar tenders are published in additional cities, Car 2 Go has a high chance of winning the same tenders and/or engaging in additional engagements that will expand its operations in additional cities.

Planned ventures and collaborations

As part of a call by the Ministry of Environmental Protection for support of authorities that establish a system for car sharing of electric cars, the authorities of Haifa, the Association of Northern Towns (the "Krayot), Netanya, Rishon, and Kfar Saba has submitted a request for support. All of the authorities have presented Car 2 Go as the venture's operator. The authorities that won the subsidy on behalf of the Ministry of Environmental Protection are Haifa, the Association of Northern Towns and Netanya.

On May 15, 2016, the tender committee of the Haifa Municipality confirmed Car 2 Go as a single supplier for the operation of car sharing services in Haifa, with an A2B model. The car system in the project is expected to include about 180 electric cars that can be charged in one of 540 dedicated parking spaces allocated for the project around the metropolis. Currently 75% of the dedicated parking sites in the project have been approved by the authorities and the Electric Company. The project is expected to be launched next October. As of the date of the Report, Car 2 Go and the Haifa Municipality are in advanced stages of

negotiations for the establishment of the car sharing system and its operation in Haifa.

On September 21, 2016, the tender committee of the Netanya Municipality confirmed Car 2 Go as a single supplier for the operation of car sharing services in Netanya, with an A2B model. The car system in the project is expected to include about 70 electric cars that be allocated about 210 dedicated parking spots in the city. As of the date of the Report, the Electric Company is examining its measures in the establishment of the infrastructure and charging stations in the venture. Car 2 Go and the Netanya Municipality have not yet reached an agreement regarding the application of the project.

In December 2016, the tender committee of the Jerusalem Municipality announced a decision regarding Car 2 Go winning the tender published by the Jerusalem Municipality for the operation of a car sharing system in Jerusalem with the A2A Model. This system will include 34 dedicated parking spaces allocated in strategic areas for the venture. In parallel, the Company will act to create collaborations and locate supply for additional parking spaces for the project in order to expand its activity in the city. Car 2 Go believes that the project's success is based on a pilot of about 70 sharing cars operated throughout Jerusalem. Car 2 Go estimates that this venture will be initiated during 2017. As of the writing of this document, the Company has not received official notice of winning.

Tender for car sharing in Malta - in December 2016, Car 2 Go submitted a bid to the government of Malta for the establishment of a car sharing system as part of the tender published by the government. The venture will operate with the A2B model and include between 100-180 electric cars. As of the date of the Report, no winner has been declared by the government of Malta. As of the writing of this document, the Company has not yet received notice of the winning bid in this tender.

The Company's estimations regarding winning additional tenders or engaging in additional similar engagements by Car 2 Go, as stated above, and their impact on the Company's activity, are forward-looking information as defined in the Securities Law, based on the estimations of the management of Car 2 Go and the Company, which rely, *inter alia*, on the data regarding the car rental industry, Car 2 Go being an activity entity in this market as of this date, and the additional data held by the management of Car 2 Go and the Company. The actual results may different from the estimated results, including material, from that predicted as stated, including as a result of various factors, the main ones of which are the entry of competitors to the market, regulatory changes, the macro-economic state of the Israeli market, and the realization of all or part of the risk factors described in Section 7.16 below.

7.5 **Marketing and distribution**

The Company has a sales and marketing system. The Company also advertises its services on a number of means of communication, including social media networks, for advertising its services. During 2016, Car 2 Go led a rebranding process that included, *inter alia*, a change to the Company's logo, advertising promotional videos and new signs on its cars.

7.6 **Market and competition**

Since the service provided by Car 2 Go is short-term rental service, the traditional rental companies that offer daily car rental (and at times, for shorter periods of time) are direct

competitors with the Company in the field of activity. In addition to the Company, there are many other competitors, including most of the various transportation services, including taxis, buses and the like. It is emphasized that new technological solutions, such as ride-sharing apps (for example, GT Gett Taxi Systems Ltd. ("Gett"), "UberX," "Ryder" and more) are competition for Car 2 Go.

The car sharing and rental industry is characterized by high levels of competition, which impact the profitability of the entities operating in this industry. This competition leads to exist from the industry of competitors with small scopes of activity. The Company believes that in recent years, there has been certain increased demand for the rental of cars in Israel, including for short periods of time, and as a result, the competition in this industry has strengthened. To the best of the Company's knowledge, the rental companies competing with Car 2 Go operate based on an A2A Model only, and there are currently no other companies in Israel that operate with A2B or A2Z models. The car sharing and rental system that Car 2 Go will operate within the Autotel Tel Aviv venture will be the first in Israel that operates with the A2Z or A2B model.

As part of dealing with the aforesaid competition, Car 2 Go performed actions to improve the service and customer experience. In addition, Car 2 Go is attempting to adjust its vehicles to the tastes of its customers.

7.7 **Production capacity**

Car 2 Go estimates that optimal use of its vehicles is approximately 4-6 hours of use per day, when in reality the Car 2 Go vehicles operate for about five hours per day on average. In the case of activity beyond the range of optimal use as aforesaid, Car 2 Go is prepared to purchase additional vehicles. Car 2 Go transports cars across cities based on need. The Company believes that potential restrictions on production capacity include sufficient availability of parking spaces, which is subject, *inter alia*, to the approvals of the municipalities and the local authorities.

7.8 **Fixed assets**

7.8.1 **Real property**

In March 2016, Car 2 Go engaged in a rental agreement for an asset with an area of about 360 sq.m for the lease of its offices in Tel Aviv, for a period of four years beginning on April 1, 2016, in consideration for monthly rental fees in the amount of about NIS 23 thousand (including management fees) and in addition to lawful VAT. In addition, Car 2 Go has an option to extend the term of the lease by three additional terms, with the first being two years and the rest being three years each. Car 2 Go is required to invest in the leased property a one-time amount of NIS 300 thousand in order to adapt it to its needs.

Car 2 Go rents about 230 parking spaces in areas in which it operates, of which 95 are leased from private individuals, 80 from business entities and 50 from local authorities and a free parking permit. Car 2 Go's expenses for the lease of parking spaces in 2016 and 2015 amounted to NIS 1,847,000 and NIS 1,779,000, respectively.

7.8.2 **Vehicles fleet**

The fleet of rental cars of Car 2 Go is comprised of private and commercial vehicles, from a variety of models, the large majority of which includes vehicles from 2014 and thereafter.

Car 2 Go holds the vehicles for a period between two and three years (excluding in special cases). The following is Car 2 Go's vehicle fleet:

31.12.2016	31.12.2015	31.12.2014
216	204	201

Of the aforesaid vehicles, as of December 31, 2016, about 30 vehicles are owned by the Company and the rest are leased.

7.9 Intangible assets

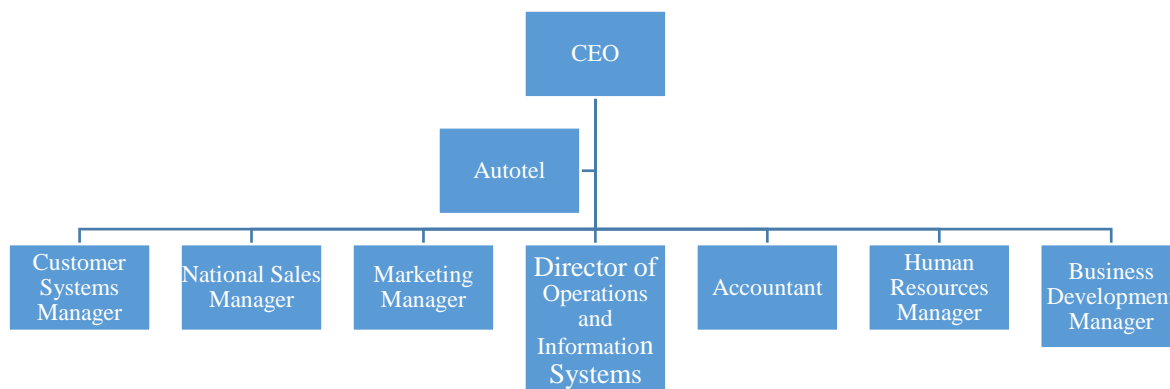
7.9.1 Trademarks

Car 2 Go holds a registered trademark in Israel for the name Car 2 Go (under the group of car rental services, rental of parking spaces, car parking services, reservation of transportation services in advance). In addition, Car 2 Go makes use of the domain names Car 2 Go.co.il and cartogo.co.il, which as of the date of the Report are registered in the name of some of its shareholders. Car 2 Go is taking steps to register the aforesaid names in its name. Under the Autotel agreement, ownership of the domain autotel.co.il was transferred to the Tel Aviv Municipality.

7.10 Human Capital

7.10.1 Organizational structure

The following chart describes the organizational structure of Car 2 Go:



7.10.2 Headcount

The following are details about the number of employees employed by Car 2 Go in the field of activity and in accordance with the organizational structure:

As of December 31, 2015	As of December 31, 2016	Department
7	9	Management, staff and funds
7	7	Sales and marketing
11	12	Customer service
7	8	Operation
3	5	Technology department
35	41	Total

7.10.3 Benefits and nature of employment agreements

Employees of Car 2 Go are employed based on the terms set forth in personal contracts, in accordance with the decision of the management of Car 2 Go and subject to the provisions of the law. The Company typically insures its employees with pension insurance and sets aside each month to managers insurance and/or pension funds in accordance with the employee's salary and subject to the provisions of the Law. As of 2015, the employment agreements of all of the employees of Car 2 Go contain the general confirmation regarding employers' payments to a pension fund and an insurance fund instead of severance pay, under Section 14 of the Severance Pay Law, 5723-1963.

7.11 **Suppliers and subcontractors:**

7.11.1 **Car importers** - The purchase of the various cars used by the Company takes place with different importers as needed and based on various parameters, including cost of the car, cost of the car's maintenance, cost of the insurance, relationship with the importer and the like.

7.11.2 **Fuel suppliers**

As of the Report date, Car 2 Go has a single fuel supplier, from which Car 2 Go purchases the fuel required for the operation of its vehicles. Car 2 Go does not depend on the aforesaid supplier, and can replace it at any time without any additional costs.

7.11.3 **Car lease companies**

The rate of purchases from the total purchases from the lease companies			
2014	2015	2016	Supplier
17%	24%	18%	Sun Car ^(a)
77%	29%	15%	The Company ^(b)
6%	47%	57%	Supplier C ^(c)

(a) In accordance with the car rental agreement between Car 2 Go and Sun Car Investments Ltd. ("**Sun Car**"), a company owned by Mr. Gerard Gadish, a shareholder of Car 2 Go (holding 6.76% of its issued and paid up capital) who also serves as a director, Car 2 Go leases vehicles from Sun Car for periods of two years or up to 35,000 km per year, in accordance with the price list determined in the agreement.

(b) Car 2 Go rents cars from the Company for a period of 24 to 36 months, or up to 36,000 km per year, in accordance with the price list determined in the agreement. In the event that the term of the lease is extended beyond 36 months, the monthly payment amount will be reduced by 5%. Car 2 Go is not required to provide a deposit for renting the cars at the beginning of the rental period.

The agreements listed in sections (a) and (b) above provide provisions and conditions regarding the monthly payment amount in accordance with the price list as stated, the deductible amount in the case of damage, the agreement termination fees (in the amount of a month of a rental), terms and provisions regarding use of the rented cars, and more.

(c) In May 2014, Car 2 Go engaged with supplier C in a car rental agreement with supplier c. Under the agreement, the terms of the car rental will be prepared separately for each vehicle, on a separate order form (the "**Order Form**"). Furthermore, the agreements sets forth general provisions, *inter alia*: (a) Car 2 Go has the option to purchase the vehicles at the end of the term of the rental in consideration for the price determined in

the Order Form; (b) Car 2 Go has an option for early termination of the rental period set forth in the Order Form, subject to providing prior written notice 30 days in advance and payment of early termination fees based on the mechanism set forth in the agreement; (c) Car 2 Go will bear all of the insurance payments required for the rented cars; (d) in order to secure the execution of its obligations under the agreement, Car 2 Go is required to provide various securities, including a promissory note, guarantee in an unlimited amount and bonds based on which fixed first ranking pledges were registered in favor of the supplier on the rented vehicles.

7.11.4 Hardware and software suppliers:

- (a) Car 2 Go purchases Car Sharing product units (the “**Product Units**”) generated by Pointer and integrated in Car 2 Go rental vehicles used for the rental and car sharing activity. The amount of purchases is in a rate immaterial to the Company. The Company believes that Car 2 Go has reliance on Pointer. For additional details, see Section 7.2.2 of Chapter Four - Additional Details about the Corporation.
- (b) As of the date of the Report, Car 2 Go is in advanced stages of development of unique and alternative software for the management and operation of the car sharing activity, which is developed for Car 2 Go by an external supplier (the “**New Software**”). The agreement with the external supplier sets forth development stages and schedules for performance of every stage, the consideration for the execution of the project and annual consideration for support services after the development, liability, cost, securities and provisions to protect intellectual property and confidentiality. The New Software includes adjustments and improvements compared to the existing software. During September 2016, partial transfer and assignment occurred for the activity to the New Software, while the development stage has not yet been completed. The Company estimates that the development and full transition to activity using the New Software will be completed during 2017.

7.11.5 Subcontractors

Car 2 Go is engaging with subcontractors for the maintenance of its vehicles only. These suppliers move between the vehicles during the off-peak hours of the service (nighttime hours), and perform tests, supplement equipment and wash the vehicles. Additionally, the Company works with a number of authorized garages for the ongoing maintenance (upkeep, mechanical maintenance and ongoing wear and tear).

7.12 Material agreements

In 2008-2009, the founders of Car 2 Go provided Car 2 Go with loans in a total amount of NIS 493,000 (the “**Founder Loans**”), mainly as follows: (a) the Founder Loans are linked to the consumer price index and bear annual interest at a rate of 4%; (b) the Founder Loans are inferior compared to the loan in the amount of NIS 6 million, as set forth in Section 11.1.1.3. As of the date of the Report, the balance of the Founder Loans amounts to NIS 721 thousand.

7.13 Legal proceedings

As of the date of the Report, Car 2 Go is not party to material legal proceedings.

7.14 Insurance

Car 2 Go is insured with insurance policies that insure structures, inventory, finance, fire insurance, third party liability insurance, and employer liability insurance within the Company's insurance policy. The vehicles in the Car 2 Go fleet are insured with compulsory insurance and third party insurance as required by law. For economic considerations, Car 2 Go does not insure its vehicles with comprehensive insurance, and it is examining the cost of acquisition of such policies from time to time compared with the cost of repairs from accidents, total loss and theft, and the overhead costs associated with these events that it bears when it does not have comprehensive insurance policies.

7.15 **Business strategy and objectives**

Car 2 Go intends to expand its operations to additional areas in cities in which it operates, and to additional central cities such as Haifa, Jerusalem and additional cities in the Dan region and increase the number of vehicles of Car 2 Go as a result of the same in those cities. As of the date of the Report, Car 2 Go does not intend to change the manner of activity (A2A Model) in cities in which it currently operates (excluding within the projects in Tel Aviv and Haifa).

Other than the above, as of the date of the Report, Car 2 Go does not intend to develop additional substantial services; however, Car 2 Go is examining, at all times, new ideas, while constantly monitoring the market needs and the continued marketing activity of its services to the existing and/or new customers.

Car 2 Go considers the use of the A2Z model for the Tel Aviv Municipality to be a growth engine for its operations. In order to supply the services within the tender, Car 2 Go is acting to adjust its operating system which currently operates with the A2A Model to A2Z activity as well, and specifically to the adjustments required in accordance with the tender as stated in Section 7.4.4 above.

Car 2 Go intends to expand its business customers as well as other customers by contacting additional potential target audiences in the future.

It is clarified that the projections and estimations of the Company regarding the impact of the various parameters, as stated above, on the Company's operations, as well as regarding the engagement in a binding agreement with the Tel Aviv Municipality, are forward-looking information as defined in the Securities Law, based on subjective projections and estimates of Car 2 Go and the Company, and the market analysis in which Car 2 Go operates as of the date of the Report, and on additional data held by the management of Car 2 Go and the Company. This information is based, in part, on estimates based on current trends and changes in the transport sector in recent years and its expected developments and the economic situation, security and geopolitical situation in the world and in Israel as of this date. Therefore, the effect of the aforesaid factors on activity of Car 2 Go and the Company may be substantially different from that predicted as stated, if the estimations of the Company are not realized, as a result of a large number of factors, including a change to the economic, insurance and geopolitical condition in Israel and globally, and for legislative and other regulatory changes that may impact the markets in which the Company operates, primarily to the vehicle market in Israel.

7.16 **Discussion of risk factors**

The following is a review of the risk factors that Car 2 Go is facing within its activity:

7.16.1 Macro Risks

- (a) Economic recession - a recession in the economy may lead to reduced use of the services of Car 2 Go; however, under certain circumstances, such recession may be expressed in the increased use of the services of Car 2 Go, which offers a less expensive alternative to maintaining private vehicles.
- (b) Security and economic situation - the activity of Car 2 Go may be impacted from exceptional security and economic situations.

7.16.2 Industry risks

- (c) Increased competition in the car sharing and rental field - increased competition in the car sharing and rental industry by the entrance of new competitors or by intensifying the activity of existing competitors may impact the reduction of demand for services of Car 2 Go.
- (d) Development of public transportation systems - development of the public transportation systems in the areas in which Car 2 Go operates, such as the light rail, may harm the market share of Car 2 Go.
- (e) New developments in the travel sharing field - the introduction of alternative products to the market in which Car 2 Go operates, such as travel sharing applications, may intensify the competition in the field.
- (f) Vehicle theft - an increase in vehicle theft in Israel may impact the nature of activities and demands in the industry in which Car 2 Go operates, since most of the companies in the industry do not typically insure their vehicles with comprehensive insurance (Car 2 Go does not typically insure its vehicles with comprehensive insurance as stated).

7.16.3 Risks unique to the activity of Car 2 Go

- (g) Increase in parking rental prices - an increase in the prices of private parking rentals may harm Car 2 Go's profitability due to the increased operating costs of Car 2 Go arising from the same.
- (h) Sharp increase in fuel prices - the prices of services of Car 2 Go include, *inter alia*, the fuel costs. In the short term, the sharp increase in the fuel prices may reduce the operating profitability and/or use of services that Car 2 Go offers.
- (i) Increase in leasing prices - a major part of the vehicles used by Car 2 Go in its operations are leased. Accordingly, an increase to the leasing prices may impact Car 2 Go's profitability.
- (j) Increase in insurance prices for shared vehicles - the cost of insurance is a main part of the monthly cost of the activity of Car 2 Go. Therefore, an increase in the insurance prices may impact the profitability of Car 2 Go and/or impact the risk management in Car 2 Go.

7.16.4 Presentation of risk factors by type on the table

Identification of the risk factors and the degree of their impact on Car 2 Go is based on the

valuation of Car 2 Go alone, and it is possible that in reality, there are risk factors that have not yet been identified or whose impact is different from the above.

	Extent of Impact of the Risk Factor		
	Large impact	Moderate impact	Little effect
Macro Risks			
Market recession			+
Security and economic situation		+	
Industry risks			
Increase of competition in the field of car sharing and rental		+	
Development of public transportation systems		+	
New developments in the field of shared travel	+		
Theft of vehicles		+	
Risks unique to the Company			
Increase in parking rental prices		+	
Sharp increase in fuel prices		+	
Increase in leasing prices	+		
Increase in insurance premiums for shared vehicles		+	

Part Four – Matters Relating to the Company’s Activity Generally

8. Working capital

- 8.1 The Company’s working capital is comprised of current assets less current liabilities. The current assets of the Company primarily include customers and receivables. The current liabilities of the Company primarily include liabilities to suppliers and service providers, income in advance and payables.
- 8.2 The following is the composition of the Company’s working capital and its adjustment as of December 31 for each of the years 2016 and 2015 (NIS thousands):

	As of December 31, 2016			As of December 31, 2015		
	Amount included in the financial statements	Adjustments for a period of twelve months	Total	Amount included in the financial statements	Adjustments for a period of twelve months	Total
Current assets	54,794	-	54,794	46,455	-	46,455
Current liabilities	69,642	-	69,642	60,134	-	60,134
Surplus (deficit) of the current assets over current liabilities	(14,848)	-	(14,848)	(13,679)	-	(13,679)

8.3 The working capital deficit

For details see Section 1.5.2. of the Board of Director’s report.

9. Financing

The Company finances its operations from bank sources and capital deeds issued by the Company in favor of Pointer. For additional details see Section 11 below.

The following are details of the Company’s credit balances from bank and non-bank sources as of December 31, 2016 (NIS thousands):

	Credit from bank sources	Non-bank credit sources
Short-term credit	-	-
Unlinked shekel credit*	661	-
Current maturities of long-term unlinked loans	277	-
Current maturities of short-term unlinked loans	-	-
Total short-term credit	938	-
Long-term credit (less current maturities)	-	-
Index-linked	-	721
Not index-linked	-	3,191
Total long-term credit	-	3,912
Total	938	3,912

* For details, see Note 12b2 of the Consolidated Financial Statements as of December 31, 2016.

- 9.1 Below are details of the credit limits and their use by the Company and Car 2 Go, as of December 31, 2016, in NIS thousands:

Bank	Credit limit, loans and guarantees	Use*	Positive cash balance of the Company in the bank	Net utilization (Use of the framework less cash balances)
Bank A	15,360	12,560	7,913	4,647
Bank B	6,400	6,400	49	6,351

- * The usage amount represents the total guarantees that the Company has provided to secure its obligations based on a number of lease agreements and liabilities for services to a number of customers. This amount excludes a total of NIS 170,000, which is registered in the bank account of Pointer to secure the liabilities of the Company as stated. For additional details, see Section 7.2.2 of Chapter of Additional Details about the Corporation.

9.2 Other liabilities to banks

- 9.2.1 The Company undertook to maintain an equity rate of the Company from the total balance sheet of no less than 40% at any time (the “**Financial Ratio**”). The “**equity of the Company**” in this regard will be calculated as capital of the Company, as defined under the GAAP in the Company’s financial statements, in addition to shareholder loans for which the Company and lender signed for the Bank a letter of subordination.

As of the Report date, each of the shareholder loans provided to the Company are subordinated to bank debt.

In addition, the Company undertook towards the financing bank in connection with the Financial Ratio that in the event that the Bank believes that the application of the new accounting rules and/or standards in the financial statements of the Company will lead to a change and/or impact the financial ratio, the Bank may notify the Company to perform a change to the Financial Ratio, if required, in order to adjust it to the original financial purpose determined by the Financial Ratio.

- 9.2.2 In addition, the Company undertook towards financing banks that in the case of a change of control of the Company, meaning, Mr. Yosef Ben Shalom (himself and/or together with his relatives) and Mr. Barak Dotan (himself and/or together with his relatives) (in this subsection: the “**Controlling Shareholders of the Company**”): (a) cease to hold together and/or each separately, together and/or jointly with their relatives, directly and/or indirectly (through Israeli companies that they fully own and/or through a trustee) more than 22% of the share capital of the Company (the “**Minimum Rate**”) or any other person alone or together with others (including together with the Controlling Shareholders of the Company) controls and/or (b) does not hold, jointly or each severally, directly and/or indirectly (including Israeli companies that are fully owned by them and/or through a trustee) the largest amount of means of control of the Company, and there is another person that holds, alone or together with others (including together with the controlling shareholder) an amount equal to or larger than them, of the means of control of the Company, the Bank may call any debt of the Company towards it for immediate repayment.
- 9.2.3 In addition, the Company undertook towards one of the banks financing the activity of Car 2 Go that all of the amounts that Car 2 Go owes and/or will owe the Company are subordinated to any debt or obligation of Car 2 Go towards the financing bank.
- 9.2.4 Additionally, Car 2 Go undertook towards the same financing bank that in the case of a change of control of Car 2 Go, meaning if the Company ceases to control Car 2 Go and/or in the case in which Ben Shalom and Barak Dotan (the “**Controlling Shareholders**”) cease to jointly or separately hold, directly or indirectly, more than 22% of the issued and paid up

capital (on a fully consolidated basis) of the Company and/or if the Controlling Shareholders do not hold, jointly or severally, directly or indirectly, a larger amount of means of control of the Company, the Bank may call for immediate repayment any debt of Car 2 Go towards it.

- 9.2.5 In addition, Car 2 Go undertook towards the same financing bank that it undertakes not to perform, not to resolve to perform, and not to declare or undertake to perform any distribution or any receipt to any controlling shareholder of Car 2 Go or an entity related to the shareholder or interested party of the shareholder or a related entity or relative of any of them, without the consent of the Bank to the same in advance and in writing.

9.3 Liens

- 9.3.1 The Company has created a first ranking fixed pledge on its goodwill and a floating charge on the rest of its assets in favor of two different financing entities.
- 9.3.2 The Company created, in favor of the aforesaid two financing entities (pari passu) a first ranking fixed pledge on the unpaid share capital of the Company; however, the Company may issue shares from its registered share capital that is not yet repaid without needing the consent of the financing entities to do so, provided that the Company is not in a breach event on the issuance date (meaning, an event for which the financing entity may call the amounts secured for immediate repayment).
- 9.3.3 Car 2 Go has provided the financing entity with a first ranking fixed pledge on the unpaid share capital of Car 2 Go, the goodwill of Car 2 Go and the rights of Car 2 Go for exemption, leniency or discounts from tax, under any law, and a floating charge on all of the assets, funds, property and rights of any type or kind that is and/or will belong to Car 2 Go.
- 9.3.4 In order to secure the performance of the obligations of Car 2 Go under the financing lease agreement to rent vehicles in which it engaged with suppliers (including with Supplier C, as set forth in **שגיאה! מקור ההפניה לא נמצא.**(c) above), Car 2 Go has created fixed first ranking pledges in favor of the relevant suppliers of the rented cars.

10. Taxation

No final tax assessment has been determined for the Company as of the date of its incorporation. Final assessments were issued for the Consolidated Company until and including the 2012 tax. For further details, see Note 14b of the Company's financial statements.

11. Material agreements

11.1.1 Loans provided by the Company to Car 2 Go

11.1.1.1 Convertible loan agreement between Car 2 Go and the Company from February 2016

On February 22, 2016, the Company engaged together with additional investors (hereinafter: the "**Investors**") with Car 2 Go to provide a convertible loan (in this subsection: the "**Agreement**") in an amount of NIS 5 million (the "**Loan Principal**"), of which an amount of NIS 3,710,000 will be provided by the Company.

The Loan Principal is linked to the consumer price index and bears interest at an annual rate of 7%, calculated on a compound interest basis, as of the date on which any part of the Loan Principal is provided, and until the earlier of the full actual payment by Car 2 Go or its conversion (hereinafter: the "**Linkage**" and the "**Interest**," as applicable). The Interest

will be paid on the payment dates of the Loan Principal together with the Loan Principal and linkage differentials (Loan Principal, Interest and Linkage will be hereinafter: the **“Loan”**).

Providing any part of the Loan Principal in practice will be performed in accordance with the notice of Car 2 Go, provided to investors, that: (1) the amount of the part of the Loan Principal that is listed in any such notice will not be less than a total of NIS 1 million; and (b) the most recent notice as stated will be provided no later than 18 months from the date of the agreement. As of the date of the Report, Car 2 Go was not given any amounts from the Loan Principal.

The Loan will be repaid as of the end of two years (24 months) from the date on which each part of the Loan Principal was actually provided, in 12 consecutive quarterly payments (in this subsection: the **“Loan Payment Dates”**), and with each payment, 8.333% of the Loan Principal will be repaid together with linkage differentials and interest accrued on the same part of the loan until the same date. All of this will occur as long as none of the investors (as applicable) repays the loan or converts the loan to capital before the payment dates of the loan. The agreement provides the terms based on which each of the lenders may call the loan for immediate repayment.

In addition, if Car 2 Go raises capital from third parties (**“Raising Capital”**) in a total amount of at least NIS 5 million before the entire loan is repaid, on the date on which the transaction is completed as stated, the relevant investors will be entitled to convert the loan balance (which is not yet repaid) to shares of the same class and the holders of the same rights allocated for the capital raising, at a discount of 30% on the share price in raising the capital. However, if Car 2 Go does not complete the capital raising within 12 months from the date on which the principal of the loan was provided, the relevant investors will be entitled to convert the loan balance (which was not yet repaid) on any date as of the end of the 12 months as stated above, and until full payment of the loan, to priority A shares of Car 2 Go, based on a value of NIS 10 million pre-money, on a fully diluted basis. Preferred A shares of Car 2 Go will grant to holders thereof the following main rights: protection against dilution and priority right to receive a reimbursement of the investment (up to a total of three times the investment amount) in addition to interest in a rate of 7% per year upon the occurrence of certain events such as: (a) the sale of all or most of the shares of Car 2 Go to a third party, or its main assets; (b) a merger of Car 2 Go with another company if Car 2 Go is not the absorbing company; (c) distribution of dividend; (d) liquidation of Car 2 Go.

11.1.1.2 Convertible loan agreement between Car 2 Go and the Company from April 2014

A loan was provided to Car 2 Go in the amount of NIS 3 million for its activities, linked to the consumer price index, and bearing annual interest at a rate of 7%, calculated on a compound interest basis. On June 26, 2016 and in accordance with the provisions of the loan agreement, the loan was converted, with a remaining balance of NIS 3,490,000 on the conversion date against the allocation of 11,542 preferred A shares of Car 2 Go based on a value of NIS 10 million before the money, on a fully diluted basis. For details regarding the preferred rights that the preferred A shares of Car 2 Go will confer upon their holders, see Section **שגיאה! מקור ההפניה לא נמצא. שגיאה! מקור ההפניה לא נמצא.** above.

11.1.1.3 Loan agreement (non-convertible) between Car 2 Go and the Company from May 2009

A loan was provided to Car 2 Go in the amount of NIS 6 million (in this subsection: the “**Loan Principal**”), linked to the consumer price index, and bearing annual interest at a rate of 6% as of the date of providing any part of the Loan Principal (in this subsection: the “**Interest**”). The Loan Principal, Interest and Linkage (hereinafter in this subsection: the “**Loan**”) will be repaid by Car 2 Go as of September 1, 2016 and in 12 consecutive quarterly payments, while Car 2 Go will repay 8.33% of the Loan with each payment.

On November 23, 2016, an additional amendment to the loan agreement was signed, in which the amendment to the interest rate was increased from 6% to 7% and the payment dates were extended from 12 consecutive quarterly payments to 84 monthly payments. For additional details, see Note 7b of the Company’s financial statements.

The loans listed in Sections 11.1.1.2 and 11.1.1.3 above were assigned within the Structural Split to Pointer, and thereafter sold by Pointer to the Company within the Car 2 Go share purchase transaction as stated in Section 1.2.2 above.

