Advanced Vision Technology (A.V.T.) Ltd.

2016

Annual Report

January 1st - December 31st

The Printer's Choice | AVT.

ANNUAL FINANCIAL REPORT FOR 2016

Key performance data

Selected consolidated income statement data and cash flows (in thousands US Dollars except earnings per share):

	Year ended December 31,	
	2016	2015
Booking orders	63,493	57,617
Revenues	57,274	51,489
EBITDA	5,852	4,759
Net income	4,135	2,778
Earnings per share, diluted	0.67	0.45
Cash flows from operating activities	4,417	228
Cash flows from investing activities	(11)	(1,832)
Cash flows from financing activities	(4,425)	(5,779)

Other selected data:

	31.12.2016	31.12.2015
Total assets (in thousands US Dollars)	51,326	49,410
Equity ratio	59%	61%
Number of employees	244	229

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR 2016

Index:

A. FOREWORD FROM THE PRESIDENT & CEO

Dear Shareholder,

2016 was a good year for AVT, with continued improvement in our business resulting in growth in revenues, order bookings, operational and net profitability. The labels and packaging segments were the primary contributors to our revenue growth, in both product and service sales.

Revenues in 2016 totaled $57.3 million, an increase of 11.2% compared with revenues of $51.5 million in 2015. AVT's fourth quarter 2016 revenues totaled $15.2 million, compared with $13.0 million in the same period last year, an increase of 16.4%.

Operating income in 2016 totaled $5.0 million, an increase of 22.3% compared with the operating income of $4.1 million in 2015. Net income totaled $4.1 million, compared with $2.8 in 2015.

New order booking in 2016 totaled $63.5 million representing an increase of 10.2% compared with order booking of 57.6 million in 2015. This growth was driven primary by the label and packaging segments, as well as good contribution from our newer solutions and initiatives: metal sheet and digital applications. Our 2016 growth reflects good performance in all geographies, with good momentum in developing markets, both in the Asia Pacific and Latin America regions.

From May 31st to June 10, AVT successfully presented at the Drupa trade fair in Dusseldorf, Germany. This is the largest printing industry event worldwide, taking place once every four years. During this fair, AVT introduced an extensive roster of over 15 new solutions and technologies. During the exhibition, the Company received significant exposure and leads that supported our business in the later quarters of the year. Drupa was very effective in positioning the Company as a leading inspection and control solutions provider for labels and packaging and as a clear leader in terms of its vision for quality management in the world of printing.

Following up on Drupa, at the Labelexpo Americas exhibition held in Chicago during September, we showcased for the North American marketplace some of the groundbreaking technologies we unveiled back in June in Europe, including high definition inspection with the new Helios Turbo HD, and our new cloud-based quality standards and automation platform. We also presented our latest inline color management solutions.

During 2016, we strengthened our leadership in the digital printing segment, as additional major digital inkjet players chose AVT Jet-IQ as their print quality engine. Moreover, we demonstrated in collaboration with HP, the AVT Helios S Turbo inspection system, integrated within the HP Indigo 8000 Digital Press. This new inspection solution connects with the press, and for the first time can automatically pause printing when detecting a suspected repeating problem. In 2016, we launched our new Helios D inspection solution, specifically designed to support inkjet users in finding print defects

A previously announced, on March 6, 2017, we signed a definitive agreement with Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd. pursuant to which AVT will be acquired by Danaher Corporation's Product Identification Platform and become an indirect wholly owned subsidiary of Danaher Corporation, and our shareholders will receive €14.50 in cash for each ordinary share of the Company. This price reflects a premium of approximately 31% over the volume-weighted average share price of the Company during the three-month period prior to signing the merger agreement and is higher than the price at which AVT's shares have traded at any time since 2008.

This is an exciting next step in the development of AVT, both for our customers and for our employees. Being part of Danaher's Product Identification Platform will strengthen our ability to continue to execute our existing strategy and will enable us to bring more innovative and connected solutions for the packaging and label value chain.

The closing of the merger is expected to occur during the second quarter of 2017, and following the closing it is intended to effect the delisting of AVT's shares from the Frankfurt Stock Exchange.

I would like to take this opportunity and thank our shareholders for their continued support over the last years.

Sincerely yours,

Jaron Lotan, President & CEO

B. REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

In 2016 AVT continued to deliver results in line with its strategic plan and it was a solid year, financially, for AVT. In 2016, we saw continued indications for increasing demand for our products, and our revenues were the highest they have been since 2008. We finished 2016 with record order bookings and backlog

Drupa was an important milestone during 2016, where we introduced 20 new solutions, received excellent feedback from our customers, signed new OEM agreements and introduced iCenter, AVT's new cloud based Automation and Efficiency platform.

On the Digital front, we continued to add more OEMs to our unique Jet-IQ solution.

As previously announced, on March 6, 2017, we signed a definitive agreement with Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd. pursuant to which AVT will be acquired by Danaher Corporation's Product Identification Platform and become an indirect wholly owned indirect subsidiary of Danaher Corporation, and our shareholders will receive €14.50 in cash for each ordinary share of the Company. This price reflects a premium of approximately 31% over the volume-weighted average share price of the Company during the three-month period prior to signing the merger agreement and is higher than the price at which AVT's shares have traded at any time since 2008.

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The closing of the merger is expected to occur during the second quarter of 2017, and following the closing it is intended to effect the delisting of AVT's shares from the Frankfurt Stock Exchange.

During 2016 the Board of Directors performed its duties as outlined by the law and according to corporate governance prevailing in the State of Israel. As part of our duties, we supervised the ongoing conduct of the Company's management and were informed, at the Board of Directors' meetings, of business developments and material corporate issues related to the Company and its subsidiaries and oversaw the negotiations with respect to the merger transaction discussed above and approved the merger.

As of December 31, 2016, the Board of Directors consisted of 6 members, including 2 external Directors. Board meetings focus, among other things, on overseeing the activities of management, setting business priorities, strategies for profitable organic and non-organic growth, corporate governance, financial oversight and reporting, business development and strategic transactions.

In compliance with the Israel Companies Law, the Board of Directors has an Audit Committee, which consists of 3 Board members, the 2 external Directors and an additional Director who meets the independence criteria under the Israel Companies Law. The Audit Committee is responsible, among other things, for(a) identifying flaws in the management of the Company's business, making recommendations to the Board as to how to correct them and providing for arrangements regarding employee complaints with respect thereto; (b) reviewing and considering certain related party transactions and certain actions involving conflicts of interest; (c) reviewing the internal auditor's performance and approving the internal auditor's work plan and examining the Company's internal control structure and processes; (d) examining the external auditor's scope of work as well as the external auditor's fees and providing its recommendations to the appropriate corporate organ; and (e) overseeing the accounting and financial reporting processes of the Company. In addition, the Board of Directors has a Compensation Committee of three Directors, including both External Directors. The responsibilities of the Compensation Committee include periodically reviewing the implementation of the Company's compensation policy and providing the Board of Directors with recommendations with respect to any amendments or updates thereto, and reviewing and resolving whether or not to approve arrangements with respect to the terms of office and employment of officers and Directors, including with respect to bonuses, equity-based awards and other forms of compensation. The merger transaction discussed above was reviewed and approved by both our Audit Committee and Compensation Committee.

During 2016, we held 8 Board of Directors meetings, 4 Audit Committee meetings and 8 Compensation Committee meetings. All Board of Directors meetings consisted of a legal quorum of more than four attendees and the Audit and Compensation Committee meetings were attended by at least 2 Directors at least one of whom is an External Director, as required by Israeli law.

The management of the Company prepared the annual consolidated Financial Statements in accordance with US GAAP. The consolidated balance sheets of the Company and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the three years ended December 31, 2016, were audited by Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

At the Audit Committee meeting held on March 19, 2017 and at the Board of Directors meeting held on March 27, 2017, both of which were attended by the Company's auditors and legal counsel, we discussed the 2016 Financial Statements and resolved to approve the Annual Report.

I would like to thank our customers for their business and for their continued confidence in AVT and to our management team, employees, partners and suppliers for their hard work and contribution to our growth and success.

Hod Hasharon, March 27, 2017

Very truly your,

Yariv Avisar

Chairman of the Board of Directors
Advanced Vision Technology (AVT) Ltd.

C. AVT'S SHARES

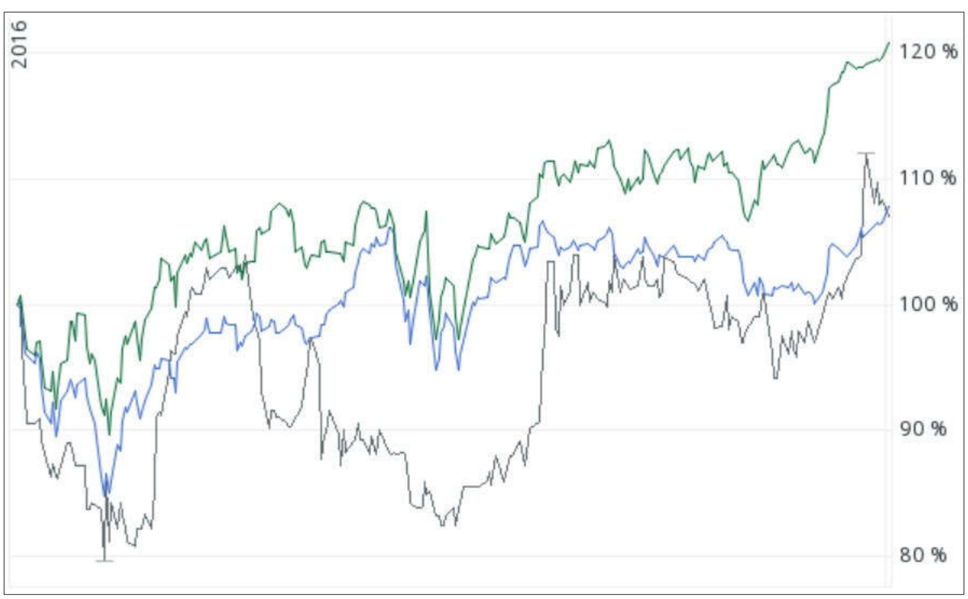
Basic information on AVT's shares

WKN	931340
ISIN	IL0010837248
Abbreviation	VSJ
Listing	Regulated market (Prime Standard)
Share capital in NIS	13.89 million
Share capital in units	6,945,927 (31.12.2016)
Number of voting shares	6,126,805 (31.12.2016)
High on December 23, 2016*	€11.30
Low on February 9, 2016*	€8.05
Market capitalization as of December 31, 2016	€67.1 million
Diluted earnings per ordinary share for 2016	$0.67

*All share price information is based on XETRA daily closing prices

AVT share price in 2016

AVT's shares began the year at a price of €10.10 per share. The performance of AVT shares was thereafter in line with the general DAX stock market environment and deteriorated during the following weeks and subsequently became less volatile. Following the ad hoc announcement on March 1, 2016 with respect to a dividend distribution the share price increased up to €10.50 on April 8, 2016. The price then decreased again to €8.32 on June 30 and then increased again to a peak price of €11.30 on December 23, 2016 and closed at a price of €10.95 on December 31, 2016. In 2016, AVT's average share price was €9.51 and the average traded volume was 3,817 shares per day.



Advanced Vision Technology SDAX DAX Sector All Industrial

Investor Relations

The objective of our investor relations activities is to allow all participants in the capital market the opportunity to evaluate AVT fairly. We do this by continuous and open communication. All information on AVT shares is published and available on our website at www.avt-inc.com under Investor Relations.
In addition, you may contact our Investors Relations team:

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D. ANNUAL AVT MANAGEMENT REPORT

(i) Our Solutions

We have developed fully integrated solutions that include software applications and hardware components that can be deployed in a modular manner. This flexibility allows our customers to incorporate additional functions and capabilities as their business or operation require. On top, we created OEM alliances through which we resell products that were developed by them and customized to fit our customers' needs as per our definitions.

Below are some key solutions from our portfolio:

Solution	Customer Need	Purpose
Jupiter	Packaging - on press Process Control	The industry standard solution for on-press automatic inspection. The Jupiter offers superior Process Control capabilities that reduces production cost and enhances product quality. The Jupiter can be equipped with added value modules such as press control, color management and barcode verification.
Apollo Turbo	Packaging - 100% Quality Assurance	Equipped with 100% LCCD technology, the Apollo offers Quality Assurance solution and can be integrated on press or on various post press stages such as Lamination, Doctoring or slitting rewinding.
Helios II / Helios S/ Helios S Turbo /Helios Turbo HD	Labels and narrow web printing inspection applications	Advanced 100% automatic inspection platform that support the specific label & narrow web application & workflows. Installed on press or on rewinder, the Helios series provides excellent Process Control & 100% Quality Assurance.
Argus Turbo / Argus E Turbo / Argus Turbo HD	Packaging - on press Process Control & Quality Assurance	A unique combination of Process Control & Quality Assurance. Argus series is the top of the line solution for high quality packaging applications. The new Argus/Argus E Turbo offers a unique, leading high resolution and high-speed 100% inspection with in image register and pressure setting / press control.
pRegister and iReg	Packaging	pRegister is an automatic register pre-setting and control module. The iReg module adds simplicity of click and drag to the register process and does not require any special targets to bring the press to registration.
Presco	Packaging	Automatic plate pressure pre-setting and control module
I∆Eal	Packaging	In line color monitoring module for ΔE and ΔL*a*b-based color pre-setting guidance and run-time color management
SpectraLab	Packaging	The latest in absolute color measurement technology deployed for packaging and label

		applications. An inline color measurement solution that measures and reports spectral L*a*b* values.
WorkFlow Link II	Label & Packaging	The industry standard for end-to-end Quality Control solution, WFL II enables digital, automatic handling of defected material removal at the finishing stage, based on the AVT inspection information gathered along the production workflow
PrintFlow II product family	Data Management	PrintFlow II product family enables comprehensive management of print quality information. It includes: • PrintFlow II – an SQL database that collects online all Quality data • PrintFlow Central – enables multi-systems and multi-site data storage • PrintFlow Manager II – enables sophisticated reporting, statistics and QA management
ZeroSet	HP® web presses -Label & Packaging	An automation solution for HP ® digital web presses that are powered by an Esko® DFE (Digital Front End). AVT ZeroSet offers an automated inspection setup, job audit, print defect detection and process control.
Titan	Packaging/ Metal Decorated Boxes	AVT's 100% automatic inspection platform that supports the specific needs of metal sheet printers for metal boxes. Installed on metal sheet printing press and provides excellent Process and Quality assurance.
Mercury	Web and sheet-fed offset presses (Commercial, Newspaper, Packaging, Labels)	A remote ink control solution, that offers powerful HW & SW platforms, ease-of-use touch screens and a new Level of automation,
Clarios	Commercial and Newspaper printing/ Web Offset	Closed loop color control system that utilizes a spectrophotometer to measure colors on press. The Clarios system converts spectrophotometric data to industry standard ink density and L*a*b* information and then compares the measured value to pre-defined job targets or standards. The system will automatically make adjustments to the press ink keys so that quality standards are met. The system reduces production cost while improving print quality
SnapReg	Commercial printing/ Web Offset	State of the art automatic closed loop color-to-color register control designed for commercial presses. SnapReg is an add-one module to Clarios & Mercury platforms
CoatScan	Packaging/ Metal Decorated Boxes	Metal Sheet coating margin inspection as well as defect detection.

SolidProof / SoftProof / CloudProof	Label & Packaging Market	Offline Proofing solutions series.
Jet-IQ	Digital: Inkjet OEM	Inkjet quality engine for inkjet press manufacturers

Our products and services are primarily sold or provided directly to end-users; a portion of product sales is being sold through distributors and strategic partners. As of December 31 2016, more than 4,000 AVT automatic inspection systems for packaging and labels were installed worldwide. As a premier supplier of color control solutions for offset printing, AVT has over 800 of its closed loop color control systems, and over 3,300 installed systems of color management and reporting software and remote digital ink fountain control systems all around the world. No distributor or end-user accounted for more than 10% of revenues in 2016 or 2015.

(ii) AVT business model

Structure of the Company

Advanced Vision Technology (AVT) Ltd. (the “**Company**” or “**AVT**”, and all references to “**we**” and “**our**”) was incorporated in Israel in October 1992 and introduced the prototype of its first product, the PrintVision/ 9000, in 1995. Commercial sales of PrintVision/ 9000 commenced in the second quarter of 1997.
We established our wholly-owned U.S. subsidiary Advanced Vision Technology Inc. (“**AVT Inc.**”) in October 1996 to serve as our direct distribution channels in the Americas.

AVT (Germany) GmbH, our wholly-owned German subsidiary, was established in June 2002 to serve as our direct distribution channel for Europe. AVT EMEA (Belgium) CVBA, our wholly-owned Belgian subsidiary, was established in July 2007 consolidating and controlling our European customer support operations.

On October 1, 2007, as part of our strategy of diversifying into new growth areas for process control technologies, AVT Inc. acquired all of the outstanding shares of Graphics Microsystems Inc. (“**GMI**”). GMI was a privately held US corporation, supplying closed loop color control (“**CLC**”) systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide. Through this acquisition AVT expanded its offerings to commercial and newspaper printing.

As previously announced, on March 6, 2017, AVT signed a definitive merger agreement with Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd., pursuant to which Pelican Merger Sub Ltd. will merge with and into AVT, AVT will be the surviving entity in the merger, will be acquired by Danaher Corporation’s Product Identification Platform and become a wholly owned indirect subsidiary of Danaher Corporation. Pelican Merger Holdings Israel Ltd. has agreed to pay € 14.50 in cash for each ordinary share of AVT.

The transaction is subject to customary closing conditions, including the approval of AVT’s shareholders by a special majority. Following the closing of the transaction, it is intended to effect the delisting of AVT’s shares from the Frankfurt Stock Exchange. The closing is expected to occur during the second quarter of 2017.

