



**Unitronics (1989)(R”G) LTD.**

**2011 – Periodic and Annual Report**

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This Report includes forward-looking information as the term is defined in Section 32a of the Securities Law, 1968, including forecasts, assessments, estimates, expectations or other information, which relates to future events or matters, the realization of which is not certain and is not solely within the Company's control, or anyone else's. This information is identified as such in places where it serves this purpose in this Report. Although this information is based on current Company figures on the date of this Report, and reflects the Company's intentions and assessments on that date, actual events and/or results could be materially different than those presented in the Report or indicated as probable since the realization thereof is affected, *inter alia*, by uncertainties and other factors that are not within the Company's control as set forth in this Report.

## **Chapter A – Description of the Company's Business**

### **Part I – Description of the general development of the Company's business**

#### **1.1 Company activity and description of its business development**

The Company engages in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs (programmable logic controllers – hereinafter "**PLCs**"). PLCs are computer-based electronic products (hardware and software) used for command and control of machines performing automatic actions, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers as well as automated parking systems.

The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the "**Companies Ordinance**"), and since then has been primarily engaged in the field of PLCs and in projects involving automation, computerization and integration of computerized production and/or logistics systems and automated parking.. In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first published a prospectus offering its shares to the public in Belgium, subsequent to which its shares were listed for trading on the Euro.NM Belgium stock exchange in Belgium. In 2000, following the establishment of the EuroNext stock exchange in Belgium, trading of the Company's shares was moved to this stock exchange. In May 2004 the Company published a prospectus in Israel according to which shares, convertible debentures (Series 1) and warrants (Series 1) of the Company were listed for trading on the Tel Aviv Stock Exchange (hereinafter: the "**2004 Prospectus**"). As of the date of this Report, all the debentures issued under the 2004 Prospectus have been repaid in full and all the options issued under the 2004 Prospectus have expired. In August 2006 the Company published a prospectus in Israel according to which debentures (Series 2) and warrants (Series 2) of the Company were listed for trading on the Tel Aviv Stock Exchange (hereinafter: the "**2006 Prospectus**"). As of the date of this Report, all the warrants (Series 2) allotted under the 2006 Prospectus have expired. For details on the outstanding debentures (Series 2) on the date of publication of this Report see section

1.4.3 of the Report. In February 2011 the Company published a Shelf Prospectus in Israel, which includes an option to offer shares, debentures, convertible debentures, options to buy shares, and options to buy debentures of the Company (hereinafter – "**Shelf Prospectus**"). In March 2011, pursuant to the Shelf Prospectus, the Company published a Shelf Offering Reports (hereinafter – "**the Offering Report**"), under which the public was offered debentures (Series 3) of the Company, which were listed for trading on the Tel Aviv Stock Exchange. For details on the outstanding debentures (Series 3) on the date of publication of this Report, see section 1.4.8 of this Report.

The Company mainly operates from facilities in the "**Unitronics Building**", an office and industry building situated in Airport City near the David Ben Gurion Airport, where the Company leases 1,295 square meters of floor area with adjacent courtyards from the Israel Land Administration since August 2000 and rents 1,106 square meters from a controlling shareholder (see Section 1.13 of this Report). In addition, the Company rents facilities from third parties unrelated to the Company or its shareholders, on an area of 2,100 square meters in Yavne, which is primarily used by the subsidiary for its parking solutions business, and an area of 500 square meters near Airport City, which is primarily used by the Company for storage purposes. For additional details see section 1.13 of this Report.

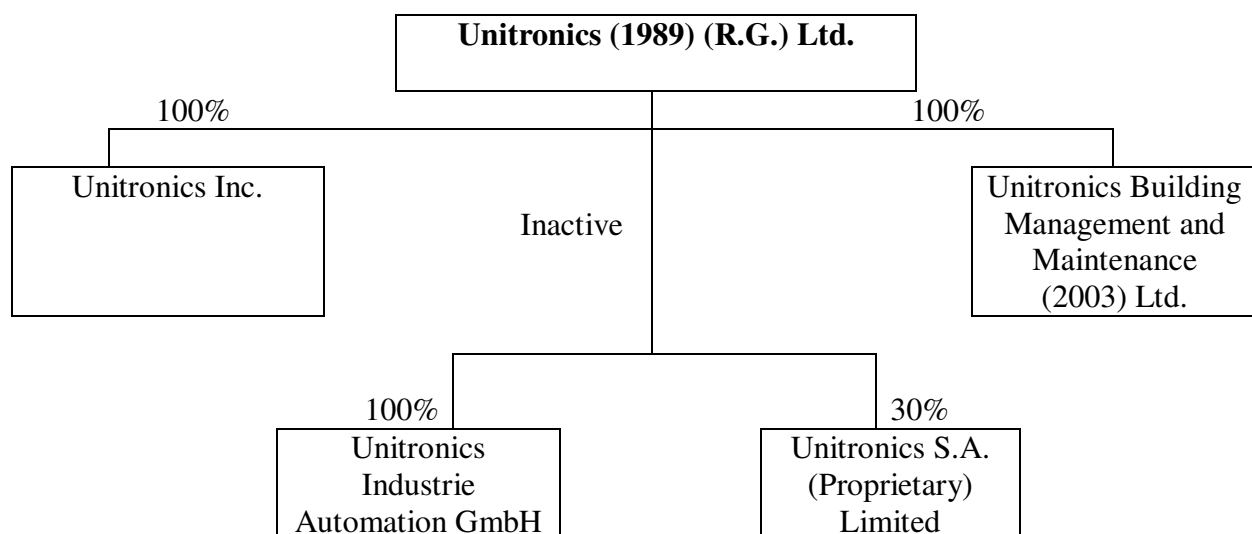
In July 2011, the Company purchased an unbuilt plot in the Hevel Modiin-Tirat Yehuda industrial zone, which is intended to be used by its Systems Department (for additional details, see Amending Immediate Report regarding an Event or Matter Outside the Ordinary Course of Business, which is hereby included by way of reference, dated July 7, 2011, reference no: 2011-01-207288, and sections 1.13 and 2.1.2.6 to this Report).

The Company also operates from offices in the US as set forth below – for details, see section 1.13 below.

## **1.2 Subsidiaries and holding structure diagram**

The Company has two wholly owned active subsidiaries: Unitronics Inc., which is incorporated in the United States (Delaware) and engages primarily in coordinating the Company's marketing and distribution operations in the United States, and Unitronics Building Management & Maintenance (2003) Ltd (hereinafter-"**Unitronics Management**"), which is primarily engaged in the management and maintenance of the Unitronics Building (for details see section 1.21 below), and Unitronics Parking Solutions Ltd. (hereinafter- "**Unitronics Parking Solutions**"). In addition, the Company holds 100% of the issued capital of Unitronics Industrie Automation GmbH (hereinafter- "**Unitronics Industrie**"), a company registered in Germany, as well as 30% of the issued capital of Unitronics S.A. (Proprietary) Limited (hereinafter- "**Unitronics S.A**"), a company registered in South Africa. Unitronics Industrie and Unitronics S.A were established in 1995 and 1997, respectively, primarily for marketing activity of the Company products in those countries. These companies have been inactive for a number of years (the German subsidiary since 1997 and the South African subsidiary since 2000) and since then have had no assets, employees or liabilities

Below is a diagram of the Company's holding structure and its subsidiaries:



### 1.3 Operating segments

The Company has three major operating segments, which are managed by two business departments, the Products Department and the Systems Department and by Unitronics Parking Solutions, which manages the Company's automated parking solutions since the fourth quarter of 2011. In addition, the Company engages in the management and maintenance of the Unitronics Building through a subsidiary.

Products segment: Through the Products Department the Company is engaged in the design, development, manufacture, marketing, sale and support of its products, mainly series of PLCs of various models (nano, micro and small PLCs) that incorporate an operating panel (a keyboard and a display) as an integral part of the PLC, and connectivity (including Internet, intranet, and cellular phone communications), as well as external expansion units for the PLCs, software for the PLCs, for management of logistics systems and for management of production floors, and additional auxiliary items.

System Segment: Through the Systems Department, the Company is engaged in the design, construction and maintenance of computerized storage and/or logistics systems, mainly automated warehouses and computerized distribution centers, including the construction of new systems and/or the upgrading and use of existing systems, and maintenance services for these systems, based on framework arrangements or on call. The services of the Systems Department are provided to customers in Israel and outside of Israel.

The parking solutions segment: Through Unitronics Parking Solutions, the Company is engaged in the design, construction and maintenance of automated parking solutions, including the construction of new systems and/or the upgrade and repair of existing systems, and provision of maintenance services for these systems. These services, which are provided to customers in and outside Israel, were provided, until the establishment of Unitronics Parking Solutions, in a small number of cases, through the Company's Systems Department. In August 2011 the Company decided to consolidate this activity

under a new subsidiary, wholly-owned by the Company, which will continue to develop this business.

Management and maintenance of the Unitronics Building: through its subsidiary Unitronics Management, the Company is engaged in the management and maintenance of Unitronics Building (for details see section 1.22 below). The Company's revenues from this operation are immaterial.

#### **1.4 Investments in the Company's capital and transactions with its shares**

Below are details of investments in the Company's capital made during the last two years and, to the best of the Company's knowledge, details of all other material transactions carried out in the Company's shares by an interested party in the Company:

- 1.4.1 Company buybacks - Since August 2005 and given the low share prices at that time on the stock exchange in Tel-Aviv and in Belgium and as a vote confidence in the Company and its performance, the Company has, from time to time, been buying back ordinary shares of the Company traded on the stock exchanges in Tel-Aviv and in Bruxelles; most of the acquisitions were made in accordance with buyback plans adopted by the Board of Directors from time to time. For additional details the Company's buyback programs, including, *inter alia*, information on the number of shares purchased by the Company and the share's price in these acquisitions, see section 2.1.2.20, 4.10.5 and 4.15 of the Annual Report.
- 1.4.2. Market making - On February 20, 2006, the Company's Audit Committee and Board of Directors approved a market making agreement (hereinafter – “**the Agreement**”) between the Company and Harel Investment House Ltd. (hereinafter - “**Harel**”), according to which Harel is to act as a market maker for the Company's shares in accordance with the Stock Exchange Regulations and pursuant to the directives and resolutions of the Stock Exchange's Board of Directors. The Agreement entered into force on March 1, 2006, after obtaining the approval of the Stock Exchange for Harel's appointment as a market marker for the Company's shares. The Agreement is for a period of 12 months from the date of its entry into force and will be extended for additional 12-month periods unless the Company or the market maker has terminated the Agreement by a prior written notice of 45 days. To the best knowledge of the Company and its directors, subject to the Agreement, Harel has entered into another Agreement with a shareholder who is not an interested party in the Company (hereinafter – “**the Lender**”), pursuant to which the lender has lent Harel (without any consideration, payment or compensation from Harel and/or the Company) ordinary shares of the Company of NIS 0.02 par value each, which are traded on the stock exchange, for market making purposes in accordance with the provisions of the Agreement. In accordance with the agreement, Harel is entitled to a fixed monthly payment (for an immaterial amount), which is subject to review once a year.
- 1.4.3 The 2006 Prospectus - The 2006 Prospectus offered to the public units comprising NIS 34 million par value debentures (Series 2) and 600,000 warrants (Series 2) convertible into Ordinary Shares. These shares and securities were allotted on August 25, 2006 and were listed for trading on the Tel Aviv Stock Exchange. The net proceeds from these securities, after deduction of issuance expenses, were approximately NIS 30 million.

On April 22, 2010, the Company was notified of the exercise of 1,958 options (Series 2), which were allotted by the Company under the 2006 Prospectus, into ordinary shares of the Company, in respect of which the Company allotted 1,958 ordinary shares as aforesaid. (For additional details see Immediate Report on the Capital Position and Securities Registrations of the Corporation and Changes Therein, which is included by way of reference, dated April 22, 2010, reference no: 2010-01-456504). Following the said allotment, there was an increase in the issued share capital of the Company and it now comprises 11,678,504 ordinary shares.

On August 24, 2010, the remaining 598,042 options (Series 2), which are exercisable into Company shares in accordance with the terms of these options, expired (for additional details see Immediate Report on the Capital Position and Securities Registrations of the Corporation and Changes Therein, which is included by way of reference, dated August 24, 2010, reference number: 2010-01-597303). On August 25 of each of the years 2009, 2010 and 2011, the Company paid the first, second and third installments, respectively, out of five, of the debenture principal (Series 2). Following the payment of these installments, as of the report date, there are 10,760,000 par value outstanding debentures (Series 2).

- 1.4.4 The 2004 Prospectus - On May 23, 2010, the Company paid the fourth and last installment of the debenture principal (Series 1) (Immediate Report on the Capital Position and Securities Registrations of the Corporation and Changes Therein, which is hereby included by way of reference, dated May 23, 2010, reference no: 2010-01-489117). Following these payments, no debentures (Series 1) remain outstanding.
- 1.4.5 On May 31, 2009, 10,000 Company employees' options expired (Unitronics 5/04 – employee options). (For details see Immediate Report regarding A Change in the Company's Issued Capital dated May 31, 2009, reference number 2009-01-127875).
- 1.4.6 Following the repayments of the debentures (Series 1), the expiry of option warrants (Series 1), the expiry of option warrants (Series 2), the expiry of employee stock options and the buybacks of Company shares, all as set forth above, there was an increase in the holdings of Mr. Haim Shani, Chairman of the Board and CEO of the Company and controlling shareholder therein. As of the date of publication of this prospectus, Mr. Shani's holdings were 60.88% in the share capital and voting rights, and on a fully diluted basis: 60.25% in the share capital and voting rights. (For details, see immediate report Concerning the Status of Holdings of Interested Parties and Senior Officers, which is hereby included by way of reference, dated December 5, 2011, reference number 2011-01-265443).
- 1.4.7 2011 Shelf Prospectus - Pursuant to the Shelf Prospectus as stated in section 4.1.1 of this Report, the public may be offered securities of the Company as set out below:
  - 1.4.7.1 Up to 10,000,000 Registered Ordinary Shares, of NIS 0.02 par value each of the Company.
  - 1.4.7.2 Up to 5 series of Registered Debentures (Series 3 to 7), with each of these



debenture series at a total par value of up to NIS 100,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum;

- 1.4.7.3 Up to 5 series of Registered Convertible Debentures (Series 8 to 12), with each of these debenture series at a total par value of up to NIS 50,000,000, payable (Principal) in one installment or in several equal or unequal installments, which will not exceed four quarterly payments per annum; the Convertible Debentures of series 8 to 12 shall be convertible to ordinary shares of NIS 0.02 par value each of the Company, pursuant to the terms of conversion set out in the shelf offering reports;
- 1.4.7.4 Up to 5 series of Warrants (Series 3 to 7), with each of these warrant series including no more than 5,000,000 registered warrants, which are exercisable such that each warrant from each of the series 3 to 7 shall be exercisable into one ordinary share of NIS 0.02 of the Company;
- 1.4.7.5 Up to 6 series of Warrants (Series 8 to 13), with each of these warrant series including no more than 1,000,000 registered warrants, which are exercisable such that each warrant from each of the series 8 to 13 shall be exercisable into NIS 100 par value debentures of series 3 to 7 or 8 to 12 of the Company;

#### 1.4.8 Shelf Prospectus

On March 22, 2011, pursuant to its Shelf Prospectus, the Company published a Shelf offering Report, under which the public was offered up to NIS 56,250,000 par value debentures (Series 3) of the Company, and subject to the Company's right to offer additional amounts of debentures (Series 3) as specified in sections 3.3 and 3.4 of the Offering Report, NIS 56,442,000 par value debentures (Series 3) were offered.

The gross proceeds from the debentures (Series 3) issued pursuant to the Offering Report, amount to NIS 56,442,000. Since the payments in respect of the debenture principal (Series 3) have not yet been repaid, as of the report date, there are NIS 56,442,000 par value debentures (Series 3) outstanding. For additional details on the Offering Report and the results of the offering, see section 2.1.2.8 of the Annual Report.