11.1.2 Loan provided by Pointer to the Company

On December 30, 2015, the Company repaid part of the shareholder loans (including the interest accrued thereon), provided by Pointer to the Company (including the Shagrir Systems loan as stated in Section 1.2.1 above and the shareholder loans to Car 2 Go as stated in Section 1.2.2.3 above), in the amount of NIS 74,500,000 against the allocation of one share of the Company to Pointer.

In addition, on the same date, the Company issued to Pointer a capital deed in the amount of NIS 8 million against payment of the balance of the shareholder loans of Pointer to the Company in the amount of NIS 8 million. The amount of this capital deed does not bear interest and will be called for repayment at the end of a period of five years from being issued (the “**Original Capital Deed**”).

On March 29, 2016, the Original Capital Deed was repaid, such that: (a) an amount of NIS 4.1 million of the Capital Deed was repaid against the allocation of one ordinary share par value NIS 19 of the Company to Pointer; (b) the amount of NIS 3.1 million from the Original Capital Deed was issued by the Company to Pointer as a new capital deed, under the terms of the Original Capital Deed; and (c) the balance of the Original Capital Deed in the amount of NIS 800 thousand was issued by the Company to Pointer as a new capital deed, under terms of the Original Capital Deed.

⁹ Before the split of the Company’s share capital as stated in Section 3.2.2 of Chapter C of the Prospectus.



Shagrir Group Vehicle Services Ltd.

Report of the Board of Directors of the State of Business of the Company for the year ending December 31, 2016

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The Board of Directors of Shagrir Group Vehicle Services Ltd. (the “**Company**”) is pleased to hereby submit the Board of Director’s Report of the State of Business of the Company and the subsidiary for the year ending December 31, 2016 (the “**Period**”). The financial data in this Report refers to the Company’s consolidated financial statements as of December 31, 2016 (the “**Financial Statements**”), unless explicitly stated otherwise.

<p align="center">Part A – Explanations of the Board of Directors to the State of the Company’s Business (General, Results of Activity, Equity and Cash Flows)</p>

1. Brief Description of the Company and its Business Environment

1.1. General

On June 8, 2016, the Company’s shares were distributed as a dividend in kind to the shareholders of Pointer Telocation Ltd. (the Company’s former controlling shareholder) and these began to be traded on the Tel Aviv Stock Exchange starting June 28, 2016.

As of the date of the Report, the Company is operating in two areas of activity, reported as sectors of activity in the Company’s financial statements: the field of services to insurance companies and car sharing and rental.

For information about material events that occurred in the Company as of the date of the Report and thereafter, see the chapter “Description of the Company’s Business.”

1.2. The Financial State

The following are explanations of the board of directors with respect to the main data from the sections of the statement of financial position of the Company as of December 31, 2016 and 2015 (in NIS thousands):

Section	As of December 31		Change compared to the same period last year		The Company's explanation
	2016	2015	NIS thousands	In %	
<u>Assets</u>					
Cash and cash equivalents	8,006	8,176	(170)	(2%)	-
Customers	42,711	34,766	7,945	23%	An increase in the balance of the customers arises from an increase in the Company's activity. For details, see Section 1.4.1 below regarding the income in the reporting period. Additionally, see Section 1.5.2 below regarding the scope of the customer credit days.
Other receivables	3,525	1,758	1,767	101%	The increase arises from a customer balance in the amount of NIS 1,547,000, which the Company was entitled to receive and that was erroneously paid to the former controlling shareholder. The balance was transferred to the Company after the balance sheet date.

Inventory	552	654	(102)	(16%)	
Fixed assets available for sale	-	1,101	(1,101)	(100%)	The decrease arises from the realization of the vehicle fleet put up for sale.
Total current assets	54,794	46,455	8,339	18%	
Fixed assets	31,266	22,379	8,887	40%	The growth stems from investments in fixed assets, mainly the renewal of a fleet of service and rental vehicles (alongside the reduction in fixed assets available for sale) and the renovation of the central branch in Holon. This increase is offset by current depreciation expenses.
Goodwill	60,083	60,083	-	-	-
Other intangible assets	2,963	1,843	1,120	61%	The increase arises from the investment in the replacement of the software to managing the car sharing system of the subsidiary. This increase is offset by the current depreciation of the intangible assets.
Deferred taxes	2,174	118	2,056	1,742%	The increase arises from initial recognition of deferred taxes in a consolidated company for losses from previous years. For details, see Section 14c of the Company's financial statements.
Total non-current assets	96,486	84,423	12,063	14%	-
<u>The Undertakings</u>					
Credit from bank corporations, the Parent Company and others	938	326	612	188%	The increase arises from credit taken by the subsidiary from a bank corporation for investment in the renewal of the rental car fleet.
Suppliers	32,364	27,655	4,709	17%	The increase arises from an increase in activity of the Company, and an increase in days of supplier credit. The average scope of credit days from suppliers in 2016 amounts to 88 days compared to an average of 81 days in the same period last year.
Income in advance	25,176	21,091	4,085	19%	The main income in advance is for the sale of subscriptions for a year in advance. The growth stems from an increase in subscription sales.
Accounts payable	11,164	11,062	102	1%	-
Total current liabilities	69,642	60,134	9,508	16%	-
Loans from shareholders and others	3,912	6,796	(2,884)	(42%)	The reduction stems from the conversion of a capital note by Pointer, the former controlling shareholder, to capital. For further details, see Note 12a(1) of the Company's financial statements.
Income in advance	908	1,816	(908)	(50%)	The balance represents cash compensation from Pointer, the former controlling shareholder, in light of the breach of the sublease agreement. The decrease arises from the passage of time and recognition of

					income over the original sublease period.
Liability for employee benefits	1,222	1,310	(88)	(7%)	-
Deferred tax provision	1,320	-	1320	100%	The increase arises from an increase in timing differences mainly for a reduction in goodwill that is amortized for tax purposes and is not amortized for accounting purposes.
Total non-current liabilities	7,362	9,922	(2,560)	(26%)	-
<u>Equity</u>					
Non-controlling interests	(1,273)	(4,793)	3,520	73%	The increase arises from a decrease in the rate of holdings of the minority in the subsidiary Car2Go (for details, see Note 7d of the financial statements) and from the net profit in the Reporting Period.
Equity	75,549	65,615	9,934	15%	The increase in capital arises from the net profit in the amount of NIS 7.6 million in the Reporting Period, an increase in the amount of NIS 1.3 million in the principal of the capital for share-based payments and the conversion of a capital deed by Pointer, the former controlling shareholder, on March 29, 2016. On the other hand, a reduction was recorded in the capital reserve from transactions with the minority, as a result of an increase in the rate of holdings in Car2Go on June 26, 2016.

1.3. Results of Operations

The following is a summary of data regarding the Company's financial results for 2016 and 2015:

Section	For year ending on December 31		Change compared to same period last year		Company's explanations
	2016	2015	NIS thousands	In %	
Revenues from products	30,753	24,642	6,111	25%	This increase stems from the growth in the business operations in the Company's two sectors of operation. For additional details, see the summary results by sector of operation, Section 1.4.1 hereunder.
Revenues from services	148,264	131,981	16,283	12%	
Income	179,017	156,623	22,394	14%	
Cost of sales	149,577	137,052	12,525	9%	
Gross profit	29,440	19,571	9,869	50%	The gross profit increased in both sectors of activity. In the sector of services to the insurance companies, the increase in the

Section	For year ending on December 31		Change compared to same period last year		Company's explanations
	2016	2015	NIS thousands	In %	
					gross profits and in the rate of profitability stems from the growth in revenues, and increase in revenues for cost at higher profitability rates, and also reflects the economies of scale. In the car sharing and rental sector, the increase in gross profit and its rate of the revenue arose from an increase in revenue from the generic activity of the sector and the commencement of operation of the Autotel venture.
Total gross profit rate from revenue	16.4%	12.5%	44%		
Marketing and sale expenses	9,052	7,976	1,076	13%	The increase arises from an increase in the resources invested by the Company in marketing. Among other things, an increase in personnel, and advertising on various forms of media. In addition, during 2016, Car2Go led a rebranding process that included, <i>inter alia</i> , a change to the Company's logo, advertising promotional videos and new signs on its cars.
Management and general expenses	11,459	10,057	1,402	14%	The increase arises mainly from an increase in expenses of result-based bonuses, management fees and payments for the Company due to being a public company.
Other income	116	70	46	66%	-
Operating profit	9,045	1,608	7,437	463%	Operational profit grew on account of the growth in revenues and the increase in gross profits and in their rates, as stated above. For additional details, see the summary results by sector of operation, Section 1.4.2 hereunder.
Rate of operating profit from revenue	5.1%	1.0%			
EBITDA	16,857	10,143	6,714	66%	The EBITDA grew in relation to the parallel period last year, owing to an increase in operational profits, as stated above. The EBITDA during the Reporting Period constitutes approximately 9.4% of the income, compared to 6.5% during the parallel period last year.

Section	For year ending on December 31		Change compared to same period last year		Company's explanations
	2016	2015	NIS thousands	In %	
Net financing expenses	477	8,218	(7,741)	(94%)	The reduction in net financing costs stems from the conversion of the loan that the Company received from Pointer, its former controlling shareholder, for the acquisition of the operations, to capital in December 2015 and March 2016.
Profit (loss) before income taxes	8,568	(6,610)	15,178	230%	
Tax benefit	(346)	(860)	514	(60%)	In the fourth quarter of 2016, deferred tax assets were recognized in the amount of NIS 2,174,000 for the care sharing and rental sector. For additional details, see Note 14c of the Company's financial statements. On the other hand, tax expenses were recorded for profits from the sector of services to the insurance companies.
Profit (loss) for period	8,914	(5,750)	14,664	255%	
Other comprehensive profit (loss)	(160)	40	(200)	(500%)	
Comprehensive profit (loss)	8,754	(5,710)	14,464	253%	
Profit (loss) for the period attributed to:					
Shareholders of the Company	7,628	(5,472)	13,100	239%	
Non-controlling interests	1,286	(278)	1,564	563%	

1.4. Summary Results by Sector of Operation (in NIS Thousands):

1.4.1. Income

Segments	For year ending on December 31		Change compared to the same period last year		Company's explanations
	2016	2015	NIS thousands	In %	
Sector of services to the insurance companies	159,572	142,612	16,960	12%	The growth in income was positively influenced, compared to the parallel period the previous year, by the growth in business operations in most of the services supplied by the Company. <i>Inter alia</i> , a growth of some 27% in the scope of income from

					tinsmith and painting services in the existing service centers, and the opening of two additional service centers during 2015, 2016. In addition, a growth in the number of subscriptions sold by the Company led to a growth of about 10.6% in subscription fees during the Reporting Period, compared to the same period last year. The increase arises from an increase in the number of subscribers sold by the Company in 2016, following the expansion of activities with existing insurance companies, engagement with additional insurance companies and the expansion of the scope of services provided by the Company.
Car sharing sector	19,971	14,829	5,142	35%	The increase stems from an increase in vehicle quantity and utilization. In addition, as of the second half of 2016, in accordance with the agreement signed with the Economic Development Authority of Tel Aviv Jaffa Ltd., which entered into force on July 1, 2016, the Company generated income from the establishment of a shared vehicle system in the city of Tel Aviv (Autotel). This income is recognized in the income state based on the pace of progress in the establishment of the system.
Total	179,543	157,441	22,102	14%	
Adjustments	(526)	(818)	292	(36%)	In inter-segment income, a decrease occurred compared to the same period the previous year, following a limitation of the rental of vehicles by the Company to the Subsidiary and a transition of the Subsidiary to rental from external suppliers.
Total income from external	179,017	156,623	22,394	14%	

1.4.2. Operating Profit

Segments	For year ending on December 31		Change compared to the same period last year		Company's explanations
	2016	2015	NIS thousands	In %	
Sector of services to the insurance companies	6,050	1,710	4,340	254%	The increase in the operating profits and its rate of revenues stems from the growth in revenues, a change in the composition of revenue, an increase in revenues with higher profitability rates, and also reflects the economies of scale.
Car sharing sector	2,995	(102)	3,097	3,036%	The increase in operating profit and its rate arises from growth in income from

					generic activity of the sector and from the establishment of the car sharing system in Tel Aviv (Autotel) which began on July 1, 2016.
Total operating profit	9,045	1,608	7,437	463%	

1.5. Liquidity

1.5.1. Summary of Cash Flows

Section	For year ending on December 31			The Company's explanation
	2016		2015	
Net profit (loss)	8,914		(5,750)	
Adjustments to profit or loss sections:	6,604		15,341	The main decrease compared to the same period last year arises from a reduction in financing costs from the conversion of the loan that the Company received from Pointer, its former controlling shareholder, for the acquisition of the operations to equity.
FFO operational cash flow	15,518		9,591	
Changes in sections of assets and liabilities	(1,877)		2,411	The main change arises from an increase in the balance of customers following the increase in the scope of activity, which were partly offset by an increase in revenues in advance, suppliers and service providers.
Cash flow arising from current operations	13,641		12,002	
Net cash used for investing activities	(14,406)		(2,974)	The investments served to procure fixed assets, mainly the renewal of a fleet of service and rental vehicles and the renovation of the central branch in Holon.
Net cash deriving from (used in) financing activities	595		(888)	The cash arising for the Company in 2016 originates from the receipt of a loan from a bank corporation by the consolidated company.
Increase (decrease) in cash	(170)		8,140	

1.5.2. Working Capital Deficit

As of December 31, 2016, the Company has a working capital deficit in the amount of about NIS 14,848,000. The working capital of the Company is mainly comprised of cash balances, customers and supplier credit, other payables, institutions and income in advance. The deficit in the working capital of the Company arises mainly from the balance of the income in advance of the Company. A substantial part of the Company's income arises from the sale of subscriptions for a year in advance, while the Company undertakes to provide services for the duration of the subscription. The undertakings as stated are recorded within the ongoing undertakings of the Company as income in advance, constituting operating undertakings to execute the service, and not financial undertakings that are payable, meaning, the cash flows that the Company will require for the execution of the undertakings for income from services received by the Company in advance, including primarily wages and

costs of subcontractors for the executors of the service, are lower than the amount of income in advance included within the working capital.

The Company ensures sufficient levels of cash and liquidity balances for payment of the projected operating expenses and for the payment of the financial liabilities, in accordance with the reasonable estimate of these payments.

The average scope of credit to customers in 2016 is 152 days for car repairs and paint services and 49 days for the other services in the area of services to the insurance companies, compared to 160 days and 41 days in 2015, respectively. The reason for these differences is the collection process of receipts from the insurance companies for the Company's service center services, whereby the insurance companies transfer to the Company the payment for these services only after the conclusion of handling the process of claiming the damage to vehicles handled at the Company's service centers. The aforesaid process leads to extension of the Company's collection process.

The Company is working to streamline the collection process from the insurance companies for the Company's service center services, *inter alia*, through increasing the actions performed by the entities in the Company engaged in the management of claims of policyholders against the insurance companies in order to shorten the handling time of the same claims.

The average scope of credit from suppliers in 2016 is 88 days compared to 81 days in 2015.

1.5.3. Sources of Financing

As of the date of its incorporation, the Company has financed its ongoing operations through current credit from bank corporations, supplier credit and the independent sources of the Company, arising from the Company's income from sales.

The Company's board of directors has examined the liabilities of the Company on an ongoing basis compared to the potential funding sources. The potential sources of financing are based, *inter alia*, on the Company's objectives to improve the results of the transactions and its ability and the intention of the Company to receive credit from suppliers and financing entities.

The following is information regarding the financing sources of the Company as of December 31, 2016:

	%	NIS thousands
Equity attributed to the Company's shareholders	50%	75,549
Non-current liabilities	5%	7,362
Current liabilities	45%	69,642
	100%	152,553

As of December 31, 2016, the Company has an unutilized bank credit limit of approximately NIS 2.8 million and positive cash balances in the bank in the amount of about NIS 7,962,000.

<u>Part B - Aspects of Corporate Governance</u>

2. **Company's Policy Regarding Donations**

In 2016, the Company donated an amount of about NIS 32 thousand. In August 2016, the Company's board of directors adopted a donation distribution policy.

3. **Remuneration to Senior Officers**

The Company's board of directors has examined the remuneration to officers and interested parties listed in Article 21 Part D of the Periodic Report and confirmed that the terms of service and employment of the officers and the aforesaid interested parties are consistent with the Company's remuneration policy, which was approved on May 25, 2016 (the "**Remuneration Policy**"). The Remuneration Policy came into effect on the date on which the Company's shares were listed for trade on the Stock Exchange. Additionally, in accordance with the Companies Regulations (Relief Regarding the Obligation to Establish a Remuneration Policy), 5773-2013, the Remuneration Policy will remain in force for a period of five years after the completion of the listing for trade of the Company's shares on the Stock Exchange. For additional details see Appendix 3 of the Prospectus.

4. **Directors with Accounting and Financial Expertise**

In accordance with the provisions of Section 92(a)(12) of the Companies Law, the Company's board of directors has determined that the appropriate minimum number of directors of the Company with accounting and financial expertise is at least two directors, considering the nature of the accounting matters and the accounting control matters that arise in the preparation of the Company's financial statements in light of the scope of the activity and complexity of the Company, the skill of the officers serving in the Company and the involvement of the auditors in meetings of the board of directors that relate to accounting and financial matters. The board of directors of the Company believes, after taking into account the declarations of the directors in which the directors listed their education, experience and knowledge of accounting matters and accounting control matters that characterize the industry in which the Company operates in the scope and complexity of the Company, the understanding of the position of the auditor and the preparation of the financial statements and their approval under the Securities Law, 5728-1968, the members of the board of directors of the Company with accounting and financial expertise are Messrs. Yossi Ben Shalom, Nir Cohen, Kineret Yaari, Haim Dvir, Yaron Dor (external director) and Leon Goldstein (external director). For additional details about these directors, including their experience and education, see Section 11 of Part D of this Periodic Report.

5. **Disclosure Regarding the Internal Auditor**

5.1. Name of the auditor: Yossi Ginosar; Date of commencement of service: May 2,

2002; Qualification for position - certified public accountant, partner, CEO of Fahn Kanne Management and Control, CIA, CFE.

5.2. General:

To the best of the Company's knowledge and as of the date of the Report, the auditor meets all of the conditions set forth in Section 3(a) of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

Additionally, to the best of the knowledge of the Company's management and as of the Report date, the internal auditor meets the provisions of Section 146(b) of the Companies Law and the provisions of Section 8 of the Internal Audit Law. The internal auditor does not hold securities of the company audited or an affiliated party. The internal auditor did not have substantial business or other relationships with the audited corporation or an affiliated party. The internal auditor does not play a role in the corporation other than his role as internal auditor.

The internal audit services are provided by the internal auditor as a personal appointment, through the accounting firm that employs employees with various skills, including internal audit.

- 5.3. Mode of Appointment: The appointment was recommended by the audit committee to the board of directors, and the board of directors approved the appointment to the position on August 23, 2016. The auditor was interviewed by the chairman of the board of directors and found to be suitable for the role due to his many years of experience in similar roles in large and complex companies and corporations. In addition, in light of the Group's activity, the Company's management considered as an advance the fact that the internal auditor is a managing partner in the field of internal auditing in the firm Fahn Kanne Control Management Grant Thornton Israel, a company that is part of the international accounting chain Grant Thornton International.
- 5.4. Duties, Powers and Functions Assigned to the Auditor: Management of the internal audit system of the corporation and affiliated bodies, and reporting to the audit committee and management of the Company as to findings of the audit that arose during the audit. The authorities include examining anything within the matters defined in the work plan. The auditor has unlimited access to the Company's records and assets. The audit matters are determined at the recommendation of the auditor and the decision of the audit committee.
- 5.5. The Organizational Supervisor of the Internal Auditor of the Corporation: Chairman of the board of directors.
- 5.6. The Work Plan: The auditor's work plan is annual. The subjects of the annual audit are determined in reliance, *inter alia*, on: (a) a survey of risks performed by the Company and the adjustments required as needed; (b) rating a number of matters that arise in a discussion with the Company's management, while defining their importance. The Company's audit committee decides on a work place of the auditor while referring to the matters relevant for the examination in the Company and consolidated companies. It is noted that notwithstanding the determination of the

work plan as stated, the auditor has discretion in deviating from the original plan, subject to the approval of the audit committee. During 2016, transactions were executed under Section 270 of the Companies Law. As of the report date, these transactions were not examined by the internal auditor.

- 5.7. Scope of the Annual Audit: The scope of employment of the internal auditor and/or entities operating on its behalf amounted during 2016 to about 215 audit hours. During 2016, the audit committee decided to invest the internal audit resources in the preparation of audit risk surveys in the Company and the material subsidiary of the Company (the “**Group**”).
 - 5.8. Performance of the Audit - Professional Standards: The audit is performed based on the auditing standards and procedures published by the Institute of Internal Auditors in Israel. The Company’s board of directors has received a declaration from the internal auditor that he complies with the aforesaid professional standards. In the opinion of the board of directors, the internal auditor meets the requirements set forth in the aforesaid standards.
 - 5.9. Access to Information: The access of the internal auditor to the documents and materials relevant for his actions has not been restricted. The management of the corporation has instructed the employees to allow the internal auditor access to any asset or document.
 - 5.10. Report of the Internal Auditor: Each audit project is summarized in a written report in which the auditor lists the findings of the audit, defects identified thereby, recommendations to amend the defects, and responses of the audited entities. The market survey report of the internal auditor was presented in the meeting of the audit committee held on March 15, 2017 based on which the work plan was determined for 2017-2018.
 - 5.11. Assessment of the Board of Directors of the Activities of the Internal Auditor: In the opinion of the members of the board of directors, the actions of the internal auditor are reasonable under the circumstances and are able to realize the objectives of the internal audit in the corporation.
 - 5.12. Remuneration: The remuneration of the auditor is through payment of fees in accordance with the budget of hours approved by the audit committee for examination of the various audit matters, subject to the rate of hours agreed for the examination of the various matters in the work plan. In consideration for the audit work in 2016, the Company paid the internal auditor for the preparation of the aforesaid risk survey remuneration in the amount of about NIS 47 thousand. In the opinion of the Company’s board of directors, the remuneration is reasonable and will not impact the discretion of the internal auditor in auditing the Company.
6. **Details About the Auditor of the Company and Substantial Subsidiaries**
- 6.1. The auditor of the Company and the Subsidiary is Kost Forer Gabbay and Kasierer, Ernst and Young Israel (the “**Auditor**”).
 - 6.2. The wages of the Auditor in 2015 and 2016 are as set forth below:

	For year ending on On December 31, 2016		For year ending on On December 31, 2015	
	NIS thousands	Hours	NIS thousands	Hours
Audit and tax services	268	1,950	190	1,825
Other services	42	108	47	95
Accompanying issuance prospectus	40	150	190	1,825
Total	350	2,208	427	3,745

6.3. The Principles for Determining the Fees of the Auditor

The fees of the auditor are determined within negotiations between the auditor and the management of the Company in accordance with the estimated rate for providing the services based on the number of hours actually invested and approved by the board of directors.

Part C - Disclosure Provisions in connection with the Financial Reporting of the Company

7. **Valuations Used as a Basis for Determining the Value of Data in the Financial Statements**

The following are details in accordance with Article 8b(i) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the “**Reporting Regulations**”) regarding very material valuations:

Identification of the subject of the assessment:	Valuation for examining impairment of the goodwill registered in the Company's balance sheets.
Timing of the appraisal:	31.12.2016
Book value in the Company's records:	NIS 70.9 millions
The recoverable amount determined by the valuation:	NIS 78.6 millions
Details about the appraiser:	Variance Economic Consulting Ltd., a business, economic and financial consulting firm. <u>Leading Team:</u> Ram Levy (founder, partner, CEO), CPA, with a BA in accounting from the College of Management, as well as a BA in Life Sciences and a Master's Degree in Business Administration (MBA), majoring in finance, from Bar Ilan University and Amnon Aloof (partner, director of valuations), with a BA in economics from the University of Maryland and an MBA in finance from John Hopkins University.
Reliance on the	No dependence.

party commissioning the assessment:	
Is there an indemnification agreement with appraiser:	The Company undertakes vis-a-vis Variance that in the case in which Variance is sued in a legal or other proceeding to pay any amount to a third party in connection with the work performed for the Company, to indemnify Variance for any amount that it is charged in excess of three times the fees paid for the valuation. The indemnification obligation will not apply if it is determined by the court in a final judgment that Variance acted in connection with providing the service and/or work at the subject of the opinion with gross negligence, maliciously or intentionally. Additionally, the Company undertakes not to take legal proceedings against Variance in connection with this engagement.
Valuation model that the appraiser used:	Discounted cash flow - DCF
Discount rate:	13%. The discount rate derived before tax is 16.1%.
Growth rate:	2%

The rate of assets assessed by the appraiser constitutes, as of December 31, 2016, about 47% of the scope of the Company's assets and therefore meets the definition of a very material assessment in accordance with Position No. 105-30 of the Legal Staff of the Securities Authority dated July 22, 2015.

On behalf of the Board of Directors,

Yossi Ben Shalom,
Chairman of the Board

Yossi Regev, CEO

Signature Date: March 21, 2017

SHAGRIR GROUP VEHICLE SERVICES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

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AUDITORS' REPORT

To the Shareholders of

SHAGRIR GROUP VEHICLE SERVICES LTD.

We have audited the accompanying consolidated statements of financial position of Shagrir Group Vehicle Services Ltd. ("the Company") as of December 31, 2016 and 2015, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. 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 conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2016 and 2015, and the results of their operations, changes in their equity and cash flows for each of the three years in the period ended December 31, 2016, in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Tel-Aviv, Israel
March 21, 2017

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2016	2015
	Note	NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		8,006	8,176
Trade receivables	5	42,711	34,766
Other accounts receivable	6	3,525	1,758
Inventories		552	654
Assets held for sale		-	1,101
		54,794	46,455
NON-CURRENT ASSETS:			
Property, plant and equipment	8	31,266	22,379
Other intangible assets	9	2,963	1,843
Goodwill	9	60,083	60,083
Deferred taxes	14d	2,174	118
		96,486	84,423
		151,280	130,878

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31,	
		2016	2015
	Note	NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	12b(2)	938	326
Trade payables	10	32,364	27,655
Accrued revenues		25,176	21,091
Other accounts payable	11	11,164	11,062
		69,642	60,134
NON-CURRENT LIABILITIES:			
Long-term accrued revenues		908	1,816
Loans from shareholders and others	12	3,912	6,796
Employee benefit liabilities, net	13	1,222	1,310
Deferred taxes	14d	1,320	-
		7,362	9,922
COMMITMENTS AND CONTINGENT LIABILITIES	15		
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
	16		
Share capital		97	95
Share premium		81,595	76,179
Accumulated deficit		(2,587)	(9,497)
Capital reserve from transactions with non-controlling interests		(4,179)	(1,945)
Capital reserve from remeasurement of defined benefit plans		623	783
		75,549	65,615
Non-controlling interests	16d	(1,273)	(4,793)
Total equity		74,276	60,822
		151,280	130,878

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

March 21, 2017			
Date of approval of the Financial statements	Yossi Ben Shalom Chairman of the Board	Yossi Regev CEO	Revital Avrahami CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended December 31,		
		2016	2015	2014
		NIS in thousands		
Revenues from sales		30,753	24,642	19,149
Revenues from provision of services	20d(2)	148,264	131,981	120,695
Total revenues		179,017	156,623	139,844
Cost of sales		17,019	13,847	10,776
Cost of provision of services	18a	132,558	123,205	113,878
Total cost of sales and services		149,577	137,052	124,654
Gross profit		29,440	19,571	15,190
Selling and marketing expenses	18b	9,052	7,976	7,029
General and administrative expenses	18c	11,459	10,057	9,523
Impairment of property, plant and equipment and intangible assets		-	-	2,567
Other expenses (income)		(116)	(70)	104
		20,395	17,963	19,223
Operating income (loss)		9,045	1,608	(4,033)
Finance expenses, net	18d	477	8,218	238
Income (loss) before taxes on income		8,568	(6,610)	(4,271)
Tax benefit	14g	346	860	141
Net income (loss)		8,914	(5,750)	(4,130)

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Other comprehensive income (loss) net of taxes:			
Amounts that will not be subsequently reclassified to profit or loss:			
Remeasurement gain (loss) from defined benefit plans	(160)	40	59
Total amounts that will not be subsequently reclassified to profit or loss	(160)	40	59
Total other comprehensive income (loss)	(160)	40	59
Total comprehensive income (loss)	8,754	(5,710)	(4,071)

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

		Year ended December 31,		
		2016	2015	2014
	Note	NIS in thousands (except per share data)		
Net income (loss) attributable to:				
Equity holders of the Company		7,628	(5,472)	(2,526)
Non-controlling interests		1,286	(278)	(1,604)
		<u>8,914</u>	<u>(5,750)</u>	<u>(4,130)</u>
Total comprehensive income (loss) attributable to:				
Equity holders of the Company		7,468	(5,433)	(2,466)
Non-controlling interests		1,286	(277)	(1,605)
		<u>8,754</u>	<u>(5,710)</u>	<u>(4,071)</u>
Net earnings (loss) per share attributable to equity holders of the Company (in NIS):	19			
Basic net earnings (loss)		<u>0.96</u>	<u>(0.7)</u>	<u>(0.32)</u>
Diluted net earnings (loss)		<u>0.93</u>	<u>(0.7)</u>	<u>(0.32)</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					Capital reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve from remeasurement of defined benefit plans	Capital reserve from transactions with controlling shareholder	Accumulated deficit				
	NIS in thousands								
Balance at January 1, 2014	-	-	684	72,290	-	(1,945)	71,029	(3,000)	68,029
Issuance of shares	*) -	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	(2,526)	-	(2,526)	(1,604)	(4,130)
Other comprehensive income (loss)	-	-	60	-	-	-	60	(1)	59
Dividend in kind to controlling shareholder	-	-	-	(2,526)	2,526	-	-	-	-
Cost of share-based payment in subsidiary	-	-	-	-	-	-	-	51	51
Capital reserve from transactions with controlling shareholder	-	-	-	(64,115)	-	-	(64,115)	-	(64,115)
Balance at December 31, 2014	*) -	-	744	5,649	-	(1,945)	4,448	(4,554)	(106)
Net loss	-	-	-	-	(5,472)	-	(5,472)	(278)	(5,750)
Other comprehensive income	-	-	39	-	-	-	39	1	40
Cost of share-based payment	-	1,774	-	-	-	-	1,774	38	1,812
Issuance of bonus shares	95	(95)	-	-	-	-	-	-	-
Conversion of loan	*) -	74,500	-	-	-	-	74,500	-	74,500
Capital reserve from transactions with controlling shareholder	-	-	-	(5,649)	(4,025)	-	(9,674)	-	(9,674)
Balance at December 31, 2015	95	76,179	783	-	(9,497)	(1,945)	65,615	(4,793)	60,822
Net income	-	-	-	-	7,628	-	7,628	1,286	8,914
Other comprehensive loss	-	-	(160)	-	-	-	(160)	-	(160)
Cost of share-based payment	-	1,316	-	-	-	-	1,316	-	1,316
Exercise of share options	2	-	-	-	-	-	2	-	2
Conversion of loan from controlling shareholder	-	4,100	-	-	(718)	-	3,382	-	3,382
Capital reserve from transactions with non-controlling interests	-	-	-	-	-	(2,234)	(2,234)	2,234	-
Balance at December 31, 2016	97	81,595	623	-	(2,587)	(4,179)	75,549	(1,273)	74,276

*) Represents an amount lower than NIS 1 thousand.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	8,914	(5,750)	(4,130)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Depreciation and amortization	6,494	6,795	7,084
Finance expenses, net	273	7,935	61
Impairment loss of property, plant and equipment	-	-	1,560
Impairment loss of goodwill	-	-	1,889
Tax benefit	(346)	(860)	(141)
Cost of share-based payment	1,316	1,812	51
Gain from sale of property, plant and equipment	(831)	(587)	(248)
Change in employee benefit liabilities, net	(302)	246	143
	15,518	9,591	6,269
Changes in asset and liability items:			
Decrease in trade receivables	(8,194)	(3,141)	(4,975)
Decrease (increase) in other accounts receivable and prepaid expenses	(1,440)	382	(266)
Decrease (increase) in inventories	102	(66)	8
Decrease in long-term receivables	-	-	235
Increase (decrease) in trade payables	4,418	5,673	(212)
Increase (decrease) in other accounts payable	102	(896)	3,007
Increase (decrease) in accrued revenues	3,177	459	(2,645)
Working capital adjustments with controlling shareholder	-	-	457
	13,683	12,002	1,878
Cash paid and received during the year for:			
Taxes paid	(42)	-	-
Net cash provided by operating activities	13,641	12,002	1,878

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(16,877)	(6,868)	(6,281)
Purchase of intangible assets	(999)	(275)	(287)
Proceeds from sale of property, plant and equipment	3,470	4,149	5,189
Proceeds from sale of intangible assets	-	20	-
Net cash used in investing activities	(14,406)	(2,974)	(1,379)
<u>Cash flows from financing activities:</u>			
Receipt of long-term loans from banks	1,058	-	-
Repayment of long-term loans	(465)	(206)	(206)
Exercise of share options	2	-	-
Short-term credit from banks and others	-	(682)	(290)
Net cash provided by (used in) financing activities	595	(888)	(496)
Increase (decrease) in cash and cash equivalents	(170)	8,140	3
Cash and cash equivalents at the beginning of the year	8,176	36	33
Cash and cash equivalents at the end of the year	8,006	8,176	36
(a) <u>Significant non-cash activities:</u>			
Purchase of property, plant and equipment on credit	1,760	1,469	415
Sale of property, plant and equipment on credit	378	249	85

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. Shagrir Group Vehicle Services Ltd. ("the Company") was incorporated in Israel on November 25, 2014. The Company is engaged in providing services to insurance companies, including vehicle repairs, roadside and towing services, homeowner services and auto service centers (collectively - "services to insurance companies") and in supplying car rental and sharing services for varying periods of time, through Car2Go Ltd. ("Car2Go" or "the subsidiary"). The Company was founded by Pointer Telocation Ltd. ("the former parent company" or "Pointer").