Category and Key locations

AVT develops, manufactures and sells automatic inspection and press control systems, as well as color control and measurement systems. These solutions are sold to converter printers that in most cases turn film or paper/carton into printed packages or labels. By inspecting the printed roll or sheet, the customer benefits from enhanced quality assurance as well as enhanced process control, both of which increase efficient production of a high-quality end-product, ultimately reaching the brand owners. The company offers fully-integrated solutions to industrial press printers, which include modularly-deployed software applications and hardware. This built-in flexibility allows our customers to incorporate additional functions and capabilities according to their dynamic business needs and increased operational requirements.

AVT’s headquarters are in Hod Hasharon, Israel, which includes our main R&D center and production site. AVT also maintains an R&D and production site in Dallas, Texas, USA. In order to support our worldwide customers, AVT’s European operations are served by subsidiaries in Mechelen, Belgium, and Munich, Germany. US operations are served by our subsidiary in Atlanta, Georgia, USA, and Asian operations are served through our representative office in Shanghai, China as well as by a network of agents and representatives throughout the Asia-Pacific region.

Business Process

We manufacture our packaging and label inspection products in our facility in Hod Hasharon, Israel. Our remote ink fountain control and CLC solutions for offset printing and absolute color measurement solutions for packaging and labels are manufactured in our facility in Dallas, Texas, USA.
Our development activities are focused on new generations of existing products and on new products for packaging and label printing. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position.
We market our products and provide customer support directly and through our wholly-owned subsidiaries in the United States and Europe and directly or indirectly through our representative office in China as well as through a network of dealers and representatives in Asia-Pacific, Latin America and other emerging markets.

Legal and economic factors

There have been no fundamental changes in the legal and economic environment which have had a material effect on us in 2016. With respect to the recently announced merger pursuant to which AVT will be acquired by Danaher Corporation's Product Identification Platform, see "Structure of the Company" above.

Management system

The key performance indicators according to which AVT is managed are order booking, revenues, operating profit and net income.
Quarterly financial reports are submitted to management and include the consolidated statement of income, balance sheets and detailed presentation of revenues, costs, order booking, backlog, employees and balance sheets items.

Research & Development

We believe that the development of new products and the enhancement of existing products are essential to our future success. Therefore, we devote substantial resources to continue developing new generations of our products to support the demands by our customers for higher printing quality and printing speed. We currently see significant potential in digital printing and have established collaborations with several leading digital press manufacturers who are pioneers in this field to develop inspection solutions for digital press systems. AVT also develops new off-line setup solutions for label and packaging inspection, designed to help customers create quality standardization across their production operations and to maintain quality standards between different jobs and runs.

Research and development efforts have been financed through our internal funds. We believe that our research and development effort has been an important factor in establishing and maintaining our competitive position.

Research and development results for 2016 and a comparison 2015 can be found under the "Result of operations" section D(iv)a.

(iii) Economic Report

Macroeconomic development

According to the World Economic Outlook (**"WEO")** report from January 2017, after moderate growth in 2016, economic activity is projected to increase its growth pace in 2017 and 2018, especially in emerging market and developing economies. However, there is a wide dispersion of possible outcomes around the projections, given the uncertainty surrounding the policy stance of the incoming U.S. administration and its global ramifications. The assumptions underpinning the forecast should be more specific by the time of the April 2017 WEO, as more clarity emerges on U.S. policies and their implications for the global economy.
With these caveats, aggregate growth estimates and projections for 2016 to 2018 remain unchanged relative to the October 2016 WEO. The outlook for advanced economies has improved for 2017 to 2018, reflecting somewhat stronger activity in the second half of 2016 as well as a projected fiscal stimulus in the U.S. Growth prospects have marginally worsened for emerging market and developing economies, where financial conditions have generally tightened. Near-term growth prospects were revised up for China, due to expected policy stimulus, but were revised down for a number of other large economies—most notably India, Brazil, and Mexico.

Global output growth is estimated at about 3% (at an annualized rate) for the third quarter of 2016, broadly unchanged relative to the first two quarters of the year. This stable average growth rate, however, masks divergent developments in different country groups. There has been a stronger-than-expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. In contrast, this is matched by an unexpected slowdown in some emerging market economies, mostly reflecting various factors. Forward-looking indicators such as purchasing managers' indices have remained strong in the fourth quarter in most areas.

Among advanced economies, activity rebounded strongly in the United States after a weak first half of 2016, and the economy is approaching full employment. Output remains below potential in a number of other advanced economies, notably in the euro area. Preliminary third-quarter growth figures were somewhat stronger than previously forecast in some economies, such as Spain and the United Kingdom, where domestic demand held up better than expected in the aftermath of the Brexit vote. Historical growth revisions indicate that Japan's growth rate in 2016 and in preceding years was stronger than previously estimated.

The picture for emerging market and developing economies (EMDEs) remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey, which faced a sharp contraction in tourism revenues. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices. Oil prices increase, reflecting an agreement among major producers to trim supply. With strong infrastructure and real estate investment in China as well as expectations of fiscal easing in the United States, prices for base metals have also strengthened. Headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices, but core inflation rates have remained broadly unchanged and generally below inflation targets. Inflation ticked up in China as capacity cuts and higher commodity prices have pushed producer price inflation to positive territory after more than four years of deflation. In other emerging markets and developing economies, inflation developments have been heterogeneous, reflecting differing exchange rate movements and various factors.

Sector developments and markets

While the overall printing industry is declining, AVT is focused on packaging and label printing that is estimated by AVT to be growing at approximately 4% CAGR. In addition, the adoption of automation processes, press controls and inspection systems by printers has been growing significantly, with many printers and OEMs adopting 100% inspection solutions. For example, in 2016, the top five OEM press manufacturers in our wide web flexible packaging category reported to us that approximately 50% of the presses sold had an inspection system installed on it, compared with approximately 30% in 2013. While web based printing presses inspection growth has been a trend for several years now, we see a new trend of sheet fed based printers that are adopting inspection solutions in the folding carton, metal sheet and corrugated boards categories. These applications represent a new growth potential as current inspection penetration rate there is low and adoption is just starting to rise.

AVT continues to invest and develop solutions for the digital printing industry, and accordingly, has created major business collaborations with several leading digital press manufacturers such as, among others, HP, Landa Digital Printing, Heidelberg and EFI.

Customer Structure

No distributor or end-user accounted for more than 10% of revenues in 2016 or 2015.

(iv) Analysis of Results of Operation, Net Assets, Financial Position and Business Development

a. Results of operations

Financial Results

The following table sets forth consolidated income statement data for each of the years ended December 31, 2016 and 2015 (in thousands of U.S. Dollars):

	Year ended December 31,	
	2016	**2015**
Revenues	57,274	51,489
Cost of revenues	27,575	24,394
Gross profit	29,699	27,095
Gross margin in %	51.85%	52.62%
Operating expenses:		
Research and development	8,900	8,057
Selling and marketing	10,773	9,547
General and administrative	5,699	5,430
Adjustment to earn-out liability	(641)	-
Total operating expenses	24,731	23,034
Operating income	4,968	4,061
Financial expense, net	(503)	(546)
Income before taxes on income	4,465	3,515
Taxes on income	330	737
Net income	4,135	2,778

The following table sets forth selected consolidated income statement data for each of the year ended December 31, 2016 and 2015, expressed as a percentage of total revenues:

	Year ended December 31,	
	2016	**2015**
Revenues	100%	100%
Cost of revenues	48.1	47.4
Gross profit	51.9	52.6
Operating expenses:		
Research and development	15.5	15.7
Selling and marketing	18.8	18.5
General and administrative	10.0	10.5
Adjustment to earn-out liability	(1.1)	-
Total operating expenses	43.2	44.7
Operating income	8.7	7.9
Financial expense, net	(0.9)	(1.1)
Income before taxes on income	7.8	6.8
Taxes on income	0.6	1.4
Net income	7.2	5.4

The following table sets forth selected non-GAAP consolidated income data adjusted to exclude non-cash amortization of acquired intangible assets, non-cash finance and general and administrative expense related to future earn-out payments as part of the agreement with Erhardt + Leimer GmbH ("**E+L**") and stock based compensation expense ("**Non-GAAP**") for the years ended December 31, 2016 and 2015 (in thousands of US dollars):

	2016			2015
	GAAP	**Adjustments**	**Non GAAP**	**Non GAAP**
Revenues	57,274		57,274	51,489
Cost of revenues	27,575	370	27,205	24,147
Gross profit	29,699		30,069	27,342
Gross margin in %	51.85%		52.50%	53.10%
Operating expenses:				
Research and development	8,900	80	8,820	7,994
Selling and marketing	10,773	141	10,632	9,416
General and administrative	5,699	36	5,663	5,249
Adjustment to earn-out	(641)	(641)	-	-
Total operating expenses	24,731	(384)	25,115	22,659
Operating income	4,968	(14)	4,954	4,683
Financial expense, net	(503)	70	(433)	(402)
Income before taxes on	4,465	56	4,521	4,281
Taxes on income	330		330	737
Net income	4,135	56	4,191	3,544

Revenues, order booking and order backlog

Revenues are derived primarily from the sale of our systems. Additional revenues are generated through the sale of support services, training and software updates to customers.

Revenues in 2016 totaled $57.3 million, compared with $51.5 million in 2015.

Revenues in Q4 2016 totaled $15.2 million, compared with $13.0 million in Q4 2015 and $14.2 million in Q3 2016.

The increase in total revenues in 2016 compared with the last year is a result of continuous growth in our business.

Revenues from services are usually generated from maintenance contracts; time and material charges; consulting and training fees; installation and sales of spare parts. We recognize revenues over the contractual period or as services are performed. Service revenues in 2016 totaled $12.1 million (out of the total revenues of $57.3 million) compared with the $11.0 million generated in 2015. The increase in service revenues is due primarily to the increase in our installed base.

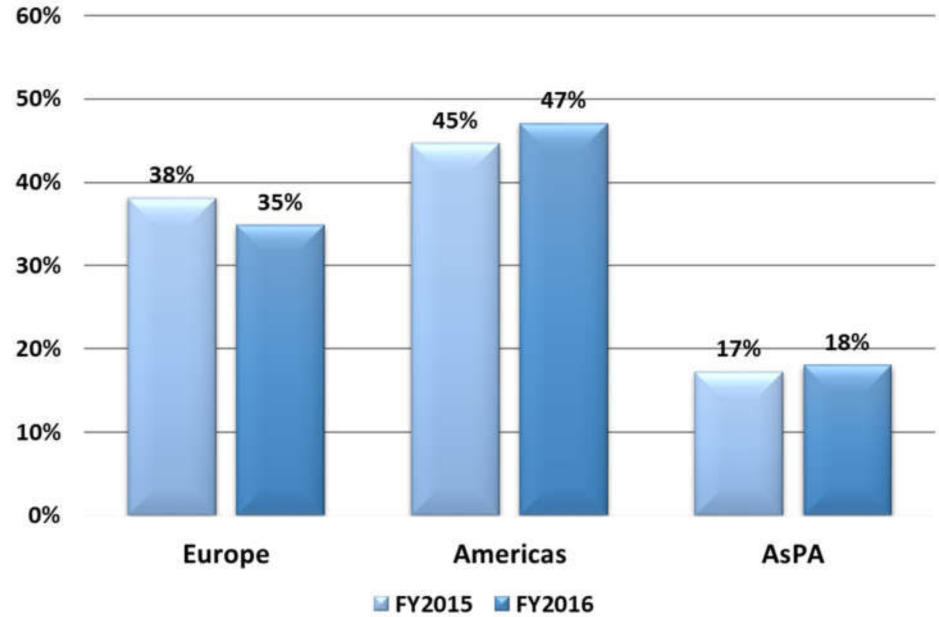
During 2016 order booking totaled $63.5 million compared with order booking of $57.6 million during 2015. During Q4 2016 order booking totaled $16.9 million compared with Q4 2015 order booking of $16.4 million and compared with Q3 2016 order booking of $14.5 million. The ratio of order booking to revenues in 2016 was 109%.

As of December 31, 2016, order backlog totaled $ 27.2 million representing approximately an increase of 20% compared with the backlog balance at December 31, 2015.

We estimate that 35%-45% of this backlog will materialize into revenue during Q1 2017, while the majority of the balance will materialize into revenue over the following 1.5 years.

Regional development

The following chart sets forth a breakdown of revenues by territory for 2016 and 2015:



During 2016, Europe generated 35% of total revenues compared with 38% in 2015, while the Americas contributed 47% of total revenues compared with 45% in 2015. Revenues generated in Asia-Pacific contributed 18% of total revenues during 2016, compared with 17% in 2015.

Cost of Revenues / Gross Profit

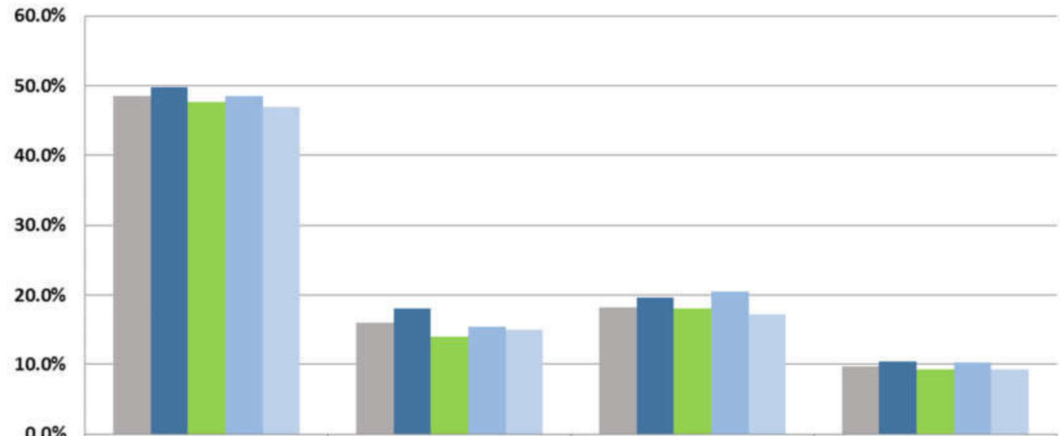
Cost of revenues includes materials, labor, manufacturing overhead and an estimation of costs associated with installation, warranty and training. It is our practice to provide a one-year warranty to the end-user. A provision, based on our experience and engineering estimates, is taken to cover costs in connection with such warranty for the 12 month period commencing at the end of installation.

Gross margin in 2016 was 51.9 % compared with 52.6% in 2015. Non-GAAP gross margin in 2016 was 52.5% compared with 53.1% in 2015.

On a quarterly basis, during Q4 2016, gross margin was 53.0%, compared with 51.5% in Q4 2015 and in Q3 2016.

The decrease in gross margin for 2016 in comparison to 2015 is due primarily to product mix impact and some price erosion primarily in the Asian and the Latin America markets.

The following table sets forth selected consolidated expense data for each of the five quarters ended 31.12.2016, 30.09.2016, 30.06.2016, 31.03.2016 and 31.12.2015 expressed as a percentage of total revenue:



	Cost of Revenues	R&D	Selling & Marketing	General & Administrative
Q4/15	48.5%	16.0%	18.3%	9.8%
Q1/16	49.8%	18.2%	19.6%	10.5%
Q2/16	47.7%	14.0%	18.1%	9.4%
Q3/16	48.5%	15.5%	20.5%	10.3%
Q4/16	47.0%	15.0%	17.3%	9.3%

Research and Development

During 2016, research and development expenses were $8,900 thousand, compared with $8,057 thousand in 2015.

Non-GAAP research and development expenses in 2016 increased to $8,820 thousand, compared with $7,994 thousand in 2015. The increase compared with 2015 is due primarily to an increase in personnel and consultants as part of our investments in new growth engines.

On a quarterly basis, during Q4 2016, research and development expenses were $2,285 thousand, compared with $2,091 thousand in Q4 2015 and compared with $2,196 thousand in Q3 2016.

Selling and Marketing

During 2016 selling and marketing expenses were $10,773 thousand, compared with $9,547 thousand in 2015. Non-GAAP selling and marketing expenses during 2016 were $10,632 thousand, compared with $9,416 thousand in 2015. The increase compared with 2015 is attributable primarily to expenses related to the 2016 Drupa exhibition and increased agent commissions in the Asian and Latin America.

On a quarterly basis, during Q4 2016, selling and marketing expenses were $2,624 thousand, compared with $2,388 thousand in Q4 2015 and compared with $2,910 thousand in Q3 2016.

General and Administrative

During 2016 general and administrative expenses were $5,699 thousand, compared with $5,430 thousand in 2015.

Non-GAAP general and administrative expenses in 2016 were $5,663 thousand, compared with $5,249 thousand in 2015. The increase compared with 2015 is attributable primarily to performance-based variable compensation.

On a quarterly basis, during Q4 2016, general and administrative expenses were $1,408 thousand, compared with $1,272 thousand in Q4 2015 and compared with $1,461 in Q3 2016.

Adjustment to Earn-out Liability

As indicated in Note 3 to our financial statements for the year ended December 31, 2016, the consideration for the acquisition of the inspection activity of E+L included an initial cash payment upon closing and additional variable earn-out payments (contingent consideration) over four (4) years which were recorded under short -term and long-term liabilities. As a result of an updated projection we did during 2016 of future sales, the Company reduced the earn-out liability in the amount of $641 which was recorded as an adjustment to the earn-out liability in operating expenses. The earn-out liability balance as of December 31, 2016, adjusted as aforesaid, is $980 which is presented under long-term liability.

Stock-Based Compensation

As of January 1, 2006 we record based on ASC 718 share-based payments as expenses based on their fair value at the grant date. The compensation is recorded over the requisite service period. The measurement of the benefit is based on the Monte Carlo simulation.

Total stock-based compensation expense recorded during 2016 was $218 thousand compared with $346 thousand in 2015. The decrease compared with 2015 is attributable primarily to new estimations of compensation expenses which were related to performance based options.

Operating Income, Net Income and Earnings per share

Net income for 2016 was $4,135 thousand or diluted earnings of $0.67 per share compared with net income of $2,778 thousand or diluted earnings of $0.45 per share in 2015.

Non-GAAP net income for 2016 was $4,191 thousand compared with $3,544 thousand in 2015.
Non-GAAP operating income during 2016 was $4,954 thousand compared with $4,683 thousand in 2015.