As part of the Shelf Prospectus and Offering Report, the Company has undertaken as follows:

- Dividend distribution – the Company has undertaken not to distribute dividend, at a rate exceeding 50% of the annual net profit attributable to the Company's shareholders, based on the last audited consolidated financial statements of the Company, which were published prior to the date of the Company's resolution regarding distribution of the dividend, unless the Company obtains the prior consent of the debenture holders, which was received by special resolution in a meeting of debenture holders convened in accordance with the Second Addendum to the Trust Deed of Debentures (Series 3). This restriction shall not apply to the buyback of Company shares by the Company or a subsidiary of the Company. For additional details on the said restriction, see section 1.11 of the Offering Report.

- The net financial debt to CAP net ratio – the Company undertook that from the moment of the listing of the Series 3 bonds and as long as the bonds are in circulation, the ratio between the Company's net financial debt and the Company's net CAP (solo) according to its financial statements (solo), whether audited or reviewed (as the case may be), in relation to the Company's financial statements as of the periods ended June 30 and December 31, shall not exceed 80%. Should the Company deviate from this undertaking, during the interest period (as defined in section 4 of the First Schedule of the Deed of Trust of the Series 3 bond – the terms are set forth overleaf), the rate of interest which shall be paid by the Company to the holders of the Series 3 bonds on the relevant payment date of the interest during the period in which the Company deviated from its undertaking as aforesaid, shall be increased by a rate of 0.5% only per annum above the rate of interest determined in the tender. For additional details regarding the aforesaid limitation, see section 1.12 of the Offer Report.
- Limitation on shareholders' equity – the Company's shareholders' equity according to the Company's financial statements (solo), in relation to the Company's solo financial statements as of the periods ended June 30 and December 31, shall not be less than NIS 20 million during two consecutive quarters. Should the Company deviate from this undertaking, during the interest period (as defined in section 4 of the First Schedule of the Deed of Trust of the Series 3 bond – the terms are set forth overleaf), the rate of interest which shall be paid by the Company to the holders of the Series 3 bonds on the relevant payment date of the interest during the period in which the Company deviated from its undertaking as aforesaid, shall be increased by a rate of 0.5% only per annum above the rate of interest determined in the tender. For additional details regarding the aforesaid limitation, see section 1.13 of the Offer Report.
- The Company's undertaking not to create charges – the Company undertook that as long as the Company has an outstanding balance (an outstanding balance pursuant to the Offer Report is the principal, interest and linkage differentials of the Series 3 debentures in circulation), the Company shall not create any additional charges on its assets, beyond those which exist on the date of the signing of the Deed of Trust of the Series 3 debentures in favor of any third party, without obtaining the trustee's prior, written consent, except as regards charges on land and/or equipment which shall be purchased by the Company after the date of the signing of the Deed of Trust of the Series 3 debentures, and the charging thereof, as aforesaid, shall be used solely for the purpose of securing the financing as shall be provided for the purchase of the asset which is the subject of the charge, and the Company shall be entitled to create these charges without any limitation in favor of any person or corporation. For further details regarding the aforesaid limitation, see section 1.15 of the Offering Report. Out of the issue proceeds, the issue coordinator shall deposit in a bank account which shall be opened for this purpose by the trustee and in his name, and which shall be charged in favor of the trustee, not later than 14 days after the issue, an amount equal to the payment of the annual interest in respect of the debentures (that is to say: two (2) half-yearly interest payments), to secure remittance of the current interest payment on the

principal of the Series 3 debentures. For further details regarding the aforesaid limitation, see section 11.6.1 of the Offering Report.

- As long as the Series 3 debentures are in circulation, the Company undertakes that it shall not issue any additional series of debentures whose average duration is shorter than the average duration of the Series 3 debentures, which are secured under charges having priority over those which shall be provided to secure the Company's undertakings to the holders of the Series 3 debentures, if any. For further details regarding the aforesaid limitation, see section 2.4 of the Offering Report.

At the date of publication of the annual report, the company is meeting its commitments detailed above .

Commencing from the date of the listing for trading, and subject to any law, the Company shall be entitled (but not obligated) to make, in its sole discretion, the early redemption, in whole or in part, of the Series 3 debentures, upon such terms and limitations as set forth in the Shelf Prospectus and in the Offering Report.

For details regarding the uses of the issue proceeds, as set forth in the Shelf Prospectus and in the Offer Report, as well as the use made by the Company of the issue funds, see section 4.1.2 of the annual report.

Upon the occurrence of certain events, and upon certain conditions, the trustee for the Series 3 debentures shall have grounds to declare the debentures to be immediately due and payable. Among these events, the following may be enumerated, in brief: a permanent and final dissolution order with regard to the Company that was issued by a court; if an order was issued for a stay of proceedings against the Company; the imposition of an attachment on the Company's assets, the performance of an execution action against the Company's assets, the appointment of a temporary or permanent receiver to the Company's assets, which were not removed and/or cancelled within 60 days; the delisting or liquidation of the Company for any reason; the sale of the Company's core assets; should Mr. Haim Shani cease to be the controlling shareholder of the Company, whether directly or indirectly, without obtaining the approval of the holders of the Series 3 debentures for the transfer of the control; a fundamental breach of the terms of the debenture and the Deed of Trust (Series 3), which were not remedied within 30 days from the date on which the trustee gave notice to the Company of the said breach. For details regarding the complete list of the grounds available to the trustee to declare the Series 3 debentures immediately due and payable, see section 1.18 of the Offering Report.

## **1.5 Dividend Distribution**

The Company has not distributed and has not declared the distribution of dividends since it was established. As of the date of the Report, the Company does not have a dividend distribution policy. The Company will examine the option to distribute dividends from time to time, and shall act in accordance with the profit data and the expected cash flow, its plans and needs.

The balance of distributable earnings as of December 31, 2011 was NIS 14,531,000. The balance of distributable earnings close to the date of publication of the Report (as at March 29, 2012) was NIS 14,531,000.

## **Part II – Other Information**

### **1.6 Financial information on the Company's business activities**

|                                   | <b>For the year ended December 31</b> |                    |                    |
|-----------------------------------|---------------------------------------|--------------------|--------------------|
|                                   | <b><u>2011</u></b>                    | <b><u>2010</u></b> | <b><u>2009</u></b> |
|                                   | <b>NIS thousand</b>                   |                    |                    |
| <b><u>Revenues:</u></b>           |                                       |                    |                    |
| Products                          | 89,213                                | 77,965             | 57,496             |
| Systems                           | 52,104                                | 74,598             | 26,133             |
| Unitronics Building               | <u>385</u>                            | <u>416</u>         | <u>489</u>         |
| Total Revenues*                   | 141,702                               | 152,979            | 84,118             |
| <b><u>Sector costs</u></b>        |                                       |                    |                    |
| Products – fixed**                | 12,383                                | 11,129             | 9,544              |
| Products – variable*              | 48,990                                | 38,268             | 25,623             |
| Systems – fixed**                 | 14,642                                | 12,152             | 8,234              |
| Systems – variable**              | 36,358                                | 54,659             | 17,870             |
| Unitronics Building – fixed ***   | 0                                     | 0                  | 0                  |
| Unitronics Building – variable*** | 446                                   | 347                | 712                |
| Total ****                        | 112,819                               | 116,555            | 61,983             |
| <b><u>Sector results</u></b>      |                                       |                    |                    |
| Products                          | 27,840                                | 28,568             | 22,329             |
| Systems                           | 1,104                                 | 7,787              | 29                 |
| Other                             | (61)                                  | 69                 | (223)              |
| Total                             | 28,883                                | 36,424             | 22,135             |
| Unattributed expenses             | (15,183)                              | (14,435)           | (11,964)           |
| Profit from ordinary operations*  | 13,700                                | 21,989             | 10,171             |

## For the year ended December 31

|                                                 | For the year ended December 31 |                       |                       |
|-------------------------------------------------|--------------------------------|-----------------------|-----------------------|
|                                                 | <u>2011</u>                    | <u>2010</u>           | <u>2009</u>           |
|                                                 | NIS in thousand                |                       |                       |
| <b><u>Assets attributable to the sector</u></b> |                                |                       |                       |
| Products                                        | 29,698                         | 40,665                | 21,667                |
| Systems                                         | 14,701                         | 13,283                | 13,356                |
| Other                                           | 896                            | 36                    | 38                    |
| Unallocated                                     | 119,278                        | 73,047                | 70,346                |
| Total assets*                                   | <b><u>164,573</u></b>          | <b><u>127,031</u></b> | <b><u>105,407</u></b> |

\* Consistent with financial statements

\*\* Expenses that do not change as a result of changes in the Company's scope of activities

\*\*\* Expenses that do change as a result of changes in the Company's scope of activities

\*\*\*\* There are costs shared by the Company's business segments, and the key to their distribution is determined according to the number of employees in the segment

The Company has no inter-segment revenues, and therefore there are no adjustments of the above sums.

### 1.7 **General environment and impact of external factors on Company activity**

Industrial automation is being implemented at an increasing rate in a variety of industries, including process industries (the food, drink, pharmaceuticals, chemical, paper and fuel industries), production systems (production machinery, automated tools), energy production systems (power stations of all kinds), logistics systems (storage, conveying and distribution systems) building control systems (air conditioning, heating, energy control, access control, warning and security systems), transportation systems (vehicles, aviation and shipping, traffic control), etc. The Company believes that the need for automation is attributable, amongst other reasons, to the increasing complexity of industrial processes; the increase in the volumes and types of activities and the information required to manage them; the aspiration to improve the efficiency of processes (optimization) and to increase the availability of resources while implementing safety rules; and the desire to economize on manpower and manual intervention. Automation products are therefore intended to address these requirements, including rapid response to the changing needs of the market, simplicity of design and of operation, connectivity to organizational management systems (ERP), high reliability and time between malfunctions (MTBF), high availability, as well as savings and efficiency.

For an analysis of the general environment, as well as for general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market studies. However, it is important to note that except for a number of articles, the Company has no extensive market studies on these areas of activity, which were conducted after the onset of the global economic crisis which began in the second half of 2008. These sources

include, among others, a survey by IMS Research (<http://imsresearch.com/>), which was published in August 2010, titled: "The World Market for PLCs – 2010 Edition) (collectively with additional research conducted by this organization, hereinafter – "**the IMS Report**"), a summary review and forecast conducted by ARC Advisory Group in June 2009 (hereinafter – "**the ARC Report**") and previous reports from June 2008 and September, 2005, titled "Programmable Logic Controllers Worldwide Outlook" (Market Analysis and Forecast through 2013) (summary accessible to the public at <http://www.arcweb.com>) (hereinafter: the "**ARC Report**"); a study and forecast from August, 2004 conducted by IMS Research, titled "PLC 2004 Worldwide", an article from June, 2007 titled "Steady Growth in Worldwide PLC Market" and an article from January, 2009 titled "Integrated Automation Solutions become more important to PLC Suppliers (summaries accessible to the public at <http://www.imsresearch.com>), publications from September and December, 2004 by the same organization (hereinafter, jointly: the "**IMS Report**"); and a survey and forecast from July 2001 conducted by Frost & Sullivan (Frost & Sullivan World Programmable Logic Controllers #7450-10) (hereinafter: the "**Frost & Sullivan Report**"). Hereinafter, wherever this report relies on the above, this fact will be explicitly indicated.

The Company's activity includes, as explained above, the activities of the Products Department (design, manufacture, marketing and support of PLCs and related products) and the activities of the Systems Department (design, construction and maintenance of automated logistics systems, mainly automated warehouses and distribution centers and automated parking systems). The Company's management estimates that these two areas of activity are affected by the increasing need for application of automation stemming from the factors explained above – on the one hand, and by the state of the global and local economies and their general influence on various industries – on the other hand.

Additional trends in the global automation market as reflected in the above mentioned market studies are the economic growth and accelerated industrial development of certain geographic regions of the world, such as China, India, Russia, Brazil and Eastern European countries, which show increased activity in establishing local production capabilities and enterprises and increasing introduction of automation into such plants.

Notwithstanding the aforesaid, the Company is unable to either estimate or quantify the impact of such developments on the results of its operations. For a discussion of other external factors, including specific market risks and their manner of management, see sections 1.22 and 2.4 below. For a discussion of information concerning the general environment and external factors relevant to each operating segment, see sections 1.9, 1.10 and 1.11 below.

### **Part III – Description of the Company's business by operating segments**

#### **1.8 Overview – synergy between the Company's operating segments**

The Company engages, as stated above, in the Products Segment, in the design, development, manufacture, marketing, sale and support of industrial automation products, mainly PLCs, and in the Systems Segment, in design, construction and maintenance services within the framework of projects for the automation,

computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers; and through Unitronics Parking Solutions, in the design, development, manufacture, marketing, sale, installation and maintenance of automated parking systems. In addition, through a subsidiary, the Company engages in the management and maintenance of Unitronics Building, mainly for the purpose of providing infrastructure services to the building in which it carries out its main business activity, and to additional tenants in the Unitronics Building.

Although the Company operates in each segment separately with regard to policy, decision making, budgets, resources and other inputs, there is a synergy between these fields within the Company, as well as a continuous process of feedback and mutual contribution, primarily in respect of feedback concerning market needs and customers' preferences, technological trends, business opportunities, data on competitors, and other areas. Furthermore, the segments share the use of numerous infrastructures (as detailed in Part IV below). The Company's CEO, together with its management team, implement the mutual contribution and feedback as aforesaid on an ongoing basis.

## **1.9     The Products Segment**

### **1.9.1   Structure of the Products segment and changes therein**

The Company's main products are PLCs which integrate, within a single unit, the control components (hardware and software constituting the active part of the PLC, or its "brain") and the interface components (HMI – Human-Machine Interface) intended to allow the operator to control the PLC itself, and through it the instruments controlled and monitored by the PLC, with no prior knowledge of programming required.

### **1.9.2   Legislative restrictions, standardization and special constraints that apply to the area of Products segment**

The manufacture and/or marketing of products in the field of control and automation is subject to various standards in different parts of the world, some of them general to the field of electronics and some more specific to the field of control. In this context the relevant standards are mainly European standards such as EN-61131-2:2007 which deals with Plc's requirements (for electromagnetic compatibility and safety aspects), , and American and Canadian safety standards (such as the UL/cUL 508 standard and UL 1604 standard).

In 2005, new regulations came into effect in the European Union in connection with the issue of electronic waste, under two complementary directives: (a) the WEEE Directive – which came into effect on August 13, 2005 and deals with the handling of the waste of electric and electronic equipment; (b) the Restriction of Hazardous Substances (RoHS) Directive – which came into effect on July 1, 2006. This directive limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006, including lead (Pb), mercury (Hg), cadmium (Cd), etc. For details regarding compliance of the Company's products with these standards and the Company's assessments in this regard, see sections 1.9.24 and 1.9.25 of this report.

### 1.9.3 Changes in the scope of operations and profitability of the segment, development in the segment's markets and changes in the characteristics of its customers

According to the IMS Report from August 2010 (see above), the global PLC market was estimated at approximately \$6.3 billion in 2009, at \$6.9 billion in 2010 and is expected to grow to approximately \$9.3 billion by 2014 (an average increase of 8% a year). According to the ARC Report prior to the economic crisis (see above), the global PLCs market was estimated at \$9 billion in 2007 and is expected to grow to approximately \$12 billion by 2012. The last ARC Report (published in 2009) anticipates that following the significant decrease in sales in the PLCs market in 2009, as a result of the global economic crisis, the growth trend will return in 2010, and the market will return to the sizes that were anticipated between 2008 and 2012, and will continue to grow. These sources estimate an average annual growth rate of the global PLC market between 2004 and 2011 at 4.5% to 7.9%.

Most sources identify similar trends as follows:

- (a) Classification of PLCs by size and properties: The number and type of external devices that can be connected to and controlled by a PLC define its dimensions as:

- \_\_\_ Nano PLCs also known as Smart Relay.
- \_\_\_ Micro PLCs also known as Compact PLCs.
- \_\_\_ Small or Medium PLCs, , also known as Modular PLCs.
- \_\_\_ Large PLCs, which are also known as High-End Modular PLCs.