On June 8, 2016, the Company was distributed as a dividend in kind to the shareholders of Pointer and its shares began trading on the Tel-Aviv Stock Exchange ("the TASE") from June 28, 2016. From said date, D.B.S.I. Investments Ltd. ("DBSI") is the controlling shareholder in the Company which holds about 36.28% of the Company's shares as of December 31, 2016.

- b. On June 27, 2016, an agreement was signed between Car2Go and the Tel-Aviv-Yafo Economic Development Authority Ltd. ("the Authority") in connection with the operation of car sharing services in Tel-Aviv by Car2Go. The agreement will become effective on July 1, 2016. In order to perform the contract, Car2Go Car Sharing TLV, L.P. ("the Partnership") was founded on June 27, 2016 for the construction, maintenance and operation of the car sharing platform in Tel-Aviv. The agreement is for a period of 137 months. The Authority has exclusive discretion in extending the agreement period by two additional periods of 36 months each, subject to providing advance notice of six months. The Authority may unilaterally and based on its sole discretion terminate the engagement between the parties at any time, both during the agreement period and during the extension periods, by providing an advance six-month notice to the Partnership. If the Authority provides such notice of early termination which does not arise from fundamental breach of the agreement, as defined therein, the Partnership will be entitled to the entire consideration according to the agreement until the date of termination of the engagement and to compensation for early termination of up to NIS 1 million.

According to the agreement, during the construction period of the project which is expected to last 15 months from the record date, the Authority will pay the Partnership NIS 15.1 million.

Starting from October 1, 2017, the Partnership will provide current services to the project and receive a fee based on the number of vehicles, the number of new subscriptions, the number of kilometers covered and the number of vehicles subtracted from the system.

As a prerequisite for the agreement, Car2Go provided the Authority a bank guarantee of NIS 3,500 thousand. The Company signed a letter of guarantee in favor of the Authority for securing the fulfillment of Car2Go's obligations under the agreement in the amount of NIS 6,000 thousand. In return for the letter of guarantee, Car2Go recorded a second degree charge on its authorized share capital in favor of the Company, which is subordinate to the charge recorded in favor of the bank which issued the guarantee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

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

The Company's financial statements have been prepared on a cost basis.

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

b. Consolidated financial statements:

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

The financial statements of the Company and of the subsidiary are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the subsidiary are uniform and consistent with the policies applied in the financial statements of the Company. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in the subsidiary represent the equity in the subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is the NIS.

2. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

d. Cash equivalents:

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

e. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also recognizes an allowance for those receivables which are collectively assessed for impairment based on their credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

f. Inventories:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

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

Revenues from the sale of goods:

Revenues from the sale of goods are recognized when all 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 ownership passes.

Revenues from the rendering of services:

Revenues from the rendering of services to insurance companies and others and from the rendering of short-term private car sharing services are recognized over the period in which the services are rendered.

Revenues from projects:

Revenues and costs involving construction contracts are recognized by the percentage of completion method at the end of the reporting period when the results of the construction contracts can be measured reliably. The percentage of completion is usually determined based on the proportion of actual costs incurred to date to the estimated total costs. Changes in project scope, payments of claims and incentives are included in revenues from construction contracts if it so is agreed with the customer. If not all the criteria for recognition of revenue from construction contracts are met, then revenue is recognized only to the extent of costs whose recoverability is probable ("zero profit margin" presentation). An expected loss on a contract is recognized immediately irrespective of the stage of completion.

h. Taxes on income:

The tax results of current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Current taxes:

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

2. Deferred taxes:

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

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

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

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

i. Leases:

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

The Group as lessee - operating leases:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- j. Non-current assets or disposal group held for sale and discontinued operations:

Non-currents assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are presented separately as current assets at the lower of their carrying amount and fair value less costs to sell.

- k. Property, plant and equipment:

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

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

	<u>%</u>	<u>Mainly %</u>
Buildings (excluding the land component)	2	
Motor vehicles	15 - 20	20
Office furniture and equipment	6 - 15	10
Computers and peripheral equipment	15 - 33	33
Leasehold improvements	see below	

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

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

Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

m. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.

If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Goodwill:

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

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

n. Financial instruments:

1. Financial assets:

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

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

Loans and receivables:

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

2. Financial liabilities:

All financial liabilities within the scope of IAS 39 are initially recognized at fair value. Loans and other financial liabilities are presented less direct transaction costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Financial liabilities at amortized cost:

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

3. Derecognition of financial instruments:

Financial assets:

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

Financial liabilities:

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

4. Impairment of financial assets:

The Group assesses at each reporting date whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

Financial assets carried at amortized cost:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Provisions:

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

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

Legal claims:

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

p. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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

2. Post-employment benefits:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

q. Share-based payment transactions:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is cancelled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are accounted for as a modification of the original grant, as described above.

r. Earnings (loss) per share:

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

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

The number of shares included in the computation of earnings per share in 2014 was determined based on the number of shares actually issued on December 30, 2014 when the Company was founded, as adjusted to bonus shares, see Note 16b.

s. Reserve from transaction with controlling shareholder:

Assets and liabilities involved in a transaction between the Company and the controlling shareholder or between companies under common control are recognized at fair value at the date of the transaction. The difference between the fair value and the consideration determined in the transaction is taken to equity. A positive difference arises relating to a loan granted to the Company by the controlling shareholder not at arm's length. A negative difference represents, in substance, a dividend and, therefore, reduces the retained earnings. See Note 21 regarding transactions with a controlling shareholder.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

a. Estimates and assumptions:

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

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

- Legal claims:

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsels. These estimates are based on the legal counsels' best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

- Impairment of goodwill:

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

- 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 in the future 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 timing and level of future taxable profits, its source and the tax planning strategy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- Pension and other post-employment benefits:

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

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

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

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

- a. IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 ("the new Standard") was issued by the IASB in May 2014.

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

The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

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

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

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

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

Step 5: *Recognize revenue when a performance obligation is satisfied*, either at a point in time or over time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

The new Standard is to be applied retrospectively for annual periods beginning on January 1, 2018. Early adoption is permitted. The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data.

The Company is evaluating the effect of the adoption of the new Standard on its financial statements.

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

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require additional disclosures regarding financial liabilities. The amendments require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017. Comparative information for periods prior to the effective date of the amendments is not required. Early application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

- c. IFRS 16, "Leases":

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

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

The Company is evaluating the possible effects of the new Standard. Since the Company's lease contracts are significant, the Company estimates that the adoption of the new Standard will have a material impact on the Company's assets and liabilities. However, at this stage, the Company is unable to quantify the impact on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- TRADE RECEIVABLES

	December 31,	
	2016	2015
	NIS in thousands	
Open debts	17,574	13,581
Checks receivable	9,750	8,820
Accrued income	16,769	13,512
	44,093	35,913
Less - allowance for doubtful accounts	(1,382)	(1,147)
Trade receivables, net	42,711	34,766

Impaired debts are accounted for through recording an allowance for doubtful accounts.

The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2015	1,023
Charge for the year	165
Derecognition of bad debts	63
Reversal of collected doubtful accounts	(104)
Balance at December 31, 2015	1,147
Charge for the year	243
Derecognition of bad debts	82
Reversal of collected doubtful accounts	(90)
Balance at December 31, 2016	1,382

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Neither past due nor impaired	Past due trade receivables with aging of					Total
		< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days	
		NIS in thousands					
December 31, 2016	38,590	1,484	650	233	311	1,443	42,711
December 31, 2015	31,612	944	415	292	161	1,342	34,766

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2016	2015
	NIS in thousands	
Employees and government authorities	285	277
Interested parties and the former parent company *)	1,828	128
Advances to suppliers	84	222
Prepaid expenses	744	858
Other receivables	584	273
	<u>3,525</u>	<u>1,758</u>

*) As of December 31, 2016, a balance of NIS 1,547 thousand was paid by a customer to the former parent company and transferred to the Company after the reporting period.

NOTE 7:- EXCESS OF LOSSES OVER INVESTMENTS IN INVESTEEES

Additional information on subsidiaries held directly by the Company:

General information:

		Company's interests and voting rights	Amounts provided by the Company to subsidiary		Excess losses over investment in subsidiary
	Country of incorporation	%	Loans and capital notes	Guarantees	
			NIS in thousands		
<u>December 31, 2016</u> *)					
Car2Go	Israel	72.4%	<u>8,386</u>	<u>7,300</u>	<u>(3,720)</u>
<u>December 31, 2015</u>					
Car2Go	Israel	62.3%	<u>11,629</u>	<u>1,300</u>	<u>(8,161)</u>
<u>December 31, 2014</u>					
Car2Go	Israel	62.3%	11,093	-	(7,703)

*) Car2Go holds 100% of Car2Go TLV, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- EXCESS OF LOSSES OVER INVESTMENTS IN INVESTEES (Cont.)*Transactions and engagements with subsidiaries:*

- a. The subsidiary, Car2Go, rents vehicles from the Company which are used by the subsidiary in its operating activities. The rental fees paid to the Company are in accordance with the market prices for the rental of vehicles of this kind.
- b. The Company provided a loan to the subsidiary upon its acquisition (in 2009) in the amount of NIS 6 million. The loan is linked to the Israeli CPI and bears annual interest of 4%. As of April 1, 2014, the loan bears annual interest at a rate of 6%, and will be repaid in 12 quarterly payments from March 2016.

On November 23, 2016, an amendment was signed to the loan agreement to Car2Go of May 15, 2016 according to which the interest rate was raised from 6% to 7% and the maturity dates were extended from 12 consecutive quarterly payments to 84 monthly payments. The subsidiary has undertaken towards the bank to meet certain financial covenants according to which it requires the bank's approval for the repayment of other debts. The subsidiary made four payments to the Company, two of which repaid as of December 31, 2016 and the other two repaid in January 2017. Accordingly, the subsidiary did not meet the abovementioned financial covenants. See also Note 12b(2).

- c. On April 9, 2014, the Company provided the subsidiary a convertible loan in the amount of NIS 3 million. The loan is linked to the Israeli CPI and bears annual interest at a rate of 7%. The loan will be repaid approximately two years from the date of its receipt, if not converted to shares of the subsidiary.

The loan is convertible in accordance with the following terms:

1. In the event that capital of at least NIS 5 million is raised, the Company will be entitled to convert the loan to shares of the same class and with the same rights allocated in the raising, at a discount of 30%.
 2. In the event that the capital raising is not completed within one year from the date on which the loan is received, the Company will be entitled to convert the balance of the loan to Preferred A shares based on a value of NIS 10 million before the money on a fully diluted basis.
- d. On June 26, 2016, the loan provided to Car2Go on April 9, 2014 whose balance as of the date of conversion was NIS 3,490 thousand (including interest and linkage) was converted into 11,542 preferred A shares. Preferred A shares confer their holders all the rights conferred by ordinary shares of the Company as well as preference rights such as preference in the event of liquidation, conversion rights and anti-dilution protection. As a result of the above conversion, the Company's interests in the subsidiary increased from 61.06% to 72.4%.
 - e. Regarding the guarantees provided to the subsidiary, see Note 15e.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT

a. Composition and movement:

2016

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Computers and peripheral equipment</u>	<u>Auto repair equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	NIS in thousands						
Cost:							
Balance at January 1, 2016	1,935	26,155	982	9,982	1,312	5,701	46,067
Additions during the year							
Purchases	-	*) 11,677	571	637	386	2,730	16,085
Disposals during the year:							
Disposals	-	(7,183)	(53)	(188)	-	(37)	(7,461)
Balance at December 31, 2016	1,935	30,649	1,50	10,431	1,698	8,394	54,691
Accumulated depreciation:							
Balance at January 1, 2016	255	12,845	368	8,333	208	1,679	23,688
Additions during the year							
Depreciation	7	3,377	104	833	175	805	5,302
Disposals during the year:							
Disposals	-	(5,392)	(51)	(168)	-	(37)	(5,648)
Balance at December 31, 2016	262	10,830	421	8,998	383	2,447	23,342
Depreciated cost at December 31, 2016	1,673	19,819	1,079	1,433	1,315	5,947	31,266

*) An amount of NIS 995 thousand represents an advance to a supplier for the purchase of service vehicles and related equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2015

	Buildings	Motor vehicles	Office furniture and equipment	Computers and peripheral equipment	Auto repair equipment	Leasehold improvements	Total
	NIS in thousands						
Cost:							
Balance at January 1, 2015	1,935	25,490	1,498	9,378	468	7,550	46,319
Additions during the year							
Purchases	-	6,038	60	770	844	210	7,922
Disposals during the year:							
Disposals	-	(5,373)	(576)	(166)	-	(2,059)	(8,174)
Balance at December 31, 2015	1,935	26,155	982	9,982	1,312	5,701	46,067
Accumulated depreciation:							
Balance at January 1, 2015	247	13,919	588	7,580	122	2,724	25,180
Additions during the year							
Depreciation	8	2,670	156	900	86	1,014	4,834
Disposals during the year:							
Disposals	-	(3,744)	(376)	(147)	-	(2,059)	(6,326)
Balance at December 31, 2015	255	12,845	368	8,333	208	1,679	23,688
Depreciated cost at December 31, 2015	1,680	13,310	614	1,649	1,104	4,022	22,379

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

b. Impairment of property, plant and equipment:

Impairment loss of NIS 148 thousand and NIS 1,011 thousand recorded in 2016 and 2015, respectively, represents reclassification of vehicles previously classified as held for sale to fair value less selling costs. The impairment loss was recognized in profit or loss in cost of sales.

c. Purchase of property, plant and equipment on credit

During the year ended December 31, 2016, the Company and subsidiary purchased property, plant and equipment totaling NIS 595 thousand on credit.

d. As of December 31, 2016, the subsidiary owns vehicles at a cost of NIS 165 thousand whose balance is not included in property, plant and equipment since they were fully financed by the Tel-Aviv municipality and are pledged to the Authority.

NOTE 9:- GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

2016

	Customer list	Trademark	Computer software	Goodwill	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2016	42,599	8,365	2,507	62,872	116,343
Purchases	-	-	2,165	-	2,165
Balance at December 31, 2016	42,599	8,365	4,672	62,872	118,508
Accumulated amortization and impairment losses:					
Balance at January 1, 2016	41,143	8,365	2,120	2,789	54,417
Amortization recognized during the year	621	-	424	-	1,045
Balance at December 31, 2016	41,764	8,365	2,544	2,789	55,462
Net book value:					
At December 31, 2016	835	-	2,128	60,083	63,046

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

2015

	Customer list	Trademark	Computer software	Goodwill	Total
	NIS in thousands				
Cost:					
Balance at January 1, 2015	42,599	8,365	2,286	62,872	116,122
Purchases	-	-	275	-	275
Disposals	-	-	(54)	-	(54)
Balance at December 31, 2015	42,599	8,365	2,507	62,872	116,343
Accumulated amortization and impairment losses:					
Balance at January 1, 2015	40,376	8,365	1,981	2,789	53,511
Amortization recognized during the year	767	-	181	-	948
Disposals	-	-	(42)	-	(42)
Balance at December 31, 2015	41,143	8,365	2,120	2,789	54,417
Net book value:					
At December 31, 2015	1,456	-	387	60,083	61,926

b. Amortization expenses:

Amortization expenses of intangible assets are classified in profit or loss as follows:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Cost of sales	424	181	233
Selling and marketing expenses	621	767	909
Impairment of intangible assets	-	-	1,889
	1,045	948	3,031

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 9:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)**

c. Impairment of goodwill:

The Company has two cash-generating units: services to insurance companies and car sharing and rental services.

In 2016 and 2015, the assumptions used to examine impairment of goodwill of the segment of services to insurance company included cash flows for five years and a 13% discount interest. The cash flow forecasts for a period exceeding five years will be estimated using a fixed growth rate of 2%. In 2016 and 2015, there was no impairment of goodwill.

In 2014, following the examination of the impairment of goodwill, the Company reduced the goodwill of the car sharing and rental segment by a total of NIS 1,889 thousand. The assumptions used to examine impairment of goodwill included cash flows for five years and a 14% discount interest. The cash flow forecasts for a period exceeding five years were estimated using a fixed growth rate of 2%.

d. Purchase of property, plant and equipment on credit

During the year ended December 31, 2016, the Company purchased property, plant and equipment totaling NIS 1,165 thousand on credit.

NOTE 10:- TRADE PAYABLES

	December 31,	
	2016	2015
	NIS in thousands	
Open debts	15,386	11,353
Notes payable	4,811	6,889
Accrued expenses	12,167	9,413
	<u>32,364</u>	<u>27,655</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- OTHER ACCOUNTS PAYABLE

	December 31,	
	2016	2015
	NIS in thousands	
Accrued expenses	399	513
Employees and payroll accruals	9,196	8,528
Government authorities	1,486	1,821
Other	81	59
The former parent company	2	141
	<u>11,164</u>	<u>11,062</u>

NOTE 12:- NON-CURRENT LIABILITIES

a. Composition:

	December 31,	
	2016	2015
	NIS in thousands	
Loan from minority shareholders in subsidiary (2)	721	702
Capital note from the former parent company (1)	3,900	8,000
Less - discount	<u>(709)</u>	<u>(1,906)</u>
	<u>3,912</u>	<u>6,796</u>

- (1) On December 30, 2015, a loan received from the former parent company in the amount of NIS 8,000 thousand was converted to an interest-free capital note which will not be repaid before December 31, 2020. The capital note was recorded at a fair value of NIS 6,094 thousand using an effective interest rate of 5.58%. The difference between the consideration received and the fair value of the loan in the amount of NIS 1,906 thousand less deferred tax in the amount of NIS 504 thousand was recorded in capital reserves as of December 31, 2015.

On March 29, 2016, the former parent company's board of directors decided to repay the capital note in the amount of NIS 8,000 thousand issued by the Company on December 30, 2015. In addition, the board decided to convert an amount of NIS 4,100 thousand from the balance of the capital note into equity. In respect of the unconverted balance, two capital notes were issued in the amount of NIS 3,100 thousand and NIS 800 thousand under the same terms as the original capital note. The outstanding capital note after said conversion is carried at fair value using an effective interest rate of 5.58%.

- (2) The loan bears annual interest at a rate of 4% and is linked to the Israeli CPI. The loan will be repaid after the full repayment of the loan granted by the Company to the subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- NON-CURRENT LIABILITIES (Cont.)

b. Financial covenants:

1. In keeping with the credit facility received from a bank, the Company undertook to meet certain financial covenants starting from January 1, 2015 according to which the ratio of its equity to total balance sheet at all times will not be below 40%. In addition, the controlling shareholders, Mr. Yossi Ben Shalom and Mr. Barak Dotan ("the controlling shareholders"), will jointly or severally, directly or indirectly (through Israeli companies wholly owned by them and/or through a trustee) hold at least 22% of the Company's issued and outstanding share capital (on a fully diluted basis).

As of December 31, 2016, the Company is meeting the above financial covenants.

2. In keeping with an irrevocable letter of liability of October 5, 2011, the subsidiary undertook to meet the following financial covenants towards the bank:
 - a) Not to provide or repay existing and/or future loans to the shareholders, interested parties or any parties related thereto at all times as long as the bank debt is not repaid and without the bank's advance written consent.
 - b) Not to make, decide on, declare or commit to any distribution of any receipts to a shareholder in the Company or any party related thereto or to an interested party of the shareholder without the bank's advance written consent.
 - c) Not to allow any change in the Company's control over the subsidiary without the bank's advance written consent.
 - d) Not to effect any change in the subsidiary's articles of association that might or will impair the bank's rights and to inform the bank in writing of any change in the subsidiary's articles of association.
 - e) Not to repay any debts of the subsidiary to the Company without the bank's advance written consent.

In the last quarter of 2016, the subsidiary began repaying the shareholders' loan based on the new terms (see Note 7b) thereby violating the letter of liability signed with the bank. Accordingly, the Company classified the liability to the bank totaling NIS 661 thousand in current liabilities.

As of the reporting date, the subsidiary and the bank are negotiating an amendment to the letter of liability described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES**

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

a. Post-employment benefits:

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

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

b. Defined contribution plans:

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

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Expenses in respect of defined contribution plans	<u>1,266</u>	<u>842</u>	<u>373</u>

c. Defined benefit plans:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

1. Expenses recognized in profit or loss:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Current service cost	1,373	1,666	1,844
Net interest cost	21	27	22
Real return reclassified from compensation component to remuneration component in insurance policies	36	92	74
Total employee benefit expenses	1,430	1,785	1,940

2. Actual return on plan assets:

Actual return on plan assets	400	198	787
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3. The plan assets (liabilities), net:

	December 31,	
	2015	2014
	NIS in thousands	
Defined benefit obligation	24,558	23,309
Fair value of plan assets	23,336	21,999
Total liabilities, net	1,222	1,310

4. Changes in the present value of defined benefit obligation:

	2016	2015
	NIS in thousands	
Balance at January 1,	23,309	24,001
Interest cost	422	769
Current service cost	1,373	1,666
Benefits paid	(758)	(2,529)
Remeasurement (gain) loss *)	212	(598)
Balance at December 31,	24,558	23,309

*) Remeasurement loss (gain) carried to other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 13:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)**

5. Plan assets:

a) Plan assets comprise insurance policies.

b) The movement in the fair value of the plan assets:

	<u>2016</u>	<u>2015</u>
	<u>NIS in thousands</u>	
Balance at January 1,	21,999	22,882
Interest on plan assets	401	742
Real return reclassified from compensation component to remuneration component in insurance policies	(36)	(92)
Contributions by employer	1,720	1,482
Benefits paid	(747)	(2,471)
Remeasurement gain *)	(1)	(544)
Balance at December 31,	<u>23,336</u>	<u>21,999</u>

*) Remeasurement gain carried to other comprehensive income.

6. The principal assumptions underlying the defined benefit plan:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>%</u>		
Discount rate (1)	<u>2.67</u>	<u>4.06</u>	<u>4.35</u>
Expected real salary increase	<u>2.6-5.6</u>	<u>2.12-6.12</u>	<u>1.5</u>

(1) The discount rate is based on high quality index-linked corporate debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAXES ON INCOME

a. Tax rates applicable to the Group:

The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015 and 2014.

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

The deferred tax balances as of December 31, 2015 were calculated based on a tax rate of 26.5%. As a result of the change in the tax rate in the beginning of 2016, the balance of deferred tax liabilities decreased by approximately NIS 118 thousand and the balance of deferred tax assets decreased by approximately NIS 125 thousand. An expense of approximately NIS 7 thousand was also recorded in profit or loss under taxes on income.

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

The deferred tax balances as of December 31, 2016 have been calculated based on the revised tax rates. As a result of the change in the tax rate, the balance of deferred tax liabilities decreased by approximately NIS 257 thousand and the balance of deferred tax assets decreased by approximately NIS 98 thousand. Also, income of approximately NIS 159 thousand was recorded in profit or loss under taxes on income.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

In August 2013, the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 ("the Budget Law") was enacted. The Law includes, among others, provisions for the taxation of revaluation gains effective from August 1, 2013. The provisions regarding revaluation gains will become effective only after the publication of regulations defining what should be considered as "retained earnings not subject to corporate tax" and regulations that set forth provisions for avoiding double taxation of foreign assets. As of the date of approval of these financial statements, these regulations have not been published.

b. Final tax assessments:

The Company has not been issued final tax assessments since its incorporation. The subsidiary has been issued final tax assessments through the 2012 tax year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAXES ON INCOME (Cont.)

- c. Carryforward losses for tax purposes and other temporary differences:

As of December 31, 2016, a subsidiary has carryforward business losses for tax purposes totaling approximately NIS 13,500 thousand. Deferred tax assets of approximately NIS 2,174 thousand in respect of losses in the aggregate of NIS 9,000 thousand in respect of other deductible temporary differences were recognized in the financial statements in view of the Company's profits in 2016 and the profit projections for the coming years.

Deferred tax assets relating to carryforward business losses of approximately NIS 4,500 thousand were not recognized because their utilization in the foreseeable future is not probable.

- d. Deferred taxes:

Composition:

	Statements of financial position		Statements of profit or loss		
	December 31,		Year ended December 31,		
	2016	2015	2016	2015	2014
	NIS in thousands				
Deferred tax liabilities:					
Goodwill and other intangible assets	2,558	1,435	(1,123)	(1,435)	-
Loan discount	163	505	98	1,504	-
	2,721	1,940			
Deferred tax assets:					
Carryforward tax losses	2,105	369	1,736	369	-
Employee benefits	975	1,080	(158)	87	2
Property, plant and equipment	166	334	(168)	297	82
Allowance for doubtful accounts	329	275	54	38	57
	3,575	2,058			
Deferred tax income			439	860	141
Deferred tax assets, net	854	118			

The deferred taxes are presented in the statement of financial position as follows:

	December 31,	
	2016	2015
	NIS in thousands	
Non-current assets	2,174	118
Non-current liabilities	1,320	-
	854	118

The deferred taxes are calculated using tax rates of 23%-24%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 14:- TAXES ON INCOME (Cont.)**

- e. Taxes on income relating to equity items:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Deferred taxes in respect of discount	244	(610)	(1,398)
Remeasurement loss of defined benefit plans	53	(14)	(22)
	<u>297</u>	<u>(624)</u>	<u>(1,420)</u>

- f. Taxes on income (tax benefit) included in profit or loss:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Deferred taxes, see also d above	(287)	(860)	(141)
Current taxes	93	-	-
Adjustment of deferred tax balances due to change in tax rates	(152)	-	-
	<u>(346)</u>	<u>(860)</u>	<u>(141)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TAXES ON INCOME (Cont.)

g. Theoretical tax:

The reconciliation between the tax amount, assuming that all the income and expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Income (loss) before taxes on income	8,568	(6,610)	(4,271)
Statutory tax rate	25%	26.5%	26.5%
Tax computed at the statutory tax rate	2,142	(1,752)	(1,132)
Increase (decrease) in taxes on income due to the following components:			
Impairment of goodwill	-	-	501
Nondeductible expenses	108	427	17
Utilization of losses in the period for which no deferred taxes were recorded in previous periods	(584)	-	(66)
Temporary differences for which no deferred taxes were recognized	-	-	(134)
Increase in losses for tax purposes for which no deferred taxes were recognized in the period	-	-	673
First-time creation of deferred taxes in respect of past losses and timing differences	(2,174)	-	-
Amortization of bonus in respect of employee options	329	470	-
Change in tax rates	(152)	-	-
Other	(15)	(5)	-
	(346)	(860)	(141)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

The Company recorded a first degree charge on its entire assets in favor of certain banks. The subsidiary recorded a floating charge on its entire existing and future financial assets, properties and rights of any kind without exceptions in favor of a bank. A fixed charge has been recorded on the Company's uncalled or called and unpaid share capital, goodwill and the Company's rights to any tax exemption, relief or discount pursuant to applicable law. In addition, a fixed charge has been recorded on the entire securities, documents and notes held by the bank.

b. Commitments:

According to the credit facility extended by a bank, the Company is required to meet certain financial covenants (see Note 12b).

c. Lease commitments:

The Company leases offices, sites and vehicles for periods ending in 2016. The minimum lease fees according to non-cancellable operating leases are as follows:

	NIS in thousands
2017	5,419
2018	5,035
2019	5,286
2020 and thereafter	11,362
	<u>27,102</u>

Lease expenses in the years ended December 31, 2016, 2015 and 2014 amounted to NIS 5,879 thousand, NIS 5,040 thousand and NIS 4,820 thousand, respectively.

d. Legal claims:

As of December 31, 2016, there are several claims pending against the Company in an aggregate amount of approximately NIS 441 thousand. The majority of claims involve alleged negligence of the Company in providing services in the ordinary course of business. Based on its legal counsel, the Company's management believes that no material costs are expected to be incurred as a result of these claims and therefore no provision was included in their respect in the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

e. Collaterals:

To secure the Company's liabilities for the provision of services to customers and lease obligations, the Company provided bank guarantees totaling approximately NIS 17,992 thousand in effect from February 2011 until April 2021. As of December 31, 2016, an amount of NIS 170 thousand is included in the former parent company's bank accounts.