Consolidated operating expenses were 43.2% of revenues in 2016, compared with 44.7% in 2015.
Consolidated Non-GAAP operating margin was 8.6% of revenues in 2016 compared with 9.1% in 2015.
EBITDA excluding stock-based compensation expenses and adjustment to earn-out liability, was $5,429 thousand in 2016 as compared with $5,105 thousand in 2015.

The increase in both GAAP and Non-GAAP operating income in 2016 compared with 2015 is due to higher revenues in 2016 compared with 2015.

On a quarterly basis, operating income during Q4 2016 was $1,736 thousand compared with $975 thousand in Q4 2015 and with $1,314 thousand in Q3 2016.

The increase in operating income during Q4 2016 is primarily due to higher revenues in Q4 2016 compared with Q4 2015 and Q3 2016.

Financial Expense, net

Financial expense is comprised of expenses from exchange rate differences and bank fees less income from bank deposits.

Net financial expense during 2016 was $503 thousand compared with $546 thousand during 2015.
Financial expenses for 2016 were $671 thousand compared to $675 thousand in 2015. Income of $168 thousand was generated from interest on bank deposits during 2016, compared with $129 thousand in 2015.
On a quarterly basis, net financial income during Q4 2016 was $87 thousand compared with financial expenses of $258 thousands in Q4 2015 and compared with financial expenses of $82 in Q3 2016.

We operate globally and therefore we are exposed to market risks, mainly from fluctuations in foreign currency exchange rates. In order to reduce the market risk, we use financial instruments and derivatives to hedge our future cash flows in connection with payroll and related expenses and anticipated revenues which are denominated in non-Dollar currencies.

Taxes

We operate within multiple taxing jurisdictions and are subject to audit in those jurisdictions. In our opinion, an adequate asset and provision for income taxes has been made in the financial statements. This asset and provision takes into consideration potential tax liability in Israel and other jurisdictions.

The Company has in the past benefitted from and continues to benefit from certain Israeli government programs and tax legislation, particularly as a result of the status of a significant portion of the Company's existing production facilities in Israel under the Law for the Encouragement of Capital Investments, 1959 (the "**Investment Law**"). According to an amendment to the Investment Law, effective as of August 5, 2013, (the "**Amendment**"), income derived by "Preferred Companies" from "Preferred Enterprises" (both as defined in the Amendment), referred to as "Preferred Income", is subject to a uniform tax rate of 16% in 2014 and thereafter (or 9%, in areas designated as Development Zone A). Pursuant to the Amendment, the Company irrevocably elected to implement the Amendment with respect to its previous "Approved" and "Benefiting" Enterprises so that income derived therefrom is now treated as Preferred Income.

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

The 2016 Amendment also prescribes special tax tracks for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017.

The new tax tracks under the 2016 Amendment are as follows: a "technological preferred enterprise" which is an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A "technological preferred enterprise", which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (or 7.5% in areas designated as Development Zone A); and a "special technological preferred enterprise" which is an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion and will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location. Any dividends distributed to "foreign companies", as defined in the 2016 Amendment, deriving from income from any technological enterprises will be subject to tax at a rate of 4%.

Since as of December 31, 2016 definitive criteria to determine the tax benefits had not yet been established, it cannot be concluded that the legislation in respect of technological enterprises had been enacted or substantively enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of December 31, 2016.

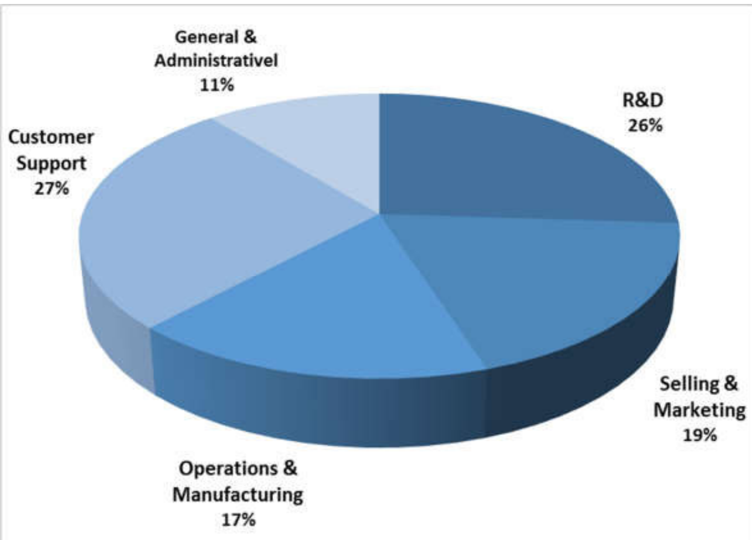
As of January 1, 2014, dividends distributed from Preferred Income would subject the recipient to a 20% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld by the distributing company.

Due to statute of limitation and domestic and foreign final tax assessments in 2016, the Company revised its provision for uncertain tax positions and decreased it by $577 thousand which was recognized as a tax benefit. The provision for uncertain tax positions as of December 31, 2016 is $276 thousand which is presented under short-term liability.

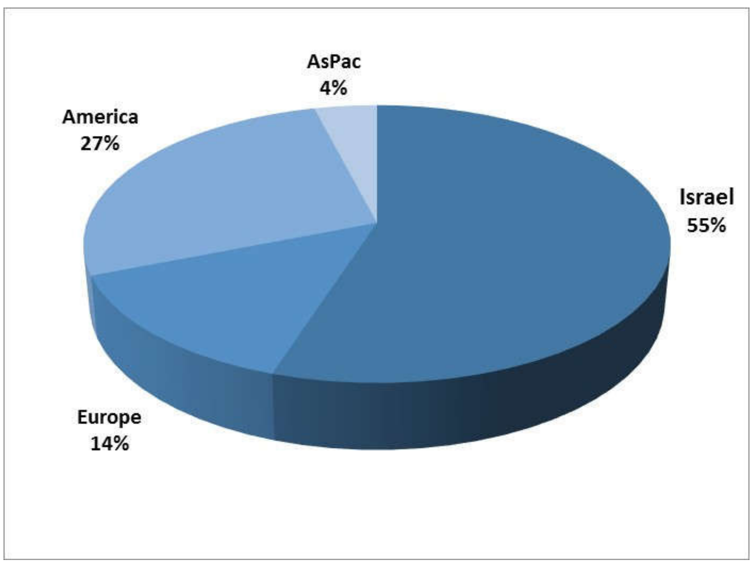
Employees

As of December 31, 2016, 244 people were employed by AVT worldwide compared with 229 employees on December 31, 2015.

Following is the breakdown of the Company's employees by their function:



Our employees are located in the following geographies:



b. Financial Position

Capital structure

The Company has no liabilities to banks as of December 31, 2016.

As of December 31, 2016, to secure its hedging activities, the Company has provided for a lien on a cash deposit of $0.14 million.

Liquidity and Capital Resources

As of December 31, 2016 our total current assets were $42.3 million, including a cash and financial investment balance of $17.2 million compared with cash and financial investments of $17.7 million as of December 31, 2015.

During 2016, $4,417 thousand were provided by operating activities compared with $228 thousand in 2015. The increase in cash generated from operating activities is due primarily to higher revenues and an increase in customer advanced combined with an increase in trade payables in 2016 compared with 2015.
DSO in accounts receivable at the end of Q4 2016 were 77 days compared with 75 days as of December 31, 2015.

As of December 31, 2016, our inventories were $7,433 thousand compared with $7,136 thousand as of December 31, 2015. The increase in inventory is a reflection of the increased backlog and anticipated sales in the coming quarters.

Fixed asset net balance was $1,566 thousand as of December 31, 2016 compared with $1,466 thousand as of December 31, 2015. Our net capital expenditures on fixed assets were $511 thousand in 2016, compared with $619 thousand in 2015.

As of December 31, 2016, our trade payables were $4,481 thousand compared with $2,873 thousand as of December 31, 2015. The increase in trade payables is attributed to an increase in production and deliveries during Q4 2016.

Total shareholder’s equity as of December 31, 2016 was $30,195 thousand compared with $30,235 thousand as of December 31, 2015. The change in shareholder’s equity is primarily due to a dividend distribution in the amount of $4.6 million in March 2016 which was offset by 2016 net income.

Effective as of October 2014, the District Court in Tel Aviv, Israel, approved the Company's request to allow the reduction of its capital by up to $12 million, after the Israeli Tax Authority informed the District Court that it does not object to the ruling. Therefore, per applicable Israeli law, the board of directors of the Company may opt to declare dividends and/or adopt a share buy-back program, which will consume up to an aggregate of $12 million of the Company's capital. On March 1, 2016 and March 18, 2015, the board of directors resolved to distribute extra-ordinary gross dividends of $0.75 per share and $1.0 per share respectively, which were paid on March 22, 2016 - in the total amount of $4.6 million, and on April 2, 2015, in the total amount of $6.1 million respectively.

Subsequent events

On March 6, 2017, AVT entered into a merger agreement (the "**Merger Agreement**") with Pelican Merger Holdings Israel Ltd. ("**Parent**"), an indirect wholly-owned subsidiary of Danaher Corporation ("**Danaher**"), a Delaware corporation whose share are traded on the New York Stock Exchange, and Pelican Merger Sub Ltd. ("**Merger Sub**"), pursuant to which, among other things, Merger Sub will merge with and into the Company (the "**Merger**"), on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with the provisions of the Companies Law, 5759-1999, following which Merger Sub will cease to exist as a separate legal entity and AVT will become a wholly-owned subsidiary of Parent and an indirect wholly-owned subsidiary of Danaher. As a result of the Merger, each ordinary share of AVT will be converted into the right to receive from Parent EUR 14.50 in cash.

AVT's Board of Directors has unanimously approved the transaction and has unanimously recommended that AVT shareholders approve the transaction.

The Merger is subject to customary closing conditions, including the approval of the AVT shareholders by holders of at least 75% of AVT's shares represented at the shareholders meeting; provided that (i) such majority includes at least a majority of the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter, and who are present and voting at the shareholders meeting; or (ii) the shareholders who are non-controlling shareholders and who do not have a personal interest in the matter, who shall have been present and shall have voted against such proposed resolutions, hold 2% or less of the voting power of AVT.

It is intended to effect the delisting of AVT shares from the Frankfurt Stock Exchange following the closing of the transaction.

The current directors of the Company will resign from office as of the effective time of the Merger and the directors of Merger Sub will become the directors of the Surviving Company.

At the effective time of the Merger, each outstanding unexercised option or unsettled RSU issued as equity-based awards by the Company, which are vested in accordance with their terms or after giving effect to acceleration of awards, as set forth in the Merger Agreement , including all awards granted to non-employee directors, shall be canceled in exchange for the right to receive a lump sum cash payment (without interest) equal to the product of: (x) in case of options, the excess, if any, of the merger consideration over the exercise price per ordinary share for such option, and in case of RSUs, the merger consideration; and (y) the total number of ordinary shares underlying such equity-based award, less applicable taxes required to be withheld with respect to such payment.

The Merger Agreement contains customary representations and warranties made by Parent and the Company to each other. The representations and warranties are subject in some cases to specified exceptions and qualifications.

During the period commencing with the execution and delivery of the Merger Agreement and until closing, the Company shall carry on its business in the usual and ordinary course of business consistent with past practice in substantially the same manner as heretofore conducted, subject to certain matters which will require the approval of Parent.

Danaher has executed an irrevocable and unconditional guaranty for the due and punctual performance of the obligations of Parent and Merger Sub under the Merger Agreement that are required to be performed at or prior to closing, including the payment of the merger consideration.

Union Investments and Development Ltd. ("Union Investments"), the controlling shareholder of AVT, has signed a voting undertaking in favor of Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd., which is terminable in certain circumstances as set forth therein, to vote in favor of the Merger Agreement. In addition, one of the Company's directors signed a participation undertaking with Parent and Merger Sub pursuant to which such director undertook to be present, or to cause all his shares of the Company to be counted as present, at the shareholder meeting which will convene to approve the Merger Agreement.

Closing of the merger transaction and settlement of the cash consideration are expected to occur in the second quarter of 2017.

c. Opportunities and Risks

Opportunities

AVT is constantly looking for opportunities to develop and extend its business. We are in close relations with our customers and attentive to their growing needs. Therefore, we continue to develop our products in order to fulfill our customers' current and future requirements while introducing new tools to manage their print inspection requirements. In addition, we are engaged with several digital printing press manufacturers to develop and sell related inspection and press control systems. We expect that the digital press trend will increase in the years to come, and therefore, we strive to lead this growing opportunity in the label and packaging print.

Internal control and Risk Management system for financial reporting

The main objectives behind AVT's financial reporting ("reporting", or "financial statements", or "financial accounts") include:

- Preparation of AVT's financial statements in full compliance with the rules and regulations set forth in generally accepted accounting principles in the United States and other applicable regulatory requirements and AVT's corporate policies and procedures related to the reporting process.
- Fair presentation of AVT's financial position as well as its financial results in AVT's financial statements in conformity with the U.S. GAAP.
- Reporting financial performance indicators of AVT.
- Setting up a reporting process that does not serve the interests of some users at the expense of others, and that excludes the possibility to affect the users' decision-making and valuation process by means of selecting and presenting data in a particular way, with a view to achieving a pre-defined result or outcome.
- Providing users with additional information (details and/or comments) to ensure a comprehensive understanding of the operating results and financial position of the Company.

The above process objectives are determined by our management, and shared and understood by our employees.
The reporting process of AVT is set up as follows:

Each company of AVT's group maintains their accounting records and prepares their financial statements in accordance with US GAAP requirements and company policies. As part of the consolidation process all intercompany accounts and transactions are eliminated from the consolidated financial statements. For each reporting unit, financial data and key figures are discussed regularly and compared on a quarterly basis with the prior-year figures, prior-quarter figures, the budget, and the latest forecast. Financial performance indicators based on management accounts are reviewed and discussed quarterly at the Board of Directors meetings and by the Audit Committee.

Our management has implemented the following principal controls for the purposes of controlling potentially high and medium risks in the reporting process:

- Automated systems for financial reporting
- Streamlining of the reporting process of the Company
- Audit Committee
- Job descriptions for key employees
- Management review process
- Uniform accounting policies and accounting manuals
- Segregation of duties
- Policies and procedures of reporting process

With a view to ensuring that the reporting process objectives are achieved, our management and employees seek to establish reliable and efficient internal controls and risk management for the process by way of:

- Regular identification and assessment of risks that may prevent achievement of the process objectives
- Prompt enhancement of the existing controls, or putting in place new controls to mitigate potentially high and medium risks.
- Each year, an independent internal auditor carry out an audit of AVT's system for the early identification of risks to assess whether the system is functioning efficiently. As in prior years, suggestions for improvements proposed by the internal auditor or by the Audit Committee of our Board of Directors were implemented by AVT.

Our finance departments involved in the accounting process strive to have adequate qualifications and resources for timely and accurate financial reporting. We understand that the lack of resources in the finance function may lead to delays and material errors in financial reporting.
Therefore, in the event of resource constraints for financial reporting tasks or complex accounting issues, external service providers are engaged.

We developed and put into effect policies and procedures delineated in accounting manuals that clearly define:

- Sequence and substance of actions performed for reporting purposes with due regard to separation of crucial powers in preparing, validating and approving the accounts.
- Detailed process timelines.
- Individuals in charge of the process, including by AVT's subsidiaries.
- Templates of financial statements and preparation guidelines.

The purpose of a company's internal control over financial reporting is to ensure with sufficient certainty that its financial reporting process is reliable and its financial statements are prepared in accordance with generally accepted accounting principles. Our management and employees understand the importance of, and the need for reliable and efficient internal controls and risk management systems for the Company's consolidated reporting, and will continue to take further steps to enhance its efficiency by implementing a fully automated consolidated financial reporting process and by strengthening the internal audit function across its business segments.

Risk management system

In order to ensure an ongoing global operation, companies must act quickly and react fast to changes in macro-economics and industry trends. Given the increasingly complex corporate structures and globalization trends, systematic risk management therefore forms an important basis for long-term business success.

AVT operates in different regions worldwide and manages its business through subsidiaries, sales offices and authorized distributors, agents and dealers. This organizational structure presents AVT with a large number of opportunities, but also gives rise to business-specific risks.

Our objective is to generate profits on a sustained basis and to increase these profits significantly over the medium and long term in order to develop the Company and secure its future. It is therefore critically important to identify and assess business risks at an early stage and take corrective action where required. AVT has developed an appropriate risk management system to ensure it can meet this requirement.

Dealing with these risks involves sharing information with our employees and increasing their sense of responsibility. This helps raise their awareness of current and potential risks.

The basic principles, monitoring standards, personnel responsibilities, functions and procedures in the risk management system have been defined by AVT's management and have been communicated to mid- level management and employees.

The Board of Directors and the Audit Committee provide high level guidelines which management executes.

Each year, an independent internal auditor carry out an audit of AVT's system for the early identification of risks to assess whether the system is functioning efficiently. As in prior years, suggestions for improvements proposed by the internal auditor or by the audit committee of our Board of Directors were implemented by AVT.

Risk Factors

Our business faces significant risks. Below are the major risks and uncertainties in connection with any investment in our Ordinary Shares. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and liquidity.

(1) Worldwide printing industry and economic conditions:

Our revenue is dependent upon the strength of the worldwide printing industry and our systems are implemented on press machines. In circumstances of significantly reduced or delays in capital investment in press machines due to uncertain economic and/or industry conditions, or if orders received differ from our expectations with respect to the product, volume, price or other items, our fixed cost structure could have a material adverse effect on our business, financial condition and results of operations.