As stated in section 1.9.10 below, the Company focuses in the Products field on nano, micro and small PLCs (and does not focus on large PLCS), that have, based on the sources quoted above, the highest relative growth rates.

- (b) Areas of Application: Concurrently with the increasing need for automation as explained above, the global and local economy affect the market, as reflected, *inter alia*, in the different market development rates projected for the coming years in different industrial fields. Thus, for example, the IMS Report estimates that 54% of global sales are made to machinery manufacturers (of which 10% are tool manufacturers, 10% manufacturers of food and beverage machinery and 10% manufacturers of packaging machines) and 46% of the sales are to end consumers (of which 20% are in the motor vehicle industry, 16% in the services industry and 11% in the chemical industry). The previous ARC Report estimates that the motor vehicle industry accounts for approximately 17% of the global industrial PLC market, with an annual growth rate of 5.9%, and the food and beverages industry accounts for 12% of this market, with an annual growth rate of 6.7%. Machinery manufacturers account for approximately 11% of the global industrial PLC market, and are expected to grow by 6.4% per year. The highest rate of growth according to the previous ARC Report is in the building control industry, which accounts for approximately 3% of the PLC market and is expected to grow by 8.9% per year.

- (c) Geographic breakdown: an examination of the geographical distribution of sales of PLCs around the world in recent years according to IMS report available to the Company shows that, in general, 46% of the sales take place in Europe, the Middle East and Africa, about 20% in America, about 23% in Asia and Pacific countries and 10% in Japan. According to the previous ARC Report, about 44% of sales take place



in Europe, the Middle East and Africa, about 20% in North America, about 18% in Japan, about 15% in Asia (mainly China and India), and about 3% in South America. Concurrently, economic growth and industrial development in certain regions of the world, such as Brazil, Russia, India, China and Eastern Europe countries, in the field of establishing production capacity and local enterprises, and the increasing introduction of automation into such enterprises, give rise to expectations of higher growth rates in these regions.

As stated above, except for 2009, so far the PLCs market has shown sustained growth, and the various market surveys presented above indicate expectations of further growth in this market and its expansion into additional areas, involving keen competition which is likewise expected to grow in volume and even expand into various fields (a forecast that, as stated, preceded the global economic crisis which began in 2008, but companies such as IMS and ARC anticipate continued growth already from 2010). ARC anticipates that the PLCs market will expand beyond the traditional industry clients (enterprises and machines manufacturers) even more towards inclusive automation solution providers that combine the production lines and the data collection systems in the field, to the organizational data and management systems. The Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs. In the Company's opinion this trend arises, *inter alia*, from ongoing pressure on prices of PLCs. The above may, in the Company's estimation, cause a decline in profitability for companies engaged in this field (including Unitronics, although the Company is unable to quantify this decline in profitability<sup>1</sup>), resulting from a decline in market prices of PLCs.

#### 1.9.4 Technological changes which could have a material impact on the Products segment

The PLCs market is characterized by frequent technological developments, introduction of new products and technologies, and changes in market needs and requirements. The developments and innovations in the fields of electronics, communications and computers also influence the control and automation industries, including a trend towards miniaturization of PLCs (smaller units that compete in terms of functionality and price with large units from previous generations), expanded use of communications (between PLCs, and between PLCs and the command computers and organizational systems, using available and widespread communications technologies such as Ethernet, Internet and cellular communications), and development of convenient, user-friendly interfaces including the use of color screens in various sizes and the use of touch screens as a means of man-machine communication in equipment and machinery. The Company designs its products in accordance with these trends, including miniaturization (down to palm-sized products), integration of convenient and user-friendly interfaces (such as color and touch

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<sup>1</sup> The information concerning a possible decline in profitability for companies engaged in the PLC field, including Unitronics, is forward-looking information. The principal facts and data serving as a basis for this information are the data presented in a number of market surveys in the field as detailed in sections 1.7 and 1.9.3 above, and in particular the information regarding the anticipated development of the PLC market as well as the competition in this field and the competitors operating therein, and the Company's estimation regarding a possible decline in PLC market prices. The principal factors which may prevent this information from materializing are market growth rates differing from those anticipated, involvement of the main players in this market in a manner differing from that anticipated, and the development of sub-markets in the PLC field coupled with increased professionalism and focus by various producers on their own special niche areas, which could mitigate potential price drops.

screens in various sizes) in the body of the PLC, and built-in communications capabilities as detailed in sections 1.9.10.1 and 1.9.12 below.

#### 1.9.5 Critical success factors in the Products segment and changes therein

The Company estimates that the primary success factors in the PLC sector include, among others, the availability of a range of products responding to market demand and trends, functional reliability of the products, competitive prices reflecting appropriate cost-benefit ratios, high level of image-building and customer loyalty-building service and support, and an extensive distribution infrastructure capable of providing an international response.

#### 1.9.6 Changes in the suppliers and raw materials infrastructure in the Products segment

In times of economic crisis, such as that which began in the second half of 2008, world electronic components manufacturers adjust and reduce their production capabilities more than once, to the extent required in the crisis period. With the beginning of extrication from the crisis or when there is once again an increase in the demand for components, a delay in the supply of components is created, attributable among others to the manufacturers' response time to the changes in demand and to a situation in which the manufacturers prefer supplying the demand of big clients to supplying the demand of small and medium clients (a situation named "allocation"). In recent quarters, a prolongation in supply periods of electronic components in the industry is evident (as described, for example, by TI in an article from December 19, 2009 in the Electronics Weekly Magazine):

(<http://www.electronicsworld.com/Articles/2009/12/09/47610/ti-sees-better-q4-but-suffering-supply-constraints.htm>).

As in prior periods, in which the supply periods of electronic components were extended, the Company is preparing and is equipping itself in advance with components whose supply periods were extended, developing alternative acquisition channels, and updating the suppliers in time regarding the forecast quantities.

#### 1.9.7 Main entry and exit barriers in the Products segment and changes therein

The Company estimates that the primary entry barriers to the PLCs field include, among others, the duration of the development processes of the technologies underlying the PLCs and the significant time spans and complex penetration processes related to the integration and/or replacement of a PLC in a specific machine or application. The Company estimates there are no material exit barriers from the segment.

#### 1.9.8 Substitutes for the products of the Products segments and changes therein

The field of industrial PLCs includes PLCs manufactured by different companies, as detailed in section 1.9.9 below. By its nature, a programmable industrial controller requires modification and programming actions that are usually performed by the client or an integrator on his behalf, so that it will be compatible with the task it is designated for. It is therefore not possible to point out products that constitute an immediate, direct substitute for the Company's products, and in any event the client has to make

adjustments, program, and usually also make electric and mechanical adjustments in order to use other PLCs.

#### 1.9.9 The structure of competition in the Products segment and changes therein

To the best of the Company's knowledge and based chiefly on the IMS Report and the Frost & Sullivan Report, which lists dozens of companies defined as “key competitors”, it is possible to define three categories of key competitors in the global market of industrial PLCs:

- (a) Market leaders, usually multinational companies active globally in multiple fields, including PLCs. This group includes, *inter alia*, companies such as Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Intelligent Platform.
- (b) Large multinational companies primarily engaged in PLCs. This group includes, *inter alia*, companies such as B&R Industrial Automation, ABB, Yokogawa Corp., Automation Direct/Koyo, Bosch Rexroth AG, Toshiba International Corp., Philips Components and Festo Group.
- (c) Smaller companies operating in limited geographical areas or dealing in special niche products. This group includes, *inter alia*, companies such as Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, B&R Industrial Automation and PILZ. In the Company's opinion, its activity in the Products field belongs to this category. The Company is not aware of other Israeli companies in this category.

The Company is unaware of any statistical data that can be relied on in regard to consumption and/or sales of PLCs in Israel, and accordingly it is unable to estimate the size of the local market, its share of the local market and/or its share relative to other PLC manufacturers/importers in Israel. As to its share of the global market, the Company estimates, based on accepted international market surveys in this field, including the IMS, ARC and Frost & Sullivan Reports, that its share of the global PLC market stands at less than one percent.

#### 1.9.10 Products and services

The Company's main products include PLCs of various series, external expansion units and software programs:

##### 1.9.10.1 PLCs and expansion units

The Company designs, develops, manufactures, markets, sells and supports several series of PLCs. These PLCs are based on a central processing unit (CPU) for computer-embedded industrial systems that coordinates the range of command, control, and communications operations executed by the PLC. The Company's PLCs also incorporate an integral human-machine interface (HMI) component designed to enable the operator to control the PLC itself, and through it the

instruments controlled and monitored by the PLC. This interface may differ from one product series to another in its nature and complexity, and it includes a data display (alphanumeric and/or graphic), a programmable keyboard and/or a regular keyboard and/or a touch screen. The PLC communicates with external components (such as the production devices themselves, engines or sensors) by means of built-in physical connections (“sockets” of sorts, similar to phone or computer sockets) intended for data input and output. The input/output capabilities of a PLC (number and type of connectable devices) define its dimensions as a nano PLCs, also known as Smart Relay, micro PLCs also known as Compact PLCs, small PLCs, medium PLCs or large PLCs, also known as Modular PLCs, and Large PLCs, which are also known as High-End Modular PLCs.

The PLC's I/O capabilities may be expanded using external expansion units, thereby upgrading its functioning (as detailed below). The Company's PLCs have been designed for compatibility with the different protocols of line and wireless communications, including by means of the Internet (remote control and access, from inside and outside the organization, by means of a computer, with no physical connection), intranet (PLC-PLC communications and/or PLC-computer communications within the organization), and by means of a cellular phone (access to information and/or to means of control without a physical connection and without a computer, using cellular phone infrastructures, e.g. by means of SMS messages or by transmitting files over various telecommunications networks, such as GSM, CDMA, GPRS, CDPD and others). The communications capability of the PLCs is intended to enable tracking, control and monitoring of systems and processes, not only from the site in which the PLC is installed (production floor, logistics warehouse, etc.), but also from other stations, including the management offices or even from outside the organization's premises, thereby providing access to data and/or means of control for different levels in the organization, from production machine operators within the organization, through the organization's planning and control levels (including raw material inventory planning, finished products etc.) and all the way to senior management or even people outside the organization. Below are certain major attributes, which distinguish among PLCs in the above categories:

| <b>Traditional classification</b>    | <b>Nano PLCs</b>                                                                                                                            | <b>Micro PLCs</b>                                                                                                                                                                                                                                                                                      | <b>Small PLCs</b>                                                                                                                                      | <b>Medium PLCs</b>                                                                               |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| <b>Alternative classification</b>    | <b>Smart Relays</b>                                                                                                                         | <b>Compact PLCs</b>                                                                                                                                                                                                                                                                                    |                                                                                                                                                        | <b>Modular PLCs</b>                                                                              |
| <b>Major relative advantages</b>     | Highly compact; low cost; suitable for control and automation of only the most basic tasks                                                  | Efficient price/performance ratio; suitable for control of simple tasks and operation of relatively simple equipment                                                                                                                                                                                   | Larger I/O capacity and more robust supporting software, in a relatively compact package; suitable for command and control of complex automation tasks | Capacity to process large input volumes and control multiple inter-related automation components |
| <b>Major industrial applications</b> | Simple industrial automation tasks, scheduled building controls, environmental systems (irrigation, air conditioning, etc.), safety systems | Micro PLCs, small PLCs and medium PLCs are typically used to control simple and complex automation tasks in most industrial applications, including in the automotive, food processing, chemical, pharmaceutical, metal, mining, paper, plastic, conveyance systems, packaging industries, and others. |                                                                                                                                                        |                                                                                                  |

The main series of PLCs and expansion units manufactured by the Company include:

- (a) Alphanumeric PLCs, nano/micro PLCs of M90/M91 series: A series of palm-sized products, with an interface containing 15 programmable keys and a mini LCD screen for displaying alphanumeric characters, and up to 38 integral input/output points, expandable up to an additional 96 input/output points via an external expansion unit (see sub-section (f) below).
- (b) Graphic PLCs: nano/micro PLCs and small PLCs of the Vision<sup>TM</sup> series: A series of products with a graphic display and advanced communications capabilities, marketed at relatively low prices compared to similar products. This series includes the Vision230<sup>TM</sup>, the Vision260<sup>TM</sup>, the Vision120<sup>TM</sup> and the Vision 130<sup>TM</sup> PLCs in a palm-size casing, with an illuminated mini LCD screen allowing graphic display, a keyboard with up to 33 programmable and customizable keys and expandable input/output points.
- (c) Graphic PLCs with a touch screen: PLCs of the Vision280<sup>TM</sup> and Vision290<sup>TM</sup> series: A series of products with a larger, illuminated LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly (and also contains, in the Vision280<sup>TM</sup> model, a 27-key programmable and customizable

keyboard), with integral input/output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The enhanced computation and data processing power of the PLCs of this series, together with their advanced display capabilities and their user-friendly characteristics, are designed to enable their use mainly for large and complex systems.

- (d) Graphic PLCs with a color touch screen: PLCs of the Vision530<sup>TM</sup>-Color, Vision570<sup>TM</sup> and Vision350<sup>TM</sup> series: A series of products with a large illuminated color LCD screen permitting graphic display and operation using the screen (a touch screen). The operator's interface is especially user-friendly, with integral input-output points expandable up to 153 points using an external expansion unit (see sub-section (f) below). The color display feature integral to this PLC is in line with market trends, which demand friendlier user interfaces and application of color displays in many machines and devices.
- (e) Graphic PLCs: nano-PLCs of the Jazz<sup>TM</sup> series: a series of PLCs smaller than current products and at lower cost than current products. This series includes palm-sized products, with an interface containing programmable keys and a mini LCD screen as well as a small number of integral input/output points, which are not expandable. The objective of this series is, *inter alia*, to provide a substitute for “smart relays” using a complete PLC at low cost, and to support the expansion of the Company’s client base by allowing accessibility to potential new clients.
- (f) External expansion units: In/Out expansion units designed to increase the I/O capabilities of the PLCs beyond their integral capabilities (by increasing the number of integral sockets) and thus to expand the array of tasks, processes, and devices managed, controlled and reported by them. The Company's external expansion units include units that mechanically and electrically connect to the PLC (named Snap In Modules), enabling the addition of dozens of I/O points (besides the PLC's built-in points), as well as units (named I/O Expansion Modules) that connect electrically only to the PLC, enabling, via the use of an industrial communications network, the addition of hundreds of additional I/O points, depending on the type of PLC (the PLC's specific type and power determine its ability to handle the number of points). This allows for upgrading the PLCs' functional capabilities to match those of small and medium PLCs. These expansion units are designed to increase the flexibility and compatibility of the various PLCs according to the varied and specific needs of each user, and also to aid in reducing the costs involved in the purchase, installation and maintenance of larger and more expensive PLCs and/or of larger numbers of PLCs.
- (g) Accessories: The Company provides complementary accessories for the above PLCs series and expansion units, including such components as cables, adapters, programming kits, user guides as well as products not manufactured by the Company, such as cellular modem units, power suppliers and protocol converters. These accessories are intended to provide a comprehensive

solution for the customer from a single source, thereby improving the flexibility and fit of the various PLCs to each user's varied and specific needs, and to reduce the costs involved in purchasing the array of components required for the application.

#### 1.9.10.2 Software programs

The Company's products focus on a range of up to tens of integral I/O points per individual PLC, with the ability to expand by tens to hundreds of additional points, using external expansion units and communications networks. In the future the Company may expand its activities into the realm of larger PLCs, allowing operation of a higher number of I/O points (see Section 1.9.10.1 of this report).

The Company develops and markets, as a package together with its PLCs, software operating programs for PLCs, used to program the operating interfaces of the PLC itself and its operation, as well as the command and control operations of the PLC with respect to the instruments to which it is connected. The Company's U90™ software serves PLCs of the M90/M91 and Jazz™ series, while the Company's VisiLogic™ software serves PLCs of the Vision™ series. These software programs operate in the Microsoft Windows environment and are designed to also permit those without professional programming skills to program, in an intuitive and accessible manner, both the operating interface of the PLC itself, at the operator's convenience, and the PLC tasks with respect to the system components in the machine or equipment that the PLC is intended to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various forms, and adaptation of the display to the varying conditions of the process being controlled (e.g. changing displays according to progression of manufacturing process along an industrial production line).