The Company provided a limited guarantee of NIS 1,300 thousand to a bank in respect of credit extended by the bank to a subsidiary.

Car2Go provided a bank guarantee of NIS 3,500 thousand as a prerequisite for performing the contract signed with the Authority.

The Company also signed a letter of guarantee in a total of NIS 6,000 thousand in favor of the Authority to secure the fulfillment of Car2Go's liabilities under the contract.

As of December 31, 2016, the subsidiary has outstanding credit of NIS 938 thousand (see Note 12b).

NOTE 16:- EQUITY

a. Composition of share capital:

	December 31,			
	2016		2015	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares			
Ordinary shares of				
NIS 0.0121 par value each	<u>1,400,000,000</u>	<u>8,003,900</u>	<u>1,322,314,050</u>	<u>7,866,048</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- EQUITY (Cont.)

b. Movement in share capital:

Issued and outstanding share capital:

	Number of shares	NIS
Balance at January 1, 2015	8,264	100
Allocation of bonus shares (1)	7,842,975	94,900
Conversion of shareholders' loans (2)	83	1
Balance at December 31, 2015	7,851,322	95,001
Exercise of share options (3)	137,769	1,667
Conversion of shareholders' capital note (4)	83	1
Allocation of shares (5)	14,726	178
Balance at December 31, 2016	<u>8,003,900</u>	<u>96,847</u>

- (1) On February 23, 2015, the Company allocated 7,842,975 shares of NIS 0.0121 par value each to the former parent company as bonus shares for no consideration.
- (2) On December 30, 2015, the Company allocated 83 shares of NIS 0.0121 par value each to the former parent company against the conversion of a shareholders' loan of NIS 74,500 thousand (including interest).
- (3) In March 2016, 137,769 employee options of NIS 0.0121 par value each vested and were exercised into shares in return for their par value.
- (4) On March 29, 2016, the Company allocated 83 shares of NIS 0.0121 par value each to the former parent company against the conversion of a capital note of NIS 4,100 thousand.
- (5) On May 19, 2015, the Company allocated to Pointer 14,726 Ordinary shares of NIS 0.0121 par value each in return for their par value.

c. Rights attached to shares:

Voting rights at the general meeting, right to dividend, rights upon liquidation of the Company and right to nominate the directors in the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- EQUITY (Cont.)

- d. composition of non-controlling interests in the statement of financial position:

	December 31,	
	2016	2015
	NIS in thousands	
Share of equity (1)	(1,418)	(4,938)
Reserve from share-based payment transactions in subsidiary	145	145
	<u>(1,273)</u>	<u>(4,793)</u>

- (1) Including share of balances of attributable excess cost.

- e. On May 19, 2016, the Company increased its share capital by NIS 940,000 in such a manner that instead of authorized share capital of NIS 16,000,000 divided into 1,322,314,050 Ordinary shares of NIS 0.0121 par value each, its authorized share capital now amounts to NIS 16,940,000 divided into 1,400,000,000 Ordinary shares of NIS 0.0121 par value each. The Company also split its share capital from Ordinary shares of NIS 1.00 par value each to Ordinary shares of NIS 0.0121 par value each. The basic and diluted earnings per share for all reporting periods are presented according to the number of shares after the split.

NOTE 17:- SHARE-BASED PAYMENT

Expenses recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Equity-settled share-based payment plans (1)	1,316	1,774	-
Equity-settled share-based payment plans of subsidiary (2)	-	38	51
	<u>1,316</u>	<u>1,812</u>	<u>51</u>

- (1) On March 3, 2015, the Company granted to employees and officers in the Company 413,223 restricted share units ("RSUs") that are exercisable into 413,223 Ordinary shares of NIS 0.0121 par value each (subject to adjustments) for no exercise increment. The RSUs were granted under the capital track through a trustee pursuant to the provisions of Article 102(b) to the Israeli Income Tax Ordinance (Revised), 1961. According to the terms of grant of the RSUs, they will vest over a period of three years in three equal annual portions, provided that at the end of each vesting period the employee is still employed by the Company. The fair value of the RSUs as of the grant date is NIS 3,668 thousand.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 17:- SHARE-BASED PAYMENT (Cont.)**

- (2) In 2014 and 2015, the subsidiary recorded expenses in respect of options granted to its former CEO. The options expired upon the termination of the former CEO's tenure in January 2016.

On October 11, 2015, 1,448 options were granted to the subsidiary's CEO for the purchase of Ordinary shares of the subsidiary. Each option is convertible into one Ordinary share of the subsidiary of NIS 1.00 par value. The options vest over a period of three years from the date of grant. The exercise price of the options is NIS 1 per share.

The options are convertible into the parent company's options based on the conversion ratio that will be determined within 12 months from October 11, 2015. The fair value of the options on the date of grant was immaterial - at NIS 0. On March 14, 2017, the Company's Board decided that the conversion ratio will be determined in the course of 2017.

If the existing shareholders exercise outstanding convertible loans/options, the number of options granted to the CEO will increase pro rata to account for 5% of the Company's share capital.

Following the conversion of the shareholders' loan into Preferred shares, the Company's CEO is entitled to an additional 637 options. ON March 14, 2017, the subsidiary's board decided to change the conversion ratio instead of allocating another 637 options so that 1,448 options granted to the subsidiary's CEO in 2015 will be converted into 2,085 options under the same vesting terms.

- (3) In March 2016, 137,769 employee options of NIS 0.0121 par value each vested and were exercised into shares in return for their par value.

NOTE 18:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

- a. Cost of provision of services:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Cost of service subcontractors	40,995	39,669	33,833
Cost of lease	5,393	3,877	4,272
Salaries, wages and related expenses	45,058	41,141	37,647
Depreciation and amortization	5,731	5,909	6,827
Vehicle lease and maintenance	26,758	25,534	23,981
Other	8,623	7,075	7,318
	<u>132,558</u>	<u>123,205</u>	<u>113,878</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

b. Selling and marketing expenses:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Salaries, wages and related expenses	4,692	3,997	3,612
Advertising and sales promotion	2,909	2,477	1,594
Depreciation and amortization	685	817	1,021
Other selling and marketing expenses	766	685	802
	<u>9,052</u>	<u>7,976</u>	<u>7,029</u>

c. General and administrative expenses:

Salaries, wages and related expenses	6,695	6,131	4,722
Building rent and maintenance	696	512	484
Consulting	2,243	1,908	1,103
Depreciation and amortization	79	67	119
Allowance for doubtful accounts and bad debts	302	245	400
Management fees	211	-	1,089
Other general and administrative expenses	1,117	1,124	1,710
	<u>11,343</u>	<u>9,987</u>	<u>9,627</u>

d. Finance expenses, net:

Bank charges and interest	225	196	171
Net exchange rate valuation losses (gains)	(1)	14	7
Interest on loans from shareholders and others	242	8,019	60
Other	11	(11)	-
	<u>477</u>	<u>8,218</u>	<u>238</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- NET EARNINGS (LOSS) PER SHARE

Details of the number of shares and income (loss) used in the computation of net earnings (loss) per share:

	Year ended December 31,					
	2016		2015		2014	
	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net loss attributable to equity holders of the Company	Weighted number of shares	Net loss attributable to equity holders of the Company
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands
Number of shares and income (loss) for the computation of basic net earnings (loss)	7,974,539	7,628	7,865,966	(5,472)	7,865,966	(2,526)
Effect of potential dilutive Ordinary shares	211,557	-	-	-	-	-
For the computation of diluted net earnings (loss)	<u>8,186,096</u>	<u>7,628</u>	<u>7,865,966</u>	<u>(5,472)</u>	<u>7,865,966</u>	<u>(2,526)</u>

NOTE 20:- OPERATING SEGMENTS

a. General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organized into operating segments based on the products and services of the business units and has operating segments as follows:

Segment of services to insurance companies:

In the context of this segment, the Company provides various services including roadside services, homeowner services, auto service center services and other services. The Company provides these services mainly to parties insured by insurance companies; however, the Company provides the aforesaid services also to other customers not through insurance companies (individuals, vehicle fleets and government entities).

Segment of car sharing and rental services:

In the context of this segment, the Company provides private and commercial car rental services to customers from the general public for short periods of time (car sharing).

The segment performances (segment profit (loss)) are estimated based on operating profit (loss) as presented in the financial statements.

Capital investments including acquisitions of property, plant and equipment, intangible assets:

The transfer prices between operating segments are determined based on market conditions similar to transactions with third parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- OPERATING SEGMENTS (Cont.)

b. Operating segment reporting:

	Services to insurance companies	Car sharing and rental services	Adjustments	Total
	NIS in thousands			
<u>Year ended December 31, 2016</u>				
Revenues from external factors	159,046	19,971	-	179,017
Intersegment revenues	526	-	(526)	-
Total revenues	159,572	19,971	(526)	179,017
Segment profit	6,050	2,995	-	9,045
Finance expenses, net				477
Income before taxes on income				8,568
<u>Year ended December 31, 2015</u>				
Revenues from external factors	141,794	14,829	-	156,623
Intersegment revenues	818	-	(818)	-
Total revenues	142,612	14,829	(818)	156,623
Segment profit	1,710	(102)	-	1,608
Finance expenses, net				8,218
Loss before taxes on income				(6,610)
<u>Year ended December 31, 2014</u>				
Revenues from external factors	126,522	13,322	-	139,844
Intersegment revenues	2,885	-	(2,885)	-
Total revenues	129,407	13,322	(2,885)	139,844
Segment profit	(406)	(3,627)	-	(4,033)
Finance expenses, net				238
Loss before taxes on income				(4,271)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20:- OPERATING SEGMENTS (Cont.)

c. Additional information:

	Services to insurance companies	Car sharing and rental services	Adjustments	Total
	NIS in thousands			
<u>Year ended December 31, 2016</u>				
Capital investments	14,393	2,488	-	16,881
Depreciation and amortization	5,723	772	-	6,495
Significant non-cash expenses (cost of share-based payment) (excluding depreciation and amortization)	1,316	-	-	1,316
<u>Year ended December 31, 2015</u>				
Capital investments	7,055	88	-	7,143
Depreciation and amortization	5,597	645	-	6,242
Significant non-cash expenses (cost of share-based payment) (excluding depreciation and amortization)	1,744	38	-	1,812
Impairment of property, plant and equipment	553	-	-	553
<u>Year ended December 31, 2014</u>				
Capital investments	5,814	754	-	6,568
Depreciation and amortization	6,417	667	-	7,084
Impairment of property, plant and equipment	1,560	-	-	1,560
Impairment of goodwill	-	1,889	-	1,889
<u>December 31, 2016</u>				
Segment assets	147,195	9,145	(4,967)	151,373
Segment liabilities	71,646	14,138	(8,687)	77,097
<u>December 31, 2015</u>				
Segment assets	131,754	2,787	(3,663)	130,878
Segment liabilities	66,139	15,741	(11,824)	70,056
<u>December 31, 2014</u>				
Segment assets	123,637	3,450	(4,337)	122,750
Segment liabilities	119,189	15,707	(12,040)	122,856

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 20:- OPERATING SEGMENTS (Cont.)**

d. Additional revenue information:

1. Revenues from major customers each accounting for 10% or more of total revenues reported in the financial statements:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Customer A - services to insurance companies	16,192	19,670	24,630
Customer B - services to insurance companies	24,880	16,244	8,061
	<u>41,072</u>	<u>35,914</u>	<u>32,691</u>

2. Revenues according to groups of services:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Services based on subscriptions	88,665	80,167	74,504
Services based on consumption	39,702	37,125	33,257
Revenues from car sharing and rental services	19,897	14,689	12,934
	<u>148,264</u>	<u>131,981</u>	<u>120,695</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

- a. Balances with interested and related parties:

December 31, 2016

	For details see Note	Controlling shareholder (parent company)	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable		-	-	1,829
Other accounts payable/trade payables	21g	(159)	(1,570)	(46)
Employee benefit liabilities, net		-	(328)	-
Long-term loans (including current maturities)	14a	-	-	(721)
Capital note (less discount)	14a	-	-	(3,191)
The highest balance during the year		-	-	1,828

December 31, 2015

	For details see Note	Former controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable	6	128	-	-
Other accounts payable/trade payables		(141)	(1,227)	(206)
Employee benefit liabilities, net		-	(740)	-
Long-term loans (including current maturities)	12a	-	-	(702)
Capital note (less discount)	12a	(6,094)	-	-
The highest balance during the year		4,015	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)

January 1, 2015

	For details see Note	Former controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable	6	661	-	-
Other accounts payable/trade payables	11	(126)	(2,777)	-
Short-term loans (less discount)	12a	(64,421)	-	(685)
Employee benefit liabilities, net		-	(652)	-
The highest balance during the year		661	-	-

b. Benefits to key management personnel (including directors) employed by the Company:

In addition to wages, the Company's executives are entitled to non-cash benefits (such as a vehicle, mobile phone, etc.). Additionally, the Company deposits funds for them within a defined post-employment benefit plan and/or contribution plan. In accordance with the terms of the plan, the retirement age for directors and senior executives is as prescribed by law.

In addition to monthly wages and non-cash benefits (such as a vehicle, mobile phone, etc.), the Company's CEO is entitled to an annual bonus calculated as a percentage of the adjusted net earnings per share.

In 2016, the employment agreement with the CEO was updated whereby starting from 2016, the CEO is entitled to an annual bonus calculated in the following manner: (1) up to adjusted consolidated net earnings per share of NIS 0.06 - no bonus will be paid; (2) from consolidated net earnings per share of NIS 0.06 through consolidated net earnings per share of NIS 0.181 - an annual bonus of 7% from the consolidated net earnings per share in excess of the lower threshold of this level, multiplied by the base number of shares; (3) from consolidated net earnings per share in excess of NIS 0.181 - an annual bonus of 10% of the consolidated net earnings per share in excess of the lower threshold of this level, multiplied by the base number of shares. In the event that the base number of shares is adjusted for a distribution of bonus shares and technical changes to the Company's capital such as capital consolidation or split, the consolidated net earnings per share levels as set forth above will be updated accordingly (however, the consolidated net earnings per share levels will not be updated for any other change to the number of shares of the Company, such as the issue of capital, buy-back of shares and the like). The bonus calculated based on the above calculation will constitute 100% of the annual bonus to which he is entitled; however, in any case, the total annual bonus will not exceed an amount equal to 12 gross monthly salaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**

In addition, in the event that the CEO's employment is terminated by the Company for any reason (excluding under circumstances in which severance pay can be withheld from an employee under the law practiced in Israel), the CEO will be entitled, in addition to the release of the amounts accrued on his behalf in the insurance policy or pension fund as above, to payment of severance pay increased by 50% of the severance pay set forth by law. Additionally, at the end of his employment, he is entitled to an adjustment period of six months. During the adjustment period, he will be entitled to all of the payments and benefits owed to him under the agreement.

In 2015, the CEO was entitled to a bonus based on the adjusted net earnings per share, with the calculation of the adjusted earnings for share being in accordance with the number of shares in 2015, and based on the stand-alone net earnings per share (without the results of the subsidiary).

Benefits granted to key management personnel (including directors) employed by the Company:

	Year ended December 31.					
	2016		2015		2014	
	No. of people	Amount NIS in thousands	No. of people	Amount NIS in thousands	No. of people	Amount NIS in thousands
Short-term employee benefits	7	4,899	7	4,436	8	4,538
Post-employment benefits	6	209	6	387	9	289
Termination benefits	1	11	1	15	-	-
Share-based payment	6	1,053	6	1,458	1	51
	20	6,171	20	6,296	18	4,878

c. Transactions with interested and related parties:

	Year ended December 31, 2016			
	For details see Note	Controlling shareholder	Key management personnel	Other interested and related parties
		NIS in thousands		
Purchase of products	21d(1)	-	-	79
Purchase of services	21d(1)	-	-	289
Sale of products - property, plant and equipment	21d(4)	-	-	136
Sale of services	21d(2),(3)	-	-	5,669
Employee benefit expenses	21b	-	6,171	-
Management and directors' fees	21e	276	-	-
Purchase of property, plant and equipment	21d(4)	-	-	5
		276	6,171	6,177

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)

Year ended December 31, 2015				
		Controlling shareholder	Key management	Other interested and related parties
	For details see Note	(former parent company)	personnel	
		NIS in thousands		
Purchase of products	21d(1)	174	-	-
Purchase of services	21d(1)	639	-	107
Sale of products - property, plant and equipment	21d(4)	292	-	-
Sale of services	21d(2),(3)	8,566	-	-
Employee benefit expenses	21b	-	6,296	-
Purchase of property, plant and equipment	21d(4)	-	-	213
Finance expenses	21d(6)	7,975	-	16
		<u>17,646</u>	<u>6,296</u>	<u>336</u>
Year ended December 31, 2014				
		Controlling shareholder	Key management	Other interested and related parties
	For details see Note	(former parent company)	personnel	
		NIS in thousands		
Purchase of products	21d(1)	190	-	-
Purchase of services	21d(1)	-	-	56
Sale of products	21d(2)	38	-	-
Management fees	21d(5)	1,089	-	-
Employee benefit expenses	21b	-	4,878	-
Purchase of property, plant and equipment	21d(4)	-	-	314
Finance expenses		-	-	21
		<u>1,317</u>	<u>4,878</u>	<u>391</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

- d. Revenues and expenses relating to interested and related parties:

Employment terms of related parties:

1. On December 30, 2014, the former parent company ("Pointer") and the Company signed a service agreement within which it was agreed that Pointer will provide the Company various services, including installation services for vehicle protection products, vehicle location services and vehicle accessories as well as procurement management services. The services are provided in accordance with a pricelist that represents market prices.
2. In accordance with the aforesaid service agreement, the Company provides the former parent company various services, including IT, telephony, vehicle lease, auto service center, towing and roadside, marketing (of Shagrir Zahav and Shagrir Mashlim) and personnel services. The services are provided in accordance with third party prices.
3. In accordance with the service agreement mentioned above, the Company subleases certain real estate assets in Haifa, Jerusalem and Holon, in accordance with the Company's lease term with a third party, and in consideration for annual lease fees and in addition to maintenance costs such as municipal tax, electricity, and the like. For all of the assets, the annual rental fees and related expenses in 2015 amounted to approximately NIS 2,210 thousand. In addition to the service agreement signed between the Company and the former parent company on December 30, 2015, the parties agreed that they will terminate the sublease of the main asset in Holon, within which they agreed that the former parent company will pay the Company compensation in a total amount of NIS 2,800 plus VAT as required by law in light of the breach of the sublease agreement. The compensation serves as compensation in light of the high lease payments that the Company was required to bear with a third party following the breach of the former parent company's agreement. The compensation amount will be charged to profit and loss until the end of the term of the lease (December 31, 2018).
4. The subsidiary purchases from Pointer detection kits and detection kit development services used as inventory and fixed assets in accordance with market prices.
5. On April 9, 2014, a management agreement was signed between Pointer and Shagrir Systems, which was assigned from Shagrir Systems to the Company within the structural split. According to the agreement, Pointer will provide the Company management services from January 1, 2014 for an indefinite period of time; however, each of the parties will be entitled to terminate the agreement with prior written notice 20 days in advance. According to the agreement, Pointer will provide the Company the management services set forth in the agreement at a scope of up to 100 monthly hours. The annual management fees determined in the agreement are in the amount of NIS 2 million, in addition to linkage and VAT. In practice, and as a result of the structural split, the management fees were attributed to the Company in the amount of NIS 1 million (constituting 50% of the aforesaid amount), and the agreement was terminated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 21:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES
(Cont.)**

6. Regarding capital notes provided by the former parent company to the Company, see Note 12.
7. Regarding guarantees recorded in the bank accounts of the former parent company, see Note 15.
- e. On November 3, 2016, the general meeting approved an engagement with the controlling shareholder in the Company, D.B.S.I. Investments Ltd., for the receipt of management services for monthly management fees of NIS 35 thousand in effect from July 1, 2016. The general meeting also approved the payment of directors' fees based on the amount prescribed in the Israeli Companies Regulations.
- f. Capital reserve from transactions with controlling shareholder:

The balances with the controlling shareholder represent the following:

1. Adoption of as pooling method in the transfer of the operations of the Company and the subsidiary and the distribution of current earnings and losses as dividend in kind in respect of 2014.
2. Bonus for interest on loans and capital notes to controlling shareholder (as described in Note 12).
3. Movement of assets, liabilities and joint employees in 2014.

NOTE 22:- EVENTS AFTER THE REPORTING DATE

- a. In March 2017, 137,769 employee options of NIS 0.0121 par value each vested and were exercised into shares in return for their par value.
- b. On March 21, 2017, the Company's Board decided to amend the Company's dividend distribution policy so that a dividend of at least 50% of the Company's annual net income will be distributed each year, subject to the dividend distribution tests prescribed by law. The declaration of dividend distribution according to the above policy may be performed once a year or several times a year, based on the Company's audited or reviewed financial statements and at the Board's discretion. In addition, at any time and taking into account business considerations, the Board may amend the rate of the distributed dividend or decide not to distribute any dividend.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- EVENTS AFTER THE REPORTING DATE (Cont.)

- c. On March 21, 2017, the Company's Board approved the distribution of a cash dividend totaling NIS 600 thousand. The expected distribution date is April 2017.
- d. On March 21, 2017, the Company's Board approved the extension of the date of the subsidiary's CEO's entitlement to convert his options in the subsidiary, which had been granted to him in the employment agreement of October 15, 2015, into the Company's share options until November 15, 2017. The conversion ratio will be separately determined between Car2Go, the Company and the management company by the end of the extension period.

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SHAGRIR GROUP VEHICLE SERVICES LTD.

FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS

ATTRIBUTABLE TO THE COMPANY

AS OF DECEMBER 31, 2016

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To
The Shareholders of Shagrir Group Vehicle Services Ltd.

Dear Sirs/ Mmes.,

Re: **Special auditors' report regarding separate financial information in accordance with Regulation 9c to the Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited the separate financial information presented pursuant to regulation 9c to the Securities Regulations (Periodic and Immediate Reports), 1970 of Shagrir Group Vehicle Services Ltd. ("the Company") as of December 31, 2016 and 2015 and for each of the three years ended December 31, 2016, 2015 and 2014, which was included in the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the separate financial information referred to above is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
March 21, 2017

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Special Report in accordance with Regulation 9c

Financial Data and Financial Information from the

Consolidated Financial Statements Attributable to the Company

Below is financial data and separate financial information attributable to the Company itself from the Group's consolidated financial statements as of December 31, 2016, published as part of the periodic reports ("the consolidated financial statements"), presented in accordance with Regulation 9c to the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied in presenting this financial information are elaborated in Note 2 to the consolidated financial statements, excluding the accounting treatment of subsidiaries which were not consolidated and are presented in the separate financial information at equity.

**Financial Data from the Consolidated Statements of Financial Position
Attributable to the Company**

	See also paragraph	December 31,	
		2016	2015
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		5,684	7,948
Current maturities of loan to investee		1,078	3,596
Trade receivables	b	42,188	33,950
Other accounts receivable		3,371	1,509
Inventories		552	499
		-	1,101
Assets held for sale		52,873	48,603
NON-CURRENT ASSETS:			
Loans to investees		7,308	8,033
Excess liabilities over assets attributable to investees, net, including goodwill		(3,720)	(8,161)
Property, plant and equipment	c	29,007	21,235
Other intangible assets, net		1,551	1,843
Goodwill		60,083	60,083
Deferred taxes		-	118
		94,229	83,151
		147,102	131,754

The accompanying additional information is an integral part of the financial data and separate financial information.

**Financial Data from the Consolidated Statements of Financial Position
Attributable to the Company**

	See also paragraph	December 31,	
		2016	2015
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade payables		29,709	25,787
Accrued revenues		25,115	21,091
Other accounts payable	d	10,115	10,060
		64,939	56,938
NON-CURRENT LIABILITIES:			
Capital note from shareholders less discount	e	3,191	6,094
Employee benefit liabilities, net		1,195	1,291
Long-term accrued revenues		908	1,816
Deferred taxes		1,320	-
		6,614	9,201
COMMITMENTS AND CONTINGENT LIABILITIES			
	g		
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital		97	95
Share premium		81,595	76,179
Accumulated deficit		(2,587)	(9,497)
Capital reserve from transactions with non-controlling interests		(4,179)	(1,945)
Capital reserve from remeasurement of defined benefit plans		623	783
Total equity		75,549	65,615
		147,102	131,754

The accompanying additional information is an integral part of the financial data and separate financial information.

March 21, 2017			
Date of approval of the financial statements	Yossi Ben Shalom Chairman of the Board	Yossi Regev CEO	Revital Avrahami CFO

**Financial Data from the Consolidated Statements of Profit or Loss and
Other Comprehensive Income Attributable to the Company**

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Revenues from sales	30,679	24,502	18,761
Revenues from provision of services	128,893	118,110	110,646
Total revenues	159,572	142,612	129,407
Cost of sales	16,952	13,829	10,593
Cost of provision of services	120,591	112,568	104,972
Total cost of sales and services	137,543	126,397	115,565
Gross profit	22,029	16,215	13,842
Selling and marketing expenses	7,076	6,547	5,585
General and administrative expenses	9,019	8,018	7,881
Impairment of property, plant and equipment and intangible assets	-	-	678
Other expenses (revenues)	(116)	(60)	104
Operating income (loss)	6,050	1,710	(406)
Finance expenses, net	(382)	(8,119)	(125)
Finance income from loans from investees	603	536	663
Equity in earnings (losses) of investees (including impairment of goodwill), net	3,185	(459)	(2,799)
Income (loss) before taxes on income	9,456	(6,332)	(2,667)
Tax benefit (expense)	(1,828)	860	141
Net income (loss) attributable to the Company	7,628	(5,472)	(2,526)

The accompanying additional information is an integral part of the financial data and separate financial information.

**Financial Data from the Consolidated Statements of Profit or Loss and
Other Comprehensive Income Attributable to the Company**

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Other comprehensive income (loss) attributable to the Company net of taxes:			
Amounts that will not be subsequently reclassified to profit or loss:			
Remeasurement gain (loss) from defined benefit plans	(160)	39	60
Total amounts that will not be subsequently reclassified to profit or loss	(160)	39	60
Total other comprehensive income (loss) attributable to the Company	(160)	39	60
Total comprehensive income (loss) attributable to the Company	(160)	39	60

The accompanying additional information is an integral part of the financial data and separate financial information.

**Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company**

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
<u>Cash flows from operating activities of the Company:</u>			
Net income (loss) attributable to the Company	7,628	(5,472)	(2,526)
Adjustments to reconcile net income (loss) to net cash provided by operating activities of the Company:			
Adjustments to the profit or loss items of the Company:			
Depreciation and amortization	5,724	6,150	6,418
Finance expenses (income), net	(365)	7,353	(663)
Impairment loss of property, plant and equipment	-	-	1,560
Gain from sale of property, plant and equipment	(752)	(577)	(248)
Change in employee benefit liabilities, net	(310)	249	145
Write down of options	1,316	1,774	-
Tax expense (benefit)	1,828	(860)	(141)
Equity in losses (earnings) of investees	(3,185)	459	2,799
	11,884	9,076	7,344
Changes in asset and liability items of the Company:			
Increase in trade receivables	(8,487)	(2,634)	(4,526)
Decrease (increase) in other accounts receivable	(1,439)	476	(196)
Decrease (increase) in inventories	(53)	(27)	36
Increase (decrease) in trade payables	4,816	4,748	(688)
Increase (decrease) in other accounts payable	55	(1,058)	2,891
Increase (decrease) in accrued revenues	3,116	459	(2,645)
Working capital adjustments with controlling shareholder	-	-	457
	(1,992)	1,964	(4,671)
Cash paid and received during the year for:			
Taxes paid	(42)	-	-
Net cash provided by operating activities of the Company	9,850	11,040	2,673

The accompanying additional information is an integral part of the financial data and separate financial information.

**Financial Data from the Consolidated Statements of Cash Flows
Attributable to the Company**

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
<u>Cash flows from investing activities of the Company:</u>			
Purchase of property, plant and equipment	(14,744)	(6,780)	(5,527)
Purchase of intangible assets	(644)	(275)	(287)
Proceeds from sale of property, plant and equipment	3,015	3,924	5,189
Proceeds from sale of intangible assets	-	20	-
Grant of loan to subsidiary	-	-	(3,000)
Repayment of loan from subsidiary	257	-	970
Net cash used in investing activities of the Company	(12,116)	(3,111)	(2,655)
<u>Cash flows from financing activities of the Company:</u>			
Short-term credit from banks and others	-	(12)	-
Exercise of share options	2	-	-
Net cash provided by (used in) financing activities of the Company	2	(12)	-
Increase (decrease) in cash and cash equivalents	(2,264)	7,917	18
Cash and cash equivalents at the beginning of the year	7,948	31	13
Cash and cash equivalents at the end of the year	5,684	7,948	31
(a) <u>Significant non-cash activities:</u>			
Purchase of property, plant and equipment on credit	575	1,469	415
Sale of property, plant and equipment on credit	378	249	85

The accompanying additional information is an integral part of the financial data and separate financial information.

Additional Information

a. General

Shagrir Group Vehicle Services Ltd. ("the Company") was incorporated in Israel on November 25, 2014. The Company is engaged in providing services to insurance companies, including vehicle repairs, roadside and towing services, homeowner services and auto service centers (collectively - "services to insurance companies") and in supplying car rental and sharing services for varying periods of time, through Car2Go Ltd. ("Car2Go" or "the subsidiary"). The Company was founded by Pointer Telocation Ltd. ("the former parent company" or "Pointer").

On June 8, 2016, the Company was distributed as a dividend in kind to the shareholders of Pointer and its shares began trading on the Tel-Aviv Stock Exchange ("the TASE") from June 28, 2016. From said date, D.B.S.I. Investments Ltd. ("DBSI") is the controlling shareholder in the Company which holds about 36.28% of the Company's shares as of December 31, 2016.

b. Trade receivables:

	December 31,	
	2016	2015
	NIS in thousands	
Open debts	17,327	13,059
Checks receivable	9,152	8,297
Accrued income	16,769	13,442
Related parties	205	195
Less - allowance for doubtful accounts	(1,265)	(1,043)
Trade receivables, net	42,188	33,950

Impaired debts are accounted for through recording an allowance for doubtful accounts.