(2) Our results of operations depend on our ability to manage our supply chain effectively:

Certain of the various key components and subassemblies included in some of our systems are purchased from a single or limited group of suppliers. Should any of these suppliers be unable to meet our requirements in a timely manner, or should we otherwise experience an interruption in supply from any of these sources, the possible resulting late deliveries of our products and services may have an adverse effect on our results of operations. While we seek to anticipate future increases in demand for our products, and communicate potential increases in a timely manner to suppliers, we may be unable to do so with accuracy. If our suppliers are unable to deliver key components or subassemblies to meet our production needs, whether as a result of an unanticipated increase in demand for our products or otherwise, our production process may be delayed causing us to be unable to meet all of our customers' desired delivery dates. Although we generally maintain an inventory of critical components used in the manufacture and assembly of our systems, such supplies may not be sufficient to avoid potential delays

(3) We face intense competition in our business:

We are subject to competition from companies that either currently manufacture or are developing products directly in competition with our systems and products, including for some of our customers and their affiliates. Because some of our competitors are associated with certain of our customers, they have access to our products and technology which may make it easier for them to compete with us. In recent years we have experienced competition-induced pricing pressure from our customers that adversely affected our operating results, and competitive pressures in the future could lead to further price erosion that could have a material adverse effect on our results of operations.

(4) Substantially all of our revenue is derived from sales to companies located outside Israel:

We anticipate that, as in the past, sales of products and services outside Israel will continue to account for a substantial part of our revenues. During 2016, the majority of our revenues were derived from sales in the Americas and in Europe. The risks and complexities inherent in doing business in international markets include those associated with the possibility of a concentration of sales within a particular country or region; the imposition of governmental controls, regulations, sanctions and local standards, including the need to comply with stringent and evolving technology and environmental protection laws and regulations, a wide variety of foreign and domestic import/export laws, customs and excises and foreign labor laws; the imposition of new and additional commercial terms by foreign customers, which can have the effect of increasing our exposure to operational, customs and foreign currency risks; political, economic and legal instability, including an increased amount of foreign government involvement in, and oversight of, our operations; trade restrictions, including as a result of sanctions; exposure to multiple complex systems of taxation and international double taxation treaties; regulatory reform and changes in reimbursement rates, tariffs and taxes and their applications; difficulty in protecting intellectual property; longer payment cycles usually characteristic of international sales; and the general difficulties associated with administering business overseas, as well as overall economic conditions. Our business success depends in part on our ability to anticipate and manage these and other regulatory, economic, social and political risks inherent in international business effectively. Failure to comply with these applicable laws and regulations or to anticipate and manage these risks effectively may have a material adverse effect on our business, financial condition and results of operations.

(5) Research and development efforts:

Developing innovative product solutions, which is a key component of our growth strategy, is expensive, and our investment in product development may entail a long payback cycle, particularly as we focus increasingly on long-term projects. During 2016, research and development expenses were $8,900 thousand, or approximately 16% of our total revenues. Our future plans include consistent, significant investments in product research and development and related opportunities, efforts which we believe are critical to maintain our competitive position. However, we may not receive significant revenues from these investments for several years, if at all.

(6) Ability to maintain the proprietary nature of our technology:

Our future success and competitive position are dependent, in significant part, on our proprietary technology. We protect our intellectual property through patent, trade secret, trademark and copyright law, as well as technical safeguards and non-disclosure agreements with our employees, subcontractors and potential business associates. However, we may not be able successfully to protect our technology or deter infringement of our intellectual property rights or unauthorized copying by third parties or prevent breach of our non-disclosure agreements. In addition, our patents and other intellectual property may not prevent competitors from developing independently products and services similar to or duplicative of ours, nor can there be any assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will deter adequately misappropriation or improper use of our technology. Patents that we own or license will eventually expire, could be invalidated or challenged or could be insufficient to protect our intellectual property rights in certain countries. Our pending or future patent applications may not be issued with the scope of claims sought by us, if at all. Patent coverage may not be extended to all countries sought, and effective copyright, trade secret and other intellectual property protection may be unavailable or limited in certain countries. The degree of future protection for our proprietary technology is uncertain because legal means afford only limited protection and may not adequately protect our rights or keep our competitive advantage. For example, other companies may develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents or other proprietary rights held by us. Other companies may gain unauthorized access to our technology in situations where we test our products at customer sites with co-operation from our customers. An inability to protect our intellectual property could have a material adverse effect on our business and operating results.

(7) Legal claims for infringing intellectual property rights or misusing intellectual property:

As is characteristic of the industries in which we operate, there can be no assurance that our products do not or will not infringe the proprietary rights of third parties, that third parties will not claim infringement by us (or by our customers who use our products) with respect to patents or other proprietary rights or that we would prevail in any such proceedings. We and our customers may also be the target of aggressive and opportunistic enforcement of patents by third parties, including non-practicing entities, particularly in China. Our customers may also be sued by third parties for using our products if those third parties believe that our products infringe on intellectual property rights.

These types of claims could harm our customer relationships. Any infringement, legal proceedings or claims, whether or not meritorious, could result in costly litigation or arbitration, divert the attention of technical and management personnel, give rise to indemnification claims, harm our customer relationships and inhibit our ability to sell our products and provide our services. Any adverse outcome in litigation alleging infringement or misuse could require us to develop non-infringing or other technology, pay damages or enter into royalty or licensing agreements. If, in such situations, we are unable to obtain licenses on acceptable terms or develop new technology, we may be prevented from manufacturing or selling products that infringe such intellectual property of a third party. If we are not able to resolve or settle legal proceedings or claims favorably, or in the event of any adverse findings against us or any of our current or former employees, our business, results of operations and financial condition could be materially and adversely affected and we may suffer harm to our reputation.

(8) The ability to attract and retain high qualified staff:

Our success depends, in significant part, upon our continuing ability to attract and retain highly qualified managerial, scientific, technical, sales and marketing personnel. Our personnel are instrumental to our ability to develop increasingly advanced product solutions, market those products and provide ongoing support and service to our customers. The competition for qualified personnel, particularly among computer software programmers and hardware engineers, has always been, and remains, a challenge. If we are unable to attract and retain highly qualified employees to meet our needs in the future, our business and results of operations could be adversely affected.

(9) Currency fluctuations:

A significant portion of our revenues and expenses, are denominated in currencies other than the US Dollar. Because our financial results are reported in US Dollars, fluctuations in exchange rates between the Dollar and non-Dollar currencies may have an adverse effect on our results of operations. We are primarily exposed to the New Israeli Shekel and the Euro. This effect on the Dollar reporting value for transactions is only partially offset by the impact that such fluctuations may have on our non-Dollar costs. We may, from time to time, take various measures designed to reduce our exposure to these effects, but any such steps may be inadequate to protect us from currency rate fluctuations. Failure to protect adequately against currency rate fluctuations could have a material adverse effect on our financial condition and results of operations.

(10) Political, economic and security conditions in Israel:

We are incorporated under the laws of the State of Israel and our headquarters, as well as substantial research and development and production facilities, are located in Israel. As such, we are directly influenced by political, economic and military conditions affecting Israel. Thus, any major hostilities involving Israel, a substantial decline in the prevailing regional security situation or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Beginning in September 2000, the overall relationship and security situation between Israel and the Palestinians deteriorated significantly and continues to be marked by ongoing violence, also varying in its degree of severity. During the winter of 2008-2009, the autumn of 2012 and the summer of 2014, Israel was engaged in armed conflicts with Hamas, a militia group and political party operating in the Gaza Strip. These conflicts involved missile strikes against civilian targets in various parts of Israel. In addition, since 2011, riots and uprisings in several countries in the Middle East and neighboring regions have led to severe political instability in several neighboring states and to a decline in the regional security situation. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Some of our employees in Israel are obligated to perform annual reserve duty in the Israel Defense Forces. In addition, many such employees are subject to being called to active military duty in emergency circumstances. In response to increased hostilities, there have been periods of significant recruitment of military reservists, and it is possible that there will be additional recruitments in the future. No assessment can be made of the full impact of such matters on us in the future, particularly if emergency circumstances occur, or the effect on us of any expansion of these obligations. Our operations could be disrupted and harmed by the absence for a significant period of time of one or more of our key employees or a significant number of our other employees due to military service. To date, these matters have not had any material effect on our business and results of operations, but there can be no assurance that they will not have a material effect in the future.

(11) Accounting standards or practices and our effective tax rates:

We prepare our financial statements to conform to U.S. GAAP. From time to time, recognized authoritative bodies, including the Financial Accounting Standards Board of the United States, issue new and/or revised accounting standards or guidance. Changes to existing standards or the questioning of current practices may adversely or significantly affect the way in which we record and report our operating results, cash flow and financial position.

In addition, our effective tax rate is influenced by a number of factors, including shifts in the mix of pre-tax profits and losses by tax jurisdiction, our ability to use tax credits, changes in tax laws or related interpretations in the jurisdictions in which we operate and tax assessments resulting from income tax audits. Also, we benefit from a special tax rate in Israel under the Investment Law (as defined above). In order to benefit from such special tax rate as aforesaid, we are required to comply with certain terms and conditions pursuant to the Investment Law. If we fail to comply, we may not be eligible to benefit from such special tax rate. We are routinely subject to tax audits in various jurisdictions. Although we regularly assess the likely outcomes of such audits in order to determine the appropriateness of our tax provisions, there can be no assurance that we will predict the outcomes of these audits with accuracy, and the actual outcomes of these audits could have a material impact on our net income or financial condition. There can be no assurance that a reduction in net income and earnings per share (or an increase in net loss or loss per share) arising from the adoption of certain financial accounting standards or from changes in our effective tax rates in the future will not adversely affect our results of operations, cash flow or financial position, the market price of the Ordinary Shares or the cost to us of raising capital.

(12) Tax liabilities:

We are subject to tax in many jurisdictions and considered judgment is required by us in determining our provisions for income taxes. In the course of tax audits, to which we are also subject in many jurisdictions, our interpretation of applicable tax legislation could be challenged by the relevant taxation authorities, which may disagree with, and subsequently contest, the amount of income claimed to be taxed in such jurisdictions. Although we believe our estimates to be reasonable, the ultimate outcome of such audits, and of any related litigation, could differ from our provisions for taxes, which may have a material adverse effect on our consolidated financial statements.

(13) Merger:

As previously announced, on March 6, 2017 we signed a definitive merger agreement with Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd. pursuant to which AVT will be acquired by Danaher Corporation’s Product Identification Platform and become an indirect wholly owned subsidiary of Danaher Corporation and shareholders will receive a € 14.50 in cash for each ordinary share of the Company.

The merger is subject to customary closing conditions, including the approval of our shareholders by a special majority. The closing of the merger transaction is expected to occur during the second quarter of 2017. Following the closing of the transaction it is intended to effect the delisting of AVT’s shares from the Frankfurt Stock Exchange.

There can be no assurance that the conditions for closing of the transaction will be satisfied or that the merger will occur within the expected time frame or at all. If the merger is not completed there could be adverse consequences to the Company, including, potentially, the loss of customers, suppliers and employees, a reduction in the perceived value of the Company and erosion of customer and employee confidence in the Company. Furthermore, the merger agreement imposes limitations on the conduct of the Company's business during the period between signing the merger agreement and closing of the merger, and, if the merger agreement is terminated under certain circumstances, the Company may be required to reimburse Pelican Merger Holdings Israel Ltd. for up to $1,500,000 of its reasonable out-of-pocket expenses and pay a termination fee of € 3,370,000 (from which any expenses previously reimbursed would generally be deducted), each of which, could adversely affect our business.

(v) Future Prospects

Pursuant to the growth of our revenues and order bookings in 2016 compared with 2015, we believe we will see a continuation of top line growth while putting more emphasis on executing our strategic plan with respect to both expansion of our print application coverage and extension of the breadth of our solutions. We expect to see growth in most of the categories of the printing industry in which we operate including packaging, labels and digital.

E. ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

IN U.S. DOLLARS

INDEX

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REPORT OF INDEPENDENT AUDITORS

To the board of directors and shareholders of

ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.

We have audited the accompanying consolidated financial statements of Advanced Vision Technology (A.V.T.) Ltd. (the "Company") and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and other comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 27, 2017

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,646	$ 7,665
Short-term deposits	9,540	10,025
Trade receivables (net of allowance for doubtful accounts as of $ 1,266 and $ 1,102 as of December 31, 2016 and 2015, respectively)	12,786	10,657
Inventories	7,433	7,136
Other accounts receivable and prepaid expenses	4,889	4,452
Total current assets	42,294	39,935
LONG-TERM ASSETS:		
Deferred income taxes	1,804	1,899
Severance pay fund	2,449	2,488
Total long-term assets	4,253	4,387
PROPERTY AND EQUIPMENT, NET	1,566	1,466
INTANGIBLE ASSETS, NET	2,420	2,829
GOODWILL	793	793
Total assets	$ 51,326	$ 49,410

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share amounts)

	December 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 4,481	$ 2,873
Employees and payroll accruals	3,823	3,123
Customer advances and deferred revenues	3,255	2,148
Accrued expenses and other liabilities	4,785	5,991
Total current liabilities	16,344	14,135
LONG-TERM LIABILIITIES:		
Accrued severance pay	3,807	3,832
Other long-term liability	980	1,208
Total long-term liabilities	4,787	5,040
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 2 par value: 15,000,000 shares authorized at December 31, 2016 and 2015; 6,945,927 and 6,913,627 shares issued at December 31, 2016 and 2015 respectively; 6,126,805 and 6,094,505 shares outstanding at December 31, 2016 and 2015, respectively	3,760	3,743
Additional paid-in capital	66,101	65,748
Treasury shares at cost – 819,122 shares as of December 31, 2016 and 2015.	(6,902)	(6,902)
Accumulated other comprehensive income (loss)	4	(28)
Accumulated deficit	(32,768)	(32,326)
Total shareholders' equity	30,195	30,235
Total liabilities and shareholders' equity	$ 51,326	$ 49,410

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

March 27, 2017		
Date of approval of the financial statements	Jaron Lotan President & CEO	Udi Bar Sela CFO

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share amounts)

	Year ended December 31,		
	2016	2015	2014
Revenues	$ 57,274	$ 51,489	$ 54,110
Cost of revenues	27,575	24,394	25,819
Gross profit	29,699	27,095	28,291
Operating expenses:			
Research and development	8,900	8,057	7,655
Selling and marketing	10,773	9,547	9,605
General and administrative	5,699	5,430	5,083
Adjustment to earn-out liability	(641)	-	-
Total operating expenses	24,731	23,034	22,343
Operating income	4,968	4,061	5,948
Financial income (expense), net	(503)	(546)	28
Income before taxes on income	4,465	3,515	5,976
Taxes on income	330	737	1,351
Net income	4,135	2,778	4,625
Other comprehensive income (loss):			
Unrealized income (loss) on foreign currency cash flow hedge, net of tax	32	(28)	-
Total comprehensive income	$ 4,167	$ 2,750	$ 4,625
Basic earnings per ordinary share	$ 0.68	$ 0.46	$ 0.77
Diluted earnings per ordinary share	$ 0.67	$ 0.45	$ 0.76

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2014	$ 3,602	$ 64,099	$ (6,902)	$ -	$ (27,696)	$ 33,103
Issuance of shares upon exercise of options	112	799	-	-	-	911
Stock-based compensation related to options granted to employees	-	252	-	-	-	252
Dividend paid to shareholders	-	-	-	-	(5,973)	(5,973)
Net income	-	-	-	-	4,625	4,625
Balance as of December 31, 2014	3,714	65,150	(6,902)	-	(29,044)	32,918
Issuance of shares upon exercise of options	29	252	-	-	-	281
Stock-based compensation related to options granted to employees	-	346	-	-	-	346
Dividend paid to shareholders	-	-	-	-	(6,060)	(6,060)
Unrealized loss on foreign currency cash flow hedge	-	-	-	(28)	-	(28)
Net income	-	-	-	-	2,778	2,778
Balance as of December 31, 2015	3,743	65,748	(6,902)	(28)	(32,326)	30,235
Issuance of shares upon exercise of options	17	135	-	-	-	152
Stock-based compensation related to options granted to employees	-	218	-	-	-	218
Dividend paid to shareholders	-	-	-	-	(4,577)	(4,577)
Unrealized income on foreign currency cash flow hedge	-	-	-	32	-	32
Net income	-	-	-	-	4,135	4,135
Balance as of December 31, 2016	3,760	66,101	(6,902)	4	(32,768)	30,195

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 4,135	$ 2,778	$ 4,625
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation related to options granted to employees	218	346	252
Depreciation of property and equipment	475	422	377
Amortization of intangible assets	409	276	254
Revaluation of earn-out, net	(597)	144	-
Increase in trade receivables, net	(2,129)	(2,487)	(233)
Revaluation of short-term deposits	(15)	3	124
Increase in inventories	(395)	(1,059)	(483)
Increase in other accounts receivable and prepaid expenses	(336)	(595)	(396)
Decrease in deferred income taxes, net	155	189	364
Increase (decrease) in trade payables	1,608	(237)	1,207
Increase in employees and payroll accruals	700	427	77
Increase (decrease) in customer advances and deferred revenues	1,107	(542)	(923)
Increase (decrease) in accrued expenses and other liabilities	(932)	594	94
Increase (decrease) in accrued severance pay, net	14	(31)	(110)
Net cash provided by operating activities	4,417	228	5,229
Cash flows from investing activities:			
Investment in short-term deposits	-	-	(40)
Proceeds from maturity of short-term deposits	500	1,140	3,000
Purchase of property and equipment	(511)	(619)	(457)
Acquisition of inspection activity	-	(2,353)	-
Net cash provided by (used in) investing activities	(11)	(1,832)	2,503
Cash flows from financing activities:			
Dividend paid to shareholders	(4,577)	(6,060)	(5,973)
Proceeds from exercise of options granted to employees	152	281	911
Net cash used in financing activities	(4,425)	(5,779)	(5,062)
Increase (decrease) in cash and cash equivalents	(19)	(7,383)	2,670
Cash and cash equivalents at the beginning of the year	7,665	15,048	12,378
Cash and cash equivalents at the end of the year	$ 7,646	$ 7,665	$ 15,048
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	$ 1,017	$ 701	$ 1,748
Non cash transactions:			
Earn-out payment obligations incurred as part of the acquisition of the inspection activity	-	$ 1,432	$ -

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

NOTE 1:- GENERAL

Advanced Vision Technology (A.V.T.) Ltd. ("A.V.T.") was incorporated under the laws of the State of Israel on October 25, 1992 and commenced operations thereafter. A.V.T. and its wholly-owned subsidiaries (the "Company") design, develop, manufacture, market and support advanced video-based print inspection systems that automatically detect defects in various types of printing processes as well as closed loop color control ("CLC") systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide.