In addition the Company provides programming tools for addressing additional needs, such as reading stored information from the PLC to electronic datasheets, connecting the PLC to communications networks, and remote control. The software package also includes a soft copy of operating instructions, the PLC software programs, documentation of the technical specifications of the product, and accompanying documentation data.

#### 1.9.10.3 Trends and Changes – Products

The Company's products are mainly focused on the micro and nano PLCs sector. This segment is characterized in the market surveys described above as the market segment with the most rapid growth rate. At the same time, this market segment is highly competitive and prices of products therein are steadily declining (see also section 1.9.3 below).

The Company invests in the development of new products designed to meet the changing needs of customers in the PLCs market. These products replace the Company's older products and are designed to continue doing so.

#### 1.9.10.4 Services

Services of the Products Department comprise primarily technical support for Company products, and are delivered by a technical support team offering pre-sale support services for purchasing Company products (mainly consulting for customization of products to each customer's specific needs), post-sale training and technical support for assimilating the products and/or troubleshooting. Applications to the support team usually originate from the Company's distributors (see section 1.9.13.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff, with the involvement of the Company's lab, development and marketing staff as necessary.

The Company typically provides a 12-24 month warranty for its products. The Company also provides technical support services to its distributors prior to actual sales (pre-sale services), at the Company's discretion on a case-by-case basis. The Company does not make provisions for warranty due to insignificance (absence of applications and/or applications for insignificant sums).

#### 1.9.11 Revenue breakdown and profitability of products and services

The Company's revenues from the Products segment accounts for 68%, 51% and 63% of its total revenues in 2009, 2010 and 2011, respectively. The various series of the Company's major products contribute to its profitability with no material differences among them. The decrease in the profit margins of the Company's Products segment in the years 2009, 2010 and 2011, primarily stem from subcontracting portions of the manufacture (as specified in section 1.9.18 below), different (although not materially different) profit margins of several transactions, changes in the exchange rates of main currencies vis-à-vis the shekel and changes in manpower inputs during these periods.

Below are details of the consolidated revenues and gross profit of the Company in the Products sector for the periods indicated:

|                                            | For the year ended December 31                                                    |              |              |
|--------------------------------------------|-----------------------------------------------------------------------------------|--------------|--------------|
|                                            | 2009                                                                              | 2010         | 2011         |
|                                            | In NIS thousand (*) (and percentage of total revenues/gross profit, approximated) |              |              |
| Products (**)                              | (63%)89,213                                                                       | (51%)77,965  | (68%) 57,496 |
| Gross profit (loss)<br>(amount and margin) | (44%) 39,224                                                                      | (49%) 37,997 | (53%) 30,687 |

(\*) The financial data are in NIS thousands as reported.

(\*\*) Company products are sold in volumes of tens of thousands of products each year.



#### 1.9.12 New products

The Company, through its R&D teams, engages in the development of new technologies and products and in the upgrading and improvement of existing ones. The development is based on the implementation of conclusions drawn from an analysis of trends and feedback from distributors and customers worldwide and the analysis of market trends. In recent years the development has matured into products that are offered and sold as part of the Company's products basket.

The Company is engaged in the development of upgrades and improvements of PLCs and expansion units of its existing series of products, while striving to implement conclusions drawn from an analysis of trends and feedback from distributors and customers around the world.

Among others, during the reported period, the Company launched PLCs with a color touch screen (in different sizes) and additional expansion units, with a view to further expanding the Company's suite of products (see section 1.9.10.1 of this report).

In addition, during the reporting period, the Company was engaged, and intends to continue to engage, *inter alia*, in activities for the development of additional series of controllers and/or new controller products, which are intended to allow the Company to provide to its customers programmed controllers with dimensions which are not within the existing product range of the Company, and using technologies that allow more advanced performance<sup>2</sup>. These products which are in various stages of development (some of them are in the preliminary stages and others are in more advanced stages) are planned to include, as aforesaid, products which are smaller than the existing products, and also additional products which will allow the expansion of the product line also to larger products which are intended to provide solutions of supreme control and supervision of systems which are larger and more complex than the systems which the Company's current products are intended to control. This process includes, *inter alia*, the development of infrastructures for operating systems for the RT environment and embedded systems, the development of processor boards for computer-embedded applications, the development of interface and communications boards for application in the Company's products, and the development of programming environments for new platforms which the Company intends to develop in the future. The purpose of the process, *inter alia*, is to expand the Company's basket of products, and to allow the

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<sup>2</sup> The information regarding the development of products with dimensions which are not within the Company's existing product range is forward-looking information. The main data which serve as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in sections 1.7 and 1.9.3 above, the analysis of market requirements and customer preferences, as expressed in the Company's unmediated talks with the markets, technological feasibility, the Company's assessments regarding the costs of the research and development that will be required to finance the performance of the developments, and also the tough competition that exists in the industry, as specified in this Report. The main factors which could cause this information to be proven inaccurate are the rates of investment which shall be required in these operations, which could significantly deviate from the Company's budgets in these subjects, restrictions regarding the ability to commercialize these technologies at competitive market prices, or at all, the lack of the development of markets and a consumer culture which are suitable for use of the technologies that have been developed, and the preferred financial and technological means which are available to a significant part of the Company's competitors, and all of the foregoing is in addition to the general risks as set forth in section 1.22 of this Report.

Company's customers to purchase additional products from the Company, which, at the present time, they are buying from the Company's competitors. In addition, a broader product line is intended to be instrumental in the expansion of the Company's customer base, by providing accessibility to new potential customers.

#### 1.9.13 Customers

1.9.13.1 The direct customers of the Products Department are mainly distributors bound to the Company by distribution agreements (see section 1.9.14 below). The end customers are generally manufacturers of PLC-controlled industrial machines intended for the automation of defined tasks such as packaging, for specific operations on production lines, etc. The machine manufacturer purchases PLCs suitable for the machine he is producing, installs the Company's PLCs in the machine, and markets it to his customers, who will integrate it in the production line or in other automatic applications that will be controlled and managed by the Company's PLCs. The end users of the Company's products are manufacturers of machines for a broad range of applications in various industries, including the plastics, textile, vehicle spare parts, food and petrochemical industries, etc. Other examples include the use of Company products for command and control of the use of energy, air conditioning, control systems in buildings, conveyors, security systems, etc. In general, the Company has no direct contact with end customers, who are in direct contact with the various distributors including for customization, installation, warranty, etc.

1.9.13.2 Major Customers: As of the report date, the Company does not have major customers in the Products segment. For details on a major customer in the Systems segment, see section 1.10.9 of this Report.

1.9.13.3 The Company regularly examines the credit it provides to customers and the effects of extending credit to customers. The Company makes specific provisions for debts whose collection is doubtful.

#### 1.9.14 Marketing and distribution

The Company's products and services are marketed and sold through the Company's internal marketing network consisting of about one hundred and forty distributors (of which 95 are in the United States) in about fifty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa, and Unitronics Inc., a wholly owned subsidiary incorporated in the United States.

1.9.14.1 The Company's marketing infrastructure: The Company's internal marketing staff coordinates and guides the activity of the Company's network of distributors, on an ongoing basis as well as at central events such as conferences, courses and training sessions held by the Company at its own facilities or at the distributors' facilities. The marketing personnel also maintain direct contact with current and prospective users of the Company's products and services, for the purpose of follow-up and feedback, nurturing customer relations and identifying business opportunities. The Company likewise maintains a technical support team consisting of several employees, each in charge of a desk covering several countries and providing support services prior to and

for the purpose of purchasing the Company's products (mainly advice for the customization of products to the specific needs of each applicant) and post-purchase training and technical support for assimilation of products and/or troubleshooting. Applications to the support team usually come from the Company's distributors, from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These applications are processed by support staff and, if required, also with the involvement of the Company's development and marketing staff.

- 1.9.14.2 Distributors: The Company's products are marketed through distributors in Israel; Europe (Austria, Ukraine, England (three non-exclusive distributors, including Scotland and Wales), Bulgaria, Belgium, Belarus, Czech Republic, Cyprus, Croatia, Kazakhstan, Azerbaijan, Uzbekistan, Denmark (including the Faro Islands and Greenland), Estonia, Finland, France, Germany, Greece, Holland, Hungary, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland, Turkey, Serbia, Macedonia, Bosnia-Herzegovina, Slovakia and Ireland; Asia and the Pacific (Australia, China, India, Vietnam, Japan, New Zealand, Taiwan, Thailand, Singapore, Hong Kong (without exclusivity), Malaysia, South Korea and the Philippines); Africa (South Africa (including Namibia, Swaziland, Zambia, Mozambique, Botswana, Zimbabwe, Angola and Nigeria; South and Central America (Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Honduras and Peru), and North America (United States and Canada).

The Company's agreements with its distributors generally confer exclusive distribution rights in defined territories (subject to the Company's right to sell by itself and/or through subsidiaries and/or pursuant to comprehensive agreements for installing systems), for limited periods (usually one year), renewable subject to meeting specified minimum sales or subject to the Company's discretion in the event that the distributor fails to meet the agreed specified minimum sales. The distributors purchase Company products based on an annual purchase forecast provided by them in advance, usually according to the Company's price list, and sell them at their own discretionary prices. The Company generally grants its distributors 30 to 90 credit days, and requires collateral such as a bank guarantee or letters of credit (with the exception of the United States). The distributor is generally required to provide end users with a 24-month warranty, backed by the Company's commitment to the distributor for the same period of time. These agreements may generally be terminated at any time by a 30 to 90 day notice of either party, and they are generally governed by Israeli Law and subject to the jurisdiction of the courts in Tel Aviv and/or to an arbitration mechanism for the settlement of disputes.

The Company does not pay commission to its distributors, and the latter generate their profits from the difference between the purchase price and the selling price to the end customer. The Company offers distributors a recommended selling price, but does not require them to charge these prices.

The Company's distributors may not return products. As part of the products' warranty, damaged products are either repaired or replaced. It should be noted that in practice,

only small quantities of the products are being replaced (for details on revenue recognition in the Products segment, see note 2(r)(1) to the financial statements).

1.9.14.3 Material distributor: during the reported period the Company did not have a material distributor, and its activity in this area is divided between all its distributors. The distributors described in section 1.9.14.3 of the annual report of 2010, did not constitute material distributors in the reported period, given the increase in the Company's revenues in the last few years, from all of its distributors.

1.9.14.4 Sales promotion: The Company promotes its sales primarily through: (a) a website (<http://www.unitronics.com>) for downloading software and other help tools for the Company's products, and for obtaining details about the Company, its products and services; (b) public relations and contact with the market and with current and prospective customers, including updates on innovations and developments at the Company, follow-up of satisfaction and/or lessons to be learned and for implementation, and similar activities; (c) marketing and sales aids and activities, including detailed marketing catalogues, regular distribution of product updates and marketing material, use of demonstration kits at the customer's site and training sessions for customers and distributors; (d) participation in national and international trade exhibitions, whether directly or via the Company's distributors, and (e) advertising in the professional publications of the industrial PLC sector worldwide.

#### 1.9.15 Order backlog

As of December 31, 2011, the Company had an order backlog of NIS 6.2 million for the Products Departments and as of March 3, 2012, the Company had an order backlog of approx. NIS 7,785,000 for the Products Department, as detailed below.

In general, the order backlog of the Products Department is in line with the Company's policy, which is adjusted to the nature of the activity in this market, which is based primarily on purchases from stock and off-the-shelf from distributors.

| <b>Period of recognition in the expected income</b> | <b>Product order backlog as of 11.3.2011 (closest possible date to date of this report) NIS, thousands</b> | <b>Product order backlog as of December 31, 2011 NIS, thousands</b> | <b>Product order backlog as of December 31, 2010 NIS, thousands</b> |
|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|
| For Q1 2011                                         | ---                                                                                                        | ---                                                                 | 5,098                                                               |
| For Q2 2011                                         | ---                                                                                                        | ---                                                                 | 1,498                                                               |
| For Q3 2011                                         | ---                                                                                                        | ---                                                                 | 1,315                                                               |
| For Q4 2011                                         | ---                                                                                                        | ---                                                                 | 2,296                                                               |
| For 2012 and thereafter                             | ---                                                                                                        | ---                                                                 | 1,121                                                               |
|                                                     |                                                                                                            |                                                                     |                                                                     |
| For Q1 2011                                         | 1,880                                                                                                      | 3,868                                                               | ---                                                                 |
| For Q2 2011                                         | 2,002                                                                                                      | 778                                                                 | ---                                                                 |
| For Q3 2011                                         | 723                                                                                                        | 143                                                                 | ---                                                                 |
| For Q4 2011                                         | 1,017                                                                                                      | 840                                                                 | ---                                                                 |
| For 2012 and thereafter                             | 2,163                                                                                                      | 604                                                                 | ---                                                                 |
| <b>Total</b>                                        | <b>7,785</b>                                                                                               | <b>6,233</b>                                                        | <b>11,328</b>                                                       |

Differences in the reported order backlog for different periods arise from changes in delivery schedules of ordered products on the one hand, and from receipt of new orders on the other hand, all within the ordinary course of the Company's business. The composition of the backlog, in terms of the main products included, is not indicative, and changes constantly, since it reflects specific demand for particular products based on the pace of consumption of various customers and the requirements of different markets that usually dictate this pace. The nature of the activity in this market is primarily based on inventory and off-the-shelf purchases.

The changes in the order backlog between 2010 and 2011 primarily stem from shorter lead times for Company products, which were extended in 2009 and 2010, due to longer lead times for electronic components (for additional details, see section 1.9.6 above).

It should be clarified that the data relating to recognition of revenues from backlogs are estimates only, relying on past experience and planned schedules, in line with the different orders. Changes in these assumptions, which led to the said estimates, could significantly change the Company's estimation with regard to backlog revenue recognition, compared to current data.

#### 1.9.16 Competition

For details on the structure of competition in the Products segment, see section 1.9.9 of this report.

The Company competes and intends to continue competing primarily on the basis of the advanced technology integrated into its products, and the cost effectiveness of its products as compared to that of its competitors (including the functionality of its products and their

performance, reliability, portability, capacity for integration in existing systems, convenience and ease of installation, operation and maintenance, and the quality of the technical support and customer service provided by the Company). The Company estimates that its products are positioned mainly as niche products (small products including nano and micro PLCs) that combine integral user interface capabilities and broad communications capabilities – characteristics that are particularly suitable for various decentralized applications and for integration as a control component for manufacturers of small and medium machines. However, there is no certainty that the markets or the existing or potential customers will regard the Company's products as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop products and technology that will render the Company's products obsolete or less competitive.

As mentioned in section 1.9.9 of this report, the majority of the Company's competitors are larger and more established companies, with financial and other means which significantly surpass those of the Company, including R&D, marketing and sales resources, as well as a recognized name in the market. These competitors are able to react before the Company to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. There is no certainty that the Company will successfully compete in this market, and its competitors may succeed in capturing some of its market share.

#### 1.9.17 Seasonality

The Company does not identify any significant seasonal pattern in the Products sector. Its products are consumed throughout the year without any fixed seasonal patterns.

#### 1.9.18 Production capacity

Since 2001, the Company has expanded the utilization of subcontractors for the production of its products and has reduced its in-house production, with a view to reducing costs and improving timetables. In the first years of expanding production through subcontractors, the Company shifted to subcontractors mainly the manufacture of the plastic components in its products (such as the casings of the PLCs and the expansion units), the keyboards used for its products and most of the automatic placement of the components of the electrical circuits (PCBs). During 2010-2011 the Company began transferring turnkey production lines of entire products to subcontractors specializing in the provision of these services, which include the purchase of components, placement of components, final assembly, testing and calibration of products and the packaging of these products (hereinafter – “**production contractor**” and/or “**production contractors**”) (for details see the paragraph below). However, the Company itself assembles, using its staff and its facilities in Airport City, a insignificant share of the components of the electrical circuits, and generally performs by itself the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out most of the production stages is also intended to improve the possibilities of growth and flexibility in view of the high production capacity using existing subcontractors and the ability to add subcontractors as needed (subject to the learning and assimilation curve described below).