The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2015	898
Charge for the year	145
Derecognition of bad debts	63
Reversal of collected doubtful accounts	(63)
Balance at December 31, 2015	1,043
Charge for the year	230
Derecognition of bad debts	82
Reversal of collected doubtful accounts	(90)
Balance at December 31, 2016	1,265

Additional Information

b. Trade receivables (Cont.):

An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Neither past due nor impaired	Past due trade receivables with aging of					Total
		< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	>120 days	
		NIS in thousands					
December 31, 2016	38,072	1,466	646	233	327	1,444	42,188
December 31, 2015	30,928	847	413	259	161	1,342	33,950

Additional Information**c. Property, plant and equipment:**

1. Composition and movement:

2016

	Buildings	Motor vehicles	Office furniture and equipment	Computers and peripheral equipment	Auto repair equipment	Leasehold improvements	Total
	NIS in thousands						
Cost:							
Balance at January 1, 2016	1,935	23,985	878	8,966	1,312	5,664	42,740
Additions during the year							
Purchases	-	10,064*)	496	381	386	2,524	13,851
Disposals during the year:							
Disposals	-	(5,949)	-	(188)	-	-	(6,137)
Balance at December 31, 2016	1,935	28,100	1,374	9,159	1,698	8,188	50,454
Accumulated depreciation:							
Balance at January 1, 2016	255	11,614	304	7,481	208	1,643	21,505
Additions during the year							
Depreciation	8	2,885	96	682	176	793	4,640
Disposals during the year:							
Disposals	-	(4,530)	-	(168)	-	-	(4,698)
Balance at December 31, 2016	263	9,969	400	7,995	384	2,436	21,447
Depreciated cost at December 31, 2016	1,672	18,131	974	1,164	1,314	5,752	29,007

*) An amount of NIS 995 thousand represents an advance to a supplier for the purchase of service vehicles and related equipment.

Additional Information

c. Property, plant and equipment (Cont.):

2015

	Buildings	Motor vehicles	Office furniture and equipment	Computers and peripheral equipment	Auto repair equipment	Leasehold improvements	Total
	NIS in thousands						
Cost:							
Balance at January 1, 2015	1,935	22,865	1,396	8,434	468	7,513	42,611
Additions during the year							
Purchases	-	6,024	58	698	844	210	7,834
Disposals during the year:							
Disposals	-	(4,904)	(576)	(166)	-	(2,059)	(7,705)
Balance at December 31, 2015	1,935	23,985	878	8,966	1,312	5,664	42,740
Accumulated depreciation:							
Balance at January 1, 2015	247	12,949	530	6,853	122	2,688	23,389
Additions during the year							
Depreciation	8	2,155	149	775	86	1,014	4,187
Disposals during the year:							
Disposals	-	(3,490)	(375)	(147)	-	(2,059)	(6,071)
Balance at December 31, 2015	255	11,614	304	7,481	208	1,643	21,505
Depreciated cost at December 31, 2015	1,680	12,371	574	1,485	1,104	4,021	21,235

Additional Information**c. Property, plant and equipment (Cont.):**

2. Impairment of property, plant and equipment:

Impairment loss of NIS 148 thousand and NIS 1,011 thousand recorded in 2016 and 2015, respectively, represents reclassification of vehicles previously classified as held for sale to fair value less selling costs. The impairment loss was recognized in profit or loss in cost of sales.

3. Purchase of property, plant and equipment on credit:

During the year ended December 31, 2016, the Company purchased property, plant and equipment totaling NIS 575 thousand on credit. The purchase cost has not yet been paid as of the reporting date.

d. Other accounts payable:

	December 31,	
	2016	2015
	NIS in thousands	
Accrued expenses	162	513
Employees and payroll accruals	8,551	7,785
Government authorities	1,322	1,711
Other	80	51
	<u>10,115</u>	<u>10,060</u>

e. Non-current liabilities:

1. Composition:

	December 31,	
	2016	2015
	NIS in thousands	
Capital note from the parent company (1)	3,900	8,000
Less - discount	<u>(709)</u>	<u>(1,906)</u>
	<u>3,191</u>	<u>6,094</u>

- (1) On December 30, 2015, a loan received from the former parent company in the amount of NIS 8,000 thousand was converted to an interest-free capital note which will not be repaid before December 31, 2020. The capital note was recorded at a fair value of NIS 6,094 thousand using an effective interest rate of 5.58%. The difference between the consideration received and the fair value of the loan in the amount of NIS 1,906 thousand less deferred tax in the amount of NIS 504 thousand was recorded in capital reserves as of December 31, 2015.

Additional Information

e. Non-current liabilities (Cont.):

On March 29, 2016, the former parent company's board of directors decided to repay the capital note in the amount of NIS 8,000 thousand issued by the Company on December 30, 2015. In addition, the board decided to convert an amount of NIS 4,100 thousand from the balance of the capital note into equity. In respect of the unconverted balance, two capital notes were issued in the amount of NIS 3,100 thousand and NIS 800 thousand under the same terms as the original capital note. The outstanding capital note after said conversion is carried at fair value using an effective interest rate of 5.58%.

2. Financial covenants:

In keeping with the credit facility received from a bank, the Company undertook to meet certain financial covenants starting from January 1, 2015 according to which the ratio of its equity to total balance sheet at all times will not be below 40%. In addition, the controlling shareholders, Mr. Yossi Ben Shalom and Mr. Barak Dotan ("the controlling shareholders"), will jointly or severally, directly or indirectly (through Israeli companies wholly owned by them and/or through a trustee) hold at least 22% of the Company's issued and outstanding share capital (on a fully diluted basis).

As of December 31, 2016, the Company is meeting the above financial covenant.

f. Significant loans, balances and commitments with investees:

1. Balances with investees:

a) Composition:

	December 31,	
	2016	2015
	NIS in thousands	
Customers	205	195
Loans granted to investees *)	8,386	11,629
	<u>8,591</u>	<u>11,824</u>

*) See paragraphs 3b and 3d below.

b) Guarantees provided in favor of investees:

The Company provided a limited guarantee of NIS 1,300 thousand to a bank in respect of credit extended by the bank to the subsidiary.

The Company also signed a letter of guarantee in a total of NIS 6,000 thousand in favor of the Tel-Aviv-Yafo Economic Development Authority Ltd. ("the Authority") to secure the fulfillment of Car2Go's liabilities under the contract signed with the Authority.

As of December 31, 2016, the subsidiary has outstanding credit of NIS 938 thousand.

Additional Information

f. Significant loans, balances and commitments with investees (Cont.):

2. Transactions with investees:

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Revenues from provision of services	526	818	2,885
Finance income	603	536	663

*) See paragraph 3 below.

3. Transactions and commitments with investees:

- a) The subsidiary, Car2Go, rents vehicles from the Company which are used by the subsidiary in its operating activities. The rental fees paid to the Company are in accordance with the market prices for the rental of vehicles of this kind.
- b) The Company provided a loan to the subsidiary upon its acquisition (in 2009) in the amount of NIS 6 million. The loan is linked to the Israeli CPI and bears annual interest of 4%. As of April 1, 2014, the loan bears annual interest at a rate of 6%, and will be repaid in 12 quarterly payments from March 2016.

On March 28, 2016, the Company and Car2Go signed an agreement for the deferral of the loan's maturity date to September 1, 2016.

On November 23, 2016, another amendment was signed to the loan according to which the interest rate was raised from 6% to 7% and the maturity dates were extended from 12 consecutive quarterly payments to 84 monthly payments.

- c) On April 9, 2014, the Company provided the subsidiary a convertible loan in the amount of NIS 3 million. The loan is linked to the Israeli CPI and bears annual interest at a rate of 7%. The loan will be repaid beginning after two years from the date of receipt of the loan principal in 12 quarterly installments, if not converted to shares of the subsidiary.

The loan is convertible in accordance with the following terms:

- (1) In the event that capital of at least NIS 5 million is raised, the Company will be entitled to convert the loan to shares of the same class and with the same rights allocated in the raising, at a discount of 30%.
- (2) In the event that the capital raising is not completed within one year from the date on which the loan is received, the Company will be entitled to convert the balance of the loan to Preferred A shares based on a value of NIS 10 million before the money on a fully diluted basis.

Additional Information

f. Significant loans, balances and commitments with investees (Cont.):

On June 26, 2016, the loan whose balance as of the date of conversion was NIS 3,490 thousand (including interest and linkage) was converted into 11,542 Preferred shares. As a result of the above conversion, the Company's interests in Car2Go increased from 61.06% to 72.4%.

- d) On February 22, 2016, the Company engaged with Car2Go in a convertible loan agreement. According to the agreement, the Company, together with additional investors, will provide Car2Go a loan in the amount of approximately NIS 5,000 thousand. An amount of approximately NIS 3,800 thousand of the loan will be provided to Car2Go by the Company. As of December 31, 2016 and as of the date of the financial statements, the actual loan has not been provided.

The loan is linked to the Israeli CPI and bears annual interest of 7%, which will be calculated on a compound interest basis. Providing any part of the loan in practice will be performed in accordance with the notice of Car2Go, which Car2Go will provide investors, when the most recent notice as stated will be provided no later than 18 months from the date of the agreement.

Car2Go will repay the principal of the loan, interest and linkage starting from the end of two years (24 months) from the date of actual receipt of each part of the principal of the loan in 12 quarterly payments, and with each payment, Car2Go will repay 8.333% of the loan, in addition to linkage differences and interest accrued on the same part of the loan until the same date. All of this will occur as long as none of the investors (as applicable) repays the loan or converts the loan to capital before the payment dates of the loan as set forth below.

In addition, according to the terms of the agreement, if Car2Go raises capital from third parties in a total amount of at least NIS 5,000 thousand before the entire loan is repaid, on the date on which the transaction is completed as stated, the relevant lenders will be entitled to convert the loan to shares of the same class and the holders of the same rights allocated in the capital raising, at a discount of 30% on the share price in raising the capital. However, if Car2Go does not complete the capital raising within 12 months from the date on which the principal of the loan was provided, the relevant lenders will be entitled to convert the loan (which was not yet repaid) on any date from the end of the 12 months as stated above, and until full payment of the loan, to Preferred A shares of Car2Go, based on a value of NIS 10 million before the money, on a fully diluted basis.

g. Commitments and contingent liabilities:**1. Charges:**

The Company recorded a first degree charge on its entire assets in favor of certain banks.

2. Commitments:

In the context of a credit facility extended by a bank, the Company is required to meet certain financial covenants (see e(2) above).

Additional Information

g. Commitments and contingent liabilities (Cont.):

3. Lease obligations:

The Company leases offices, sites and vehicles for periods ending in 2016. The minimum lease fees according to non-cancellable operating leases are as follows:

	NIS in thousands
2017	4,079
2018	4,137
2019	4,967
2020 and thereafter	<u>10,644</u>
	<u><u>23,827</u></u>

Lease expenses in the years ended December 31, 2016, 2015 and 2014 amounted to NIS 3,746 thousand, NIS 3,201 thousand and NIS 3,030 thousand, respectively.

4. Legal claims:

As of December 31, 2016, there are several claims pending against the Company in an aggregate amount of approximately NIS 311 thousand. The majority of claims involve alleged negligence of the Company in providing services in the ordinary course of business. Based on its legal counsel, the Company's management believes that no material costs are expected to be incurred as a result of these claims and therefore no provision was included in their respect in the financial statements.

5. Collaterals:

To secure the Company's liabilities for the provision of services to customers and lease obligations, the Company provided bank guarantees totaling approximately NIS 14,486 thousand in effect from January 2016 until July 2019. As of December 31, 2016, an amount of NIS 170 thousand is included in the former parent company's bank accounts.

Additional Information

h. Balances and transactions with interested and related parties:

1. Balances with interested and related parties:

December 31, 2016

	For details see paragraph	Controlling shareholder	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable		-	-	1,829
Other accounts payable/trade payables		(159)	(1,334)	(45)
Employee benefit liabilities, net		-	(328)	-
Capital note (less discount)	e	-	-	(3,191)
The highest balance during the year		-	-	1,828

December 31, 2015

	For details see paragraph	Controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable		128	-	-
Other accounts payable/trade payables		-	(963)	(140)
Employee benefit liabilities, net		-	(740)	-
Capital note (less discount)	e	(6,094)	-	-
The highest balance during the year		4,015	-	-

January 1, 2015

		Former controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
		NIS in thousands		
Other accounts receivable		661	-	-
Other accounts payable/trade payables		-	(2,697)	-
Short-term loans (less discount)		(64,421)	-	-
Employee benefit liabilities, net		-	(652)	-
The highest balance during the year		661	-	-

Additional Information

h. Balances and transactions with interested and related parties (Cont.):

2. Benefits to key management personnel (including directors) employed by the Company:

In addition to wages, the Company's executives are entitled to non-cash benefits (such as a vehicle, mobile phone, etc.). Additionally, the Company deposits funds for them within a defined post-employment benefit plan and/or contribution plan. In accordance with the terms of the plan, the retirement age for directors and senior executives is as prescribed by law.

In addition to monthly wages and non-cash benefits (such as a vehicle, mobile phone, etc.), the Company's CEO is entitled to an annual bonus calculated as a percentage of the adjusted net earnings per share.

In 2016, the employment agreement with the CEO was updated whereby starting from 2016, the CEO is entitled to an annual bonus calculated in the following manner: (1) up to adjusted consolidated net earnings per share of NIS 0.06 - no bonus will be paid; (2) from consolidated net earnings per share of NIS 0.06 through consolidated net earnings per share of NIS 0.181 - an annual bonus of 7% from the consolidated net earnings per share in excess of the lower threshold of this level, multiplied by the base number of shares; (3) from consolidated net earnings per share in excess of NIS 0.181 - an annual bonus of 10% of the consolidated net earnings per share in excess of the lower threshold of this level, multiplied by the base number of shares. In the event that the base number of shares is adjusted for a distribution of bonus shares and technical changes to the Company's capital such as capital consolidation or split, the consolidated net earnings per share levels as set forth above will be updated accordingly (however, the consolidated net earnings per share levels will not be updated for any other change to the number of shares of the Company, such as the issue of capital, buy-back of shares and the like). The bonus calculated based on the above calculation will constitute 100% of the annual bonus to which he is entitled; however, in any case, the total annual bonus will not exceed an amount equal to 12 gross monthly salaries.

In addition, in the event that the CEO's employment is terminated by the Company for any reason (excluding under circumstances in which severance pay can be withheld from an employee under the law practiced in Israel), the CEO will be entitled, in addition to the release of the amounts accrued on his behalf in the insurance policy or pension fund as above, to payment of severance pay increased by 50% of the severance pay set forth by law. Additionally, at the end of his employment, he is entitled to an adjustment period of six months. During the adjustment period, he will be entitled to all of the payments and benefits owed to him under the agreement.

In 2015, the CEO was entitled to a bonus based on the adjusted net earnings per share, with the calculation of the adjusted earnings for share being in accordance with the number of shares in 2015, and based on the stand-alone net earnings per share (without the results of the subsidiary).

Additional Information

h. Balances and transactions with interested and related parties (Cont.):

Benefits granted to key management personnel (including directors) employed by the Company:

	Year ended December 31.					
	2016		2015		2014	
	No. of people	Amount NIS in thousands	No. of people	Amount NIS in thousands	No. of people	Amount NIS in thousands
Short-term employee benefits	5	4,114	5	3,622	7	4,043
Post-employment benefits	5	208	5	358	8	257
Termination benefits	1	11	1	15	-	-
Share-based payment	5	1,053	5	1,420	-	-
	16	5,386	16	5,415	15	4,300

3. Transactions with interested and related parties:

	Year ended December 31, 2016			
	For details see paragraph	Controlling shareholder	Key management personnel	Other interested and related parties
			NIS in thousands	
Purchase of products	h(4)(a)	-	-	28
Purchase of services	h(4)(a)	-	-	208
Sale of products - property, plant and equipment	-	-	-	136
Sale of services	h(4)(b),(c)	-	-	5,669
Employee benefit expenses	h(2)	-	5,386	-
Management fees	h(9)	276	-	-
Purchase of property, plant and equipment	-	-	-	5
		276	5,386	6,046

	Year ended December 31, 2015			
	For details see paragraph	Controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
			NIS in thousands	
Purchase of products	h(4)(a)	50	-	-
Purchase of services	h(4)(a)	639	-	51
Sale of products - property, plant and equipment	-	292	-	-
Sale of services	h(4)(b),(c)	8,565	-	-
Employee benefit expenses	h(2)	-	5,415	-
Purchase of property, plant and equipment	-	-	-	213
Finance expenses	h(6)	7,975	-	-
		17,521	5,415	264

Additional Information

h. Balances and transactions with interested and related parties (Cont.):

		Year ended December 31, 2014		
		Controlling shareholder (former parent company)	Key management personnel	Other interested and related parties
	For details see paragraph	NIS in thousands		
Purchase of services	h(4)(a)	-	-	56
Management fees	h(5)	1,089	-	-
Employee benefit expenses	h(2)	-	4,300	-
Purchase of property, plant and equipment		-	-	314
		<u>1,089</u>	<u>4,300</u>	<u>370</u>

4. Revenues and expenses relating to interested and related parties:

Employment terms of related parties

- a) On December 30, 2014, the former parent company, Shagrir Systems and the Company signed a service agreement within which it was agreed that Pointer will provide the Company various services, including installation services for vehicle protection products, vehicle location services and vehicle accessories as well as procurement management services. The services are provided in accordance with a pricelist that represents market prices.
- b) In accordance with the aforesaid service agreement, the Company provides the former parent company various services, including IT, telephony, vehicle lease, auto service center, towing and roadside, marketing (of Shagrir Zahav and Shagrir Mashlim) and personnel services. The services are provided in accordance with third party prices.
- c) In accordance with the service agreement mentioned above, the Company subleases certain real estate assets in Haifa, Jerusalem and Holon, in accordance with the Company's lease term with a third party, and in consideration for annual lease fees and in addition to maintenance costs such as municipal tax, electricity, and the like. In an addendum to the service agreement signed between the Company and the former parent company on December 30, 2015, the parties agreed that they will terminate the sublease of the main asset in Holon, within which they agreed that the former parent company will pay the Company compensation in a total amount of NIS 2,800 plus VAT as required by law in light of the breach of the sublease agreement. The compensation serves as compensation in light of the high lease payments that the Company was required to bear with a third party following the breach of the former parent company's agreement. The compensation amount will be charged to profit and loss until the end of the term of the lease (December 31, 2018).

Additional Information

h. Balances and transactions with interested and related parties (Cont.):

5. On April 9, 2014, a management agreement was signed between Pointer and Shagrir Systems, which was assigned from Shagrir Systems to the Company within the structural split. According to the agreement, Pointer will provide the Company management services from January 1, 2014 for an indefinite period of time; however, each of the parties will be entitled to terminate the agreement with prior written notice 20 days in advance. According to the agreement, Pointer will provide the Company the management services set forth in the agreement at a scope of up to 100 monthly hours. The annual management fees determined in the agreement are in the amount of NIS 2 million, in addition to linkage and VAT. In practice, and as a result of the structural split, the management fees were attributed to the Company in the amount of NIS 1 million (constituting 50% of the aforesaid amount), and the agreement was terminated.
6. Regarding capital notes provided by the former parent company to the Company, see paragraph e above.
7. Regarding guarantees recorded in the bank accounts of the former parent company, see paragraph g(5) above.
8. Capital reserve from transactions with controlling shareholder:

The balances with the controlling shareholder represent the following:

- a) Adoption of the as pooling method in the transfer of the operations of the Company and the subsidiary and the distribution of current earnings and losses as dividend in kind in respect of 2014.
- b) Bonus for interest on loans and capital notes from the former controlling shareholder (as described in paragraph e above).
9. On November 3, 2016, the general meeting approved an engagement with the controlling shareholder in the Company, D.B.S.I. Investments Ltd., for the receipt of management services for monthly management fees of NIS 35 thousand in effect from July 1, 2016. The general meeting also approved the payment of directors' fees based on the amount prescribed in the Israeli Companies Regulations.

i. Events after the reporting date:

1. In March 2017, 137,769 employee options of NIS 0.0121 par value each vested and were exercised into shares in return for their par value.
2. On March 21, 2017, the Company's Board decided to amend the Company's dividend distribution policy so that a dividend of at least 50% of the Company's annual net income will be distributed each year, subject to the dividend distribution tests prescribed by law. The declaration of dividend distribution according to the above policy may be performed once a year or several times a year, based on the Company's audited or reviewed financial statements and at the Board's discretion. In addition, at any time and taking into account business considerations, the Board may amend the rate of the distributed dividend or decide not to distribute any dividend.

Additional Information

i. Events after the reporting date (Cont.):

3. On March 21, 2017, the Company's Board approved the distribution of a cash dividend totaling NIS 600 thousand. The expected distribution date is April 2017.
4. On March 21, 2017, the Company's Board approved the extension of the date of the subsidiary's CEO's entitlement to convert his options in the subsidiary, which had been granted to him in the employment agreement of October 15, 2015, into the Company's share options until November 15, 2017. The conversion ratio will be separately determined between Car2Go, the Company and the management company by the end of the extension period.

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Variance Economic Consulting [Logo]

Shagrir Group Vehicles Services Ltd.

[Shagrir Logo]

Examination of Goodwill

As of December 31, 2016

March 2017

Variance Economic Consulting Ltd.

Glossary

Reference	Definition
The Management	The management of Shagrir Ltd.
Variance	Variance Economic Consulting Ltd.
Unit of services to Insurance Companies / CGU / the Unit	Unit of the services to the insurance companies
Valuation Date	December 31, 2016
Pointer	Pointer Telocation Ltd. (the former parent company of Shagrir Vehicle Services)
Shagrir Systems	Shagrir Systems Ltd.
Shagrir and/or Shagrir Vehicle Services and/or the Company	Shagrir Group Vehicle Services Ltd.
IAS 36	International Accounting Standard 36 “Asset Impairment”
WACC	Weighted average cost of capital

March 21, 2017

To:
Ms. Revital Avrahami
CFO
Shagrir Group Vehicle Services Ltd.

Further to your request, Variance performed a goodwill impairment test for the goodwill recorded by Shagrir for a service unit to insurance companies (CGU) as of December 31, 2016. This goodwill impairment test is intended for the use of Shagrir and only for the purpose of this project. It is agreed that Shagrir may attach this valuation report to the Stock Exchange. Furthermore, Shagrir may attach this valuation report to its reports to the Stock Exchange under the Securities Law, 5728-1968 or the regulations thereunder, and to any other report submitted under the Securities Law, and within legal proceedings in Israel and/or before any competent authority in Israel.

In accordance with the International Financial Reporting Standards (IFRS) 3R, goodwill arising from an acquisition of a company should not be reduced. Instead, an annual impairment test is conducted (or more frequently, if there is any indication that an asset may be impaired), to measure goodwill in order to ensure that its carrying amount does not exceed its recoverable amount, in accordance with the provisions of International Accounting Standards (IAS) 36.

For the purpose of the goodwill test, we have relied on the methodology determined by IAS 36 which sets forth the accounting standards for the reporting and presentation required in the case of impairment of assets. IAS 36 provides the procedures that a corporation must adopt in order to ensure that its assets are not carried at more than their recoverable amount. An asset is carried at an amount that is higher than its recoverable amount when the book value exceeds the higher of the amount that would be received upon the asset's use or exercise.

Purpose of the Work

The purpose of the work below is to examine the goodwill for the services unit to insurance companies as of December 31, 2016, in accordance with IAS 36.

Since goodwill does not generate cash flow independently of other assets, the recoverable amount of goodwill cannot be determined as a separate asset. Therefore the recoverable amount will be determined according to the cash-generating unit (CGU) to which the goodwill is allocated.

Cash-generating unit

The CGU of an asset is the smallest group of assets, containing the asset, which generates positive cash flow from ongoing use, independent from positive cash flow from other assets.

The Company's management has identified the services unit to insurance companies as the smallest unit of assets to which the goodwill is allocated, which generates independent positive cash flow from ongoing use.

Estimation of the recoverable amount

The recoverable amount of an asset or CGU will be calculated as the higher of the fair value less costs of disposal and its value in use. It is emphasized that our work included an examination of the value in use of the activity of the unit, and did not include an examination of the net sales price of the company. The future cash flows were discounted at a suitable discount rate for pre-tax cash flows, reflecting the risk involved in the activity.

Methods of Valuation

The recoverable amount of Shagrir was calculated using the value in use method, which is the present value of future cash flows expected to be derived from the Company's activity. The use of this method for the purpose of estimating the value of activity based on an assessment of the ability of a business to generate cash. Accordingly, the value of the business is estimated using the discounted cash flow, which accounts for the cash expected to be generated in the future. The future cash flows are discounted at the cost of capital reflecting the risk involved in the activity of the business, to express the return an investor would expect to receive from activity with a similar risk.

Sources of the Information

The valuation document below is based on data received from the management of Shagrir. Additionally, we relied on the data from external sources that we believe to be reliable. In the valuation and in this document, we relied on the declarations of the Company's management that all of the information provided to us was provided in full, and that no substantial and/or relevant document and/or information has been concealed from us or destroyed. Additionally, we relied on the fact that all of the data transferred to us is final and that no changes were made after they were provided to us. Additionally, we assume that the information and data provided to us is accurate, complete and precise, and we are not required to perform any review or verification of the aforesaid information.

The main sources of the information used by us in the performance of the valuation are as follows:

- Pro-forma reports of Shagrir for 2014;
- Financial statement for December 31, 2015;
- Financial data as of December 31, 2016;
- The Company's 2017 budget;
- Discussions with the management of Shagrir;
- Public information;
- Accounting standard IAS 36.

Rounding numbers

Due to rounding numbers, there may be a slight deviation in the presentation of the numbers in this document.

Conclusions

The following table presents the summary of the impairment test of the GCU's goodwill (NIS millions):

Date	Book value	Recoverable amount	Amount for reduction
December 31, 2016	70.9 ¹	78.6	No reduction

As of the date of the valuation, the book value of the Company amounts to approximately NIS 70.9 million, which is lower than the CGU's recoverable amount. According to the provisions of IAS 36, due to the fact that the book value is lower than its recoverable amount, no reduction of goodwill is required in Shagrir's books.

Professional Experience of Variance and the Assessor

Variance has substantial experience in economic works generally, and for accounting purposes specifically. Variance has performed a large number of corporate valuations, valuations of holdings and valuations of options and financial instruments based on international and American accounting standards. The valuation of the goodwill included in this work was led by Ram Levy, who has vast experience in the management and execution of valuations generally and valuations of this kind in particular. His experience includes, *inter alia*, valuations of public companies in scopes similar or even larger than the value of activities of the unit at the subject of this valuation. Ram has the suitable education and extensive relevant experience (see the Company's profile and the experience of the assessor in Appendix C).

Engagement and Independence

- a. This work was performed at the request of Shagrir, based on the definitions and terms determined in the engagement agreement between Shagrir and Variance dated January 2017. We hereby declare that we are independent of Shagrir and/or the Company and/or the Company's controlling shareholders, and we are not an interested party or expect to become an interested party therein in the future.
- b. Shagrir has undertaken vis-à-vis Variance that in the event that claims are filed against Variance in legal or other proceedings, and is required to pay any amount to a third party in connection with the work performed for the Company, it shall indemnify Variance for any amount charged in excess of three times the fees paid for this work. The indemnification obligation will not apply if it is determined by a court in a peremptory ruling that Variance, in connection with providing the services and/or work product to which the provided opinion pertains, has acted with gross negligence, contempt or malintent. Additionally, the Company undertakes not to initiate legal proceedings against Variance in relation to this engagement.
- c. The fees that we received for the performing the work are not contingent on the results produced by the examination of goodwill, and do not depend on the Company's performance, or the success of any commercial activity related to the valuation.

¹ As received by the Company's management.

- d. The information appearing in this report does not purport to include all of the information required by a potential investor and is not intended to determine the value of the Company and/or its assets for a specific investor. Various investors may have different objectives and considerations, and examination methods based on different assumptions, and accordingly, the price that they may be willing to pay for the Company and/or its various assets may be different.
- e. It is further important to note that our conclusions in this goodwill examination rely largely on forward-looking information, based primarily on information existing in the Company as of the date of this valuation, and includes estimates, assumptions or intentions that are correct as of the date of this examination of goodwill which may not be realized or only partially realized. Therefore, the actual results, in whole or in part, may be materially different, positively or negatively, from the results estimated, derived or implied from information that we have received from the management of Shagrir.
- f. This work does not constitute a due diligence and does not purport to include all the information, examinations, assessments or any other information included in due diligence studies, including an examination of contracts and engagements of the Company.
- g. The results of the examination of goodwill are relevant strictly as of the date of the valuation and the purpose for which it was performed. As stated, the examination of goodwill should not be used other than for this purpose.
- h. This document does not constitute, in any manner, an invitation or offer to invest, purchase, sell or hold securities or financial instruments related to the corporation to which this document pertains.
- i. This work is limited to conducting an examination of goodwill of the Company, and is performed subject to the additional terms and limitations described in Appendix A.
- j. All rights are reserved by Variance Economic Consulting Ltd.

We are pleased to hereby provide the examination of goodwill for Shagrir, and for all questions and matters related to the work, please contact Variance Economic Consulting Ltd. at 03-5025155.

Sincerely,

Variance Economic Consulting Ltd.

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1. Introduction

1.1 General

Shagrir was incorporated as a private company limited by shares on November 25, 2014, under the name Shagrir Group Vehicle Services Ltd.

On December 30, 2014, a structural change process was completed in which the Company was transferred part of the activity of Shagrir Systems Ltd., including primarily the insurance companies activities. Within these activities, the Company provides various services including roadside services, services to homes, auto service centers and others. The aforesaid services are offered and sold to customers of the Company in the sector, including mainly insurance companies, and are provided directly by the Company to subscribers and/or additional customers who purchase these services from the Company directly (and not through insurance companies).

On June 28, 2016, Shagrir completed an initial public issuance and became a public company traded on the Tel Aviv Stock Exchange.

On July 1, 2015, the Company acquired from Pointer 62.31% of the holdings in Car2Go Ltd., which is engaged in the field of car sharing and rentals, in accordance with the book cost. During 2016, the Company increased its holdings in Car 2 Go to 72.4%.

2. Description of the Services Unit to Insurance Companies

The Company's activity includes the sale, primarily through insurance companies, of services to subscribers, including roadside services, homeowner services and service centers that the Company operates. The services are acquired primarily by insurance companies (for subscribers of the Company) and are provided by the Company directly to subscribers.