On March 6, 2017, AVT entered into a merger agreement (the “Merger Agreement”) with Pelican Merger Holdings Israel Ltd. (“Parent”), an indirect wholly-owned subsidiary of Danaher Corporation (“Danaher”), a Delaware corporation whose share are traded on the New York Stock Exchange, and Pelican Merger Sub Ltd. (“Merger Sub”), pursuant to which, among other things, Merger Sub will merge with and into the Company (the “Merger”), on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with the provisions of the Companies Law, 5759-1999, following which Merger Sub will cease to exist as a separate legal entity and AVT will become a wholly-owned subsidiary of Parent and an indirect wholly-owned subsidiary of Danaher. As a result of the Merger, each ordinary share of AVT will be converted into the right to receive from Parent EUR 14.50 in cash.

AVT’s Board of Directors has unanimously approved the transaction and has unanimously recommended that AVT shareholders approve the transaction.

The Merger is subject to customary closing conditions, including the approval of the AVT shareholders by holders of at least 75% of AVT's shares represented at the shareholders meeting; provided that (i) such majority includes at least a majority of the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter, and who are present and voting at the shareholders meeting; or (ii) the shareholders who are non-controlling shareholders and who do not have a personal interest in the matter, who shall have been present and shall have voted against such proposed resolutions, hold 2% or less of the voting power of AVT.

It is intended to effect the delisting of AVT shares from the Frankfurt Stock Exchange following the closing of the transaction.

The current directors of the Company will resign from office as of the effective time of the Merger and the directors of Merger Sub will become the directors of the Surviving Company.

NOTE 1:-GENERAL (Cont.)

At the effective time of the Merger, each outstanding unexercised option or unsettled RSU issued as equity-based awards by the Company, which are vested in accordance with their terms or after giving effect to acceleration of awards, as set forth in the Merger Agreement , including all awards granted to non-employee directors, shall be canceled in exchange for the right to receive a lump sum cash payment (without interest) equal to the product of: (x) in case of options, the excess, if any, of the merger consideration over the exercise price per ordinary share for such option, and in case of RSUs, the merger consideration; and (y) the total number of ordinary shares underlying such equity-based award, less applicable taxes required to be withheld with respect to such payment.

The Merger Agreement contains customary representations and warranties made by Parent and the Company to each other. The representations and warranties are subject in some cases to specified exceptions and qualifications.

During the period commencing with the execution and delivery of the Merger Agreement and until closing, the Company shall carry on its business in the usual and ordinary course of business consistent with past practice in substantially the same manner as heretofore conducted, subject to certain matters which will require the approval of Parent.

Danaher has executed an irrevocable and unconditional guaranty for the due and punctual performance of the obligations of Parent and Merger Sub under the Merger Agreement that are required to be performed at or prior to closing, including the payment of the merger consideration.

Union Investments and Development Ltd. ("Union Investments"), the controlling shareholder of AVT, has signed a voting undertaking in favor of Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd., which is terminable in certain circumstances as set forth therein, to vote in favor of the Merger Agreement. In addition, one of the Company’s directors signed a participation undertaking with Parent and Merger Sub pursuant to which such director undertook to be present, or to cause all his shares of the Company to be counted as present, at the shareholder meeting which will convene to approve the Merger Agreement.

Closing of the merger transaction and settlement of the cash consideration are expected to occur in the second quarter of 2017.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with US generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company operates, the dollar is its functional and reporting currency. Accordingly, amounts in currencies other than dollars have been remeasured in accordance with ASC 830, "*Foreign Currency Matters*", as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date.

Expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of income in financial expense, net.

Management considers the non-U.S. subsidiaries operations to be similar in nature, closely tied and a direct integral extension of the parent company's operations. Accordingly, the functional currency of these subsidiaries is the dollar.

c. Principles of consolidation:

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents include short-term bank deposits that are readily convertible to cash with original maturities of three months or less at the date of acquisition.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Short-term deposits:

A short-term bank deposit is a deposit with a maturity of more than three months but less than one year. As of December 31, 2016 and 2015, the deposits bear interest at an annual average rate of 1.95% and 1.65% respectively.

f. Inventories:

Inventories are stated at the lower of cost or market. The Company evaluates periodically the quantities on hand relative to current selling prices and historical and forecasted sales volumes. Based on these evaluations, provisions are recorded if required to write down inventory to its net realizable value. Such provisions are included in the cost of revenues. For all years presented the write-offs were insignificant.

Cost is determined as follows:

Raw materials - according to the "average cost method"

Work in progress and finished products - based on average direct manufacturing costs and allocatable indirect manufacturing costs.

Spare parts for customer support - according to the "average cost method".

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20 - 33
Machinery and equipment	6 - 20
Office furniture and equipment	6 - 20
Leasehold improvements	The shorter of the term of the lease or the useful life of the asset

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Intangible assets:

The intangible assets are stated at cost, net of accumulated amortization. The intangible assets are amortized over their estimated useful life using the straight-line method. The amortization period of the intangible assets is as follows; Technology 7-12 years, Customer Relationships and Trademarks over 7-10 years. The amortization period and the amortization method for an intangible asset is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Amortization expenses of intangible assets are recognized in the statement of income, in the expense category consistent with the function of the intangible asset.

i. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, " *Property, Plant, and Equipment*" and ASC 350, *"Intangibles—Goodwill and Other"*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2016, 2015, and 2014, no impairment losses were recorded.

j. Goodwill:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Under ASC No. 350, “Intangibles – Goodwill and other” (“ASC No. 350”), goodwill is not amortized but instead is tested for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company operates in one operating segment and this segment comprises the only reporting unit. The Company tests goodwill using the two-step process in accordance with ASC No. 350. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying amount of goodwill is written down to fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Research and development costs:

Research and development costs, net of grants received, are charged to expenses as incurred.

l. Revenue recognition:

The Company derives its revenues from selling its products to end users and to printing press manufacturers through Original Equipment Manufacturer ("OEM") partners. The Company also generates revenues from maintenance, support and repair services related to these sales.

Revenues from product sales are recognized in accordance with ASC 605, "*Revenue Recognition*", when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no future obligation exists and collectability is probable.

The Company generally does not grant a right of return to its customers. When sale arrangements include a customer acceptance provision with respect to products, revenue is not recognized before the Company has demonstrated that the criteria specified in the acceptance provisions have been satisfied, or that the acceptance provision has lapsed.

Deferred revenues include amounts received from customers for which revenue has not been recognized.

m. Warranty costs:

The Company provides a 12 month warranty for its products at no charge. The Company estimates the costs that may be incurred during the warranty period and records a liability for the amount of such costs at the time revenue from the product sale is recognized.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

Cash and cash equivalents and short-term deposits are deposited with major banks in Israel, in Germany and in the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, low credit risk exists with respect to these investments.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are derived from sales to customers located primarily in the United States and Europe. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. In certain circumstances, the Company may require letters of credit or other collateral. The Company maintains an allowance for doubtful accounts based upon management's experience. The allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection.

As of December 31, 2016 and 2015, the allowance for doubtful accounts amounted to $ 1,266 and $ 1,102, respectively. Bad debt expense amounted to $ 220, $ 255 and $ 150 in the years ended December 31, 2016, 2015 and 2014, respectively. The risk of collection associated with accounts receivable is mitigated by the diversity and number of customers.

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "*Compensation - Stock Compensation*". ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the statement of income.

The Company recognizes compensation expense for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Monte Carlo simulation option pricing model as the most appropriate fair value method for its equity-based awards and values options based on the market value of the underlying shares on the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected term of the equity-based award. Expected volatility is calculated based upon actual historical stock price movements. The suboptimal exercise factor represents the value of the underlying share as a multiple of the exercise price of the option which, if achieved, results in exercise of the option. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. Until 2011 the Company did not intend to distribute, and did not pay any dividends. During 2012 the Company adopted a distribution policy, according to which the Company will distribute up to 50% of the Company's net income, subject to the board of directors approval, starting 2012.

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value for options granted during the year are estimated at the date of grant, using the Monte Carlo simulation model with the following assumptions:

	Year ended December 31,		
	2016	**2015**	**2014**
Risk-free interest rate	0.00%	0.27%	1.24%
Suboptimal exercise multiple	2.57	2.13/2.57	2.13/2.57
Forfeiture rate	5.00%	7.92%	6.75%
Dividend yield	7.8%/8.0%	3.5%	8.7%/4.5%
Expected volatility	35%	40%	38%

The fair value of RSU's is based on the market price of the shares on the date of grant.

p. Derivative Instruments:

Starting 2015, the Company entered into foreign currency options to hedge a portion of the exposure to the variability in expected future cash flows resulting from changes in related foreign currency exchange rates between the New Israeli Shekel (‘‘NIS’’) and the U.S. Dollar. These transactions are designated as cash flow hedges, as defined by Accounting Standards Codification (‘‘ASC’’) Topic 815, ‘‘Derivatives and Hedging’’.

ASC Topic 815 requires that the Company recognize derivative instruments as either assets or liabilities in its balance sheet at fair value. These contracts are Level 2 fair value measurements in accordance with ASC Topic 820, ‘‘Fair Value Measurements and Disclosures.’’ For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss), net of taxes, and reclassified into earnings (various operating expenses) in the same period or periods during which the hedged transaction affects earnings.

The Company's cash flow hedging strategy is to hedge against the risk of overall changes in cash flows resulting from certain forecasted foreign currency salary and related payments during the next twelve months. The Company hedges portions of its forecasted expenses denominated in NIS with a single counterparty using foreign currency options.

During 2016 and 2015 the Company recorded in other comprehensive income an unrealized income from foreign currency cash flow hedges in the amount of $32 and loss of $28 respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations" which requires allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at fair value as of the acquisition date. The ASC also requires the estimation of fair value of potential contingent consideration at the acquisition date and restructuring and acquisition-related costs to be expensed as incurred.

Any subsequent changes in the estimated contingent consideration are to be recorded in the statement of income.

r. Fair value of financial instruments:

The Company applies ASC No. 820, pursuant to which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company.

Unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The carrying amounts of cash and cash equivalents, trade receivables, trade payables, employees and payroll accruals, accrued expenses and other current liabilities approximate their fair values due to the short-term maturity of these instruments.

The liability for contingent consideration arising from the business combination is considered as level 3.

s. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "*Comprehensive Income*". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

t. Treasury stock:

On June 27, 2003, the Company repurchased some of its shares in a tender offer and thereafter held those shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction of shareholders' equity.

Occasionally, the Company may reissue treasury shares upon exercise of options. When treasury shares are reissued, the Company charges to retained earnings the excess of the purchase cost over the exercise price and the accumulated stock based compensation. The purchase cost is calculated based on the specific identification method. If the purchase cost is less than the exercise price, the Company credits the difference to additional paid-in capital.

u. Royalty-bearing grants:

Royalty-bearing grants from the Office of the Chief Scientist of the Ministry of Economy in Israel for funding certain approved research and development projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and are included as a deduction from research and development costs.

In 2016, 2015 and 2014, the Company paid royalties of nil, nil and $526 respectively, which were recorded as cost of revenues.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Severance pay:

The Company's liability for its Israeli employee's severance pay is calculated pursuant to the Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of those employees is covered by monthly deposits with severance pay funds, insurance policies and by an accrual.

The deposited funds may be withdrawn only upon fulfillment of the obligation pursuant to the Israeli severance pay law or labor agreements. The value of the insurance policies is based on the cash surrender value which includes profits or losses accumulated up to the balance sheet date. The funds and insurance policies are recorded as an asset in the Company's balance sheet.

In April 2014, the Company and its employees agreed to be subject to the terms set forth in Section 14 of the Israeli's Severance Pay Law and the General Approval of the Minister of Labor and Welfare. Pursuant to Section 14 and the General Approval, commencing from April 2014, the Company makes monthly deposits in severance pay funds based on a fixed percentage of the salary and such deposits release the Company from severance pay obligation to the employee upon termination of employment, voluntarily or involuntarily, in respect of the period of service commencing from April 2014. Accordingly, the severance pay accrual and fund recorded in the Company's balance sheet as of December 31, 2016 and 2015, reflects the severance pay liability and related deposits in respect of the service period prior to April 2014.

Severance expenses for the years ended December 31, 2016, 2015 and 2014 amounted to $ 33, $ 99 and $ 138, respectively.

w. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year.

Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during the year plus dilutive potential equivalent Ordinary shares considered outstanding during the year, in accordance with ASC 260, "*Earnings Per Share*".

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "*Income Taxes*". ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

The Company accounts for its uncertain tax positions in accordance with ASC 740 which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related

appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company reevaluates its income tax positions to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. The Company accrues interest and penalties related to unrecognized tax benefits in tax expense.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. The impact of recently issued accounting standards is as follows:

In May 2014, the FASB issued an accounting standard update on revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for the Company beginning January 1st, 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the potential impact of this pronouncement.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting. It also will allow an employer to make a policy election to account for forfeitures as they occur. The update is effective for fiscal years beginning after 15 December 2016, including interim periods within reporting period, with early adoption permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

NOTE 3:- BUSINESS COMBINATION

On July 2, 2015, AVT and Erhardt + Leimer GmbH (“E+L”) signed a purchase agreement (“the agreement”) and a cooperation agreement regarding a strategic alliance for the printing and converting industries. E+L is a leader in web guiding, web viewing and web tension control. This agreement broadens the product portfolios and strengthens services for customers of AVT and E+L, through solutions based on the two companies’ combined experience and technological skills.

The consideration for the acquisition of the inspection activity of E+L purchased pursuant to the agreement consisted of an initial cash payment of $2,353 upon closing and additional variable earn-out payments (contingent consideration) over the next 4 years which are calculated based on future sales of certain products over a base amount. At acquisition, the Company evaluates the present value of the liability for these future earn-out payments at $1,432. This balance was presented in current liabilities and long-term liability.

As a result of an updated projection made during 2016 of future sales, the Company reduced the earn-out liability in the amount of $641 which income was recorded as an adjustment to earn-out liability in operating expenses. The earn-out liability balance as of December 31, 2016 is $980 which is presented under long-term liability.

The periodic unwinding of the discount (time value of money) on the future earn-out liability is recognized as a finance expense over the earn-out period. In 2016 and 2015, the Company recorded $44 and $144 respectively, as finance expense (including foreign exchange differences).

Acquisition cost in the amount of $211 was expensed in the statement of income.

The acquisition has been accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations". Based on a purchase price allocation study, prepared by an independent third party, a total of $2,660 was allocated to technology, $224 to customer relationships and $108 to trade names. The excess of the purchase price over the aggregated fair value of the intangible assets, in the amount of $793 was allocated to goodwill. The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

The intangible assets, other than goodwill, are presently being amortized on a straight-line basis primarily over a period of 7 and 12 years which reflects the anticipated economic benefit from these assets. The goodwill and other intangible assets created in the acquisition are deductible for tax purposes.

Had the acquisition of the inspection activity occurred at the beginning of 2015, the effect on the proforma combined revenues and earnings of the Company and the inspection activity would have been immaterial.

U.S. dollars in thousands

NOTE 4:- INVENTORIES

	December 31, 2016	December 31, 2015
Raw materials	$ 3,204	$ 2,688
Work in progress	506	1,081
Finished products	1,535	1,242
Spare parts for customer support	2,188	2,125
	$ 7,433	$ 7,136

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2016	December 31, 2015
Government authorities	$ 2,085	$ 2,010
Prepaid expenses	483	336
Deferred income taxes	1,536	1,467
Other accounts receivable	785	639
	$ 4,889	$ 4,452

NOTE 6:- PROPERTY AND EQUIPMENT

	December 31, 2016	December 31, 2015
Cost:		
Computers and peripheral equipment	$ 4,148	$ 3,819
Machinery and equipment	1,875	1,631
Office furniture and equipment	727	725
Leasehold improvements	675	675
	7,425	6,850
Accumulated depreciation:		
Computers and peripheral equipment	3,601	3,346
Machinery and equipment	1,346	1,211
Office furniture and equipment	479	460
Leasehold improvements	433	367
	5,859	5,384
Property and equipment, net	$ 1,566	$ 1,466

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $ 475, $ 422 and $ 377, respectively.

U.S. dollars in thousands

NOTE 7:- INTANGIBLE ASSETS AND GOODWILL

a. Intangible assets:

	December 31, 2016	December 31, 2015
Cost:		
Technology	$ 6,427	$ 6,427
Customer Relationships	894	894
Trademarks	406	406
	7,727	7,727
Accumulated amortization:		
Technology	4,292	3,971
Customer relationships	712	665
Trademarks	303	262
	5,307	4,898
Intangible assets, net	$ 2,420	$ 2,829

Amortization expense amounted to $ 409, $ 276 and $ 254 for the years ended December 31, 2016, 2015 and 2014, respectively.

Estimated amortization expense for the years ended:

December 31,	
2017	401
2018	371
2019	371
2020	371
2021-2026	906
	$ 2,420

b. Goodwill

Goodwill balance as of December 31, 2016 was $793 which is attributed to the agreement with E+L (see Note 3). As described in Note 2j, the Company test for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As of December 31, 2016, the Company determined there was no impairment with respect to goodwill.

U.S. dollars in thousands

NOTE 8:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2016	December 31, 2015
Provision for warranty costs	$ 790	$ 673
Income taxes payable	1,664	2,506
Provision for earn-out	-	368
Accrued expenses and other liabilities	2,331	2,444
	$ 4,785	$ 5,991

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company and its subsidiaries lease office facilities and motor vehicles, under operating leases, for periods ending in 2021.

Future minimum lease commitments under non-cancelable operating leases as of December 31, 2016, are as follows:

Year	Lease commitment
2017	$ 1,612
2018	1,251
2019	142
2020-2021	91
	$ 3,096

Total rent expense for the years ended December 31, 2016, 2015 and 2014 amounted to $ 1,476, $ 2,080 and $ 2,648, respectively.

The Company leases motor vehicles under cancelable operating lease agreements. The Company has an option to be released from this agreement, which may result in penalties in a maximum amount of $ 4 as of December 31, 2016.