As for production operations within the Company, as of the date of this report most of the production capacity is utilized, but the Company is able to increase its production capacity for these activities as needed, because of the possibility of assigning to these tasks unskilled manpower that is therefore relatively available and that requires only a short training period. The average production time for most of the Company's products is about two months, while the actual lead time for the Company's products is usually shorter, depending on the order volume and the finished goods inventory in the Company as of the date of every such order.

The Company is a party to two non-exclusive agreement with production contractors, each agreement signed with a separate production contractor, which is a third party unrelated to the Company or to interested parties therein. In September, 2010 the Company signed an agreement with one of the subcontractors (hereinafter – “**Subcontractor A**”) and in February 2011 with the second production contractors (hereinafter - “**Subcontractor B**”) (for the sake of convenience, Subcontractor A and Subcontractor B shall jointly be referred to in this section as: “**the Subcontractor**” or “**the Subcontractors**”, and the agreements with Subcontractor A and Subcontractor B shall jointly be referred to in this section as: “**the Agreement**” or “**the Agreements**”). Under the Agreement, the Subcontractor performs the acquisition, placement and assembly of the components, and subsequently tests and packages the finished products, in accordance with the Company's specific guidelines and supervision and based on itemized purchase orders, which are based on continually updated seasonal projections that are transferred to the Subcontractor. As part of its obligations, the Subcontractor provides a 24-month warranty for its work, secures its liabilities under the agreement, and the intellectual properties related to the products are maintained by the Company. Payment for the products is based on fixed amounts depending on the volume of orders, and is paid on the basis of net + 30 days. The Company may terminate the agreement, for any reason whatsoever, by giving a 90-day prior written notice to the Subcontractor. Pursuant to the agreements with the subcontractors, the Company sells raw materials to the subcontractors for the manufacture of its products. For details see note 18 of the financial statements, in Chapter C below.

Apart from the aforesaid agreements, as of the report date, the Company has no written agreements with subcontractors for production, it is not bound by any framework arrangements with them and it hires their services as needed on an *ad hoc* basis. The business terms usually applicable between the Company and its production subcontractors consist of open credit without guarantees, payment on the basis of net + 60 days, predefined delivery time (one to two weeks), and prices subject to volume discounts.

The Company's payments to Subcontractor A (with which it signed the aforesaid agreement in 2010) accounted for 2% and 27%, in 2010 and 2011, respectively, of the Company's total expenses on raw materials and subcontractors in those years. The Company's payments to Subcontractor B (with which it signed the aforesaid agreement in 2011) accounted for 1% and 12%, in 2010 and 2011, respectively, of the Company's total expenses on raw materials and subcontractors in those years.

The Company is not dependent on specific production subcontractors and therefore can retain numerous and diverse contractors to that end. However, the replacement of an

existing subcontractor with a new one might lead to delays arising from learning and assimilation curves with respect to the Company's needs and/or use of special production components customized to the Company's needs (e.g. molds for casting the plastic casings of the PLCs). In the Company's estimation, replacing a subcontractor as mentioned above is not expected to cause material extra costs.

#### 1.9.19 Fixed asset, real estate and facilities

The Company has no fixed assets, real estate or facilities specific to the sector, and it uses its fixed assets, real estate and facilities (including rented space) for its business in three business sectors (for details, see section 1.13 below).

#### 1.9.20 Research and development

For additional details on products and technologies under development, see section 1.9.12 above. Below are the main details concerning sums expended by the Company during the periods detailed below on R&D activities:

|                                                                       | <b>For the year ended December 31</b> |             |             |
|-----------------------------------------------------------------------|---------------------------------------|-------------|-------------|
|                                                                       | <b>2011</b>                           | <b>2010</b> | <b>2009</b> |
|                                                                       | <b>NIS in thousands (*)</b>           |             |             |
| Payroll and benefits                                                  | 9,263                                 | 5,715       | 4,479       |
| Subcontractors                                                        | 2,756                                 | 730         | 281         |
| Other expenses                                                        | 2,105                                 | 1,424       | 1,923       |
| Less capitalized expenses that were recognized as an intangible asset | (11,271)                              | (4,675)     | (4,567)     |
| Total                                                                 | 2,853                                 | 3,194       | 2,116       |

Overall, the Company spent NIS 14,124,000 during the reported year (of which NIS 11,271,000 were recognized as intangible assets) for the development of products and technologies, as specified in section 1.9.11 above. The Company estimates that in 2012, the estimated development expenses in the Products segment could increase by 15% compared to the actual development expenses in this segment in 2011<sup>3</sup>.

From 1992 through December 31, 2011 the Chief Scientist at the Ministry of Industry, Trade and Labor (hereinafter: the “**Chief Scientist**”) participated in the funding of the Company's R&D plans under the Encouragement of Industrial Research and

<sup>3</sup> The information concerning the estimated development expenses in the Products segment is forward-looking information. The principal data which serve as a basis for this information are the Company's development programs which are based, *inter alia*, on analysis of market surveys as detailed in sections 1.7 and 1.9.3 above, analysis of market needs and consumers' preferences as reflected in the Company's direct contacts with the markets, technological feasibility, the Company's estimates regarding development costs as well as the Company's estimates with respect to the revenues from this segment. The principal factors which may prevent this information from materializing are the actual revenues from the sale of products in 2012, the investments required for such activity, which may significantly exceed the Company's budgets for such items; restrictions on the Company's ability to commercialize these technologies at competitive market prices or at all; absence of developed markets and a consumer culture suitable for using the technologies being developed; as well as the superior financial and technological means available to a major portion of the Company's competitors – in addition to the general risks outlined in section 1.23 of this report.



Development Law, 5744-1984 (hereinafter: the “**R&D Law**”). Below are details of the plans approved by the Chief Scientist’s office, which are in progress and/or still bind the Company:

| Implementation period according to letter of approval | Grant amount   | Grant rate | Approved R&D expenses | Date of approval | Subject of program                                                                                                                                 |
|-------------------------------------------------------|----------------|------------|-----------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1997 - 1992                                           | NIS 1, 888,221 | 30%-50%    | NIS 4,695,535         | 1992-1997        | Four programs for previous generation PLCs whose sales constituted an immaterial percentage (under 1%) of the Company’s revenues in 2004 and later |
| 30/4/04 - 1/5/03                                      | 657,707 NIS    | 40%        | NIS 1,644,268         | 1/7/03           | Wilco™ PLC <sup>4</sup>                                                                                                                            |

The Company is required to pay royalties to the Chief Scientist at a rate of 2% to 5% of sales of products developed with the Chief Scientist’s assistance, up to repayment of the total grants (and with respect to grants received starting from January 1999 – plus interest at LIBOR rate). As stipulated in the letter of approval with respect to the Chief Scientist’s participation in funding part of the Company’s development program in connection with the WilCo™ series of products, the Company is required to pay royalties not only in connection with sales of products of the WilCo™ series, but also in connection with sales of: (1) any Company PLC including an internal short-range radio modem as an integral part of the PLC and which uses Mesh topology, as well as (2) any Company PLC with TCP/IP-based Ethernet communications as an integral part of the PLC, for the creation of a dedicated communications channel using a central server as an intermediary for locating and mapping PLCs over the Internet (for further information regarding development of WilCo™ products, see section 1.9.10.1 of this report).

The letters of approval are conditional on compliance with the provisions of the R&D Law and the regulations and rules pursuant thereto, and on performance of the R&D plans as described in the applications, within the performance period, while reporting and obtaining approvals with respect to changes in holdings and controlling means in the Company, as well as transfer of controlling means in the Company to a foreign resident

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<sup>4</sup> Among other development activities, until 2007 the Company had engaged in the development of a series of products, which are planned to allow for control through a network of decentralized PLCs which are interlinked physically and/or wirelessly. The Company completed several milestones which, *inter alia*, include various planning activities and development of sub-systems within the technology's components. However, due to the relatively low participation of the Chief Scientist in the financing of the above development, the Company decided to divert the development efforts to additional products (see 1.9.12 above) and for the time being discontinue the development of the WilCo™ technology.

or a foreign company. In this framework the Company is subject to further restrictions, such as refraining from overseas manufacturing of products based on technology developed with the assistance of the Chief Scientist, and from the transfer of such technology overseas or to third parties, except with the approval of the Chief Scientist. The Company is also prohibited from transferring knowledge developed with Chief Scientist financing assistance, to any third party, without the Chief Scientist's authorization. Up to December 31, 2011, grants to the Company under these programs were approved in a total sum of NIS 2,473,000. From 1992 to 2005 and in the period up to December 31, 2011, the Company paid royalties to the Chief Scientist for a total amount of NIS 257,000 (of which NIS 25,000 from 2001 to 2005). As of December 31, 2011, the amount of liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, totaled NIS 160,000, attributable to programs that management believes may generate royalties. As of the date of this prospectus, the Company has met its obligations to the Chief Scientist.

#### 1.9.21 Intangible assets

The Company attaches low importance to the registration of patents for the protection of its intellectual properties, with respect to technologies it has developed. The Company believes that in a world of rapid technological changes, its ability to develop and launch new state-of-the art products in a relatively short period of time, facilitates its success and penetration into markets, and the protection of its intangible assets and intellectual properties is of lesser significance. For details on intangible assets related to the operating segments, see section 1.14 below.

#### 1.9.22 Human Capital

The activity of Company staff is split into departments, where staff are employed and involved in the Company's products and systems departments, but focus mainly on issues pertinent to their own specific sector (for details see section 1.15 below).

#### 1.9.23 Raw materials and suppliers

- 1.9.23.1 The Company's products may incorporate about 30-350 mechanical and electronic components, including electronic circuits and their components, keyboards, alphanumeric and/or graphic display screens, and others. About 95% of the components in most of the products are standard (off-the-shelf) products, manufactured in Israel or abroad and can be purchased from various suppliers that can be replaced without any changes to the product. The Company is not dependent on a single source for the supply of these raw materials. About 3-4% of the components in most of the Company's products are custom made for it in accordance with a specification and/or plan, mainly plastic casings, keyboards, printed circuit boards (PCBs), various connectors, metal parts and touch layers in the touch screen. Although these components are of major importance in Company products, they may be ordered from several suppliers/manufacturers inside and outside Israel, usually without requiring any product adaptations, and there is consequently no dependence on a single supplier/manufacturer. However, in some cases (about 4% of off-the-shelf components in most Company products), although they may be purchased from several suppliers, their

replacement by new suppliers is liable to cause delays (of up to three weeks) resulting from the alternative supplier's learning and assimilation curve with respect to the Company's needs. For particular products, where the replacement of a supplier may lead to a longer delay, safety inventories representing immaterial amounts, are maintained for a period of 4 months (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement).

The Company is dependent on several manufacturers which specialize in the production and supply of a small number of items that represent about 1% of the components in most of its products (representing immaterial purchase amounts in the years 2009, 2010 and 2011), although these are off-the-shelf components that include processors and communication components that could be purchased from suppliers in or outside Israel (primarily Infineon, Atmel, WizNet, Lattice Semiconductors and STMicroelectronics). Although such components may be installed in Company PLCs even if made by other manufacturers, this might involve structural and functional changes and various modifications of the hardware and software that are liable to cause delays and customizing costs. In order to reduce this dependence the Company enters into annual orders and in a few cases minimum stock maintenance agreements, with several different suppliers, in order to ensure availability and regular supply of these components. The Company has no sole supplier of raw materials from whom it purchases 10% or more of the annual cost of its raw materials and subcontracting services.

In accordance with section 1.9.6 above, the Company is equipping itself in advance with components with a longer delivery time, developing alternative acquisition channels, and updating the suppliers in time regarding the forecast quantities, for the benefit of meeting demand during years of recovery from crisis, such as the one that began in the second half of 2008.

Below is a summary of the above data in a table:

|                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Off-the-shelf components</b> | <b>Custom made components</b>                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------|
| <b>Multiple manufacturers/suppliers with no need for customization</b>                                                                                                                                                                                                                                                                                                                                                                | 95%                             | 3%-4%                                            |
| <b>Multiple manufacturers/suppliers; need for little customization (potential delay of several weeks) and particular items, where the replacement of a supplier may lead to a longer delay, safety inventories representing immaterial amounts, are maintained for a period of 4 months (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement).</b> | 4%                              | <b>All the components in this classification</b> |
| <b>Single manufacturer; a few suppliers; replacing the manufacturer may cause significant delays and may involve changes to products and associated costs</b>                                                                                                                                                                                                                                                                         | 1%                              | <b>None</b>                                      |

- 1.9.23.2 The Company generally has no written agreements with suppliers of raw materials, it is not bound by framework arrangements with them (save for annual orders and certain minimum stock maintenance agreements as detailed below) and it orders materials as needed, on an *ad hoc* basis, generally against purchase orders only. The commercial terms generally applicable to the raw materials suppliers are open credit without guarantees, payment on the basis of net + 60 days (after approval by acceptance control), predefined delivery time (sometimes including an option for the Company to change quantities and/or schedules), prices subject to volume discount, delivery and transport at the supplier's expense and the supplier's warranty for replacement of goods, at its expense, in the event of nonconformity or quality problems.

In a few cases (raw materials originating from a single producer) the Company enters into a minimum inventory agreement with certain suppliers, pursuant to which the supplier undertakes to keep an inventory at a certain percentage of the Company's annual consumption (adjusted on a quarterly or a monthly basis), exclusively earmarked for supply to the Company at set prices. Under these agreements the Company is obligated to purchase the minimum stock even if not ordered or upon termination of the agreement (except for items whose price has increased). These obligations are for amounts that are immaterial to the Company. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

#### 1.9.24 Working Capital

- 1.9.24.1 Inventory: The Company holds, whether itself or through its subcontractors, on an ongoing basis about 70-150 days of components and raw materials inventory for to meet forecasted requirements. In addition, the Company holds a finished products inventory for supplying current orders for some 45-90 days. The Company's policy is generally to hold a finished products inventory based on actual orders or internal forecasts made regularly updated by the Company. However, and as necessary, the Company may deviate from this policy from time to time, mainly when preparing for extraordinary events or in response to the behavior of the raw materials markets in the world (for example, in cases of fear of possible temporary shortages of electronic components throughout the world and/or limited allocations of components by the component manufacturers in certain cases of excess demand). The Company manages the production processes, purchasing of raw materials, raw materials inventory and finished products inventory through a general management program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). The Company has no policy regarding product returns and has not yet been required to deal with this. From time to time the Company examines new means of inventory maintenance, primarily increasing the finished goods inventory held by the Company, and shifting this inventory in some of the markets to sites closer to the distributors, in order to assist the distributors and customers and to make Company products more accessible. As part of the above move, the Company has increased the finished products

inventory at the subsidiary in the U.S.<sup>5</sup>.

1.9.24.2 Warranty: The Company typically provides a 12-24 month warranty for its products.

1.9.24.3 Credit extended: Customers of the Products Department are typically extended 30-90 credit days. Below are data on average days of supplier credit, as well as subcontractor and customer credit for the Products Department:

|                | 2011                            |                     | 2010                            |                     | 2009                            |                     |
|----------------|---------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|---------------------|
|                | Average credit in NIS thousands | Average credit days | Average credit in NIS thousands | Average credit days | Average credit in NIS thousands | Average credit days |
| Customers      | 10,573                          | 43                  | 9,079                           | 43                  | 7,920                           | 50                  |
| Suppliers      | 4,862                           | 78                  | 5,950                           | 71                  | 4,464                           | 95                  |
| Subcontractors | 2,319                           | 40                  | 2,548                           | 62                  | 976                             | 88                  |

#### 1.9.25 Environmental issues, risks and management thereof

The Company's activity in this area does not involve environmental risks as the term is defined in Regulation 28 of the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 1969. However, as stated in section 1.9.2 above, the manufacture and marketing of electronic products is subject in different countries to directives that address the use of certain materials in the manufacture of electronic products and the treatment of electric and electronic equipment waste.