The Company has additional engagements with various companies and entities, for the provision of its services in the area of activity, using both on a subscription-based model as well as consumption-based.

Within the services to the insurance companies, the Company provides a group of services including three central categories: roadside services, homeowner services and service centers, which also function as the insurance companies' approved garages where the Company repairs vehicles after accidents.

It is noted that the distinction between the various services that the Company provides in the field of the activity is not a rigid dichotomy and is intended merely for describing the Company's services in its area of activity. Therefore, services of a certain kind may or may not exclude other services at the same time. Amongst the various services that the Company provides in its area of activity there is a synergy created by their combined operations. Accordingly, there is also a joint management of knowledge that enables more efficient planning, management and operation of the Company in the sector, which allows of the Company to expand the range of the services offered to its customers.

It is further noted that the Company sees strategic value in its ability to provide its customers with a broad ranges of the services listed above, which provides a comprehensive response to the requirements and needs of insurance agencies and companies, which are included among the Company's main customers in the area of activity.

The following are details of the Company's primary services:

- **Roadside services** - that include, *inter alia*: roadside and towing services for all kinds of vehicles, in cases of an accident and/or malfunction; light road repair services (jumping the vehicle, changing a tire, battery, etc.); replacement car services, transportation services for subscribers from the site of the event; car storage and maintenance services; accompanying services for vehicles, including passing the annual licensing test, taking the car for periodic upkeep, refueling, lockout service, and more.

In order to supply replacement vehicles, the Company manages a car rental practice and owns, as of December 31, 2016, approximately 91 vehicles available for rental to its customers in accordance with eligibility and based on the terms of the rental contract. In addition, the Company rents hundreds of additional vehicles from approximately 12 rental companies engaged with the Company, at various payment rates and conditions.

- **Services to homes** - that include, *inter alia*: plumbing services and repairs of water damage in homes and shared spaces, repairs of water heaters and damage arising from faulty sealing, emergency services in cases of electrical outages in apartments, lockout services and more. Services to the home in the area of pipe and water damages are performed by S.K.L (Inclusive Customer Services - Sherut Kollel Lalakuach).

As of the date of the assessment, the Company provides these services mainly to subscribers through insurance companies in consideration for fixed subscription fees. Additionally, the Company provides these services in a limited scope within the direct engagements with private customers.

During 2016, a circular was issued on behalf of the Division of Capital Markets, Insurance and Savings at the Ministry of Finance whereby as of June 2017, the engagements between the insurance companies and the service providers for home services will be terminated in the form of fixed subscriptions. According to the circular, as of this date, the insurance companies will be required to transition to a model of engagement with a number of different service providers, which will be compensated by direct compensation for the work performed instead of fixed subscription fees customary before the change (hereinafter: the "Reform in the Home Services Activity"). As of the date of the assessment, the Company's management is examining the projected impacts on the area of activity.

- **The auto service center services** – that include, *inter alia*: bodywork and paint in cases of accidents and damage, repair and/or replacement services of lights and side mirrors. As of the date of the assessment, the Company operates eight service centers, with national distribution, both for the insurance companies (as garages within the framework of an arrangement) and for vehicle fleets for private customers. Additionally, the Company makes use of the service centers to provide service to the Company's own fleet.

The Company has agreements with 13 insurance companies in Israel, based on which each of the insurance companies offers its policyholder as part of the sale of vehicle and/or home insurance policies, to join, together with the issuance of the insurance policy, to subscribe to the services provided by the Company as well – in whole or in part – all based on the terms of the service documents of the Company.

The Company has three branches: Holon (the Company's headquarters), Jerusalem and Haifa, for the ongoing operation of the roadside services and homeowner services.

Changes to the scope of activity in the sector and its profitability

The scopes of activity and profitability of the Company in the sector are impacted by a number of factors, internal and external to the Company, including primarily:

- a. The terms of the agreements with insurance companies or other customers of the Company in the area of activity;
- b. Regulatory changes to the insurance market that may increase the Company's activity;
- c. The number of vehicles in Israel and kilometers traveled.
- d. The age of the apartment or vehicle and vehicle turnover rates
- e. Extreme weather changes.
- f. Technological changes.
- g. Fuel prices

Based on changes that have occurred in recent years in factors that may impact the Company's activity, the scope of the Company's activity in terms of the number of subscribers to the services provided to the insurance companies has been in an upward trend, primarily due to increasing the basket of services that the Company offers to the insurance companies, and due to the Company's engagement with additional insurance companies.

In 2016, the Company sold approximately 1.8 million subscriptions for the receipt of services in the sector, with various compositions. In 2015, the Company sold approximately 1.5 million subscriptions; and in 2014, the Company sold approximately 1.3 million subscriptions.²

Customers of the Company

The Company's customers in the area of activity include insurance companies, government institutions, as well as business and private customers. The following is a segmentation of the Company's income in the field of activity from customers by sector, as set forth below, for the years 2014-2016:

	<u>2016</u>		<u>2015</u>		<u>2014</u>	
In NIS thousands	Income	% of total income	Income	% of total income	Income	% of total income
Insurance	109,738	68.8%	95,154	66.7%	84,595	65.4%

² To clarify, there may be single entities that engaged with the Company in more than one subscription. The data presented in this paragraph relates to the number of subscriptions.

companies

Government institutions	13,770	8.6%	13,647	9.6%	13,860	10.7%
Business customers	16,905	10.6%	16,597	11.6%	17,565	13.6%
Private customers	19,158	12.0%	17,214	12.1%	13,387	10.3%
Total	159,571	100.0%	142,612	100.0%	129,407	100.0%

3. Analysis of business results

3.1 Statement of profit and loss

The following are the Company's business results of the services unit to insurance companies the basis of the pro-forma statements for 2014, an audited financial statement as of December 31, 2015 as well as a draft of the financial statement for December 31, 2016 as transferred to us from the management (NIS thousands):

NIS thousands	2014	2015	2016
<u>Income:</u>			
Products	18,761	24,502	30,679
Subscription fees	74,504	80,167	88,665
Other services	36,142	37,943	40,228
Total income	129,407	142,612	159,572
<i>Rate of change</i>		10%	12%
Cost of sales	115,565	126,397	137,543
Gross profit	13,842	16,215	22,029
<i>% of income</i>	<i>11%</i>	<i>11%</i>	<i>14%</i>
Marketing and sale expenses	5,585	6,547	7,077
Management and general expenses	7,985	7,958	8,903
One-time reductions	678	-	-
Operating profit	(406)	1,710	6,050
<i>% of income</i>	<i>-0.3%</i>	<i>1.2%</i>	<i>3.8%</i>

Income

The Company's income increased from approximately NIS 129.4 million in 2014 to approximately NIS 142.6 million in 2015, and to approximately NIS 159.6 million in 2016, reflecting a weighted annual growth rate of approximately 11%.

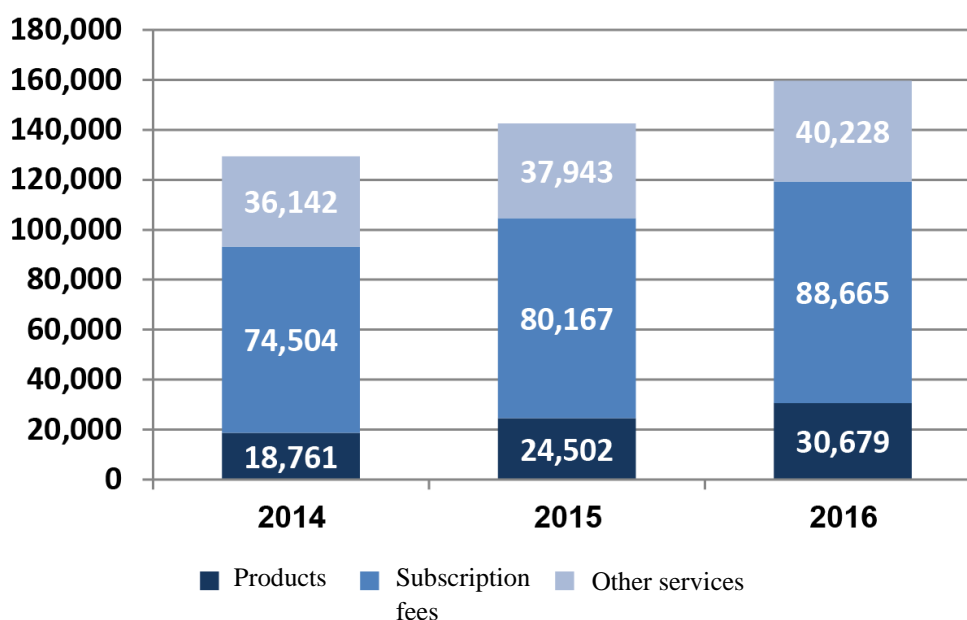
The unit's income arises from three main types:

- Income from products, including batteries and replacement parts. In 2015, an increase occurred in this income that constituted approximately 17% of the total income compared

to 14% in 2014. In 2016, an increase occurred from the sale of these products constituting approximately 19% of the total income. From discussions with the Company's management, it appears that the reason for the increase in income is an increase in the sale of replacement parts, an increase in the scope of activity of existing service centers and from opening two new branches in the second half of 2015 and another branch that was opened during 2016.

- Income from the subscriptions fees includes additional services, primarily road and towing services, replacement cars, services for S.C.L and as of the end of 2014, light and mirror services. In 2015 there was an increase in income at a rate of 8% compared to 2014, as a result of an increase in the number of subscribers for road and towing services, as well as an addition of two new insurance companies which joined in September 2014 and January 2015. In 2016, there was another increase in income in a rate of 11% as a result of the continued increase in the number of subscribers, and from an increase in income from vehicle side mirrors and lights services.
- Income from other services, including, *inter alia*, income from the road and replacement car services, income from service centers, bodywork and paint services. This income between the years 2014-2016 increased at a weighted rate of about 5.5%, mainly due to the opening of additional service centers.

The chart below presents the segmentation of the income from the services unit to insurance companies for 2014-2016 (NIS thousands):



Cost of sales and gross profit

The cost of the sale is comprised mainly from the cost of products, salary and ancillary expenses, expenses for subcontractors, depreciation, one-time reductions³. The following table presents the cost of sales and the gross profit, less non-cash flow expenses that are part of the cost of sales:

NIS thousands	2014	2015	2016
Cost of sales	115,565	126,397	137,543
Less depreciation	5,288	4,254	4,959
Less amortization	882	1,277	198
Adjusted cost of sale	109,395	120,866	132,386
<i>% of income</i>	85%	85%	83%
Adjusted gross profit	20,012	21,746	27,186
<i>% of income</i>	15%	15%	17%

Between 2014-2016, the adjusted growth profit increased at a weighted annual rate of about 16%. The adjusted gross profitability increased during 2016 mainly due to the decrease in the scope of activity of home services, which had low gross profit compared to the increase in the scope of activities of roadside services and service centers, with a higher gross profitability.

Operating expenses

Marketing and sales expenses

Marketing and sales expenses are comprised of expenses from salaries and ancillaries, sales commissions, advertising and sales promotion. The following table presents the marketing and sales expenses less non-cash flow expenses:

NIS thousands	2014	2015	2016
Marketing and sales expenses	5,585	6,547	7,077
Less depreciation	112	50	64
Less amortization	900	1,121	884
Adjusted sale and marketing expenses	4,573	5,376	6,129
<i>% of income</i>	4%	4%	4%

As can be seen from the table above, the adjusted marketing and sales expenses (less non-cash flow expenses) grew over these years at an average annual rate of 16%. The Company's management has indicated that the reason for the growth in marketing expenses arises mainly from an increase in the number of marketing and service personnel, for support in the increase in scope of activity. It can be seen that between 2014-2016, the unit retains the rate of marketing expenses from stable income.

Management and general expenses

³ Mainly for impairment of vehicles.

The management and general expenses are comprised primarily of income from wages and ancillary, and professional services.

NIS thousands	2014	2015	2016
Management and general expenses	7,985	7,985	8,903
Less depreciation	119	67	79
Less amortization	0	1,154	856
Adjusted management and general expenses	7,866	6,737	7,968
<i>% of income</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>

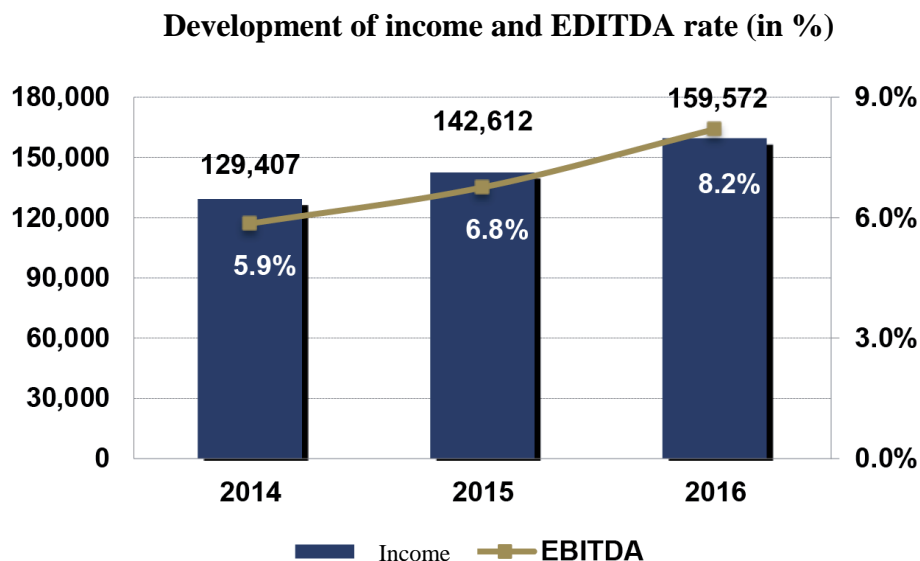
As can be seen from the table above, adjusted management and general expenses (less non-cash flow expenses) decreased from a total of approximately NIS 7.8 million in 2014 to a total of approximately NIS 6.7 million in 2015, mainly due to a decrease in management fee and other expenses. In 2016, an increase occurred in expenses to a total of approximately NIS 8 million, mainly due to an increase in salary expenses and professional services.

Operating profit before depreciation and amortization (EBITDA)

The following table presents the EBITDA for 2014-2016 (NIS thousands):

NIS thousands	2014	2015	2016
EBITDA	7,573	9,633	13,090
<i>% of income</i>	<i>5.9%</i>	<i>6.8%</i>	<i>8.2%</i>

The following graph describes the development of the income (in NIS thousands) and EBITDA rate (in %) in 2014-2016:



3.2 Balance sheet

The following is data from the draft of the Company's balance sheet as of December 31, 2016 (NIS thousands):

NIS thousands

December 31, 2016

Fixed assets	
Cash and cash equivalents	5,684
Current maturities for loan to Car2Go	1,078
Customers	42,188
Other receivables	3,371
Inventory	552
Total current assets	52,873
Fixed assets	29,007
Intangible assets	716
Goodwill	60,083
Customer portfolio for purchase of current assets	835
Loans to Car2Go	7,308
Investment in subsidiary – Car2Go	(3,720)
Total assets	147,102
Current liabilities	
Suppliers	29,709
Accounts receivable	10,115
Short term income in advance	25,115
Total current liabilities	64,939
Tax reserve	1,320
Long term deferred revenues	908
Total shareholder and other loans	3,191
Total employee employer liabilities, long term, net	1,195
Equity	75,549
Total liabilities and equity	147,102

4. Description of the business environment

4.1 Economic developments in Israel⁴

The Israeli economy benefited to a great extent from global growth and the increase in global trade during recent years. However, the same factors that supported growth in the market led to the opposite result upon the outbreak of the global economic crisis, which caused a slowdown in the pace of continuous growth that took place during the five years prior to the crisis.

Due to the openness of the Israeli market, and since it relies heavily on exports, the exposure to global crises increased greatly. The main risk it faces stems from the fact that the largest world economies were unable to manage a satisfactory exit from the crisis, and that there is an increasing concern for another slowdown.

In 2016, the growth in the market amounted to approximately 3.8%, based on an estimate of the Central Bureau of Statistics, compared to growth of 2.5% in 2015 and 3.2% in 2014, in the GDP

⁴ Sources: Central Bureau of Statistics, early estimates for national accounts for 2016, December 2016; Bank of Israel, Macro-Economic Forecast of the Research Division, December 2016.

at fixed prices. The growth in 2016, on a quarterly basis, shows that in the third quarter of 2016, the GDP increased by 3.4% after an increase of 4.9% in the second quarter and 3.2% in the first quarter of 2016.

The forecast of the Bank of Israel for GDP growth in 2016 is 2.8%, compared to an increase at a rate of 2.5% in 2015, in light of the improvement in the scope of private consumption. Some of the increase arises from an extraordinary leap in consumption of vehicles, but also from current consumption, which increased at a rapid pace with the support of the low interest rate and high employment rate.

In 2017, there is expected to be an acceleration in the pace of growth of global commerce, which should support an improvement to Israeli exports. Israeli exports are expected to grow in 2017 at a relatively high rate, also thanks to exports of a large company. The GDP is expected to grow by 3.1% in 2017.

4.2 Vehicles in Israel⁵

Motor vehicles in Israel

- The year 2015 symbolized another year of high activity in the vehicle industry. Despite the decline in the scopes of imports compared to the peak year 2014, the importation of vehicles to Israel amounted to 230 thousand units (passenger vehicles only), a decline of 16.7% compared to the peak level of 279 thousand in 2014. However, it must be taken into account that a considerable part of the decline is explained in the early release of vehicles at the end of 2014 within the preparation for the change in taxation planned in the values of green taxation. As a result, one must consider not only the importation but rather the registration of vehicles for road use. In 2015, 248.4 thousand vehicles were registered, an increase of 5.5% compared to the registration in 2014, in the amount of 235.5 thousand.
- The number of motor vehicles reached 3.1 million in 2015, an increase of 4.2% compared to the end of 2014, after an increase of 4% in 2014 and 3.2% in 2013.
- Of all of the vehicles, there were approximately 2.58 million private vehicles, 323 thousand trucks, 127 thousand motorcycles, 14.1 thousand small buses, 18.8 thousand buses, 20.7 thousand taxis and 4.8 thousand special vehicles.
- During 2015, approximately 333 thousand vehicles were added to the state of vehicles, of which approximately 285 thousand were new vehicles. In this period, approximately 207 thousand vehicles were removed, such that the net addition to the number of vehicles amounted to approximately 126 thousand.
- 30.6% of the vehicles driven in Israel were manufactured in Japan (such as Mazda, Subaru, Mitsubishi, Toyota, Suzuki and Honda), maintaining its position as the main country of production. South Korea is in second place with 13.6% (manufacturer of Hyundai, Dihu, Kia and Chevrolet).

⁵ Source: Motor Vehicles in Israel in 2015, Central Bureau of Statistics, March 2016; Taxation and Select Data of the Automotive Industry for 2015, Israel Taxation Authority

- In 2015, approximately 85.8% of private vehicles were privately owned and 14.2% were non-privately owned: the leasing companies – 8.3%, corporations (excluding self-employed individuals) – 4.8%, and rental or tourist use – 1.2%. It is noted that most of the private vehicles that are not privately owned were new vehicles up to 3 years old.
- The motorization rate in Israel⁶ in 2015 was 365 vehicles to every 1,000 residents (358 at the end of 2014), of which 305 were private vehicles. Despite the increase in the rate of motorization during the past two decades, Israel is still substantially lower in ownership of private vehicles compared to other countries in the world. The low rate of motorization in Israel is a result of a relatively low quality of life compared to European countries and substantial taxation expressed in the consumer vehicle price. In parallel, some of the population moved to Israel from countries with a low rate of motorization, and they do not have a driver's license.

Forecast of motor vehicles in Israel⁷

- In accordance with the forecast of Economic Models, the pace of multi-annual increase in the number of vehicles until 2020 is expected to amount to 3.9% per year, expressing an increase of 2% in the number of vehicles per person.
- The number of vehicles in Israel in 2020 is expected to amount to approximately 3.7 million vehicles.
- The level of motorization is expected to reach approximately 575 vehicles per thousand individuals in 2020 and approximately 687 in 2030.
- In the long term, the assumption is that vehicle prices will increase at the rate of the increase in the index – 1%.

4.3 Car Accidents in Israel⁸

- In 2015*, 313 fatal car accidents occurred in Israel (an increase of 9% compared to the previous year) and 349 individuals were killed in car accidents (an increase of 11% compared to 2014).
- From all fatalities in this year, 63% were killed in non-urban settings and the remainder in urban settings.

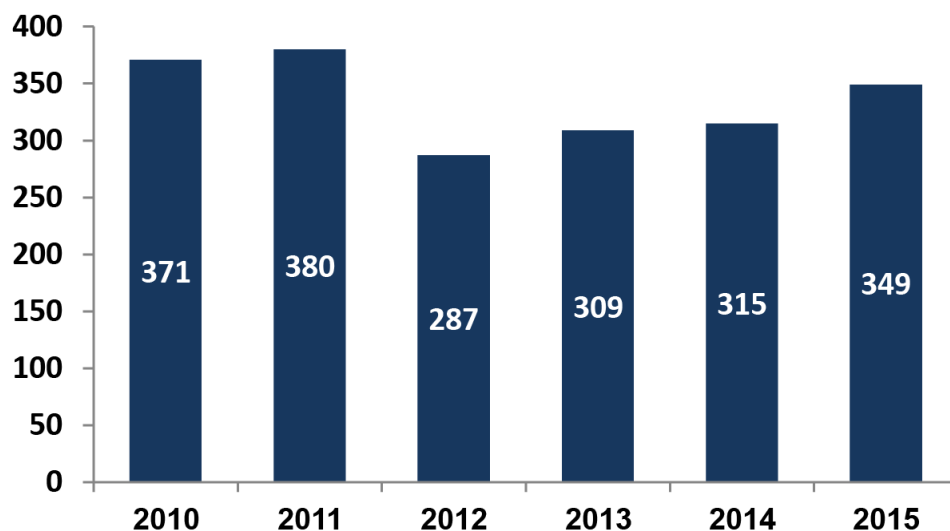
The following chart presents the number of fatalities in recent years:

⁶ The number of motor vehicles per 1,000 residents

⁷ "Trends in the Vehicle Industry," Economic Models, January 2016

⁸ Source: Summary of Car Accident data from January 1, 2015 – December 27, 2015, The National Authority for Road Safety.

*Data for 2015 is correct as of December 27, 2015.



- As evident from the chart, in recent years, the number of fatalities in car accidents has been increasing slightly.
- The most affected age group is 65+, which represents 21% of all fatalities. Conversely, the safest age group is up to age 24, representing only 5% of all fatalities.

4.4 Market and Competition⁹

The Company has a number of competitors, which offer services similar to those offered by the Company. However, to the best of the Company's knowledge, the market of services to insurance companies does not have any who provide the same variety or the extensive composition of services, as that which is offered by the Company to its customers. Therefore, the Company is unable to assess its total market share in the market of the services to insurance companies. The following details the main competitors of the Company that offer services similar to those offered by the Company; however, it is emphasized that to the best of the Company's understanding, each of the following competitors competes with the Company in a specific aspect of the services offered by the Company, and there is no single competitor that offers the array of services offered by the Company to its customers: Shahar Group Holdings and Management Ltd., Shlomo Holdings Ltd., Pami Premium Ltd., Mamsi Road and Towing Services Ltd., Zebra Car Services Ltd., and Start Car Services Ltd.

It is noted that the market of bodywork and paint garages for vehicles is characterized by a large number of small, privately owned businesses, geographically distributed throughout the country. In recent years, the number of large entities, some of which include competitors of the Company listed above, have begun to operate in the field. The competition for customers with respect to the services provided by the service centers is mainly geographic and focuses on creating relationships with the various insurance agents that operate in the same geographic area (which may have an impact on the policyholders' selection of the garage).

⁹ Source: draft of the Company's prospectus.

Additionally, the Company's competitors differ from the Company in terms of the various marketing methods with which they market their services. Whereas for some of the Company's competitors (particularly in the area of roadside and towing services), insurance agents are not only a marketing channel but also a channel for sales and the collection of receipts (without the involvement of the insurance company), for the Company, the insurance agents are only a marketing channel, and the sales for the Company and collection of receipts in the area of activity is performed through the insurance companies, constituting the Company's primary customers in the aforesaid area of activity.

In addition, to the best of the Company's knowledge, in recent years and the last year especially, the trend of transitioning to marketing subscriptions has emerged through insurance companies, in lieu of marketing subscriptions through the insurance agencies. This trend may increase the potential number of subscriptions to which the Company may offer its services. This is the case since the reduction of the subscriptions marketed by the insurance companies allows the Company to compete for the same subscriptions with its competitors (which was previously not possible due to the different marketing methods). The Company estimates that the aforesaid trend may have a positive impact on the Company.

5. Test of the Impairment of Assets

5.1 Test of the impairment of assets

IAS 36 determines the procedures that a corporation must adopt in order to ensure that its assets are not carried at more than their recoverable amount. An asset is carried at an amount that is higher than its recoverable amount when the book value exceeds the higher of the asset's fair value less costs of disposal and its value in use.

The impairment test includes the following stages:

- Determining the correct timing for the impairment test – this stage includes a requirement to identify indications of impairment;
- Estimating the recoverable amount of the asset or the CGU to which the asset is allocated. The recoverable amount of an asset is defined as the higher of the net sale price of the asset and its value of use;
- Recognizing and measuring the loss from impairment and its allocation to the CGU's – the value of the asset will be reduced to the recoverable amount if the recoverable amount of the asset is lower than its book value.

5.2 Goodwill

In accordance with IAS 36, goodwill that arises from the purchase of a Company cannot be reduced. Instead, an impairment test must be performed to measure goodwill once annually (or more frequently, if there are indications that impairment of this asset may occur).

Goodwill recognized in a business combination is an asset that represents the future economic benefits that will arise from other assets purchased in a business combination that cannot be identified or recognized separately. Goodwill does not generate cash flow independently of other

assets or other groups of assets. Therefore, the recoverable amount of the goodwill cannot be determined as a separate asset. As such, the recoverable amount will be determined for the CGU to which the goodwill is allocated, as described in section 6.4 below.

5.3 Indications of impairment

IAS 36 requires reporting entities to examine indications of asset or CGU impairment on each balance sheet date. The examination of indications of impairment must be performed on the level of the CGU, but not a higher level such as sector. In order to examine whether there is any indicators of impairment, the standard requires an examination, at a minimum, of a number of specific indicators. The sources of information from which the indicators can be located include internal sources of information (cessation of use of an asset, detrimental changes to asset performance, etc.) and external sources (such as market prices and changes to the economic environment).

5.4 Definition of a CGU

In accordance with the provisions of IAS 36, the accounting treatment for impairment must be handled for single assets. When this is not possible, because an asset generates cash flow only together with other assets, impairment must be examined by combining a number of assets into a group known as a “cash-generating unit” or CGU.

“If there is any indicator of asset impairment, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the CGU to which the asset belongs (the asset’s CGU).” (Section 66 of IAS 36).

A CGU of an asset is the smallest group of assets that contain the asset, and that generate positive cash flows from ongoing use, which are independent of the positive cash flows from other assets.

The management has identified Shagrir as the smallest group of assets to which the goodwill is allocated, which generates a positive cash flow that is independent from ongoing use. Therefore, the impairment test set forth below relates to the Company as a CGU.

5.5 Estimate of the recoverable amount

In order to examine the need to recognize loss from impairment of a CGU, a comparison must be made between the book value of the unit and its recoverable amount. The carrying amount of the CGU must be determined consistently with the manner with which the recoverable amount of the CGU is determined.

The recoverable amount will be calculated as the net sale price or the value of use, as the higher between:

- a. The net sale price is the amount that can be received from the sale of the asset in a good faith transaction between a voluntary purchaser and seller, acting in an educated manner, less any direct additional exercise costs.

- b. The value of use of the asset is the current value of the future cash flow estimate, expected to be generated from the ongoing use of the asset and the exercise of the asset at the end of its use.

Our work has estimated the value of use of Shagrir. For the estimation of the value of use of the CGU, we used the discounted cash flow method. To do so, we projected the cash flows for the years 2017-2020 and the representative year (2021), based on financial data provided from the Company's management and valuations we performed. In addition, a representative cash flow was determined on the basis of the aforesaid forecasts for the estimate of the value of the Company's activities at the end of the period.

The cash flows were discounted at rate reflecting the risk involved in the activity. Since it was assumed that the activity will continue to exist after the end of the aforesaid period, it has been determined, that its value at the end of the period is the current value of the cash flows infinitely, on the basis of the representative cash flow, with a fixed annual growth rate of 2%.

6. Estimate of the Recoverable Amount

6.1 General

The value of the services unit to insurance companies was estimated using the discounted cash flow model. The valuation through this model relies on an estimate of the cash flows projected from this activity over the forecast. At the basis of this method is the assumption that the cash-generating unit is a "going concern," which will continue its current business operations over an infinite outlook of activity. The economic value of the service to the insurance companies is the economic value of the business activity in addition to surplus assets and less financial liabilities.

The projected cash flows of the unit are based on the financial forecasts and other data received from the management of Shagrir, including actual results of the business activity, together with public data approximately the industry.

6.2 Profit and loss projection

The projection of the cash flows of the unit is based on the Company's 2017 budget, including the projected income and expenses in the aforesaid year. For 2018 and thereafter, the financial projections are valuations performed by Variance that are based, *inter alia*, on discussions held with the management of Shagrir. The following are the basic assumptions used in the assessment of the unit's future cash flow:

Income

The income of the services unit to insurance companies arises from three kinds of income: income from products, income from management fees and income from other services.

Income from products – this income arises from the sale of batteries, replacement parts and spare parts. According to the unit's budget for 2017, income is anticipated in a total of approximately NIS 36.4 million, reflecting an increase of approximately 19% compared to income in 2016 (compared to an increase of 25% compared to income in 2015).

For the examination of goodwill, it was assumed that the pace of increase will be lower than the Company's budget. The pace of the increase in scope of activity of the existing service centers in 2017 is estimated at approximately 2%. Additionally, it was assumed on the basis of data transferred from the Company's management that there will be additional income for the service center opened in the second half of 2016, in light of its operation over a complete year and from the opening of a new service center in 2017. Accordingly, the total income for 2017 is estimated at approximately NIS 34.3 million, reflecting an increase of approximately 12% of the total income in 2016.

In 2018 and thereafter, it was assumed that the income will amount to approximately NIS 36.5 million and reflect income for a complete year of activity for the garage opened during 2017, as well as an annual increase of 2% for the income from the Company's existing activity. For 2019 and thereafter, it was assumed that the rate of increase of the income will amount to approximately 2% per year.