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Legal proceedings:

In February 2016, one of our customers in the United States, filed a lawsuit against our wholly-owned subsidiary AVT Advanced Vision technology Inc. claiming for breach of contract and consequential damages. The Company intends to contest it vigorously. As this claim is in the early stages of discovery, the Company's management is not in the position to predict the final outcome of the claim. Therefore, no provision has been recorded in the financial statements in respect of this claim.

From time to time the Company is involved in other claims and legal proceedings that are incidental to the conduct of its business. As of December 31, 2016, there is no pending or threatened legal proceeding to which the Company is a party that, in its opinion, is likely to have a material adverse effect on its future financial results.

c. Liens:

To secure its line of credit for bank guarantees, the Company has recorded a fixed lien of $ 140 on a cash deposit.

NOTE 10:- INCOME TAXES

a. General

The Company operates within multiple taxing jurisdictions (primarily in Israel and in the U.S.) and is subject to audit in those jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve.

b. Israel taxation

1. Corporate tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 25% in 2013, 26.5% in 2014 and 2015 and 25% in 2016 and thereafter.

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

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

The effect of the changes in tax rates was immaterial.

NOTE 10:- INCOME TAXES (Cont.)

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

   The Company benefits from certain government programs and tax legislation, particularly as a result of the ‘Approved Enterprise’, ‘Benefiting Enterprise’ or ‘Preferred Enterprise’ status of a significant portion of the Company’s existing production facilities in Israel under the Law (an “Approved Enterprise”, a “Benefiting Enterprise”, a “Preferred Enterprise”). Pursuant to these programs and legislation, a significant portion of the Company’s income is currently taxed at reduced rates.

   The Company elected the alternative benefits route under the Investment Law with respect to its Approved Enterprises. Under this route the Company waived government grants in return for a tax exemption on undistributed income.

   In 2011 amendments to the Law became effective and were further amended in August 2013 (the “2011 Amendment”). Under the 2011 Amendment, income derived by ‘Preferred Companies’ from ‘Preferred Enterprises’ (both as defined in the 2011 Amendment) would be subject to a uniform rate of corporate tax for an unlimited period as opposed to the incentives prior to the 2011 Amendment that were limited to income from Approved or Benefiting Enterprises during their benefits period. According to the 2011 Amendment, the tax rate applicable to such income, referred to as ‘Preferred Income’ for 2014 and onwards is 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel. As of January 1, 2014, dividends distributed from Preferred Income would subject the recipient to a 20% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld at source. Under the transitional provisions of the 2011 Amendment, companies may elect to irrevocably implement the 2011 Amendment with respect to their existing Approved and Benefiting Enterprises while waiving benefits provided under the legislation prior to the 2011 Amendment or keep implementing the legislation prior to the 2011 Amendment.

   The Company elected to implement the 2011 Amendment beginning the 2012 tax year.

   Pursuant to an amendment to the Law which became effective on November 12, 2012 (the “2012 Amendment”), companies that have tax exempt income from Approved or Benefiting Enterprises were able to elect by November 11, 2013 to pay a reduced corporate tax rate as set forth in the 2012 Amendment on such undistributed income as of December 31, 2011 and thereafter distribute a dividend from such income without being required to pay additional corporate tax with respect to such income as the case would otherwise be, as previously described. A company that made this election, will be required to make certain investments in its Approved or Benefiting Enterprise, as prescribed in the 2012 Amendment, and cannot withdraw from its election.

NOTE 10:- INCOME TAXES (Cont.)

During March and November 2013, the Company made the election and duly released all of its tax-exempt income related to its various Approved Enterprises and Benefiting Enterprises. Subsequent to the election, the Company no longer has a tax liability upon future distributions of its past tax-exempt income. As a result of the election, the Company recorded an expense of $1,373.

The application of the 2012 Amendment to its tax-exempt income requires the Company to invest $1,014 in its industrial enterprises in Israel over a five-year period ending in 2017, either in the acquisition of industrial assets (excluding real estate assets); investment in R&D in Israel; or salaries paid to new employees who joined the enterprise, relative to the number of employees employed in the enterprise at the end of the 2011 fiscal year, excluding payroll payment to “office holders” (as such term is defined in the Israeli Companies Law).

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73): In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).
The Amendment also prescribes special tax tracks for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017.

The new tax tracks under the Amendment are as follows: Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Amendment, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Amendment, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

Since as of December 31, 2016 definitive criteria to determine the tax benefits had not yet been established, it cannot be concluded that the legislation in respect of technological enterprises had been enacted or substantively enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of December 31, 2016.

c. Carryforward tax losses:

As of December 31, 2016, the U.S. subsidiary had U.S. federal carryforward tax losses of approximately $ 888 that can be carried forward and offset against taxable income for 12-20 years and expire from 2020-2028. The Tax Return Act of 1986 limits the use of net operating loss and tax credit carry forwards in certain situations where changes occur in the stock ownership of a company. Due to the change in ownership that occurred at the end of 2009, the utilization of the abovementioned carry forwards are likely to be subject to limitation of section 382 to the IRS regulations.

d. Deferred income taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2016 and 2015, the Company's deferred taxes were in respect of the following:

	December 31,	
	2016	**2015**
Deferred tax assets:		
Net operating loss carryforwards	$ 325	$ 542
Different amortization rates of intangible assets	1,286	1,442
Reserves and allowances	3,410	3,330
Deferred tax assets before valuation allowance	5,021	5,314
Valuation allowance	(1,681)	(1,948)
Deferred tax assets	3,340	3,366
Deferred tax liability:		
Devaluation of earn-out liability and different amortization rates of goodwill	(129)	-
Total deferred tax liability	(129)	-
Net deferred tax asset	$ 3,211	$ 3,366

U.S. dollars in thousands

NOTE 10:- INCOME TAXES (Cont.)

e. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31,		
	2016	2015	2014
Current	$ 175	$ 549	$ 987
Deferred	155	188	364
	$ 330	$ 737	$ 1,351

f. Reconciliation of the theoretical tax expense:

	Year ended December 31,		
	2016	2015	2014
Income before taxes on income	$ 4,465	$ 3,515	$ 5,976
Statutory tax rate	25%	26.5%	26.5%
Theoretical tax expenses at statutory tax rate	$ 1,116	$ 931	$ 1,584
Increase (decrease) in respect of:			
Losses, reserves and allowances for which valuation allowance was provided	-	34	6
Utilization of carryforward losses for which valuation allowance was provided in prior year	(251)	(458)	(31)
Tax adjustment in respect of "Preferred Enterprise" status	(253)	(190)	(448)
Tax adjustment in respect of foreign subsidiaries different tax rates	176	160	205
Stock-based compensation expense	35	92	67
Non-deductible expenses	164	171	53
Net change in provision for uncertain tax position	(577)	-	-
Other	(80)	(3)	(85)
Actual tax expense	$ 330	$ 737	$ 1,351

g. Uncertain tax positions

Due to statute of limitation and domestic and foreign final tax assessments in 2016, the Company revised its provision for uncertain tax positions and decreased it by $577 which was recognized as a tax benefit. The provision for uncertain tax positions as of December 31, 2016 is $276 which is presented under short-term liability.

NOTE 10:- INCOME TAXES (Cont.)

h. The Company and its subsidiaries are routinely examined by various taxing authorities. A.V.T. Ltd. has received final tax assessments in Israel through 2014, the Company's tax year 2015 remains subject to examination by the Israeli Tax Authorities.

As a result of net operating loss carryforwards, the U.S. subsidiaries tax years 2009 through 2014 remain subject to examination by the IRS for U.S. federal tax purposes and for tax years 2008 and forward for state purposes. There are tax years which remain subject to examination in various other jurisdictions that are not material to the Company's financial statements.

NOTE 11:- SHARE CAPITAL

a. General:

Ordinary shares confer upon their holders the right to receive notice of and to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

b. In 2003, the Company through a tender offer to all, purchased 1,890,752 shares at a cost of $15,933. Through December 31, 2013, a total of 623,000 treasury shares were issued to certain investors and 448,630 treasury shares were issued to employees as result of exercise of options made by them. As of December 31, 2016 and 2015, the Company hold 819,122 treasury shares.

On October 2, 2014, the District Court in Tel Aviv, Israel, approved the Company's request to allow the reduction of its capital by up to $12,000, after the Israeli Tax Authority informed the District Court that it does not object to the request. Therefore, subject to applicable Israeli law in respect of dividend distributions, the board of directors of the Company may opt to declare a distribution of dividends and/or adopt a share buy-back program, which will reduce up to $12,000 of the Company's capital.

On March 1, 2016, the board of directors resolved to distribute an extra-ordinary dividend of $0.75 per share which was paid on March 22, 2016.

c. Stock based compensation plans:

Under the 2009 Israeli Incentive Plan, the Company is authorized to grant options to purchase Ordinary shares and Restricted Shares Units (“RSUs”) to its Israeli employees, non-employees directors and non-employees consultants. Under the 1999 Share Option and Incentive Plan and the 2000 Global Stock Option Plan, the Company grants stock options and RSUs to non-Israeli employees, officers and non-employees consultants. Options and RSUs granted pursuant to the three plans expire between six to ten years from the date of grant or upon termination of the optionee's employment or other relationship with the Company. The options and the RSUs generally vest over three to four years. Any options that are cancelled or forfeited before expiration become available for future grants.

U.S. dollars in thousands

NOTE 11:- SHARE CAPITAL (Cont.)

d. A summary of the stock option activities in 2016 is as follows:

	Amount	Weighted average exercise price	Weighted average remaining contractual life	Aggregate Intrinsic value
Outstanding at January 1, 2016	534,463	10.17	4.88	
Granted	21,050			
Exercised	(32,300)			
Forfeited	(107,273)			
Outstanding at December 31, 2016	415,940	10.31	4.65	*)572
Vested and expected to vest at December 31, 2016	385,948	10.26	4.19	**)553
Vested at December 31, 2016	207,549	9.63	2.68	***)430

*) Represents intrinsic value of 249,840 outstanding options that are in-the-money as of December 31, 2016. The remaining 166,100 outstanding options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

**) Represents intrinsic value of 236,403 vested and expected to vest options that are in-the-money as of December 31, 2016. The remaining 149,545 vested and expected to vest options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

***) Represents intrinsic value of 156,499 vested options that are in-the-money as of December 31, 2016. The remaining 51,050 vested options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

As of December 31, 2016, $ 322 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.1 years.

The weighted-average grant-date fair value of options granted during the years 2016, 2015 and 2014 was $ 1.11, $ 2.95 and $ 2.25, respectively. The total intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014, was $ 152, $ 350 and $ 1,195, respectively.

U.S. dollars in thousands

NOTE 11:- SHARE CAPITAL (Cont.)

Following are the outstanding options by exercise price as of December 31, 2016:

	Outstanding			Exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
$			$			$
0	6,000	0.85	0.00	6,000	0.85	0.00
3.94	1,000	0.15	3.94	1,000	0.15	3.94
5.65-9.83	128,775	2.78	8.21	92,589	1.74	8.02
10.41-11.87	266,665	5.34	11.43	94,460	4.00	11.34
12.83-15.45	13,500	0.85	13.99	13,500	0.85	13.99
	415,940	4.32	10.33	207,549	2.68	9.67

e. A summary of the RSUs activities in 2016 is as follows:

	Amount	Weighted average grant date value
Outstanding at January 1, 2016	-	
Granted	52,841	10.53
Exercised	-	
Forfeited	(350)	
Outstanding at December 31, 2016	52,491	10.53
Vested at December 31, 2016	-	

f. The following table sets forth the total stock-based compensation expense resulting from stock options:

	Year ended December 31,		
	2016	2015	2014
Cost of revenues	$ 50	$ 42	$ 27
Research and development	80	64	60
Selling and marketing	52	59	41
General and administrative	36	181	124
Total stock-based compensation expense	$ 218	$ 346	$ 252

U.S. dollars in thousands

NOTE 12:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted Earnings Per Share ("EPS"):

	Year ended December 31,		
	2016	**2015**	**2014**
Net income	$ 4,135	$ 2,778	$ 4,625
Weighted average number of Ordinary shares used in computing - Basic EPS	6,106,236	6,072,024	5,984,182
Dilutive effect:			
Employee stock options and RSUs	48,620	68,267	114,738
Weighted average number of Ordinary shares used in computing - Diluted EPS	6,154,856	6,140,291	6,098,920
Basic earnings per share	$ 0.68	$ 0.46	$ 0.77
Diluted earnings per share	$ 0.67	$ 0.45	$ 0.76

The total numbers of options and RSUs excluded from the calculation of diluted net earnings per share, as they would have an anti-dilutive effect were 369,226, 310,860 and 225,652 for the years ended December 31, 2016, 2015 and 2014, respectively.

U.S. dollars in thousands

NOTE 13:- SEGMENT INFORMATION

The Company operates in one reporting segment; see Note 1 for a brief description of the Company's business.

Operations in Israel and the U.S. include research and development, marketing and sales. Operations in Europe include marketing, support and sales. The following is selected information according to geographic areas:

	Year ended December 31,		
	2016	2015	2014
Revenues based on the customer's location:			
America	$ 26,970	$ 23,007	$ 24,691
Europe	19,974	19,090	21,078
Israel	506	525	251
Other	9,824	8,867	8,090
	$ 57,274	$ 51,489	$ 54,110

	December 31,	
	2016	2015
Long-lived assets by geographic location:		
Israel	$ 1,057	$ 882
America	344	449
Europe	165	135
	$ 1,566	$ 1,466

U.S. dollars in thousands

NOTE 14:- SELECTED STATEMENT OF INCOME DATA

a. Revenues:

	Year ended December 31,		
	2016	**2015**	**2014**
Revenues:			
Products	$ 45,182	$ 40,497	$ 42,273
Services	12,092	10,992	11,837
Total Revenues	$ 57,274	$ 51,489	$ 54,110

b. Financial income (expense), net:

	Year ended December 31,		
	2016	**2015**	**2014**
Financial income:			
Interest	$ 168	$ 129	$ 121
Exchange rate differences	-	-	55
	168	129	176
Financial expenses:			
Bank charges and other	183	158	148
Exchange rate differences	418	373	-
Expense related to valuation of future earn-out payment	70	144	-
	671	675	148
	$ (503)	$ (546)	$ 28

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F. ANNUAL FINANCIAL STATEMENTS

ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

IN U.S. DOLLARS

INDEX

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Building a better working world

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REPORT OF INDEPENDENT AUDITORS

To the board of directors and shareholders of

ADVANCED VISION TECHNOLOGY (A.V.T.) LTD.

We have audited the accompanying financial statements of Advanced Vision Technology (A.V.T.) Ltd. (the "Company") which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and other comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 27, 2017

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

BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,207	$ 3,334
Short-term deposits	9,540	10,025
Trade receivables (net of allowance for doubtful accounts as of $ 158 and $ 170 as of December 31, 2016 and 2015, respectively)	1,682	1,400
Inventories	4,288	3,716
Other accounts receivable and prepaid expenses	3,078	2,996
Total current assets	23,795	21,471
LONG-TERM ASSETS:		
Investments in subsidiaries	13,651	11,954
Capital note issued to subsidiary	11,000	11,000
Deferred income taxes	478	515
Severance pay fund	2,449	2,488
Total long-term assets	27,578	25,957
PROPERTY AND EQUIPMENT, NET	1,051	882
INTANGIBLE ASSETS, NET	2,392	2,763
GOODWILL	793	793
Total assets	$ 55,609	$ 51,866

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

BALANCE SHEETS

U.S. dollars in thousands (except share and per share amounts)

	December 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 3,794	$ 2,419
Employees and payroll accruals	2,235	1,349
Customer advances and deferred revenues	3,069	2,760
Accrued expenses and other liabilities	3,276	4,550
Related parties	8,358	5,623
Total current liabilities	20,732	16,701
LONG-TERM LIABILIITIES:		
Accrued severance pay	3,702	3,722
Other long-term liability	980	1,208
Total long-term liabilities	4,682	4,930
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of New Israeli Shekels (NIS) 2 par value: 15,000,000 shares authorized at December 31, 2016 and 2015; 6,945,927 and 6,913,627 shares issued at December 31, 2016 and 2015 respectively; 6,126,805 and 6,094,505 shares outstanding at December 31, 2016 and 2015, respectively	3,760	3,743
Additional paid-in capital	66,101	65,748
Treasury shares at cost – 819,122 shares as of December 31, 2016 and 2015	(6,902)	(6,902)
Accumulated other comprehensive loss	4	(28)
Accumulated deficit	(32,768)	(32,326)
Total shareholders' equity	30,195	30,235
Total liabilities and shareholders' equity	$ 55,609	$ 51,866

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

March 27, 2017		
Date of approval of the financial statements	Jaron Lotan President & CEO	Udi Bar Sela CFO

STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share amounts)

	Year ended December 31, 2016	Year ended December 31, 2015
Revenues	$ 39,530	$ 35,914
Cost of revenues	19,795	15,250
Gross profit	19,735	20,664
Operating expenses:		
Research and development	7,321	6,114
Selling and marketing	5,940	8,266
General and administrative	4,382	4,461
Adjustment to earn-out liability	(641)	-
Total operating expenses	17,002	18,841
Operating income	2,733	1,823
Financial income (expense), net	1	(30)
Income before taxes on income	2,734	1,793
Taxes on income	296	252
Income after taxes on income	2,438	1,541
Company's share of earnings of subsidiaries	1,697	1,237
Net income	4,135	2,778
Other comprehensive income (loss):		
Unrealized income (loss) on foreign currency cash flow hedge, net of tax	32	(28)
Total comprehensive income	$ 4,167	$ 2,750
Basic earnings per ordinary share	$ 0.68	$ 0.46
Diluted earnings per ordinary share	$ 0.67	$ 0.45