As detailed in section 1.9.2 above, the WEEE - Waste from Electric & Electronic Equipment Directive 2002/96/EC came into effect in the European Union on August 13, 2005. The provisions of this directive impose on the manufacturers of electric and electronic equipment the responsibility of handling the product at the end of its life cycle, for the purpose of reuse, recycling and even the disposal of certain components. The legislation requires the manufacturers of electronic equipment to register, report and mark the products, and imposes on them the responsibility for everything pertaining to the collection and recycling of the products. The WEEE Directive is a guideline of the European Parliament for the member states in the European Union, to apply its provisions as framework directives binding on EU citizens, subject to local legislation in each member state. Likewise, the framework directive establishes a minimum threshold of requirements; however, each and every country may, at its discretion, toughen the requirements.

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5 The information concerning inventory maintenance methods is forward-looking information. The principal data that served as a basis for this information are: several market surveys and academic theories concerning different inventory maintenance possibilities and their effect on the sales volume. The principal factors which may prevent this information from materializing are: opposition of distributors and/or customers to changing the inventory method, high costs entailed in implementing the change, including the need to make various investments (such as the acquisition of distribution centers abroad) regarding which there is no assurance that they will be available to the Company at all or in the required scope for implementing the change, and additional analyses regarding the effects of said changes on the sales volume.

In practice, there is ambiguity regarding the application of this directive, due to the differences in internal legislation between the EU member states, particularly in the matter of timetables for assimilation, registration systems, marking requirements and collection infrastructures in the various countries, and even the interpretation of the definition of a "manufacturer".

So far the Company has not been required to implement the provisions of the WEEE Directive. Nevertheless, the provisions of this directive may apply to Company products in the future, and, therefore, the Company is following the implementation of the directive in the various countries through its distributors, as well as through professional consultation, participation in conferences and updated professional literature. With regard to marketing in certain countries, such as Germany, the products are marked as required in accordance with the local standards in coordination with the distributor in that country. The Company estimates that when the exact requirements for each country become clear, it can prepare by using appropriate marking, collection and recycling arrangements with its distributors and/or in any manner compliant with the statutory requirements in each country<sup>6</sup>. As of the date of this report, the Company has spent immaterial amounts to comply with the provisions of the directive and does not expect to spend material amounts in the upcoming year for the purpose of compliance with such directives. The Company is not aware of any exposure due to the non-implementation of the WEEE Directive and is unable to quantify this exposure, insofar as it exists.

#### 1.9.26 Standards and Quality Control

The Company operates a lab, equipped with instruments designed to enable the Company to check the proper functioning of its finished products, including their mechanical and operational properties, as well as their software components. This lab maintains contact with other test labs in Israel and abroad.

In accordance with the requirements of EU directives, EC/2004/108 (a directive pertaining to emission and product immunity in the electromagnetic environment) and EC/2006/95 (a directive pertaining to safety aspects, including fire, temperature resistance and electric safety), the Company's products, which are defined in PLCs, to meet the standards defined in sections 8 and 11 of the EN 61131-2:700 standard, which deals with requirements applicable to such products. Pursuant to the provisions of these directives, the Company labels most of its PLCs from the M90/M91, Vision<sup>TM</sup> and Jazz<sup>TM</sup> series with the CE mark, which indicates that the PLCs comply with the requirements of the directive

Most Company PLCs from the M90/M91 and Vision<sup>TM</sup> series, as well as some of its external expansion components, comply with the requirements of the UL/cUL 508 standard (safety aspects, including fire, temperature resistance, and electrical safety) and

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<sup>6</sup> The information concerning Company preparations for complying with the WEEE directive is forward-looking information. The principal data which served as a basis for this information are: developments currently known to the Company regarding the directive's implementation, the technical steps needed for its implementation, and the Company's collaboration with its distributors in this matter. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries, changes to directive provisions and/or their interpretation or lack of cooperation on the distributors' part in realizing the implementation, and the means necessary for the directive's implementation, for which there is no assurance that they will be available to the Company at all or at the scope required for implementation.

some comply with the requirements of the UL/cUL 1604 standard (work in a dangerous or explosive environment). Accordingly, the Company labels these products, and products largely based on them, with the UL/cUL mark. As mentioned, the Company operates a lab for checking the proper functioning of finished products, including mechanical and operational properties, and software components.

As mentioned in section 1.9.1 above, the Company is working concurrently to implement the EU's RoHS (Restriction of Hazardous Substances) directive, which limits the use of six substances in electric and electronic equipment marketed in Europe after July 1, 2006. The restriction on the use of these substances, and mainly lead, necessitates changes in the electronics industry throughout the world, including in the field of components production and soldering processes, which affect the components, the printed circuits and the solders (soldering alloys).

In 2005 and 2006 the Company implemented this directive by recruiting several full-time engineers engaged in identifying components of Company products which are not RoHS-compliant and replacing them with compliant components, purchasing of RoHS-compliant components and specification of manufacturing processes, including soldering, for RoHS-compliance. Concurrently, this issue is correlated with the readiness of electronic component vendors to supply compliant components. As of the date of this report, the Company has spent insignificant amounts in respect of activities designed for compliance with the provisions of the directive, and the Company estimates that, as of the date of this report, most of its products comply with the provisions of the directive (as currently phrased). Products developed after 2005-2006 as well as new products are designed from the outset to comply with the RoHS directive. The Company estimates that it will not spend material amounts on compliance with the provisions of this directive over the next year and/or in periods thereafter<sup>7</sup>.

Compliance with the above standards may be a binding legal requirement for marketing Company products in some of the Company's target markets, while in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with requirements imposed on its products for complying with these or other standards should they be required, and failure to comply with such standard requirements could limit the Company's ability to market its products in some of its target markets.

#### 1.9.27 Business objectives and strategy

The Company aspires to position itself as a world leader in the field of control and automation products, in niches and markets in which its products have added value and a relative advantage. These niches include, amongst others, the fields of nano and micro

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<sup>7</sup> The information concerning Company preparations for compliance with the RoHS directive is forward-looking information. The principal data which served as a basis for this information are: the engineering stages in the development and implementation of the directive, which the Company has reached as of the date of the report, and the need for continued investment in R&D expenditures, for which there is no assurance that they will be available to the Company at all or on the required scope. The principal factors which may prevent this information from materializing are: different implementation in different countries, completion of the engineering stages needed to complete the implementation, changes in the provisions and/or interpretation of the directive, as well as delays in compliance of component and assembly vendors with these requirements.

PLCs, PLCs incorporating a control panel (including use of color displays, becoming prevalent in control panels for many systems), small PLCs incorporating communications and network support capabilities, and PLCs supporting decentralized architecture. In target market segmentation (for further details see sections 1.7 and 1.9.3 above), the most prominent are manufacturers of small and medium machines that require economical, advanced and integrated control solutions, as well as constructors of systems that require solutions for remote control and/or data collection by communications. Criteria for evaluating success in achieving these objectives include, amongst others, number of installations (PLCs sold) every year, rate of penetration (sales) in new and existing countries and regions, customer satisfaction, percentage of repeat sales to these customers, and overall contribution of the Products sector to the Company's profitability.

In order to realize these objectives, the Company plans to continue improving existing products as well as developing new products, on the basis of continuous analysis of users' needs and market trends, market surveys conducted from time to time, as well as responses from its distributors and customers. There is no assurance regarding the Company's ability to actually improve current products and to develop new products, and this depends, among others, on analysis of market needs and consumer preferences as reflected through the Company's direct contacts with the markets, technological feasibility, cost of potential development, as well as the strong competition in the sector, as detailed in this report.

The Company further plans to continue developing and strengthening its international marketing infrastructure, *inter alia* through continued supervision and follow-up of the activity of existing distributors, location of new distributors in new territories or where it is necessary to replace an existing distributor, professional training and instruction for distributors on subjects related to the Company's products, and gathering of relevant information. The Company is likewise examining possibilities for expanding its marketing capabilities by means of additional platforms, including strategic cooperation with entities possessing broad marketing capabilities, which it will be possible to harness also for the marketing of some of its products. There is no assurance regarding the Company's ability to strengthen and develop its marketing infrastructure in the Products sector, and this depends, among others, on analyses of marketing attributes and markets for Company products conducted by the Company from time to time, and the evolving nature of PLCs as off-the-shelf products and as consumer products, as detailed in this report.

Another element is striving to increase customer satisfaction and loyalty through efforts to sell quality products and backing them up with suitable support and maintenance services.

The Company concurrently plans to continue, from time to time, to examine business opportunities in Israel and worldwide, which would allow expansion of its operations from both marketing and technological aspects. There is no certainty regarding the conditions for the realization of such opportunities and/or whether they will be available to the Company at all.



### 1.9.28 Development forecast for the upcoming year

During 2010-2011 there was an increase in the pace of sales of the Company's products and the Company even exceeded the pace of sales that was recorded in the years prior to the global economic crisis, which began in the second half of 2008. However, to continue its operations in the products sector, the Company will be required to make greater investments in R&D and in marketing, so as to be able to offer existing and prospective customers more competitive and efficient products, designed to provide a suitable response to those offered by its competitors. At the same time, there is no assurance that making large investments in development and marketing as aforesaid, will increase or maintain the Company's current pace of sales. For details on the Company's estimates regarding development expenses in the Products segments in 2012, see section 1.9.20 above.

### 1.9.29 Financial information on geographical segments

Company products are sold mainly in Europe, Israel, North America, South and Central America, Asia and Africa.

Below are data on the Company's revenues from Products Department sales in major geographical regions for the indicated periods, proportionate to the Company's revenues from the Products Department alone, and proportionate to the Company's total revenues:

|                            | For the year ended<br>December 31              |                                          |                                                |                                          |                                                |                                          |
|----------------------------|------------------------------------------------|------------------------------------------|------------------------------------------------|------------------------------------------|------------------------------------------------|------------------------------------------|
|                            | 2011                                           |                                          | 2010                                           |                                          | 2009                                           |                                          |
|                            | In percent                                     |                                          |                                                |                                          |                                                |                                          |
|                            | Share of<br>Products<br>Department<br>revenues | Share of<br>total<br>Company<br>revenues | Share of<br>Products<br>Department<br>revenues | Share of<br>total<br>Company<br>revenues | Share of<br>Products<br>Department<br>revenues | Share of<br>total<br>Company<br>revenues |
| Europe                     | 51%                                            | 32%                                      | 52%                                            | 26%                                      | 51%                                            | 35%                                      |
| Israel                     | 6%                                             | 4%                                       | 7%                                             | 3%                                       | 7%                                             | 5%                                       |
| North America              | 28%                                            | 18%                                      | 27%                                            | 14%                                      | 26%                                            | 18%                                      |
| South & Central<br>America | 9%                                             | 6%                                       | 8%                                             | 4%                                       | 9%                                             | 6%                                       |
| Asia                       | 2%                                             | 1%                                       | 3%                                             | 2%                                       | 3%                                             | 2%                                       |
| Africa                     | 1%                                             | 1%                                       | 1%                                             | 0%                                       | 1%                                             | 1%                                       |
| Rest of the world          | 3%                                             | 2%                                       | 2%                                             | 2%                                       | 3%                                             | 1%                                       |

For additional data regarding Company operations by geographic segments, see note 25 to the financial statements (Chapter C of the Annual Report).

## 1.10 Systems Segment

### 1.10.1 Structure of the segment and changes therein

The Systems segment includes automated warehouses, distribution centers with automatic elements (such as an automated warehouse), automated parking facilities and conveying

systems integrated in the organization's logistics system. The Systems sector has developed considerably in recent years, as part of the overall development trend in supply chain management and the succession of logistics activities from the supplier to the end consumer. An additional reason for the increased demand in this sector in recent years is the need for increased efficiency, both in terms of the methods and means of storage and retrieval, and the management thereof, and in terms of the savings in the space and time required for storage and retrieval, which generally accompany the transition to automated logistics systems and distribution centers.

#### 1.10.2 Legislative restrictions, standards and special constraints applicable to the segment

The activities of the Company's Systems Department and certain of the components of the systems in the construction of which it engages are designed in accordance with various standards, including standards on the subject of earthquakes, lifting devices, electrical devices, safety standards and transport standards. For further details, see section 1.10.19 below.

#### 1.10.3 Changes in scope of sector operations, its profitability, developments in the segment's markets and changes in the characteristics of its customers

A market survey from October 2010 by Freedonia on the subject of logistics and conveying equipment, entitled "World Material Handling Products to 2014 (<http://www.freedoniagroup.com/DocumentDetails.aspx?DocumentId=512827>), estimates that the logistics and conveying equipment market (which also includes automated storage systems) has increased by 7% per annum and is expected to reach \$119 billion in 2014. According to this source, 32% of the revenues in this market originate from Asia and Pacific countries, 32% from West Europe and 23% from North America. This survey further estimates that China will post the biggest growth rate and make a significant contribution to the market as a manufacturer of conveying equipment, alongside the US, Germany and Japan. Another market survey from June 2006 on the subject of supply chain management, conducted by ARC Advisory Group (summary accessible to the public at <http://www.arcweb.com>), estimates this global market at \$5.5 billion in 2006, with expectations that it will grow to \$8 billion in 2010 (about 9.2% annually). Another report by this company estimates the total sales of warehouse management software (WMS) at upwards of \$1 billion in 2006, with expectations for growth to \$1.3 billion in 2011. According to ARC, recent years have seen intense merger and acquisition activity in the WMS Systems sector. However, it should be noted that ARC's market surveys in the Company's areas of operation, were conducted before the onset of the global economic crisis in the second half of 2008 and the Company does not have more recent market surveys, as of the date of this report.

The logistics systems market in Israel is highly competitive. The Company competes for each project against several companies from Israel and international companies who are leaders in their field. The market in Israel is relatively small, and there are many competitors contending for the few projects implemented in this field every year. Economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of business activities which the automated logistics systems are designed to handle, should, in the Company's opinion, increase the number of

projects implemented in Israel in this area, including the number of projects to be implemented by the Company<sup>8</sup>. However, the Company estimates that due to the fierce competition in this market, and the continued development of new markets outside Israel (initially, primarily in the USA), its profitability may decrease in the future.<sup>9</sup>

At the same time, the Company's installations base in Israel, which the Company estimates to be wide as compared to its competitors, may assist the Company to provide more efficient service and technical support, and enhance its capacity to be chosen for implementing new projects of this type in the future.

#### 1.10.4 Technological changes which could have a material impact on the segment

The Systems segment is also characterized by frequent technological developments, introduction of new products and technologies and changes in market needs and requirements. The developments in the control and automation industry described above also affect conveying equipment and systems, concurrent with developments in the field of motion technologies and materials technologies. The Company is in the process of adapting the systems which it constructs and/or upgrades to the requirements of the market and to the technological changes taking place in it.

#### 1.10.5 The structure of competition in this segment and changes therein

The construction of automated logistics systems involves the integration of different disciplines including, amongst others, mechanical and engineering design, construction (including foundations, shell and other construction components), supply and installation of mechanical conveying systems; design, development and installation of electrical and control systems; design, development, and installation of software systems; and coordination between all the entities that take part in the construction of the system. In the logistics Systems sector the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of

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<sup>8</sup> The information concerning a possible growth in the number of logistic systems projects to be implemented in Israel, including the number of projects to be implemented by the Company, is forward-looking information. The principal data which served as a basis for this information are: the assumption that economic growth and a relative improvement in the economic situation in Israel, together with the increasing complexity of the business activities which the automated logistic systems are designed to handle, will impact on the demand in this field. The principal factors which may prevent this information from materializing are: lack of improvement in the economic situation in Israel and/or the world (or insignificant improvement) and/or failure of businesses to make investments, in general, and investments in automated logistic systems, in particular, notwithstanding a relative improvement in the economic situation, *inter alia* for reasons of cutting expenses and/or changes in inventory maintenance and/or management policy and/or delay or absence of market recognition of the advantage of automated logistic systems. Also, insofar as this information pertains specifically to the Company, other factors may prevent such information from materializing, such as the Company's inability to compete, and the other risk factors enumerated in section 1.23 below.