Income from subscription fees – this income is comprised of income from subscription fees for the roadside services and S.K.L. According to the Company's budget, the income from subscription fees is expected to amount to approximately NIS 83 million, approximately 3% larger compared to the income from subscription fees in 2015. From discussions with the management, it appears that the increase results from an expected increase in sales to existing customers in addition to sales to new customers who joined the Company in 2015. Additionally, there is an expected increase in car lights and side mirror services that the Company has started to market in 2015.

As of 2017 and thereafter, it was assumed that the increase rate of income will amount to approximately 2% per year.

Income from subscription fees – this income includes income from subscription fees for roadside services and subscription fees from S.K.L. According to the Company's 2017 budget, the income from subscription fees is expected to amount to approximately NIS 99 million, an increase of approximately 12% compared to income of subscription fees in 2016 compared to an increase of 11% compared to income in 2015). This estimate is based on the management's estimates whereby the Company foresees an increase in the number of subscriptions for roadside services both for the new customers Migdal and Phoenix and for older customers, which the Company anticipates will grow at a rate similar to the rate in 2016. The management's estimate regarding the growth in the number of subscribers for the old customers is based on the continued growth in the scope of deliveries of vehicles, which in 2016 amounted to 12.6%¹⁰ compared to the previous year. Additionally, this growth also relies on the double digit growth assumption in activity related to light and side mirror services to its subscribers.

In order to examine the goodwill, it was assumed that the pace of increase will be lower than the Company's budget. The total income for 2017 was estimated at approximately NIS 92.9 million, reflecting an increase of approximately 5% of the total income in 2016. In 2018 and 2019, it was assumed that the income will amount to a total of approximately NIS 84 million and NIS 83

¹⁰ Source: Auto, "Summary of Deliveries 2016 – 286,728 vehicles"

million, respectively. The decrease in income arises from the cessation of income from S.K.L. services in the model of subscription fees as part of the reform in activity related to home services, described in Section 2, will be a gradual decrease in the number of subscribers until the conclusion of the registration of income from subscribers in August 2018. As of the date of the assessment, the Company does not have established forecasts regarding the continued activity of providing home services with the new business model, and therefore, the forecast does not include income from this field of activity under the new business model. For 2020 and thereafter, it was assumed that the rate of increase of the income will amount to approximately 2% per year.

Sales from other services – this income primarily includes income from roadside services and replacement vehicles, and income from the Company's service centers. According to the Company's 2017 budget, it was assumed that the income will amount to approximately NIS 43.3 million, an increase of 8% compared to 2016 (compared to an increase of 6% compared to income from 2015). From discussions with the Company's management, it appears that the increase in this income will be generated from an increase in the income from the services provided within the service centers owned by the Company. As described above, the increase is expected to arise both from an increase in the number of service centers and an increase in the scope of average income of the service centers, as part of the establishment of the service centers.

In the valuations, it was assumed that the pace of increase in the average income for the service centers in 2017 will be more moderate than the Company's forecasts. The total income for 2017 is estimated at approximately NIS 42 million, reflecting an increase of approximately 4% from the total income in 2016. In 2018, it was assumed that the income will amount to approximately NIS 44 million and reflect income for a complete year of activity for the garage that will be opened during 2017 and an annual increase of 2% for the income from the Company's existing activity. For 2019 and thereafter, it was assumed that the rate of increase of the income will amount to approximately 2% per year.

The following table summarizes the Company's income over the period of the forecast, segmented by income type (NIS thousands):

<i>NIS thousands</i>	2017	2018	2019	2020	Representative
Products	34,303	36,495	37,224	37,969	38,728
Subscription fees	92,873	83,849	83,170	84,834	86,530
Other services	42,018	43,994	44,874	45,772	46,687
Total income	169,194	164,338	165,269	168,574	171,946
<i>Increase rate</i>		-3%	1%	2%	2%

Cost of sales (without depreciation, amortization and capital gains)

The cost of sale is comprised mainly from the cost of the products, salary and accompanying expenses, and expenses for subcontractors. The rate of the cost of sale (without amortization) from the turnover for years 2014-2016 constituted, on average, approximately 84.5% of the turnover. In 2017, according to the Company's budget, the rate of the cost of sale without

depreciation and amortization is expected to constitute approximately 83.4% of the turnover of income. In the management's estimation, this improvement arises from a decrease in the scope of activity of S.K.L. in the model of loss subscription fees. In 2018, another improvement is expected in the rate of cost of sales from income for approximately 81% of the turnover of income as a result of the continued decrease in activity of subscription fees of S.K.L., which is expected to end in this year as part of the reform described in Section 2 above. In 2019 and thereafter, it was assumed that no change will occur in the rate of cost of sale from the turnover.

Marketing and sale expenses (without depreciation and amortization)

The sales and marketing expenses are comprised of expenses from salaries and others, sales commissions, advertising and sales promotion. The rate of marketing and sales expenses (without depreciation) from the turnover for the years 2014-2016 constituted, on average, approximately 3.7% of the turnover. In 2017, based on the Company's budget, the rate of marketing and sale expenses without depreciation and amortization is expected to constitute approximately 4% of the turnover of income similar to 2016. The marketing and sale expenses include largely the component of fixed costs, and therefore it was assumed that in 2018-2020 that these expenses will increase at a rate of approximately 1% per year. In the representative year, these expenses constitute approximately 4% of the turnover of the income similar to the previous year.

Management and general expenses (without depreciation and amortization)

The management and general expenses are comprised mainly of expenses for salaries and accompanying costs, and professional services. In 2017, in accordance with the budget of Shagrir's management, these expenses are expected to amount to approximately NIS 8 million, compared to the total expenses in 2016.

The management and general expenses mostly include a component of fixed costs, and therefore, it was assumed in 2018-2020 that these expenses will increase at a rate of approximately 1% per year. In the representative year, these expenses will increase at a rate of approximately 5% of the income turnover similar to the previous year.

Tax rate

In accordance with the guidelines of IAS 36, the estimate of the cash flows will not include payments or receipt of taxes. In light of the above, no payment of tax was assumed for the projected profits or use of losses for the purpose of tax accrued in Shagrir.

The following is a summary of the profit and loss projection of the Company based on the assumptions set forth above, for the years 2017-2021 (NIS thousands):

<i>NIS thousands</i>	2017	2018	2019	2020	Representative
Income	169,194	164,338	165,269	168,574	171,946
Cost of sale	141,053	133,579	133,307	133,955	138,656
Gross profit	28,141	30,760	31,962	32,619	33,290
<i>Rate of income</i>	<i>16.6%</i>	<i>18.7%</i>	<i>19.3%</i>	<i>19.4%</i>	<i>19.4%</i>

Marketing and sales expenses	6,703	6,770	6,837	6,906	7,044
Management and general expenses	8,033	8,113	8,194	8,276	8,442
EBITDA	13,405	15,877	16,931	17,437	17,804
<i>Rate of income</i>	8%	10%	10%	10%	10%
Depreciation	5,753	6,595	6,490	7,261	6,200
Amortization	457	282	97	0	0
Operating profit	7,195	9,000	10,344	10,176	11,604
<i>Rate of income</i>	4.3%	5.5%	6.3%	6.0%	6.7%

6.3 Cash Flows

Investment in fixed assets

In accordance with the Company's investment plan, the net investments expected in 2017 will amount to approximately NIS 6.2 million. In 2018 and thereafter, it was assumed that the annual investments in the fixed assets will amount to a similar amount. In the representative year, it was assumed that the investment will be in the amount of the depreciation.

Working capital

To estimate the working capital, we relied on the balances of working capital of the Company, including: customers, inventory of receivables, suppliers, payables and income in advance. It was assumed that the rate of working capital of the Company will amount to minus 12% of the turnover in accordance with the average rate of the working capital in 2016.

Cost of capital (WACC)

In order to estimate the price of the capital, we implemented the weighted average cost of capital (WACC) model in order to reflect the risk inherent in the cash flow of the activity. The discount rate received is 13%. The pre-tax discount rate derived is approximately 16.1%. For details, see Appendix B.

The following is the Company's cash flow projection for 2017-2021 (NIS thousands):

<i>NIS thousands</i>	2017	2018	2019	2020	Representative
Operating profit	7,195	9,000	10,344	10,176	11,604
Depreciation expenses	5,753	6,595	6,490	7,261	6,200
Amortization	457	282	97	0	0
Investments in fixed assets	(6,186)	(6,200)	(6,200)	(6,200)	(6,200)
Decrease (increase) in working capital	1,193	(1,612)	(194)	377	385
Free cash flow	8,412	8,064	10,536	11,615	11,989
Retention value					86,456
Discounted cash flow	7,806	6,443	7,248	6,879	50,199

In light of the above, the value of the Company's activity amounts to approximately NIS 78.6 million.

6.4 Sensitivity Analysis

We have performed a sensitivity analysis for the value of the Company's share capital, by examining the impact of two central parameters in the model: the price of the capital and the long-term growth rate (NIS thousands):

Capital price / growth rate	14.1%	15.1%	16.1%	17.1%	18.1%
1.00%	86,770	80,605	75,260	70,583	66,457
1.50%	89,040	82,501	76,860	71,947	67,629
2.00%	91,497	84,541	78,574	73,401	68,873
2.50%	94,165	86,743	80,414	74,954	70,197
3.00%	97,072	89,126	82,393	76,618	71,609

7. Conclusion and summary

The following table presents the impairment test for the goodwill of the CGU (NIS millions):

Date	Book value	Recoverable amount	Amount for reduction
December 31, 2016	70.9 ¹¹	78.6	No reduction

As of the date of the valuation, the book value of the Company amounts to approximately NIS 70.9 million, which is lower than the CGU's recoverable amount. According to the provisions of IAS 36, due to the fact that the book value is lower than its recoverable amount, no reduction of goodwill is required in Shagrir's books.

7.1 Examination of reasonableness of value

In order to examine the reasonableness of the value received, we calculated the EBITDA multiplier derived from the value received and compared to multipliers of similar companies in the field. Based on the examination that we performed, the multiplier derived from the valuation is lower than the multipliers of similar companies. The range of EBITDA multiplier of the similar companies is between 10.2 and 16.7 compared to an EBITDA multiplier of the Company derived from the valuation of approximately 6.3.

7.2 Comparison to previous valuations

The following are the details required in accordance with Article 8b(d) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, regarding previous valuations of Shagrir performed by Variance:

¹¹ As received by the Group's management.

Date of the valuation	Recoverable amount in NIS millions	Relevant standardization	Assessment method	Main parameters
December 31, 2015	67.5	IAS 36	DCF	Capitalization rate ¹² – 13% Long-term growth - 2%

7.3 Comparison to market value

The Company's shares were issued on the Tel Aviv Stock Exchange on June 28, 2016 based on a share value of NIS 5.86, reflecting a market value of the Company of NIS 46.9 million.

The graph below presents the price of a share of Shagrir on the Tel Aviv Stock Exchange as of the issuance date and until March 1, 2017:

Graph of rates – Shagrir

June 28, 2016 – March 1, 2017



The lowest share value in the six months preceding the date of the valuation is NIS 5.93, the highest share value in the represented period is NIS 9.0, reflecting a market value for the Company of approximately NIS 72.1 million and the average share value in the six months preceding the valuation date is NIS 7.16, reflecting a market value for the Company of approximately NIS 57.3 million.

The share value as of the valuation date is approximately NIS 9.0, reflecting a market value of approximately NIS 72.1 million, less holdings in Car 2 Go in the amount of NIS 4.7 million¹³, a

¹² Capitalization rate after tax.

¹³ In accordance with the balance of the investment in Shagrir's books as of December 31, 2016.

total of approximately NIS 67.4 million, compared to an economic valuation of NIS 79.9 million in accordance with this work,¹⁴ as set forth below:

	NIS millions
Value of activity	78.6
Plus: financial assets	5.7
Less: financial liabilities	(4.4)
Financial value	79.9

The market value of the Company is about 19% lower than the value derived from our work, *inter alia* for the following reasons:

1. Control premium – the market value based on the market share price (without control) multiplied by the number of shares. The valuation of use based on the discounted cash flow method also reflects the control premium in the Company. Based on the industry data, the control premium ranges between 6% and 20%. Meaning, the market value in addition to the control premium is in the range of the valuation.
2. Low marketability – the marketability of the Company's shares is very low. The average daily trade of a share in the six months preceding the valuation date amounted to NIS 71 thousand.
3. Public exposure – the Company does not have an investor relations department, and there is no analyst coverage. Therefore, the exposure to the general public and institutional investors is limited.

¹⁴ In this work, we estimated the value of use which is the value of activity. The economic value of the equipment is the value of activity in addition to financial assets and less financial liabilities.

Appendix A – Conditions and Limitations

This valuation is intended to be used by Shagrir for the purpose of the work alone. It is agreed that Shagrir may submit this valuation report to the Stock Exchange and Securities Authority. Additionally, Shagrir may attach this valuation report to its reports to the Stock Exchange, under the Securities Law, 5728-1968 or regulations thereunder, to the prospectus that will be published publically, and to any other report submitted under the Securities Law, and within legal proceedings in Israel and/or before any competent court in Israel.

The valuation document below is based on data received from the management of Shagrir. Additionally, we relied on data from external sources that we believe to be reliable. In the examination of the goodwill in this document, we relied on the declarations of the Company's management that all of the information provided to us has been provided to us fully, and that no substantial and/or relevant document and/or information has been concealed from us or destroyed. Additionally, we relied on the fact that all of the data transferred to us is final and that no changes were made after they were provided to us. Additionally, we assume that the information and data provided to us is accurate, complete and precise, and we are not required to perform any review or verification of the aforesaid information.

Any information used by Variance in the valuation of the assets includes documents and information collected in the process of the examination of the goodwill will be kept in Variance's database. It is further important to note that our conclusions in this valuation rely largely on forward-looking information based primarily on information existing with Shagrir as of the date of this valuation, and includes estimates, assumptions or intentions that are correct as of the date of this valuation, which may change, not be realized or only partially realized. Therefore, the actual results, in whole or in part, may be materially different, positively or negatively, from the estimated results, derived or implied from the information that we have received from the management of Shagrir.

This work is not a due diligence and does not purport to include all the information, examinations, assessments or any other information included in a due diligence, including an examination of the contracts and engagements of Shagrir.

The results of the valuation are relevant strictly as of the date of the valuation and the purpose for which it was performed. As stated, this valuation should not be used for any other purpose.

We note that we are not reliant on Shagrir and/or the controlling shareholders of the Company and we are not interested parties in Shagrir or expect to become so in the future.

The fees that we have received for performing the work are not contingent on the results of the valuation that we performed, and do not depend on the company's performance, or the success of any business activity related to the valuation.

Appendix B – Determination of the price of the capital

In order to determine the capital price of the Company, we performed a calculation based on the CAPM model of the price of the capital reflecting the level of risk of the Company. We relied on the public corporate data in the vehicle industry. The following is the calculation of the capital:

$$WACC = K_e * E / (E + D) + K_d * D / (D + E) * (1 - T)$$

$$K_e = R_f + R_p * BETA + SSp + CRP$$

When:

Parameter	Description	Rate
R _f	Risk-free interest ¹⁵	3.2%
R _p	Risk premium for investors beyond the risk-free interest rate ¹⁶	6.9%
BETA	Company's risk regarding the market ¹⁷	0.68
SSp	Risk premium for small companies ¹⁸	5.6%
K _e	Rate of return required for equity	13.49%
E/(D+E)	Share of the equity in financing operations ¹⁹	100%

The weighted average cost of capital (WACC) received based on the aforesaid data is estimated at 13% (rounded).

The weighted average cost of capital (WACC) before tax based on the aforesaid calculation is estimated at 16.1%.

¹⁵ Return rate of unlinked bonds with fixed interest ('black') gross, as of December 29, 2016, with maturities of 16 years (based on data from the Triple A system)

¹⁶ Source: 2016 Valuation Handbook – Guide to Cost of Capital, published by Duff & Phelps, LLC

¹⁷ Expressed in average of sample companies (re-leveraged)

¹⁸ Source: 2016 Valuation Handbook – Guide to Cost of Capital, published by Duff & Phelps, LLC

¹⁹ Based on the equity ratio in financing the activity of Shagrir long term.

Appendix C: Approximately the Assessor

Approximately Variance Economic Consulting

Variance Economic Consulting Ltd. is a consulting company for business, economic and financial consulting. The company provides a wide variety of comprehensive professional services in the business and financial field. The company has considerable experience in performing economic works and developing business strategies in the various industrial fields. The Company has a network of professional working relationships with consulting companies from supplementary fields, such as engineering, real estate appraisal, computerization, and industry and management. The company makes it a goal to provide its customers with professional services of a professional level and quality, based on the substantial experience of its managers.

The company relies on the rich experience that it has accrued during the last ten years, in the fields of consulting and business accompaniment of companies. Variance's customers include public companies, as well as leading private companies in their fields.

Leading Staff

Ram Levy (CPA) – Founder, Partner, CEO

Ram has significant experience in accompanying and consulting companies and businesses in the Israeli market. Ram's experience includes business consulting for leading companies in the Israeli market and startup companies. Ram's experience includes corporate valuations, the establishment of plans for mergers and business ventures, expanding BOR projects, opinions for courts, building financial models and examining the feasibility of projects. Before working at Variance, he was a senior manager at Kesselman Finance (PriceWaterhouseCoopers Corporate Finance). He also served as VP of Business Development in Spectronics Ltd. and a financial consultant for private consulting firms. Ram has a BA in Accounting from the College of Management (Academic Track), as well as a BA in Life Sciences and an MBA, specializing in finance, from Bar Ilan University.

Amnon Alon – Partner, Valuations Department Manager

Amnon brings experience in extensive financial fields. His experience includes, *inter alia*, consulting for public and private companies in the fields of valuations, examining financial feasibility, examining projects and building financial models in the project finance field and consulting in mergers and acquisitions. Before joining Variance, Amnon worked at Discount

Bank in the Financing Department, accompanying many projects in the project finance field (BOT/PFI), and in real estate projects. Amnon has a BA in Finance from Maryland University and an MBA in Finance from John Hopkins (with honors).

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Chapter D - Additional Details about the Company

1. Condensed Statements of the Company's Profit for Each of the Quarters of 2016 (NIS thousands) (Article 10a)

	Q1	Q2	Q3	Q4	Total for 2016
Income:					
Income from sales	7,348	7,173	8,094	8,138	30,753
Revenues from services	35,033	35,720	38,372	39,139	148,264
Total revenue	42,381	42,893	46,466	47,277	179,017
Costs and expenses:					
Cost of sales	4,097	4,086	4,540	4,296	17,019
The cost of providing services	31,323	32,034	34,495	34,706	132,558
Sales and marketing	2,015	2,090	2,437	2,510	9,052
Management and general	2,767	2,685	2,518	3,489	11,459
Other income	-	-	116	-	116
Total costs and expenses	40,202	40,895	43,874	45,001	169,972
Profit from activity	2,179	1,998	2,592	2,276	9,045
Net financing expenses	174	59	119	125	477
Profit before income tax	2,005	1,939	2,473	2,151	8,568
Tax benefit (expenses)	(659)	(575)	(341)	1921	346
Net profit	1,346	1,364	2,132	4,072	8,914
Other comprehensive profit (loss):	(82)	97	(212)	37	(160)
Total comprehensive profit for the period	1,264	1,461	1,920	4,109	8,754
Net profit attributable to:					
Shareholders of the Company	1,242	1,289	1,845	3,252	7,628
Non-controlling interests	104	75	287	820	1,286
	1,346	1,364	2,132	4,072	8,914
Total comprehensive profit attributed to:					
Shareholders of the Company	1,160	1,386	1,633	3,289	7,468
Non-controlling interests	104	75	287	820	1,286
	1,264	1,461	1,920	4,109	8,754

2. List of Investments in Subsidiaries and Associated Companies as of the Balance Sheet Date (Article 11)

Company name	Class of shares	Issued and paid up share capital	Par value held by the Company	Rate of the Company's holdings*	Value in separate financial statements of
				In issued capital, voting and authority to	

				appoint directors	the Company (NIS thousands)**
Car 2 Go Ltd.	Ordinary	28,073	17,141	61.06%	(3,720)
Car 2 Go Ltd.	Preferred A	11,542	11,542	100%	

* On June 26, 2016 a loan extended to Car 2 Go on April 9, 2014 was converted, with a remaining balance of NIS 3,490 thousands on the date of conversion (including interest and adjustments) against the allocation of 11,542 preferred shares with priority rights, and consequently, the effective rate of the Company's holdings in Car 2 Go increased from 61.06% to 72.4%.

** Includes holdings of Car 2 Go that are fully held and controlled by TLV Limited Partnership.

3. **List of Material Loans Provided to Subsidiaries and Affiliates as of the Balance Sheet Date (NIS thousands) (Article 11)**

Company name	Repayment years	Linkage type	Interest rate in%	Loan balance in NIS thousands (including accrued interest)
Car 2 Go Ltd.	84 monthly payments until September 1, 2023	Consumer price index	7	8,386

For additional details see Note 7b of the Company's consolidated financial statements as of December 31, 2016.

4. **Income of Subsidiaries and Affiliated Companies and the Company's Income from them as of the Balance Sheet Date (NIS thousands) (Article 13)**

Company name	Profit (loss) before tax	Profit (loss) after tax	Dividend received by and after Dec. 31, 2016		Management fees received by Dec. 31, 2016		Management fees received after Dec. 31, 2016		Interest for reporting year	Interest for period following the reporting year
			Reporting year	The period following the reporting year	Reporting year	The period following the reporting year	Reporting year	The period following the reporting year		
Car 2 Go Ltd.	2,297	4,471	-	-	-	-	-	-	101	97

5. **Remuneration to Interested Parties and Senior Officers (Article 21)**

5.1. **Remuneration to senior officers**

The following details the compensation provided by the Company in 2016 to each of the five senior officers with the highest compensation in the Company or a company under its control, provided in connection with the service in the Company or a company under its control, as recognized in the Company's financial statements in the reporting year (in annual

terms, in terms of cost of the Company and in NIS thousands):

Details of the Recipients of the Compensation:			Compensation for Services						Other compensation	Total annual
Name	Position	Scope of position	Rate of holdings in equity of the Company	Salary	Bonus	Management fees	Share-based payment	Consulting fees and other fees	Interest, rent, other	
Yossi Regev ^(a)	CEO	100%	1.58%*	894	660	--	526	--	--	2,080
Shimon Galil ^(b)	VP Sales and Marketing	100%	0.35%*	655	90	--	132	--	--	877
Revital Avrahami ^(c)	CFO	100%	0.34%*	601	110	--	132	--	--	843
Nissim Mizrahi ^(d)	VP of Operations and Service	100%	0.34%*	620	55	--	132	--	--	807
Gil Lazer ^(e)	CEO of Car 2 Go Ltd.	100%	0%*	--	150	635	--	--	--	785

* Excluding holdings in restricted share units and/or options allocated to officers as set forth below.

The following are additional details about the terms of service and employment of the officers listed in the table above:

- (a) **Yossi Regev** - Mr. Regev is employed as the general manager of the Company on a full time basis. In addition, Mr. Regev may serve as a director or other functionary of subsidiaries or affiliates of the Company, without receiving additional compensation for the same. The Agreement provides for an unlimited period, with each party being entitled to terminate the Agreement at any time and for any reason, subject to providing prior written notice to the other party 180 days in advance.

Mr. Regev is entitled to a monthly salary in the amount of NIS 55 thousand (gross). In addition, as of 2016, Mr. Regev is entitled to an annual bonus (in this section: the “**Bonus**”), calculated based on net profit¹ per share² of the Company on the basis of the Company’s audited annual financial statements (consolidated) for the preceding calendar year (the “**Financial Statements**”), as follows: (1) up to net profit per share of NIS 0.06 (excluding) - no bonus will be paid to Mr. Regev; (2) from net profit per share of NIS 0.06 up to net profit per share of NIS 0.181 (exclusive) - Mr. Regev will be paid an annual bonus of 7% of the net profit per share exceeding the lower threshold of this level (not from the first shekel), when multiplied by the base number of shares; (3) from the net profit per share in excess of NIS 0.181 - Mr. Regev will be paid an annual bonus in the rate of 10% of the net profit per share that exceeds the lower threshold of this level

¹ “**Net profit**” - the net profit of the Company attributed to its shareholders, according to the annual financial statements, as defined above), when the following income is reduced or expenses are added to this margin (as applicable): (a) management fees paid to the controlling shareholder of Pointer on the date of the Prospectus, DBSI Investments Ltd. (“**DBSI**”); (b) expenses/income in connection with shareholder loans provided by Pointer to the Company upon its establishment; (c) expenses incurred by the Company in connection with listing its shares for trade on the Tel Aviv Stock Exchange Ltd. under the Prospectus; and (d) tax expenses recorded by the Company in its financial statements, if arising from non-recognition for tax purposes of the reduction of the employee remuneration plan (RSU) performed by the Company.

² “**Net profit per share**” - the net profit of the Company, divided by the total issued and paid up share capital of the Company, as it appears in the annual financial statements.

(not from the first shekel), when multiplied by the base number of shares. The Bonus calculated based on the above calculation will constitute 100% of the annual bonus to which Mr. Regev is entitled. The total Bonus will not exceed an amount equal to 12 gross monthly salaries of Mr. Regev (the "Bonus Maximum"). In addition, the Company's board of directors has the right to reduce the annual bonus amount received based on the formula by up to 25%, at its sole discretion and with respect to the manner of Mr. Regev's compliance with the various qualitative objectives defined for the same year, to the degree of general satisfaction of the Company from the manner with which he fulfilled his position in the past year, and considering the Company's performance. In the event that Mr. Regev's employment is terminated during a calendar year, Mr. Regev will be entitled to a bonus for the relative part of the calendar year in which he worked. Additionally, payment of the Bonus to Mr. Regev will be subject to the limitations and terms under the Company's remuneration policy. For details of the Company's remuneration policy, see Section 5.3 hereunder.

The agreement further sets amounts aside each month to an advanced study fund and pension fund or manager insurance policy, at the selection of Mr. Regev. In the event that Mr. Regev's employment is terminated for any reason (excluding under circumstances in which severance pay can be withheld from an employee under the law practiced in Israel), Mr. Regev will be entitled, in addition to the release of the amounts set aside for him in the insurance policy or pension fund as stated, to payment of severance pay increased at a rate of 50% from the severance pay set forth by law. Additionally, at the end of the term of Mr. Regev's employment, the Company will give him a special adjustment period for a term of six months, in which Mr. Regev will be entitled to all of the payments and conditions owed to him under the Agreement. Mr. Regev is entitled to social benefits such as annual vacation of 24 working days, convalescence days, and 30 sick days per year with full pay. The Company provides Mr. Regev with a mobile phone and a vehicle with a value of about NIS 330 thousand, and will bear all of the expenses involved in use and maintenance of the vehicle, excluding tickets, deductibles and insurance premiums.

- (b) Shimon Galil - Mr. Galil is employed as VP of Sales and Marketing of the Company on a full time basis. Mr. Galil is entitled to a monthly salary (gross) in the amount of NIS 31,500 and reimbursement of car maintenance expenses in the amount of NIS 10,000 (gross) per month in lieu of being provided with a vehicle.
- (c) Revital Avrahami - Ms. Avrahami is employed by the Company as a full time CFO. Ms. Avrahami is entitled to a monthly salary (gross) of NIS 31,500.
- (d) Nissim Mizrahi - Mr. Mizrahi is employed as the VP of Operations and Service on a full time basis. Mr. Mizrahi is entitled to a monthly salary (gross) of NIS 31,500.

Unless stated otherwise above: (a) the employment agreements of the officers are determined for an undefined period, when each party may terminate it with prior notice between 60 and 90 days; (b) the officers are entitled to the social conditions including a number of vacation days, convalescence and sick days and additional terms such as reimbursement of expenses, per diem in the amount of NIS 2 thousand (gross) per

month and a cellular phone and vehicle for their use (including bearing all of the expenses involved and the full imputation of tax by the Company); (c) the Company allocates for the officers each month amounts to the advanced study fund, and insures them for pension rights, compensation, severance pay and employment disability; (d) the officers are entitled to an annual bonus at the discretion of the Company's CEO.

- (e) Gil Lazer- Mr. Lazer is employed as the CEO of Car 2 Go on a full time basis. Mr. Lazer provides Car 2 Go with management services through a company that he owns (in this subsection: the “**Management Agreement**” and the “**Management Company**,” respectively) for which he will be entitled to monthly management fees during the reporting year in the amount of NIS 53.5 thousand and reimbursement of certain expenses. On March 14, 2017, the board of directors of Car 2 Go approved the update to the monthly management fees in the amount of NIS 65.5 thousand as of January 1, 2017. In accordance with the Management Agreement, Car 2 Go paid Mr. Lazer in the reporting year a one-time bonus for the execution and realization of the Tel Aviv Municipality tender (Autotel) in the amount of three times the monthly management fees. Additionally, Mr. Lazer will be entitled to an annual bonus of up to six monthly salaries based on the net profit of Car 2 Go for 2017 and thereafter.

Additionally, within the Management Agreement, the Management Company was allocated 1,448 exercisable options to 1,448 ordinary shares of Car 2 Go (a conversion ratio of 1:1) in consideration for their par value. On the signing of the Management Agreement, the options constituted about 5% of the issued and paid up share capital of Car 2 Go on a fully diluted basis. In accordance with the adjustment mechanism set forth in the Management Agreement, on March 14, 2017, the board of directors of Car 2 Go approved an update of the conversion ratio (to 1:1.44) of the options to shares of Car 2 Go following a conversion on June 26, 2016 of the convertible shareholder loan provided by the Company to Car 2 Go (for details, see Section 7.19.1.1(b) of the Description of the Corporation's Business chapter). The options vest in batches over a total period of three years, as follows: 1/3 will vest after 12 months of the engagement (not yet exercised) (the “**First Batch**”), and 1/12 will vest after each calendar quarter after the vesting of the First Batch, and in total, every eight calendar quarters. In addition, according to the Management Agreement, the Management Company will be entitled to convert some of the options as stated (in whole or in part) in options to shares of the Company, subject to the Company's consent with respect to the terms of the conversation as stated, which will be determined separately between Car 2 Go, the Company and the Management Company within 24 months from the signing of the Management Agreement.