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
Balance as of January 1, 2015	3,714	65,150	(6,902)	-	(29,044)	32,918
Issuance of shares upon exercise of options	29	252	-	-	-	281
Stock-based compensation related to options granted to employees		346	-	-	-	346
Dividend paid to shareholders	-	-	-	-	(6,060)	(6,060)
Unrealized loss on foreign currency cash flow hedge	-	-	-	(28)		(28)
Net income	-	-	-	-	2,778	2,778
Balance as of December 31, 2015	3,743	65,748	(6,902)	(28)	(32,326)	30,235
Issuance of shares upon exercise of options	17	135	-	-	-	152
Stock-based compensation related to options granted to employees	-	218	-	-		218
Dividend paid to shareholders	-	-	-	-	(4,577)	(4,577)
Unrealized income on foreign currency cash flow hedge	-	-	-	32		32
Net income	-	-	-	-	4,135	4,135
Balance as of December 31, 2016	3,760	66,101	(6,902)	4	(32,768)	30,195

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

STATEMENTS OF CASH FLOWS

U.S. dollars in thousands (except per share amounts)

	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities:		
Income before share of earnings of subsidiaries	$ 2,438	$ 1,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation related to options granted to employees	218	346
Depreciation of property and equipment	289	239
Amortization of intangible assets	371	229
Revaluation of earn-out, net	(597)	144
Increase in trade receivables, net	(282)	(452)
Revaluation of short-term deposits	(15)	3
Increase in inventories	(584)	(506)
Decrease (increase) in other accounts receivable and prepaid expenses	118	(763)
Increase in deferred income taxes, net	(131)	(127)
Increase (decrease) in trade payables	1,375	(318)
Increase (decrease) in employees and payroll accruals	886	(266)
Increase in customer advances and deferred revenues	309	417
Increase (decrease) in accrued expenses and other liabilities	(905)	1,123
Increase in related parties	2,735	194
Increase (decrease) in accrued severance pay, net	19	(20)
Net cash provided by operating activities	6,244	1,784
Cash flows from investing activities:		
Proceeds from maturity of short-term deposits	500	1,140
Purchase of property and equipment	(446)	(364)
Acquisition of inspection activity	-	(2,352)
Net cash provided by (used in) investing activities	54	(1,576)
Cash flows from financing activities:		
Dividend paid to shareholders	(4,577)	(6,060)
Proceeds from exercise of options granted to employees	152	281
Net cash used in financing activities	(4,425)	(5,779)
Increase (decrease) in cash and cash equivalents	1,873	(5,571)
Cash and cash equivalents at the beginning of the year	3,334	8,905
Cash and cash equivalents at the end of the year	$ 5,207	$ 3,334
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	$ 794	$ 492
Non cash transactions:		
Earn-out payment obligations incurred as part of the acquisition of the inspection activity	-	$ 1,432

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

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 1:- GENERAL

a. Advanced Vision Technology (A.V.T.) Ltd. ("A.V.T.") was incorporated under the laws of the State of Israel on October 25, 1992 and commenced operations thereafter. A.V.T. (the "Company") and its wholly-owned subsidiaries, design, develop, manufacture, market and support advanced video-based print inspection systems that automatically detect defects in various types of printing processes as well as closed loop color control ("CLC") systems, color management and reporting software, and remote digital ink fountain control systems to leading commercial printers and press manufacturers worldwide.

b. AVT separately prepares consolidated financial statements of the Company and its subsidiaries. These parent company financial statements are prepared in compliance with regulatory requirements of the Frankfurt Stock Exchange.

c. The wholly-owned subsidiaries of AVT are as follows: AVT Inc. (USA), AVT GMBH (Germany), AVT EMEA (Belgium), and Graphic Microsystems, Inc. (USA).

d. On March 6, 2017, AVT entered into a merger agreement (the “Merger Agreement”) with Pelican Merger Holdings Israel Ltd. (“Parent”), an indirect wholly-owned subsidiary of Danaher Corporation (“Danaher”), a Delaware corporation whose share are traded on the New York Stock Exchange, and Pelican Merger Sub Ltd. (“Merger Sub”), pursuant to which, among other things, Merger Sub will merge with and into the Company (the “Merger”), on the terms and subject to the conditions set forth in the Merger Agreement and in accordance with the provisions of the Companies Law, 5759-1999, following which Merger Sub will cease to exist as a separate legal entity and AVT will become a wholly-owned subsidiary of Parent and an indirect wholly-owned subsidiary of Danaher. As a result of the Merger, each ordinary share of AVT will be converted into the right to receive from Parent EUR 14.50 in cash.

   AVT’s Board of Directors has unanimously approved the transaction and has unanimously recommended that AVT shareholders approve the transaction.

   The Merger is subject to customary closing conditions, including the approval of the AVT shareholders by holders of at least 75% of AVT's shares represented at the shareholders meeting; provided that (i) such majority includes at least a majority of the votes cast by shareholders who are not controlling shareholders and who do not have a personal interest in the matter, and who are present and voting at the shareholders meeting; or (ii) the shareholders who are non-controlling shareholders and who do not have a personal interest in the matter, who shall have been present and shall have voted against such proposed resolutions, hold 2% or less of the voting power of AVT.

   It is intended to effect the delisting of AVT shares from the Frankfurt Stock Exchange following the closing of the transaction.

   The current directors of the Company will resign from office as of the effective time of the Merger and the directors of Merger Sub will become the directors of the Surviving Company.

   At the effective time of the Merger, each outstanding unexercised option or unsettled RSU issued as equity-based awards by the Company, which are vested in accordance with their terms or after giving effect to acceleration of awards, as set forth in the Merger Agreement , including all awards granted to non-employee directors, shall be canceled in exchange for the right to receive a lump sum cash payment (without interest) equal to the product of: (x) in case of options, the excess, if any, of

NOTE 1:- GENERAL (Cont.)

the merger consideration over the exercise price per ordinary share for such option, and in case of RSUs, the merger consideration; and (y) the total number of ordinary shares underlying such equity-based award, less applicable taxes required to be withheld with respect to such payment.

The Merger Agreement contains customary representations and warranties made by Parent and the Company to each other. The representations and warranties are subject in some cases to specified exceptions and qualifications.

During the period commencing with the execution and delivery of the Merger Agreement and until closing, the Company shall carry on its business in the usual and ordinary course of business consistent with past practice in substantially the same manner as heretofore conducted, subject to certain matters which will require the approval of Parent.

Danaher has executed an irrevocable and unconditional guaranty for the due and punctual performance of the obligations of Parent and Merger Sub under the Merger Agreement that are required to be performed at or prior to closing, including the payment of the merger consideration.

Union Investments and Development Ltd. ("Union Investments"), the controlling shareholder of AVT, has signed a voting undertaking in favor of Pelican Merger Holdings Israel Ltd. and Pelican Merger Sub Ltd., which is terminable in certain circumstances as set forth therein, to vote in favor of the Merger Agreement. In addition, one of the Company's directors signed a participation undertaking with Parent and Merger Sub pursuant to which such director undertook to be present, or to cause all his shares of the Company to be counted as present, at the shareholder meeting which will convene to approve the Merger Agreement.

Closing of the merger transaction and settlement of the cash consideration are expected to occur in the second quarter of 2017.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with US generally accepted accounting principles ("U.S. GAAP") as applicable to parent company financial statements.

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Company are generated in U.S. dollars ("dollars"). In addition, a substantial portion of the Company's costs is incurred in dollars. Since management believes that the dollar is the currency of the primary economic environment in which the Company operates, the dollar is its functional and reporting currency. Accordingly, amounts in currencies other than dollars have been remeasured in accordance with ASC 830, "*Foreign Currency Matters*", as follows:

Monetary balances - at the exchange rate in effect on the balance sheet date.

Expenses - at the exchange rates in effect as of the date of recognition of the transaction.

All exchange gains and losses from the remeasurement mentioned above are reflected in the statement of income in financial expense, net.

Management considers the non-U.S. subsidiaries operations to be similar in nature, closely tied and a direct integral extension of the parent company's operations. Accordingly, the functional currency of these subsidiaries is the dollar.

c. Cash equivalents:

Cash equivalents include short-term bank deposits that are readily convertible to cash with original maturities of three months or less at the date of acquisition.

d. Short-term deposits:

A short-term bank deposit is a deposit with a maturity of more than three months but less than one year. As of December 31, 2016 and 2015, the deposits bear interest at an annual average rate of 1.95% and 1.65%, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Inventories:

Inventories are stated at the lower of cost or market. The Company evaluates periodically the quantities on hand relative to current selling prices and historical and forecasted sales volumes. Based on these evaluations, provisions are recorded if required to write down inventory to its net realizable value. Such provisions are included in the cost of revenues. For all years presented the write-offs were insignificant.

Cost is determined as follows:

Raw materials - according to the "average cost method"

Work in progress and finished products - based on average direct manufacturing costs and allocatable indirect manufacturing costs.

Spare parts for customer support - according to the "average cost method".

f. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method, over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20 - 33
Machinery and equipment	6 - 20
Office furniture and equipment	6 - 20
Leasehold improvements	The shorter of the term of the lease or the useful life of the asset

g. Intangible assets:

The intangible assets are stated at cost, net of accumulated amortization. The intangible assets are amortized over their estimated useful life using the straight-line method. The amortization period of the intangible assets is as follows; Technology 7-12 years, Customer Relationships and Trademarks over 7-10 years. The amortization period and the amortization method for an intangible asset is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization expenses of intangible assets are recognized in the statement of income, in the expense category consistent with the function of the intangible asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of long-lived assets and intangible assets subject to amortization:

The Company's long-lived assets and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, " *Property, Plant, and Equipment*" and ASC 350, *"Intangibles—Goodwill and Other"*, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. During 2016 and 2015, no impairment losses were recorded.

i. Goodwill:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Under ASC No. 350, “Intangibles – Goodwill and other” (“ASC No. 350”), goodwill is not amortized but instead is tested for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company operates in one operating segment and this segment comprises the only reporting unit. The Company tests goodwill using the two-step process in accordance with ASC No. 350. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying amount of goodwill is written down to fair value.

j. Investment in subsidiaries:

Investments in subsidiaries are presented by the equity method of accounting. Under the equity method, the investment in the subsidiary is presented at cost with the addition of post-acquisition changes in the Company's share of net assets. Gains and losses resulting from transactions between the Company and its wholly-owned subsidiaries are eliminated in full.

k. Research and development costs:

Research and development costs, net of grants received, are charged to expenses as incurred.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Revenue recognition:

The Company derives its revenues from selling its products to end users and to printing press manufacturers through Original Equipment Manufacturer ("OEM") partners. The Company also generates revenues from maintenance, support and repair services related to these sales.

Revenues from product sales are recognized in accordance with ASC 605, "*Revenue Recognition*", when delivery has occurred, persuasive evidence of an arrangement exists, the vendor's fee is fixed or determinable, no future obligation exists and collectability is probable.

The Company generally does not grant a right of return to its customers. When sale arrangements include a customer acceptance provision with respect to products, revenue is not recognized before the Company has demonstrated that the criteria specified in the acceptance provisions have been satisfied, or that the acceptance provision has lapsed.

Deferred revenues include amounts received from customers for which revenue has not been recognized.

m. Warranty costs:

The Company provides a 12 month warranty for its products at no charge. The Company estimates the costs that may be incurred during the warranty period and records a liability for the amount of such costs at the time revenue from the product sale is recognized.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits and trade receivables.

Cash and cash equivalents and short-term deposits are deposited with major banks in Israel. Management believes that the financial institutions that hold the Company's investments are institutions with high credit standing, and accordingly, low credit risk exists with respect to these investments.

As of December 31, 2016 and 2015, the allowance for doubtful accounts amounted to $ 158 and $ 170, respectively. Bad debt expense amounted to nil in 2016 and $ 150 in 2015. The risk of collection associated with accounts receivable is mitigated by the diversity and number of customers.

U.S. dollars in thousands (except for share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "*Compensation - Stock Compensation*". ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the statement of income.

The Company recognizes compensation expense for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company selected the Monte Carlo simulation option pricing model as the most appropriate fair value method for its equity-based awards and values options based on the market value of the underlying shares on the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected term of the equity-based award. Expected volatility is calculated based upon actual historical stock price movements. The suboptimal exercise factor represents the value of the underlying share as a multiple of the exercise price of the option which, if achieved, results in exercise of the option. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. Until 2011 the Company did not intend to distribute, and did not pay any dividends. During 2012 the Company adopted a distribution policy, according to which the Company will distribute up to 50% of the Company's net income, subject to the board of directors approval, starting 2012.

The fair value for options granted during the year are estimated at the date of grant, using the Monte Carlo simulation model with the following assumptions:

	Year ended December 31,	
	2016	**2015**
Risk-free interest rate	0.00%	0.27%
Suboptimal exercise multiple	2.57	2.13/2.57
Forfeiture rate	5.00%	7.92%
Dividend yield	7.8%/8.0%	3.5%
Expected volatility	35%	40%

The fair value of RSU's is based on the market price of the shares on the date of grant.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Derivative Instruments:

Starting 2015, the Company entered into foreign currency options to hedge a portion of the exposure to the variability in expected future cash flows resulting from changes in related foreign currency exchange rates between the New Israeli Shekel (‘‘NIS’’) and the U.S. Dollar. These transactions are designated as cash flow hedges, as defined by Accounting Standards Codification (‘‘ASC’’) Topic 815, ‘‘Derivatives and Hedging’’.

ASC Topic 815 requires that the Company recognize derivative instruments as either assets or liabilities in its balance sheet at fair value. These contracts are Level 2 fair value measurements in accordance with ASC Topic 820, ‘‘Fair Value Measurements and Disclosures.’’ For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss), net of taxes, and reclassified into earnings (various operating expenses) in the same period or periods during which the hedged transaction affects earnings.

The Company's cash flow hedging strategy is to hedge against the risk of overall changes in cash flows resulting from certain forecasted foreign currency salary and related payments during the next twelve months. The Company hedges portions of its forecasted expenses denominated in NIS with a single counterparty using foreign currency options.

During 2016 and 2015 the Company recorded in other comprehensive income an unrealized income from foreign currency cash flow hedges in the amount of $32 and loss of $28 respectively.

q. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations" which requires allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed at fair value as of the acquisition date. The ASC also requires the estimation of fair value of potential contingent consideration at the acquisition date and restructuring and acquisition-related costs to be expensed as incurred.

Any subsequent changes in the estimated contingent consideration are to be recorded in the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Fair value of financial instruments:

The Company applies ASC No. 820, pursuant to which fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company.

Unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 -	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
Level 2 -	Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3 -	Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying amounts of cash and cash equivalents, trade receivables, trade payables, employees and payroll accruals, accrued expenses and other current liabilities approximate their fair values due to the short-term maturity of these instruments.

The liability for contingent consideration arising from the business combination is considered as level 3.

s. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC 220, "*Comprehensive Income*". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Treasury stock:

On June 27, 2003, the Company repurchased some of its shares in a tender offer and thereafter held those shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction of shareholders' equity.

Occasionally, the Company may reissue treasury shares upon exercise of options. When treasury shares are reissued, the Company charges to retained earnings the excess of the purchase cost over the exercise price and the accumulated stock based compensation. The purchase cost is calculated based on the specific identification method. If the purchase cost is less than the exercise price, the Company credits the difference to additional paid-in capital.

u. Severance pay:

The Company's liability for its Israeli employee's severance pay is calculated pursuant to the Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. The Company's liability for all of those employees is covered by monthly deposits with severance pay funds, insurance policies and by an accrual.

The deposited funds may be withdrawn only upon fulfillment of the obligation pursuant to the Israeli severance pay law or labor agreements. The value of the insurance policies is based on the cash surrender value which includes profits or losses accumulated up to the balance sheet date. The funds and insurance policies are recorded as an asset in the Company's balance sheet.

In April 2014, the Company and its employees agreed to be subject to the terms set forth in Section 14 of the Israeli's Severance Pay Law and the General Approval of the Minister of Labor and Welfare. Pursuant to Section 14 and the General Approval, commencing from April 2014, the Company makes monthly deposits in severance pay funds based on a fixed percentage of the salary and such deposits release the Company from severance pay obligation to the employee upon termination of employment, voluntarily or involuntarily, in respect of the period of service commencing from April 2014. Accordingly, the severance pay accrual and fund recorded in the Company's balance sheet as of December 31, 2016 and 2015, reflects the severance pay liability and related deposits in respect of the service period prior to April 2014.

Severance expenses for the years ended December 31, 2016 and 2015 amounted to $ 33 and $ 99, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year.

Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during the year plus dilutive potential equivalent Ordinary shares considered outstanding during the year, in accordance with ASC 260, "*Earnings Per Share*".

w. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "*Income Taxes*". ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

The Company accounts for its uncertain tax positions in accordance with ASC 740 which contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC 740. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related

The Company reevaluates its income tax positions to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. The Company accrues interest and penalties related to unrecognized tax benefits in tax expense.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. The impact of recently issued accounting standards is as follows:

In May 2014, the FASB issued an accounting standard update on revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for the Company beginning January 1st, 2018. Early adoption is permitted, but not before the original effective date of the standard. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the potential impact of this pronouncement.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting. It also will allow an employer to make a policy election to account for forfeitures as they occur. The update is effective for fiscal years beginning after 15 December 2016, including interim periods within reporting period, with early adoption permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

NOTE 3:- BUSINESS COMBINATION

On July 2, 2015, AVT and Erhardt + Leimer GmbH (“E+L”) signed a purchase agreement (“the agreement”) and a cooperation agreement regarding a strategic alliance for the printing and converting industries. E+L is a leader in web guiding, web viewing and web tension control. This agreement broadens the product portfolios and strengthens services for customers of AVT and E+L, through solutions based on the two companies’ combined experience and technological skills.

The consideration for the acquisition of the inspection activity of E+L purchased pursuant to the agreement consisted of an initial cash payment of $2,353 upon closing and additional variable earn-out payments (contingent consideration) over the next 4 years which are calculated based on future sales of certain products over a base amount. At acquisition, the Company evaluates the present value of the liability for these future earn-out payments at $1,432. This balance was presented in current liabilities and long-term liability.

As a result of an updated projection of future sales during 2016, the Company reduced the earn-out liability in the amount of $641 which income was recorded as an adjustment to earn-out liability in operating expenses. The earn-out liability balance as of December 31, 2016 is $980 which is presented under long-term liability.

The periodic unwinding of the discount (time value of money) on the future earn-out liability is recognized as a finance expense over the earn-out period. In 2016 and 2015, the Company recorded $44 and $144 respectively, as finance expense (including foreign exchange differences).