<sup>9</sup> The information concerning a possible decline in the profitability of the Systems segment is forward-looking information. The principal facts and data which served as a basis for this information are those presented in section 1.10.5 above concerning competition in this sector and the competitors active therein and the development programs of new markets. The principal factors which may prevent this information from materializing are: involvement of the key players in this market that differs from that anticipated and/or changes in the mix of software, hardware and mechanical components in logistic systems that affect profitability, as well as the development of sub-markets in the logistics and automatic parking Systems sector, with increased proficiency and focus by various manufacturers on their own unique niche areas.

industrial systems, mainly automated warehouses and logistics systems, including companies such as Dmatic, Swisslog, and SSI Schaefer. In the field of warehouse management software systems the Company has several Israeli competitors, including a company from the Matrix Group and in recent years, local branches of international companies such as RedPrairie, Mantis S.A. and others.

#### 1.10.6 Entry/exit barriers and critical success factors in the segment and changes therein

In the Company's opinion, the major entry barriers in the Systems segment include the knowledge and experience required for analysis and design of logistics systems within organizations; the duration of sale processes for logistics systems due, among other things, to the conservative nature of the target markets for such systems; complex software systems for warehouse and parking facility management and control technologies for conveying systems within such systems; and the required support and maintenance infrastructure in order to provide the level of service and availability required of such systems. The Company estimates that the major exit barriers are the commitments of companies operating in this area to complete system construction projects, in accordance with signed contracts, and their commitment to provide service for the constructed systems pursuant to annual service contracts.

The Company estimates that the key success factors in the Systems sector include the knowledge and experience accumulated by the Company in design and construction of such systems; the range of solutions in response to market needs and trends; the functional reliability of the various components including the software and control systems being offered; and the high level of service and support that promote reputation and customer loyalty.

#### 1.10.7 Products and services:

The Systems segment does not include products (other than custom software for management of logistic systems, as explained below), but is rather focused on delivering various services, primarily design, construction and maintenance services as part of automation, computerization and integration projects of automated production and/or logistics systems, mainly automated warehouses and distribution centers (as detailed below).

The Company develops and markets, as a single package, both as an integral component of the logistics systems which it sets up, and as a stand-alone product, warehouse management software which is marketed under the name TMUniStock, and which is intended to allow control, command and management of the manual and/or automated warehouse systems (software which is referred to in the industry as Warehouse Management System – WMS), including the management of inventory, orders, issues and distribution, and also the operation and synchronization of the movement of automated material handling systems and the handling of terminals (software which is referred to in the industry as Material Flow Control – MFC). In addition, the Company has software for the management of the production floor, which is marketed under the name TMUniTrack, and which is intended to allow control, command and management of the customer's

means of production, including the collection of data from the means of production, the processing of the data and coordination of the production resources.

The software packages, which operate in the MS Windows environment, on client – server architecture and/or in website interfaces (web-based and also web services) are planned to provide support in several languages (including Hebrew) and to communicate with ERP systems or organizational management or billing systems. This software may be installed and applied as is, just like any other application software, without requiring any changes to the software in order to adjust it to any unique purposes, however, it may also be adjusted to cater to the defined and dedicated needs of each particular customer.

#### 1.10.7.1 Automated production and/or logistics systems

The main components of these systems include the following: (a) Storage and retrieval components (a mechanical controlled and computerized system, generally comprising dedicated customized cranes installed on dedicated rails, that perform the storage, retrieval and transport tasks); (b) A shelving system installed along either or both sides of the crane rails; (c) Conveying systems for transporting the loads to and from the automated storage system; and (d) material handling systems, designed to perform missions such as sorting, gathering, palleting, etc; (e) Command and control systems for the mechanical components of the system, including PLCs, sensors and control software. Sometimes these components also include infrastructure components, such as foundations, shell, ceiling and other structural elements.

These services are provided to customers in and outside Israel (see section 1.10.9 below). The Company generally provides these services as a principal contractor, in projects in which it serves as the integrator of all the system assemblies (shelving, conveyors, cranes, etc.), electrical systems, installation of the PLCs, the software and hardware, under a direct contract with the customer-user. In such cases the Company contracts with subcontractors for the execution of tasks related to the system assemblies, other than the software and PLCs, which are directly handled by the Company. In certain cases the Company operates as a subcontractor for specified tasks only, mainly those related to the management software, the electrical systems and the supply and installation of PLCs in the system for which service is provided.

The services of the Systems Department include the design and engineering of the systems, construction of new systems and/or upgrading and servicing of existing systems, up to the stage of commercial operation. After this stage the Company also offers maintenance services for these systems based on framework agreements or on call. The Systems Department also markets the Company's management software: the UniStock<sup>TM</sup> (WMS) software and the UniTrack<sup>TM</sup> software as well as the Automated Parking Facility control and management software – see section 1.10.7 above, which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section. In the Company's facilities in Airport City the Company maintains a technical office for providing service and maintenance for various systems installed by the Company's Systems Department, including a mechanical maintenance team, an electrical maintenance team, a control team, and a software team.

#### 1.10.7.2 Trends and changes

The Company's services in the automated logistics systems sector are focused mainly on the Israeli market. The Company has no statistical data and/or market studies pertaining to this field in Israel. Based on its recent years' experience in this market, the Company believes there is a trend of increasing penetration of these technologies into various organizations in Israel, with the growth in the number of automated warehouses reported to have been installed in the Israeli market in recent years providing, in the Company's estimation, an indication of this trend. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation considerations and the distance of the distribution centers from population centers, could strengthen the penetration of automated logistics technologies in the Israeli market. In 2010-2011, several leading Israeli companies began to examine and plan the integration of automated logistic systems in their operations<sup>10</sup>. Although there is no guarantee that these companies will carry out their plans to establish automated logistic systems, if they choose to do so, some may consider the integration of the Company's products and services within these systems.

On May 6, 2009, the Company signed an agreement with a major customer to build an automated warehouse in Israel, and on December 17, 2009, an additional agreement was signed with the customer and a shelving contractor in the project. For additional details on these agreements, see section 1.10.9 below.

On May 9, 2010, the Company signed an agreement with a customer to build an automated warehouse in Israel (hereinafter in this section – **"the Agreement"**). The Agreement is effective since April 30, 2010, the date of signing the Agreement. The project is estimated at €1.7 For details see Immediate Report by the Company dated May 10, 2009, reference no: 2010-01-474579, which is hereby included by way of reference.

On February 3, 2011, the Company was notified that it had won a tender to construct an automated warehouse for a client in Israel. The project is valued at approximately NIS 30 million and is scheduled to be completed in the second half of 2012. On March 30, 2011, the Company received a signed agreement (for details, see the immediate reports on an event or matter outside the normal course of Company business, dated February 6, 2011, reference no. 2011-01-038982, and March 30, 2011, reference no. 2011-01-100404, respectively, included herein by way of reference).

One of the significant characteristics of this activity is the relatively large financial scope of a limited number of orders for services which are characterized as non-recurrent services. This creates a high exposure of sales volumes and profitability in the Systems sector, and in general, to the influence of a relatively small number of projects slated to be implemented at any given time.

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<sup>10</sup> The Company's observation regarding a trend among leading companies in Israel to examine and plan the integration of automated systems is based on an increase in the number of orders placed with the Company and interest among customers compared to previous years.

There are many companies operating in the automated logistics systems market, some of which do not have independent systems of their own for technical support and customer service (unlike the Company, as detailed below), a factor which helps them to compete with the Company's prices, given the lower cost basis and at times lower profit targets. The combination of these factors could have a detrimental effect on the Company's ability to compete in this sector and could significantly harm the Company's revenues and profits from the Systems sector and in general.

In addition to the Company's activities in Israel in the Systems sector, the Company is exploring possibilities expanding its business outside Israel (in the first stage primarily in the US), with a view to developing additional markets for the services of the Systems Department. There is no certainty that the process will ripen into actual business activity, or with respect to the conditions of such activity and its effect on the Company, in the event that it materializes.

The Company is in various stages of exploring possibilities for joining other projects for the construction of automated warehouses in Israel and worldwide, which have not yet matured.

#### 1.10.8 Revenue and profit breakdown

The Company's revenues from its activity in the Systems segment represent 31%, 49% and 37% of its total revenues in 2009, 2010 and 2011, respectively. The bulk of the revenues from this activity derive from customers entering with the Company into onetime transactions for the purpose of constructing one system only. The contribution to the profitability of the Company's projects in the Systems sector varies from one transaction to another, primarily in line with the Company's status as a principal contractor (which is usually characterized by a higher financial value and lower profitability, mainly due to the need for subcontractors) or as a subcontractor (which is usually characterized by a lower financial value and higher profitability, mainly due to the use of its own resources), and in accordance with the particular technical and functional requirements of each particular transaction and the results of the negotiations with the entities ordering the service in each particular case.

Below are details of the consolidated revenues and gross profit of the Company in the Systems sector for the periods indicated:

|                                            | <b>For the year ended December 31</b>                                                |              |              |
|--------------------------------------------|--------------------------------------------------------------------------------------|--------------|--------------|
|                                            | <b>2011</b>                                                                          | <b>2010</b>  | <b>2009</b>  |
|                                            | <b>NIS in thousand (and percentage of total revenues/gross profit, approximated)</b> |              |              |
| Systems                                    | (37%) 52,104                                                                         | (49%) 74,598 | (31%) 26,133 |
| Gross profit (loss)<br>(amount and margin) | (8%) 3,982                                                                           | (13%) 9,889  | (7%) 1,860   |

#### 1.10.9 Customers

The direct customers of the Systems Department are generally the end user, in most cases industrial and/or logistics businesses, generally in the private sector (although in a few cases these are customers from the public sector, including the defense forces or local authorities), that need an automatic warehouse, automatic parking, dispatch systems and/or automatic logistics centers, and which contract with the Company for acquiring a single system. The Company has no certainty of acquiring new customers in the Systems sector of a certain scope or at all. Customers of the Systems Department generally retain the Company's services for designing a single new automatic system and/or constructing a system at the customer's site and to provide services and support for the system after it is rendered operational. In certain cases the Company is retained for the servicing, improvement, upgrading, or enhancement of an existing system at the customer's site (installed by the Company or by a third party). The services of the Systems Department are currently provided mainly in Israel, to customers from numerous sectors, including food processing, pharmaceuticals, import/export warehouses, logistics centers, etc. In some cases the party retaining the services of the Company is the principal contractor hired by the end user to integrate an entire system, who subcontracts to the Company to perform specific tasks only, such as the design of the system or the installation of PLCs in the system. The Israeli customers of the Company's logistic systems segment include Maman Ltd, Solomon Levin Valshtein Ltd, Tnuva, Coca Cola Israel, Leiman Schlusser Ltd, Home Center, Frenkel and Sons, Shalem Packaging Ltd, Pelephone Communications Ltd, Scoop Metals Ltd, Colmobile Ltd, The Israeli Air Force, The Israel Aircraft Industry, Kalil Ltd, General Health Services, a Defense Ministry's facility, Intel and others.

The services of the Systems Department are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the system that is being constructed will be required to meet, timetables (generally ranging from 9 to 18 months for setting up the system, depending on its complexity and other factors, which vary from case to case) and installment payments according to the progress in work. Under these agreements the Company is generally required to provide guarantees (mostly bank guarantees) to secure performance of its obligations. As of the date of the Report, the Company provided bank guarantees as aforesaid for a cumulative sum of NIS 7.4 million. Within this framework the Company is obligated, under letters of undertaking concerning the issue of bank guarantees to: (a) repay any amount demanded by the bank and/or paid by the bank in respect of or in connection with said guarantees, and to repay all amounts to the bank with interest at the highest rate and bank fees; (b) indemnify or compensate the bank in any case of legal proceedings or claims filed against the bank, resulting in damages, expenses or losses to the bank in relation to the guarantees, directly and/or indirectly; and (c) waive any claims or contentions against the bank relating to the fulfillment of guarantees.

In addition, the Company undertakes to train the customer's employees to operate the system, and provides a 12-month warranty period for the major components of the system (or longer periods of warranty coverage subject to the inclusion of the warranty price in the cost of the project), which generally includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service



against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

Major Customer: 10% or more of the Company's revenues for the periods detailed below derives from customers ordering automated systems that entered into a one-off transaction with the Company, whose termination, including under the terms stated therein, without being replaced by new customers making purchases on a similar scope, could materially impact the Company's revenues.

Below is the pro-rata share of these customers in the revenues of the Systems Department and in the Company's total revenues:

|                                | For the year ended December 31  |                     |                                 |                     |                                 |                     |
|--------------------------------|---------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|---------------------|
|                                | 2011                            |                     | 2010                            |                     | 2009                            |                     |
|                                | % of total revenues             |                     |                                 |                     |                                 |                     |
|                                | Sales of the Systems Department | Total Company sales | Sales of the Systems Department | Total Company sales | Sales of the Systems Department | Total Company sales |
| Major customer                 | 53.9                            | 19.8                | 74.1                            | 36.2                | 34.30                           | 10.7                |
| Total sales to major customers | 53.9                            | 19.8                | 74.1                            | 36.2                | 34.30                           | 10.7                |

Agreements with a major customer: Below are the major terms and conditions of agreements between the Company and a major customer, the revenues from which account for 10% or more of the Company's consolidated revenues in the aforementioned periods, in addition to the general terms and conditions applicable to such agreements as stated in section 1.10.9 above:

- (a) As set forth in section 1.10.7.2 above, pursuant to an agreement signed on May 6, 2009 between the Company and a major customer by the name of Solomon Levin and Alshtein Ltd (above and below - "**Major Customer**"), the Company undertook to design, supply, set up and install an automated logistics system for the distribution center in the Modiin Industrial Zone (Shoham) (hereinafter in this section – "**the Project**"), The Project is estimated at €23 million (of which €15 million are revenues to be generated to the Company from areas for which the Company is directly responsible and €8 million from the shelving area in the Project that is under the responsibility of an Austrian company, which is unrelated to the Company or to interested parties therein), an amount which is material to the Company and which is expected to have an impact on the Company's future revenues and profits. The payments in this project will be made in accordance with milestones set forth in the project, and the project is scheduled to be completed at the start of 2012.

To secure the fulfillment of its liabilities, the Company has undertaken to provide bank guarantees and to an agreed compensation in certain cases, at progressive rates. In addition, the Company will secure its liabilities under the agreement at a limit of \$10 million.

The Company recognizes revenues from this project in its financial statements based on the percentage of completion method, while the percentage of completion is determined based on completion of engineering stages in the Project (for details see supplementary report to Immediate Report Concerning an Event or Matter Outside the Ordinary Course of Company Business dated May 12, 2009, reference no. 107643-01-2009).

- (b) On December 17, 2009 the Company signed an additional agreement with the Major Customer to set up an automated gathering system, which will constitute an integral part of the aforementioned automated warehouse (hereinafter in this section – “**the Project**”). The project is estimated at €1.8 million. Payments will be made in accordance with milestones set out in the project's schedule, and the project is scheduled to be completed in the second half of 2012.

For this Project as well, to secure the fulfillment of its liabilities, the Company has undertaken to provide bank guarantees and an agreed compensation in certain cases, at progressive rates. Under the agreement to set up an automated gathering system as stated above, the Major Customer was granted the right to sell used equipment from the site to the Company. This option was exercised, and therefore the consideration in respect of the Project was reduced by an immaterial amount, relative to the total consideration for the project. (For details see Immediate Report Concerning an Event or Matter Outside the Ordinary Course of the Company's Business, dated May 12, 2009, reference no. 323901-01-2009).

#### 1.10.10 Marketing and distribution

In the Systems segment, in-house marketing and sales team operate in Israel and in the US, including a number of employees handling relations with potential customers, responding to tenders, preparing price proposals, promoting customer relations and locating business opportunities in Israel and overseas, with assistance from the Company's network of distributors as required (for details of the Company's distributor network, see section 1.9.14.2 above).