Allocation of restricted share units to the officers

- (a) Allocation of restricted share units of the Company that are convertible to ordinary shares of the Company - On March 3, 2015, the Company's board of directors resolved to allocate to certain employees and officers of the Company 413,223 restricted share units (RSUs) which are exercisable into ordinary shares of the Company (the “**Restricted Share Units**” or “**RSUs**”) on a capital gains track through a trustee, in accordance with

the provisions of Section 102(b) of the Income Tax Ordinance (New Version), 5721-1961 (the “**Ordinance**”). In accordance with the allocation terms, the Restricted Share Units vest during three years as of March 3, 2015, with equal shares (1/3) each year. For additional details about the RSUs, see Section 3.2.3 of Chapter C of the Prospectus. The officers of the Company listed above have been allocated RSUs, which have vested as of the date of the report, as follows:

Employee name	The amount of RSUs allocated	The amount of RSUs vested
Yossi Regev	165,289	110,248
Each of: Shimon Galil, Revital Avrahami and Nissim Mizrahi	41,323	27,604
Total	289,257	193,060

- (a) Allocation of restricted share units, convertible to ordinary shares of Pointer - On February 29, 2016, Mr. Yossi Regev and Ms. Revital Avrahami were allocated 3,250 and 500 shares of Pointer, respectively, which arose from the exercise of restricted share units of Pointer granted to them on April 1, 2014. The other restricted share units of Pointer allocated to them expired.

5.2. **Remuneration to Interested Parties**

The following details the compensation provided in 2016 to the interested parties in the Company, who are not listed in the table in Section 5.1 above, provided to them by the Company or a company under its control, in connection with the services provided as functionaries of the Company or a company under its control, as recognized in the Company’s financial statements for 2016, in NIS thousands (in terms of cost of the Company):

Details of the Recipients of the Compensation:				Compensation for Services		Other compensation	Total Annual
Name	Position	Scope of position	Rate of capital holdings in the corporation	Management fees	Annual salary, bonus, share-based payment, consulting fees, commission and others	Interest, rent, other	
DBSI	Services as active chairman of board of directors by Yossi Ben Shalom*	At least 40%	**	210.4	-	-	210.4
	Director services*	-	**	65.2	-	-	65.2

- * Chairman of the board of director services and services of directors provided within the engagement in the management services agreement with DBSI, the Company’s Controlling Shareholder, as set forth in Section 7 (Article 22) below. It is clarified that these amounts are not paid to the chairman of the board of directors and to the directors serving, rather directly to DBSI.

** See Section 6 (Article 21A) below.

5.3. **Remuneration policy of officers**

On May 25, 2016, the Company adopted a remuneration policy for officers of the Company and the subsidiaries (the “**Remuneration Policy**”). The Remuneration Policy came into effect on the date on which its shares were listed for trade on the Stock Exchange. For details about the Company’s remuneration policy, see Section Appendix C of the Prospectus. **The terms of service and employment of the officers of the Company set forth above are consistent with the remuneration policy of the officers of the Company.**

5.4. **Directors' remuneration**

During the reporting year (2016), the Company paid the directors³ annual remuneration and participation remuneration (the “**Directors’ Remuneration**”) in the total amount of NIS 72 thousand to four directors (the external directors Leon Goldstein and Yaron Dor, the independent director Shai Cohen and director Haim Dvir). The compensation provided to directors of the Company is “fixed” compensation in accordance with the Company’s ranking in accordance with the Companies Regulations (Rules of Remuneration and Expenses to an External Director), 5760-2000).

5.5. **Officer liability insurance, exemption and indemnification**

5.5.1. **Insurance** - by the date on which the Company’s shares are listed for trade on June 28, 2016, the officers of the Company, including those who are controlling shareholders of Pointer, were entitled to be included in an officer liability policy that Pointer acquired for the officers of Pointers and its subsidiaries (including the Company, as of the date of the Prospectus) (the “**Pointer Policy**”). The relative share of the Company in the annual premium paid by Pointer is about NIS 30 thousand.

As of the date on which the Company’s shares were listed for trade, the officers of the Company and its subsidiaries, as they may be from time to time and under the same terms, including those who are controlling shareholders of the Company, are entitled to be included in a separate insurance policy of the Company with limitations of liability in a total amount of up to USD 5 million and a deductible amount of USD 7,500 up to USD 35,000 thousand.

In addition, the officers of the Company and the subsidiary of Car 2 Go are entitled to officer liability insurance in connection with the Prospectus and all that entails, which is in force for seven years from the publication of the Prospectus (the “**Expansion of the Pointer Policy**”), when the Company bears half of the cost of the expansion of the policy in the amount of USD 18,850 and Pointer bears the balance of the cost.

In addition, the officers of the Company and Car 2 Go are entitled to “run off” officer liability insurance in force for a period of seven years as of the date on which the Company is listed for trade on the stock exchange, purchased by Pointer.

5.5.2. **Indemnification of officers** - The Company has provided letters of indemnification to officers serving and that have served in the Company from time to time, or that have served and/or are employed or will be employed, from time to time, on behalf of the Company in other corporations in which the Company holds any securities, directly and/or

³ Excluding payments to DBSI for director services of Messrs. Yossi Ben Shalom, Nir Cohen, and Kineret Yaari as set forth in Section 7.1.1 below.

indirectly in this Section and Section 5.5.3 - “**Another Corporation**”), as it may be from time to time, for any liability or expense and/or reasonable litigation expenses (in accordance with the provisions of the law) as set forth in the letter of indemnify, imposed thereon following their actions by virtue of being officers of the Company and/or officers or employees on behalf of the Company in Another Corporation, provided that the maximum amount of the indemnification for financial obligations imposed on the aforesaid under a judgment (including a judgment provided in a settlement or arbitral judgment certified by the court) will not exceed (in the aggregate for all of the officers, for a single case and the aggregate for all cases) an amount equal to 25% of the effective equity of the Company. In this regard, the “Effective Equity of the Company” means an equity amount of the Company based on the consolidated financial statements, audited or reviewed (as applicable), most recently published by the Company, as they may be on the actual payment date. It is clarified that the indemnification will apply in excess of the amount paid (if any) within the director and officer liability insurance purchased or that the Company will purchase from time to time.

- 5.5.3. **Exemption** - The officers of the Company who serve in the Company from time to time, or who will serve and/or employed or who will be employed, from time to time, on behalf of the Company in Another Corporation, are entitled to receive a letter of exemption. Within the letter of exemption, the Company exempts the officers as stated from any liability towards it (in accordance with the law) with respect to any damage caused to it by the officers as stated, due to a breach of the duty of care (excluding damage following a breach of a duty of care in a distribution (as defined in the Companies Law) and additional damage determined in the letter of exemption). The exemption does not apply with respect to a decision or transaction in which the controlling shareholder of the Company or any officer of the Company has a personal interest.

6. **Control of the Company (Article 21a)**

To the best of the Company’s knowledge, DBSI Investments Ltd (hereinafter: “**DBSI**”), which is also the controlling shareholder of Pointer and Taldor Computer Systems (1986) Ltd. (“**Taldor**”) holds about 36.28% of the rights of the capital and voting rights in the Company and about 35.07% of the rights of the capital and voting rights in the Company, on a fully diluted basis. To the best of the Company’s knowledge, the issued and paid up share capital of DBSI and the voting rights therein are held by private companies as follows: (1) BRIN Investments Ltd. - a private Israeli company that holds 76% of the issued and paid up share capital of DBSI, whose shareholders include, to the best of the Company’s knowledge, Mr. Boaz Dotan and Ms. Varda Dotan (at a rate of 45% each) (the “**Dotan Couple**”), and their son Mr. Barak Dotan (at a rate of 10%). The Dotan Couple have granted Mr. Barak Dotan a power of attorney whereby Mr. Barak Dotan may use the shares of the Dotan Couple as if they were his own, excluding regarding their transfer. The power of attorney may be cancelled with prior notice of 90 days; (2) White Condor Holdings Ltd. (“**Condor**”)⁴ - a private Israeli company that holds approximately 21.6% of the issued and paid up share capital of DBSI, and whose shares, to the best of the Company’s knowledge,

⁴ The holdings of Condor in DBSI as stated above are held for its benefit in trust through a trust company of the Shenkar-Lex & Co. Law Firm.

are held in full by Mr. Yosef Ben Shalom, who serves as the chairman of the Company's board of directors; (3) Pulpit Rock Investments Ltd. - a private Israeli company that holds approximately 2.4% of the issued and paid up share capital of DBSI, and whose shares, to the best of the Company's knowledge, are held in full by Mr. Yosef Ben Shalom and his wife, Edna Ben Shalom, through the Ben Shalom Edna and Yosef Holdings Ltd. company, under their joint control. There is a shareholders agreement between the shareholders of DBSI as set forth above.

7. **Transactions with the Controlling Shareholders (Article 22)**

7.1. **Transactions listed in Section 270(4a) of the Companies Law**

The following are details, to the best of the Company's knowledge, of each transaction with the Controlling Shareholder or in which the Controlling Shareholder has an interest, in which the Company has engaged in the reporting year or a later date as of the end of the reporting period and until the date of submitting the Report or that is still in force on the date of the Report⁵:

7.1.1. **Engagement in the agreement for the receipt of management services from DBSI, the Company's controlling shareholder:**

On November 3, 2016, a special meeting of the Company's shareholders approved an engagement between the Company and DBSI, the Company's controlling shareholder, in an agreement for the receipt of management services including, *inter alia*, services of chairman of the board of directors (active) in the Company and director services, primarily the following:

- (a) **The Agreement Period:** DBSI shall provide the Company with management services, starting from July 1, 2016, for the duration of five (5) years from the date the Company goes public⁶; meaning, until June 23, 2021. Each of the parties shall be permitted to terminate this Agreement by ninety (90) days prior, written notice.
- (b) **Content of Management Services:** (A) Strategic consulting for the Company and its managers (according to the Company's needs); (B) Assistance with the Company's business development; (C) Assistance, consulting and ongoing support for merger and acquisition processes; (D) Assistance to the Company's CEO in all material aspects connected with the Company's activity; and (E) Service of directors that will participate and take part in the Company's board meetings and committees and in any other professional forum of the Company, including active chairman services for the board of directors.

All of the services described above in this section shall be termed hereinafter: the "**Management Services.**"

- (c) **Scope of the Services:** The Management Services shall be provided through the

⁵ In accordance with the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000, these transactions only require approval at the end of five years from the date of completion of listing the Company's shares for trade on the Stock Exchange.

⁶ In accordance with Section 1B(b)(2) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000.

availability of up to four (4) directors (including a chairman) for the Company's board of directors. The Management Services include the provision of active board chairman services in the form of Mr. Yossi Ben Shalom, on the scope of a monthly employment of no less than 40%, who shall deal and be responsible for the activities included in the content of said Services.

- (d) **The Management Services Data:** The Management Services shall be provided to the Company through DBSI's officers, who shall serve as directors in the Company. As of the date of this report, serving in the Company on behalf of DBSI are Mr. Yossi Ben Shalom serving as the active chairman of the board and directors Nir Cohen and Kinneret Yaari (the "**Directors**").

- (e) **The Consideration:**

For the active chairman of the board of director's services, the Company shall pay DBSI monthly management fees amounting to NIS 35,000, linked to the rise in the consumer pricing index, with added lawful VAT, against the presentation of a tax invoice (the "**Active Chairman Salary**"). The basic index for calculating said linkage is the May, 2016 index.

For the services of each of the directors serving as directors in the Company on behalf of DBSI (including the chairman of the board), the Company shall pay DBSI director wages according to the "fixed sum" stated in the Remuneration Regulations, which is identical to the remuneration paid to the other directors of the Company as set forth in Section 5.4 above.

The salary of the active chairman and the Directors' Salary shall jointly be termed hereinafter: the "**Management Fees.**"

- (f) **Reimbursement of Expenses:** The Management Fees constitute the final and absolute consideration for all of the Management Services, and DBSI and/or the directors shall not be entitled to any additional remuneration from the Company, except for the reimbursement by the Company for expenses associated with flights from abroad issued by DBSI or any of the members of the board of directors actually serving on its behalf, in connection with the provision of Management Services. Close to the date of the approval of the Company's annual financial statements, data regarding said reimbursement of expenses, to the extent that such was made, will be presented before the Company's audit board.

7.1.2. The agreement for the sale of activity between Shagrir Systems and the Company

For details regarding the agreement related to the sale of activities between Shagrir Systems and the Company, including providing loans by Pointer to the Company within the structural split and acquisition of activities, see Sections 1.2 and 7.19 of the Description of the Corporation's Business chapter.

7.2. Other transactions

7.2.1. Engagement with Taldor

The audit committee and the board of directors of the Company approved the purchase of communications equipment and maintenance services and the expansion of liability for information security products and backup products that were purchased from Taldor, a public company controlled by DBSI, the Company's controlling shareholder, during 2016 in a total amount of about NIS 78.5 thousand.

7.2.2. **Service, lease and additional engagements between Pointer and the Company**

On December 30, 2014, Pointer and the Company signed a services agreement as amended on December 30, 2015 (in this subsection: the "**Agreement**"), in which it was agreed that Pointer will provide the Company with various services, and in parallel, the Company will provide Pointer with various services under terms determined with respect to each type of service separately (including the term of the services), as set forth below:

Nature of the service	Additional details	Scope of the services in the report year
Services provided by Pointer to the Company:		
Services for the installation of protective products, detection and car accessories	Services in accordance with its actual needs, when the consideration is based on Pointer's known price list, after a 35% discount. The duration of these services will be determined with the consent of the parties for each project separately.	About NIS 40 thousand.
Services provided by the Company to Pointer:		
Computerization services, including switchboard services and the purchase of work stations and suitable licenses.	The services are for a period unlimited in time and for monthly consideration in accordance with the rate determined in the agreement, including a mechanism to update the rate in accordance with the scope and period of providing the service.	About NIS 1,397 thousand. Computerization services were terminated at the end of 2016.
Phone services	The Company charges Pointer for these services based on the charge amount for actual consumption. Each party may terminate the engagement with prior notice 30 days in advance.	About NIS 215 thousand. Telephony services were terminated at the end of 2016.
Car lease services	Until January 2017, the Company lease vehicles to Pointer. The aforesaid consideration includes, <i>inter alia</i> , the cost of repairs and handling the ongoing maintenance and insurance policies.	About NIS 255 thousands.
Car service center services, towing and road services	The consideration in accordance with the last known price of the Company, after a 35% discount. Each party may terminate the engagement with prior notice 30 days in advance.	About NIS 8.6 thousands.
Traffic Officer Service	The services are provided in consideration for a fixed monthly payment, as determined in the Agreement. Each party may terminate the engagement with prior notice 60 days in advance.	About NIS 60 thousand.
Marketing services of "Shagrir Gold"	Pointer may market these services for a period unlimited in time, in consideration	In 2016, Pointer paid the Company an amount of NIS

Nature of the service	Additional details	Scope of the services in the report year
and “Shagrir Supplementary” services	for payment by Pointer to the Company for each subscriber marketed by Pointer in accordance with the rates determined in the Agreement. The rates determined vary by new subscriber and existing subscriber. The agreement provides a gradual discount mechanism whereby Pointer will be entitled to a discount on the rates set forth in the agreement in the rates determined depending on the number of total subscriptions that Pointer markets.	2,605,000 for the sale of the subscriptions.
Lease agreements⁷:		
Lease of part of the asset in Haifa to Pointer	Area of about 90 sq.m as of December 31, 2014 and until December 31, 2017.	By December 31, 2016, the monthly lease fees in the amount of NIS 6,362. By December 31, 2017, the monthly lease fees will be in the amount of NIS 10 thousand (the lease fees include maintenance fees of the structure and all taxes).
Lease of part of the asset in Jerusalem	The Company leases to Pointer, with a sublease, about 18% of the area that the Company leases from a third party by December 31, 2022.	The monthly lease fees in the amount of NIS 18,883 (which also include consideration for the maintenance fees of the structure and all taxes applicable)
Other transactions:		
Providing guarantee by Pointer for the Company’s supplier	Within the Structural Split agreement, Pointer was transferred part of the guarantees provided by Shagrir Systems for the suppliers and customers of the Company. As of the date of the Report, one guarantee remains in force in an immaterial scope, which will expire at the end of 2018.	No consideration
Cooperation agreements between Car 2 Go and Pointer	<p>(a) Car 2 Go purchases Car Sharing product units generated by Pointer and integrated in Car 2 Go vehicles (the “Product Units”).</p> <p>(b) Pointer develops for Car 2 Go adapted product units, <i>inter alia</i>, for the activity in Tel Aviv (for details, see Section 7.10.4 of the Description of the Corporation’s</p>	<p>The price for a Product Unit as stated will be determined based on market prices, in accordance with similar units sold by Pointer to third parties.</p> <p>The estimated development cost that Car 2 Go will incur is expected to amount to approximately US\$ 62,000.</p>

⁷ For additional details about these assets, see Section 6.8.1 of Chapter A. Additionally, for details regarding the compensation paid by Pointer to the Company in 2015 for a breach of the sublease agreement in the asset leased by the Company from a third party on 8 Banefach Street, Holon, recognized on the income statement by the end of the original lease term (December 31, 2018), see Note 21(d)(3) of the financial statements.

Nature of the service	Additional details	Scope of the services in the report year
	Business chapter).	
Issuance costs	The Company participated in some of the costs of Pointer in the reporting year for the issuance.	About NIS 72 thousands

7.2.3. Negligible transactions

On March 21, 2017, the Company's board of directors resolved to adopt guidelines and rules for the classification of a transaction of the Company with an interested party as a negligible transaction as defined in Article 41(a)(6)(a) of the Securities Regulations (Annual Financial Statements), 5770-2010. These rules and guidelines are also used to examine the scope of the disclosure in the Company's periodic report regarding a transaction with a controlling shareholder or in which the Controlling Shareholder has an interest in as set forth in Article 22 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Company's board of directors has determined that in the absence of special qualitative conditions that arise from all of the circumstances of the matter, a **"negligible transaction"** will be considered to be a transaction that meets the following aggregate conditions:

- (a) It is not an extraordinary transaction as defined in the Companies Law.
- (b) The scope of the transaction does exceed, compared to a single transaction, a total of NIS 250,000 and in the aggregate over a period of one year a total of NIS 750,000 or a rate of 3% (three percent) of the management and general expenses of the Company on the basis of the latest audited consolidated financial statements, whichever is higher.

In cases in which the quantitative criteria mentioned above are not relevant to the examination of the marginality of the transaction and/or the deviation from the scope of the transaction mentioned in section (b) is not material, the audit committee may determine that the transaction will be considered to be marginal in accordance with another relevant criteria determined thereby.

Each transaction will be examined independently; however, separate transactions that are interdependent such that in reality, they are part of the same engagement, such as for instance the acquisition of certain services over a period of time, will be examined as one transaction on an annual basis, while joining all of the transactions of the same kind of the Company with the Controlling Shareholder or with corporations under the control of the Controlling Shareholder. The negligibility of a multi-year transaction (a transaction that spans a number of years) will be re-examined once per year based on the relative share of the transaction in the same year. Separate transactions performed repeatedly and periodically each period that are not dependent will be examined on an annual basis.

It is clarified that examining the qualitative considerations of the controlling shareholder transaction may lead to the classification of the transaction as a non-negligible transaction, despite the above. For example, a transaction that is perceived as a substantial event by the Company's management and that serves as a basis for making managerial decisions or if

the Controlling Shareholder is expected to receive a benefit of significance in providing an immediate report of the same within the transaction. Therefore, the Company's management will examine, in each transaction, the nature of the personal interest related to the specific transaction.

8. **Holdings of Interested Parties and Senior Officers (Article 24)**

For details regarding the holdings of interested parties and senior officers of securities of the Company and the investee companies, see the Company's immediate report dated January 5, 2017 (reference no.: 2017-01-003033), included herein by way of reference.

9. **Registered Capital, Issued Capital and Convertible Securities (Article 24a)**

For details, see the Company's immediate report dated June 28, 2016 (reference no.: 2016-01-067990), included herein by way of reference.

10. **Register of Shareholders of the Company (Article 24b)**

For details, see the Company's immediate report dated June 28, 2016 (reference no.: 2016-01-064093), included herein by way of reference.



11. **The Directors of the Company (Article 26)**

	Yosef Ben Shalom, Chairman of the Board	Nir Cohen	Kinneret Yaari
Identification No.	053919247	029660230	066653619
Date of Birth	11.4.1956	7.10.1972	9.7.1984
Address for service of legal process	226 Anafeh St., Modiin-Macabim-Reut, Zip: 7179901	23a Pinsker St., Rehovot 7630833	P.O. Box 250, Kibbutz Gaash, 6095000
Citizenship	Israeli	Israeli	Israeli
Is he a member of a board of director's committee?	No	No	No
Is the director independent / an external director	No	No	No
Does he have accounting and financial expertise or professional qualifications?	Yes	Yes	Yes
Is he an employee of the Company, a subsidiary, related company of the Company, or have an interest therein?	Managing partner at DBSI, the Company's Controlling Shareholder.	CFO at DBSI, the Company's Controlling Shareholder.	Economist at DBSI, the Company's Controlling Shareholder.
Date of commencement of office as a director of the Company:	25.11.2014	29.3.16	29.3.16
Education	BA in Economics and MBA from Tel Aviv University.	Degree in Business and Accounting from the College of Management; CPA.	Bachelor in Economics and Management and an MBA (Business Administration) from the University of Tel Aviv.
Employment in the last five years:	Managing partner of DBSI; Director of a number of public and private companies, and active in a number of associations;	CFO at DBSI; CFO at Dash Shiraz Investments Ltd. Partner and Director of Finance at Argoquest Holdings, LLC, as of April 2000 and until June 2011; director of a number of private and public companies);	Economist at DBSI, Senior analyst at Giza Singer Even Ltd., as of November 2010 and until April 2013.
Additional corporations in which candidate serves as a director	<u>Public Companies:</u> Pointer Telocation Ltd; Danel (Adir Yehoshua) Ltd; Taldor Computer Systems (1986) Ltd; RADA Electronic Industries Ltd; Kafrit Industries (1993) Ltd. (until Sept. 2016).	<u>Public Companies:</u> Pointer Telocation Ltd; Danel (Adir Yehoshua) Ltd; Taldor Computer Systems (1986) Ltd; RADA Electronic Industries Ltd;	Taldor Computer Systems (1986) Ltd. RADA Electronic Industries Ltd.

	Yosef Ben Shalom, Chairman of the Board	Nir Cohen	Kinneret Yaari
	<u>Private Companies:</u> Matzman et Merutz Milenium Ltd; The 8 Note Production & Distribution Ltd; Hatav Hashmini Hachadash (2000) Ltd; Car 2 Go Ltd; DBSI; Pulpit Rock Investments Ltd; White Condor Holdings Ltd; Ben Shalom Edna and Yosef (Holdings) Ltd; Ecommunity Social Corporation for E-Waste Recycling Ltd; <u>Associations:</u> Reim Association.	<u>Private Companies:</u> Altshuler Shaham Investment Portfolio Management Ltd.; Altshuler Shaham Trust Fund Management Ltd. (Chairman of the board of directors);	
Is he a relative of a party with an interest in the Company?	No	No	No
Does the Company consider him as possessing accounting and financial expertise for the purpose of fulfilling the minimal number determined by the board of directors according to Section 92(a)(12) of the Companies Law?	Yes	Yes	Yes

	Lian Goldstein	Yaron David	Shai Cohen	Haim Dvir
Identity number:	032254039	56515794	059832989	058610239
Date of birth:	28.1.1975	28.8.1960	10.9.1967	10.12.1963
Address for service of legal process:	8 Hanefach Street, Holon 5881804			
Citizenship:	Israeli			
Membership in Board of Directors committees:	Members of the Audit, Remuneration, and Balance Sheet Committees			No
Independent/outside director	Outside director	Outside director	Independent director	No
Does he have accounting and financial expertise or professional qualifications?	Accounting-financial expertise	Accounting-financial expertise	No	Accounting-financial expertise
Is he an employee of the Company, a subsidiary, related company, or have an interest therein?	No	No	No	Yes, manager of the Gandyr Group (Gandyr Holdings Ltd., which is an interested party in a company belonging to this Group).
Date of commencement of office as a	18.8.2016	18.8.2016	18.8.2016	18.8.2016

	Lian Goldstein	Yaron David	Shai Cohen	Haim Dvir
director of the Company:				
Education:	B.A. in Business Administration (majoring in Accounting) and MBA (specializing in Finance and Accounting) from the College of Management (Rishon Lezion)	Graduate in Economics and Accounting from Haifa University, an MBA from the University of HATSIOT WATT, completed a directors course at Tel Aviv University	Graduate in Business Administration and Computer Science and MBA, specializing in finance and entrepreneurship from the Hebrew University	Graduate in Economics and Accounting and MBA from Bar Ilan University
Business experience in the last five years:	Currently provides consulting and financial management services on an outsourced basis, outside director User Trend Ltd., formerly - CFO In a variety of companies - WorldMate, Magen Security Systems, Lee Cooper, Johnson & Johnson.	Currently - CEO of Cycling Union and director of Regba Furniture, formerly VP of Business Development of SuperPharm, CEO of New-Pharm, CEO of Best Buy, VP of Shufersal.	Currently - independent consultant for startup and hi-tech companies, formerly developer, co-founder, and manager of MY4t and VP of Cloud Products, head of Cloud Division and SaaS at Attunity Ltd.	Licensed CPA, financial and tax consultant to various companies, director of the public company Shemen Industries Ltd. and Pituach Moshe Ltd., Israel Vasco Electrical Energy Services Ltd., Dvir Life Consultants Ltd, K.b. Recycling Industries Ltd.
Is he a relative of a party with an interest in the Company?	No	No	No	No
Does the Company consider him as possessing accounting and financial expertise for the purpose of fulfilling the minimal number determined by the board of directors according to Section 92(a)(12) of the Companies Law?				

12. Senior Officers (Article 26a)

Officer	Yossi Regev	Shimon Galil	Revital Avrahami	Eyal Fishov	Nissim Mizrahi	Gil Lazer	Joseph Ginossar	Dana Yosef	Chaim Leibowitz
Identification No.	56079262	309778462	027771153	024980716	054130216	034445783	055377071	033459983	28429629
Date of Birth	12.1.1960	1.4.1962	6.6.1970	25.3.1970	24.8.1957	25.9.1977	1958	3.2.1977	02.08.1971
Date of commencement of service	1.3.2005*	15.2.1984*	2.12.2001*	1.7.2012*	16.2.1984*	15.11.2015	23.8.2016	1.8.2010	03.11.1992
Position in the Company	CEO	VP Sales and Marketing	CFO	VP of Service Centers	VP of Operations and Service	-	Internal Auditor of the Company	Company comptroller	VP of TCS (Total Customer Service) field
Position in a subsidiary or interested party in the Company	Director of Car 2 Go	Director of Car 2 Go	-	-	-	CEO of Car 2 Go	-	-	-
Is he a relative of another senior officer or interested party in the Company?	No	No	No	No	No	No	No	No	No
Education	BA in Economics and Accounting from Ben Gurion University; MA Human	Bachelor's degree in Mathematics and Management from Tel Aviv University; Bachelor's	Bachelor's degree in Management and Economics from the Open University	Degree in Business Administration from the College of Management; Master's Degree in Entrepreneurship	-	BA (Business Administration), specializing in marketing and finance from the College of Management; MBA (Business	BA in Economics and Accounting (Hebrew University), a master's degree in	Graduate of Business Administration and Accounting, College of Management	-

	Resource Management from the University of Derby	degree in Business Administration from the University of Derby.		and Business Development from Swinburne University of Technology		Administration) with specialization in Marketing from the College of Management; MA in Philosophy from Tel Aviv University.	marketing and accounting at the Hebrew University, an MBA (University De Pau).		
Employment in the last five years:	CEO of Shagrir Systems and the Company; Deputy CEO and CFO of Shagrir Systems as of August 2005 to November, 2013.	VP Marketing and Sales of Shagrir Systems Ltd. and the Company	CFO of Shagrir Systems Ltd. and the Company	VP at Tractors and Equipment (ETE) Ltd. as of January 2008 and through May 2012; Ltd. as of January 2008 through May 2012; VP of Service Centers at Shagrir Systems Ltd. and the Company	VP of Operations and Service at Shagrir Systems Ltd. and the Company	CEO of T.R. Electro Stereo Ltd. for 16 years, until October 2016.	Internal audit partner at Fahn Kanne Management and Control Ltd.	Company comptroller	Manager of TCS (Total Customer Service) field until March 7, 2017; Nationwide Operations Manager until July 2015

*Commencement date of employment at Shagrir Systems.



13. **Independent Authorized Signatories of the Company (Article 26b)**

At the reporting date, the Company has no independent authorized signatories.

14. **Accountant of the Company (Article 27)**

Kost Forer Gabbay and Kasierer, 3 Aminadav St., Tel Aviv, 6706703.

15. **Changes in the Memorandum or Articles of Association (Article 28)** - For details regarding the replacement of the Company's articles of association, see the immediate report dated June 28, 2016 (reference no.: 2016-01-067987).

16. **Recommendations and Resolutions of the Directors (Article 29(a))**

For details regarding the change in registered and issued capital of the Company, see Section 3.2 of the Prospectus.

**Yossi Ben Shalom, Chairman
of the Board**

Yossi Regev, CEO

Date: March 21, 2017

Managers' Declaration

CEO Declaration

I, Yosef Regev, declare that:

- (1) I have examined the periodic report of Shagrir Group Vehicle Services Ltd. (the "Company") for 2016 (the "Reports");
- (2) To the best of my knowledge, the Reports do not include any incorrect representation of material fact and did not omit any representation of material fact that is essential in order for the representations included therein, in light of the circumstances in which the same representations are included, to not be misleading with respect to the period of the Reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the Reports properly reflect, from all material respects, the financial state, the results of the operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate;
- (4) I have revealed to the Company's auditing accountant, to the board of directors and to the audit committee of the Company's board of directors any fraud, whether material or immaterial, in which the CEO or a party directly subject to him is involved or that involves other employees that have a significant role in the internal control of the financial reporting and disclosure.

The provisions above will not derogate from my liability or the liability of any other person under any law.

Date: March 21, 2017

Yossi Regev, CEO

Managers' Declaration

Declaration of the Senior Officer in the Financial Field

I, Revital Avrahami, declare that:

- (1) I have examined the financial statements and other financial information included in the Reports of Shagrir Group Vehicle Services Ltd. (the "Company") for 2016 (the "Reports");
- (2) Insofar as I am aware, the financial statements and the other financial information included in the Reports do not include any incorrect representation of material fact and did not omit any representation of material fact that is essential in order for the representations included therein, in light of the circumstances in which the same representations are included, to not be misleading with respect to the period of the Reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the Reports properly reflect, from all material respects, the financial state, the results of the operations and the cash flows of the Company as of the dates and for the periods to which the Reports relate;
- (4) I have revealed to the Company's auditing accountant, to the board of directors and to the audit committee of the Company's board of directors any fraud, whether material or immaterial, in which the CEO or a party directly subject to him is involved or that involves other employees that have a significant role in the internal control of the financial reporting and disclosure.

The provisions above will not derogate from my liability or the liability of any other person under any law.

Date: March 21, 2017

Revital Avrahami, CFO