Acquisition cost in the amount of $211 was expensed in the statement of income.

The acquisition has been accounted for using the purchase method of accounting in accordance with ASC 805 "Business Combinations". Based on a purchase price allocation study, prepared by an independent third party, a total of $2,660 was allocated to technology, $224 to customer relationships and $108 to trade names. The excess of the purchase price over the aggregated fair value of the intangible assets, in the amount of $793 was allocated to goodwill. The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

The intangible assets, other than goodwill, are presently being amortized on a straight-line basis primarily over a period of 7 and 12 years which reflects the anticipated economic benefit from these assets. The goodwill and other intangible assets created in the acquisition are deductible for tax purposes.

Had the acquisition of the inspection activity occurred at the beginning of 2015, the effect on the proforma combined revenues and earnings of the Company and the inspection activity would have been immaterial.

NOTES TO FINANCIAL STATEMENTS
U.S. dollars in thousands (except for share and per share data)

NOTE 4:- INVENTORIES

	December 31, 2016	December 31, 2015
Raw materials	$ 2,834	$ 2,144
Work in progress	193	701
Finished products	1,261	871
	$ 4,288	$ 3,716

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2016	December 31, 2015
Government authorities	$ 1,457	$ 1,603
Prepaid expenses	323	228
Deferred income taxes	872	705
Other accounts receivables	426	460
	$ 3,078	$ 2,996

NOTE 6:- INVESTMENTS IN SUBSIDIARIES

	Cost of shares	Accumulated losses from the investment date	Total
Balance as of January 1, 2015	$ 33,719	$ (23,002)	$ 10,717
Equity gains	-	1,237	1,237
Balance as of December 31, 2015	33,719	(21,765)	11,954
Equity gains	-	1,697	1,697
Balance as of December 31, 2016	$ 33,719	$ (20,068)	$ 13,651

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 7:- PROPERTY AND EQUIPMENT

	December 31, 2016	December 31, 2015
Cost:		
Computers and peripheral equipment	$ 2,496	$ 2,242
Machinery and equipment	912	734
Office furniture and equipment	441	441
Leasehold improvements	440	414
	4,289	3,831
Accumulated depreciation:	3,238	2,949
Property and equipment, net	$ 1,051	$ 882

Depreciation expense for the years ended December 31, 2016 and 2015 was $ 289 and $ 239, respectively.

NOTE 8:- INTANGIBLE ASSETS AND GOODWILL

c. Intangible assets:

	December 31, 2016	December 31, 2015
Cost:		
Technology	$ 2,660	$ 2,660
Customer Relationships	224	224
Trademarks	108	108
	2,992	2,992
Accumulated amortization	600	229
Intangible assets, net	$ 2,392	$ 2,763

U.S. dollars in thousands (except for share and per share data)

NOTE 8:- INTANGIBLE ASSETS AND GOODWILL (Cont.)

Amortization expense amounted to $ 371 and $ 229 for the years ended December 31, 2016 and 2015, respectively.

Estimated amortization expense for the years ended:

December 31,	
2017	373
2018	371
2019	371
2020	371
2021-2027	906
	$ 2,392

d. Goodwill

Goodwill balance as of December 31, 2016 was $793 which is attributed to the agreement with E+L (see Note 3).

As described in Note 2i, the Company test for impairment at least annually, as of September 30 of each year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As of December 31, 2016 the Company determined there was no impairment with respect to goodwill.

NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2016	**2015**
Provision for warranty costs	$ 104	$ 79
Income taxes payable	1,407	1,871
Provision for earn-out	-	368
Accrued expenses and other liabilities	1,765	2,232
	$ 3,276	$ 4,550

U.S. dollars in thousands (except for share and per share data)

NOTE 10:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company lease office facilities and motor vehicles, under operating leases, for periods ending in 2018.

Future minimum lease commitments under non-cancelable operating leases as of December 31, 2016, are as follows:

Year	Lease commitment
2017	$ 1,313
2018	980
	$ 2,293

Total rent expense for the years ended December 31, 2016 and 2015 amounted to $ 1,230, and $ 1,198, respectively.

The Company leases motor vehicles under cancelable operating lease agreements. The Company has an option to be released from this agreement, which may result in penalties in a maximum amount of $ 4 as of December 31, 2016.

e. Legal proceedings:

In February 2016, one of our customers in the United States, filed a lawsuit against our wholly-owned subsidiary AVT Advanced Vision technology Inc. claiming for breach of contract and consequential damages. The Company intends to contest it vigorously. As this claim is in the early stages of discovery, the Company’s management is not in the position to predict the final outcome of the claim. Therefore, no provision has been recorded in the financial statements in respect of this claim.

From time to time the Company is involved in other claims and legal proceedings that are incidental to the conduct of its business. As of December 31, 2016, there is no pending or threatened legal proceeding to which the Company is a party that, in its opinion, is likely to have a material adverse effect on its future financial results.

d. Liens:

To secure its line of credit for bank guarantees, the Company has recorded a fixed lien of $ 140 on a cash deposit.

NOTE 11:- INCOME TAXES

a. General

The Company operates within multiple taxing jurisdictions (primarily in Israel and in the U.S.) and is subject to audit in those jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve.

b. Israel taxation

1. Corporate tax rates:

Taxable income of Israeli companies is subject to tax at the rate of 25% in 2013, 26.5% in 2014 and 2015 and 25% in 2016.

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

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

The effect of the changes in tax rates was immaterial.

2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The Company benefits from certain government programs and tax legislation, particularly as a result of the ‘Approved Enterprise’, ‘Benefiting Enterprise’ or ‘Preferred Enterprise’ status of a significant portion of the Company’s existing production facilities in Israel under the Law (an “Approved Enterprise”, a “Benefiting Enterprise”, a “Preferred Enterprise”). Pursuant to these programs and legislation, a significant portion of the Company’s income is currently taxed at reduced rates.

The Company elected the alternative benefits route under the Investment Law with respect to its Approved Enterprises. Under this route the Company waived government grants in return for a tax exemption on undistributed income.

NOTE 11:- INCOME TAXES (Cont.)

In 2011 amendments to the Law became effective and were further amended in August 2013 (the "2011 Amendment"). Under the 2011 Amendment, income derived by 'Preferred Companies' from 'Preferred Enterprises' (both as defined in the 2011 Amendment) would be subject to a uniform rate of corporate tax for an unlimited period as opposed to the incentives prior to the 2011 Amendment that were limited to income from Approved or Benefiting Enterprises during their benefits period. According to the 2011 Amendment, the tax rate applicable to such income, referred to as 'Preferred Income' for 2014 and onwards is 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel. As of January 1, 2014, dividends distributed from Preferred Income would subject the recipient to a 20% tax (or lower, if so provided under an applicable tax treaty), which would generally be withheld at source. Under the transitional provisions of the 2011 Amendment, companies may elect to irrevocably implement the 2011 Amendment with respect to their existing Approved and Benefiting Enterprises while waiving benefits provided under the legislation prior to the 2011 Amendment or keep implementing the legislation prior to the 2011 Amendment.

The Company elected to implement the 2011 Amendment beginning the 2012 tax year.

Pursuant to an amendment to the Law which became effective on November 12, 2012 (the "2012 Amendment"), companies that have tax exempt income from Approved or Benefiting Enterprises were able to elect by November 11, 2013 to pay a reduced corporate tax rate as set forth in the 2012 Amendment on such undistributed income as of December 31, 2011 and thereafter distribute a dividend from such income without being required to pay additional corporate tax with respect to such income as the case would otherwise be, as previously described. A company that made this election, will be required to make certain investments in its Approved or Benefiting Enterprise, as prescribed in the 2012 Amendment, and cannot withdraw from its election.

During March and November 2013, the Company made the election and duly released all of its tax-exempt income related to its various Approved Enterprises and Benefiting Enterprises. Subsequent to the election, the Company no longer has a tax liability upon future distributions of its past tax-exempt income. As a result of the election, the Company recorded an expense of $1,373.

The application of the 2012 Amendment to its tax-exempt income requires the Company to invest $1,014 in its industrial enterprises in Israel over a five-year period ending in 2017, either in the acquisition of industrial assets (excluding real estate assets); investment in R&D in Israel; or salaries paid to new employees who joined the enterprise, relative to the number of employees employed in the enterprise at the end of the 2011 fiscal year, excluding payroll payment to "office holders" (as such term is defined in the Israeli Companies Law).

NOTE 11:- INCOME TAXES (Cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73): In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).
The Amendment also prescribes special tax tracks for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017.

The new tax tracks under the Amendment are as follows: Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Amendment, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Amendment, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

Since as of December 31, 2016 definitive criteria to determine the tax benefits had not yet been established, it cannot be concluded that the legislation in respect of technological enterprises had been enacted or substantively enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of December 31, 2016.

U.S. dollars in thousands (except for share and per share data)

NOTE 11:- INCOME TAXES (Cont.)

c. Deferred income taxes:

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2016 and 2015, the Company's deferred taxes were in respect of the following:

	December 31,	
	2016	2015
Deferred tax assets	$ 1,460	$ 1,220
Deferred tax liability	(110)	-
Net deferred tax assets	$ 1,350	$ 1,220

d. The Company is routinely examined by the Israeli tax taxing authorities. The company has received final tax assessments in Israel through 2014.

NOTE 12:- SHARE CAPITAL

a. General:

Ordinary shares confer upon their holders the right to receive notice of and to participate and vote in general meetings of the Company, and the right to receive dividends if declared.

b. In 2003, the Company through a tender offer to all, purchased 1,890,752 shares at a cost of $15,933. Through December 31, 2013, a total of 623,000 treasury shares were issued to certain investors and 448,630 treasury shares were issued to employees as result of exercise of options made by them. As of December 31, 2016 and 2015, the Company hold 819,122 treasury shares.

On October 2, 2014, the District Court in Tel Aviv, Israel, approved the Company's request to allow the reduction of its capital by up to $12,000, after the Israeli Tax Authority informed the District Court that it does not object to the request. Therefore, subject to applicable Israeli law in respect of dividend distributions, the board of directors of the Company may opt to declare a distribution of dividends and/or adopt a share buy-back program, which will reduce up to $12,000 of the Company's capital.

On March 1, 2016, the board of directors resolved to distribute an extra-ordinary dividend of $0.75 per share which was paid on March 22, 2016.

U.S. dollars in thousands (except for share and per share data)

NOTE 12:- SHARE CAPITAL (Cont.)

c. Stock based compensation plans:

Under the 2009 Israeli Incentive Plan, the Company is authorized to grant options to purchase Ordinary shares and Restricted Shares Units ("RSUs") to its Israeli employees, non-employees directors and non-employees consultants. Under the 1999 Share Option and Incentive Plan and the 2000 Global Stock Option Plan, the Company grants stock options and RSUs to non-Israeli employees, officers and non-employees consultants. Options and RSUs granted pursuant to the three plans expire between six to ten years from the date of grant or upon termination of the optionee's employment or other relationship with the Company. The options and the RSUs generally vest over three to four years. Any options that are cancelled or forfeited before expiration become available for future grants.

A summary of the stock option activities in 2016 is as follows:

	Amount	Weighted average exercise price	Weighted average remaining contractual life	Aggregate Intrinsic value
Outstanding at January 1, 2016	534,463	10.17	4.88	
Granted	21,050			
Exercised	(32,300)			
Forfeited	(107,273)			
Outstanding at December 31, 2016	415,940	10.31	4.65	*)572
Vested and expected to vest at December 31, 2016	385,948	10.26	4.19	**)553
Vested at December 31, 2016	207,549	9.63	2.68	***)430

*) Represents intrinsic value of 249,840 outstanding options that are in-the-money as of December 31, 2016. The remaining 166,100 outstanding options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

**) Represents intrinsic value of 236,403 vested and expected to vest options that are in-the-money as of December 31, 2016. The remaining 149,545 vested and expected to vest options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

***) Represents intrinsic value of 156,499 vested options that are in-the-money as of December 31, 2016. The remaining 51,050 vested options are out of the money as of December 31, 2016 and their intrinsic value was considered as zero.

U.S. dollars in thousands (except for share and per share data)

NOTE 12:- SHARE CAPITAL (Cont.)

As of December 31, 2016, $ 322 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.1 years.

The weighted-average grant-date fair value of options granted during the years 2016 and 2015 was $ 1.11 and $ 2.95, respectively. The total intrinsic value of options exercised during the years ended December 31, 2016 and 2015, was $ 152 and $ 350, respectively.

Following are the outstanding options by exercise price as of December 31, 2016:

	Outstanding			Exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price
$			$			$
0	6,000	0.85	0.00	6,000	0.85	0.00
3.94	1,000	0.15	3.94	1,000	0.15	3.94
5.65-9.83	128,775	2.78	8.21	92,589	1.74	8.02
10.41-11.87	266,665	5.34	11.43	94,460	4.00	11.34
12.83-15.45	13,500	0.85	13.99	13,500	0.85	13.99
	415,940	4.32	10.33	207,549	2.68	9.67

A summary of the RSUs activities in 2016 is as follows:

	Amount	Weighted average grant date value
Outstanding at January 1, 2016	-	
Granted	52,841	10.53
Exercised	-	
Forfeited	(350)	
Outstanding at December 31, 2016	52,491	10.53
Vested at December 31, 2016	-	

NOTES TO FINANCIAL STATEMENTS

U.S. dollars in thousands (except for share and per share data)

NOTE 12:- SHARE CAPITAL (Cont.)

The following table sets forth the total stock-based compensation expense resulting from stock options:

	December 31, 2016	December 31, 2015
Cost of revenues	$ 50	$ 42
Research and development	80	64
Selling and marketing	52	59
General and administrative	36	181
Total stock-based compensation expense	$ 218	$ 346

NOTE 13:- RELATED PARTIES

a. Balances with related parties:

	December 31, 2016	December 31, 2015
Capital note issued to subsidiary	$ 11,000	$ 11,000
Related parties - payables	(8,358)	(5,623)

b. Transactions with related parties:

	Year ended December 31, 2016	Year ended December 31, 2015
Revenue from related parties	$ 30,996	$ 28,984

U.S. dollars in thousands (except for share and per share data)

NOTE 14:- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted Earnings Per Share ("EPS"):

	Year ended December 31,	
	2016	2015
Net income	$ 4,135	$ 2,778
Weighted average number of Ordinary shares used in computing - Basic EPS	6,106,236	6,072,024
Dilutive effect:		
Employee stock options and RSUs	48,620	68,267
Weighted average number of Ordinary shares used in computing - Diluted EPS	6,154,856	6,140,291
Basic earnings per share	$ 0.68	$ 0.46
Diluted earnings per share	$ 0.67	$ 0.45

The total numbers of options and RSUs excluded from the calculation of diluted net earnings per share, as they would have an anti-dilutive effect were 369,226 and 310,860 for the years ended December 31, 2016 and 2015.

U.S. dollars in thousands (except for share and per share data)

NOTE 15:- SELECTED STATEMENT OF INCOME DATA

a. Revenues:

	Year ended December 31, 2016	Year ended December 31, 2015
Revenues:		
Products	$ 37,038	$ 32,797
Services	2,492	3,117
Total Revenues	$ 39,530	$ 35,914

b. Financial income (expense), net:

	Year ended December 31, 2016	Year ended December 31, 2015
Financial income:		
Interest	$ 168	$ 128
Exchange rate differences	-	50
	168	178
Financial expenses:		
Bank charges and other	75	64
Exchange rate differences	22	-
Expense related to valuation of future earn-out payment	70	144
	167	208
	$ 1	$ (30)

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G. **Independent Accountant's Report**

We have examined Advanced Vision Technology (A.V.T) Ltd (the "Company") Management Report, taken as a whole, included in the Company's annual Report for the year ended December 31, 2016. Management is responsible for the preparation of the Management Report. Our responsibility is to express an opinion on the presentation based on our examination. We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Advanced Vision Technology (A.V.T) Ltd, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income and other comprehensive Income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the consolidated financial statements. In our report dated March 27, 2017, we expressed an unmodified opinion on those consolidated financial statements.

Our examination of the Management Report was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the historical amounts and disclosures in the presentation. An examination also includes assessing the significant determinations made by management as to the relevancy of information to be included and the estimates and assumptions that affect reported information. We believe that our examination provides a reasonable basis for our opinion.

The preparation of the Management Report requires management to interpret the criteria, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The Management Report includes information regarding the estimated future impact of transactions and events that have occurred or are expected to occur, expected sources of liquidity and capital resources, operating trends, commitments, and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because events and circumstances frequently do not occur as expected.

In our opinion, the historical financial amounts included in the Management Report have been accurately derived, in all material respects, from the Company's consolidated financial statements; and the underlying information, determinations, estimates, and assumptions of the Company provide a reasonable basis for the disclosures contained therein.

Kost Forer Gabbay and Kasierer

Tel-Aviv, Israel
March 27, 2017

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

H. SPECIAL DISCLOSURE

(i) Declaration of Compliance

Our annual consolidated financial statements for the year ended December 31, 2016 have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP").

(ii) Basic and preparation

Our annual Consolidated Financial Statements are prepared in US Dollars. Figures are presented in thousands of US Dollars. We use the same accounting, estimations and valuation methods as in the 2015 annual consolidated financial statements. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

I. RESPONSIBILITY STATEMENT

In connection with the Company's annual consolidated statements and annual consolidated management report for the year ended December 31, 2016, prepared and filed in accordance with the applicable reporting principles for interim financial reporting and the proper accounting rules and standards (the "**Report**"), each of the undersigned hereby represents, to the best of such officer's knowledge that, the information contained in the Report fairly presents, in all material respects, the assets, liabilities, financial position and profit or loss of the Company; the development and performance of the business and the financial position of the Company.

Hod-Hasharon, March 27, 2017

Jaron Lotan	Udi Bar Sela
President & CEO	CFO

J. FINANCIAL CALENDAR 2017

May 17, 2017	AVT Reports Q1 2017 financial reports
August 9, 2017	AVT Reports Q2 2017 financial reports
November 15, 2017	AVT Reports Q3 2017 financial reports