#### 1.10.11 Order backlog

Selling the Systems Department's services involves a long sales cycle, which requires considerable time and resources, including participation in tenders and presentations, along with other participants, and the services are rendered over a period of 3-18 months, depending on system complexity. Below are data on binding agreements for the Systems Department's services in the periods as follows:

| Revenue recognition period | Agreements to deliver Systems Department services as of 11.3.2012 (closest possible date to date of this report) | Agreements to supply Systems Department services as of December 31, 2011 | Agreements to deliver Systems Department services as of December 31, 2010 |
|----------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------|
|                            | NIS in thousand                                                                                                  |                                                                          |                                                                           |
| For Q1 2011                | ---                                                                                                              | ---                                                                      | 19,134                                                                    |
| For Q2 2011                | ---                                                                                                              | ---                                                                      | 18,873                                                                    |
| For Q3 2011                | ---                                                                                                              | ---                                                                      | 17,722                                                                    |
| For Q4 2011                | ---                                                                                                              | ---                                                                      | 5,944                                                                     |
| For 2012 and thereafter    | ---                                                                                                              | ---                                                                      | 1,658                                                                     |
| For Q1 2012                | 13,326                                                                                                           | 12,713                                                                   | ---                                                                       |
| For Q2 2012                | 15,145                                                                                                           | 13,301                                                                   | ---                                                                       |
| For Q3 2012                | 13,794                                                                                                           | 11,795                                                                   | ---                                                                       |
| For Q4 2012                | 11,205                                                                                                           | 9,025                                                                    | ---                                                                       |
| For 2013 and thereafter    | 9,639                                                                                                            | 8,035                                                                    | ---                                                                       |
| <b>Total</b>               | 63,109                                                                                                           | 54,869                                                                   | 63,331                                                                    |

Differences in reported order backlogs between 2010 and 2011 arise from changes in milestone schedules of current projects on the one hand, and from receipt of new orders for projects on the other hand, during the ordinary course of the Company's business, primarily a significant progress in the execution of an order by an Israeli customer in 2009 to set up a logistic system (for details see section 1.10.9a of this Report).

The change in amounts from one quarter to another are due to growth in orders as well as to delivery of certain elements of projects being shifted from one quarter to another (mostly due to customer non-compliance with preliminary requirements for project delivery and/or other delays caused by customers).

It should be clarified that the data relating to recognition of revenues from backlogs are estimates only, relying on past experience and planned schedules, in line with the different orders. Changes in these assumptions, which led to the said estimates, could significantly change the Company's estimation with regard to backlog revenue recognition, compared to current data.

#### 1.10.12 Competition

For details on the structure of competition in the Systems segment, see section 1.10.5 of this report. The Company is unable at this time to make any assessment regarding the size of the Israeli market and its share therein, and it has no statistical data to rely on in this regard. The majority of the Company's competitors are larger and more established companies, whose financial and other resources significantly exceed those of the Company, including R&D, marketing and sales resources, as well as a recognized brand name in the market. These competitors are able to react quicker to changing market needs, and also to offer customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively. The Company's main competitors include Dematic, Swisslog and SS Schafer.

The Company competes and intends to continue competing, primarily on the basis of the quality of its services compared to that of its competitors (including service functionality, performance and quality of the technical support and customer service provided by the

Company). However, there is no certainty that the existing or potential customers will regard the Company's services as more worthy than those of the competitors. Similarly, there is no certainty that its competitors will not develop services that will render the Company's services less competitive.

#### 1.10.13 Seasonality

The Company does not identify any significant seasonal pattern in the Systems Sector. Its services are consumed throughout the year without any fixed seasonal patterns.

#### 1.10.14 Production capacity

In the Systems segment, production capacity is in fact the Company's ability to implement projects on the scope and within the schedule ordered, and is primarily based upon the Company's internal staff, which was significantly increased in the years 2002-2006 and then readjusted for the number of projects in the years 2007-2008 (as detailed in section 1.7 of this report), and again during 2009-2011, concurrent with a growth in the Company's operations during these years, in this sector. As of the date of this report, the Company is utilizing most of this production capacity, taking into account existing agreements for the installation of systems in the course of 2011-2012.

The Company adapts its production capacity in this area (including recruitment and increase of staff, as necessary) in accordance with agreements for the installation of systems and/or system maintenance, which are entered into from time to time. The Company employs a constant staff of skilled employees with vast experience in this type of projects and hires new employees based on its staffing needs. These employees undergo in-house training while executing projects, and performing maintenance works for systems built by the Company.

The sale process of projects in the Systems segment takes months and sometimes even years. After signing the agreement to set up the system, the initial stages involve a great deal of planning with engineers from the Company's constant staff. Therefore, the Company usually has sufficient time to prepare for the project's execution stages, which require additional staff.

#### 1.10.15 Fixed assets, real estate and facilities

The Company has no fixed assets, real estate or facilities that are specific to the Systems segment, and it makes use of fixed assets and facilities for its activities in the three segments (for details, see section 1.13 below).

#### 1.10.16 Human Capital

The activity of the Company's staff is divided into departments, while the staff of each department employed and involved in the three business segment of the Company, but focus primarily on matters concerning their own specific sector (for details see section 1.15 below).

#### 1.10.17 Raw materials, suppliers and subcontractors

For the performance of some of the tasks in accordance with agreements with various customers (mainly the supply and installation of cranes, rails, conveyors and shelving) the Company generally hires specific subcontractors. The principal terms of the agreements with the subcontractors are, in most cases, an adoption of the Company's commitments under the agreement with the customer (back-to-back), with respect to the system's components supplied by the subcontractor (for details see section 1.10.9 of this report).

Furthermore, the Company usually links the currency and date of payment to subcontractors, to the currency and date of the payment it receives from the different customers for the specific component delivered by the subcontractor (back-to-back). This means that generally payment is made to the subcontractor only after receipt of the relevant payment from the customer.

#### 1.10.18 Working Capital

1.10.18.1 Inventory: The Company does not maintain significant inventories in the Systems Department. However, at times the Company records an inventory of works in progress, resulting from expenses in respect of projects carried out in this area (such as conveyance equipment and shelving systems) which usually reflects progress in the execution of projects, as of the reporting date only.

1.10.18.2 Warranty: The Company typically provides a 12-month warranty for major system components in the Systems sector (or longer periods of warranty coverage, subject to the inclusion of the price of warranty in the cost of the system).

1.10.18.3 Credit extended: Customers of the Company's Systems Department are generally offered up to 30-day net credit for each payment. Below are data on average extent of supplier credit, as well as subcontractor and customer credit:

|                | 2011                            |                     | 2010                            |                     | 2009                            |                     |
|----------------|---------------------------------|---------------------|---------------------------------|---------------------|---------------------------------|---------------------|
|                | Average credit in NIS thousands | Average credit days | Average credit in NIS thousands | Average credit days | Average credit in NIS thousands | Average credit days |
|                |                                 |                     |                                 |                     |                                 |                     |
| Customers      | 6,542                           | 46                  | 5,041                           | 25                  | 2,269                           | 32                  |
| Suppliers      | 907                             | 54                  | 820                             | 75                  | 331                             | 61                  |
| Subcontractors | 5,815                           | 100                 | 3,263                           | 28                  | 659                             | 21                  |

#### 1.10.19 Standards and Quality Control

The activities of the Company's Systems Department in the supply, installation, maintenance, and upgrading of transport systems, automated warehouses and parking facilities, and control systems, comply with the requirements of ISO 9001, the 2008 version. Certain components of the systems constructed by the Company's Systems

Department are designed in accordance with various standards, including Israeli Standards IS 413 relating to earthquakes, and IS 414 relating to wind resistance (regarding the structure of the warehouse and the shelves array); standards concerning hoisting facilities such as IS 1202 (hoisting facilities – steel cables, for cranes and elevators); and standards pertaining to electrical installations and other safety standards. The compliance of Company-constructed systems with these standards' requirements is generally checked by professional inspectors, independent of the Company, who test each system individually, as part of the processes for completing the system for delivery to the customer. Also in force in Israel are specific standards for the conveying systems sector, laid down by the European conveying equipment manufacturers association, which address, among other issues, the functionality of facilities and systems.

Compliance with the above standards is a binding legal requirement for marketing Company services in some of the Company's target markets, and in other markets it is a market requirement, although not a formal legal requirement. There is no assurance that the Company will successfully comply with the requirements imposed on its services to meet these or other regulatory requirements, should they be required, and failure to comply with said standards' provisions could limit the Company's ability to market its services in some of its target markets. As of the date of this report, the Company is unaware of failure to comply with the standards applicable to its systems.

#### 1.10.20 Business objectives and strategy

The Company strives to position itself as a leader in the field of automated logistics systems in Israel and to expand its overseas activity in this area via export of its capabilities and its technologies. Criteria for evaluating success in achieving these objectives include, *inter alia*, number of installations (systems built with its participation) each year in Israel and overseas, quantity and volume of sales of technologies and management products to customers and other entities overseas with which the Company collaborates in operations in this field, satisfaction of customers and business entities with which the Company interacts, and the overall contribution of the Systems segment to the Company's profitability.

In order to realize these objectives, the Company plans to improve the management and control software programs for its proprietary logistics systems, and to continue developing and improving these products on the basis of continuous analysis of market trends, market surveys conducted from time to time, and responses from customers and business entities with which it interacts. There is no assurance regarding the Company's ability to actually improve existing products and to develop new products in the systems sector, and this depends, among others, on analysis of market needs and consumer preferences as reflected by the Company's direct contacts with these markets, technological feasibility, costs of potential developments as well as the fierce competition in the sector, as detailed in this report.

In addition, the Company plans to continue developing and reinforcing the marketing infrastructure of the Systems segment in Israel and the development of the business outside Israel – initially, mainly in the USA. Likewise, the Company is in various

stages of exploring possibilities of joining other projects for the construction of automatic warehouses and/or parking facilities in Israel and around the world. There is no assurance regarding the Company's ability to maintain and develop its marketing channels for its Systems sector, and this depends, among other things, on analyses of marketing attributes and markets for Company services, conducted by the Company from time to time, and the long and complex sales process for such services, as detailed in this Prospectus. At the same time, the Company plans to continue, from time to time, to examine business opportunities in Israel and worldwide, which would allow expansion of its operations from the marketing and technological aspects. There is no certainty as to the realization of such opportunities and/or whether they will be available to the Company at all.

#### 1.10.21 Forecast for developments during the upcoming year

In order to enable the continued sales of automated systems, the Company is required to make substantial investments in marketing, sales promotion and training of staff, which will allow it to offer existing and potential customers more efficient services that can adequately compete with rivaling products.

In order to maintain the pace of growth in sales of automated systems that was recorded in reported year, the Company plans to continue directing additional resources to marketing activities and the penetration of specific export markets, with a view to expanding the range of its target markets for these activities, mainly in the US and South America, and in order to reduce its dependence in this regard on the Israeli market<sup>11</sup>.

#### 1.10.22 Financial information on geographical regions

The Systems Department activity is focused on Israel, but is also carried out overseas.

For additional data on the Company's operations by geographic regions, see note 25 to the financial statements (Chapter 3 of this report).

|        | For the year ended December 31         |                                 |                                        |                                 |                                        |                                 |
|--------|----------------------------------------|---------------------------------|----------------------------------------|---------------------------------|----------------------------------------|---------------------------------|
|        | 2011                                   |                                 | 2010                                   |                                 | 2009                                   |                                 |
|        | In percent                             |                                 |                                        |                                 |                                        |                                 |
|        | Share of Systems Department's revenues | Share of total Company revenues | Share of Systems Department's revenues | Share of total Company revenues | Share of Systems Department's revenues | Share of total Company revenues |
| Europe | 0%                                     | 0                               | 1%                                     | 0                               | -                                      | -                               |
| Israel | 94%                                    | 35%                             | 97%                                    | 47%                             | 86%                                    | 27%                             |

<sup>11</sup> The Company's ability to succeed in the development and strengthening of the Company's marketing organization in the Systems segment is forward-looking information. The principal data which served as a basis for this information are: analyses of marketing attributes and markets of the services provided by the Company's Systems Department, conducted by the Company from time to time, and the lengthy and complex process of selling these services, as detailed in this Prospectus. The principal factors that are likely to prevent this information from materializing are: the strong competition in this field, and the need to identify distributors and/or potential collaborations with appropriate business entities that are capable and experienced in the Systems segment.

|                         |    |    |    |    |     |    |
|-------------------------|----|----|----|----|-----|----|
| North America           | 1% | 0% | 1% | 0% | 4%  | 1% |
| South & Central America | 5% | 2% | 1% | 2% | 10% | 3% |

#### 1.10.23 The environment, environmental risks and management thereof

The Company's activity in this area does not involve environmental risks as the term is defined in Regulation 28 of the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 1969.

However, the Company is sometimes required, as part of its agreements with some of its customers to build and integrate automated logistic systems which may include, among others, construction aspects (“**projects including construction**”). In these cases, the Company undertakes to comply with requirements pertaining to environmental conservation, in accordance with the directive of the Ministry for Environmental Protection, the requirements of local authorities, legislative requirements and the relevant by-laws – in order to receive building permits for the execution of projects including construction for such customers. The Company is also obligated, during the execution of projects including construction, to comply with the requirements of the law and local authorities, with respect to the environmental management of construction sites and the collection of debris and waste from construction sites, and at the end of the project it is required to prove compliance with these environmental requirements to obtain occupancy permits for such customers.

For the execution of construction work in projects that include construction, the Company enters into contracts with subcontractors that engage in construction. The terms of agreements with these subcontractors usually include adopting the Company's undertakings pursuant to the agreement with the customer (back-to-back) in connection with the subcontractors' work, including the treatment of and responsibility for environmental aspects.

As of the date of publication of this report and given the aforesaid, the Company believes that its activity in the Systems sector in general in projects including construction in particular, the Company is not exposed to environmental risks that have or could have a material impact on it.

### 1.11 **Parking Solutions Segment**

#### 1.11.1 Structure of the segment and changes therein

The Company's activity in the field of parking solutions, in which it is engaging since the fourth quarter of 2011 through Unitronics Parking Solutions, involves automated and mechanized systems designed to offer efficient and cost-effective parking solutions mainly in the field of automated parking facilities.

This field is not new around the world, however, as described hereinafter, there has been a global awakening in recent years, with the exponential growth in the number of



vehicles, crowded parking conditions in urban areas and soaring land prices. An automated parking facility is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs while simultaneously improving the driver's personal security and safety and enhancing his driving experience. Automated parking facilities are considered "green" and environment-friendly solutions due to their reduced energy consumption and emission of exhaust gases (the vehicles are conveyed to the parking place with the engine turned off), an additional factor that impacts on this segment and its growth.

#### 1.11.2 Legislative restrictions, standards and special constraints affecting the segment

In the field of parking solutions, to the best of the Company's knowledge, there are currently no detailed and specific international standards. The activity in this field is, practically speaking, subject to different guidelines and standards in different parts of the world, most, as noted, not specific to the field but relating to such areas as construction (e.g. standards for earthquake resistance, safety at construction and work sites, local bylaws, local licensing and permit requirements, etc.), mechanics and electricity (e.g. safety standards, standards for lifting equipment, electric facilities, conveying equipment, etc.) and transportation (e.g. safety standards, local bylaws, local licensing and permit requirements, etc.). For further details see section 1.11.19 below.

#### 1.11.3 Changes in the scope of activity and profitability of the segment, developments in the segment markets and changes in customer characteristics

The need for vehicle parking solutions has apparently existed since the invention of the motor vehicle. According to the International Organization of Motor Vehicle Manufacturers (OICA), more than 80 million vehicles were manufactured in 2011 alone (an increase over 2010), and estimates put the number of vehicles on the road today at more than 600 million (<http://oica.net/wp-content/uploads/press-release-press-conference-20120307.pdf>, and <http://www.worldometers.info/cars>).

The International Parking Institute (IPI) estimates that revenues in the parking industry in the U.S. alone stood at 25 to 30 billion dollars in 2010. Estimates of the number of commercial parking spaces available just in the U.S. range between 100 million and 750 million (<http://www.parking.org/media/overview-of-the-us-parking-industry.aspx>).

According to a survey conducted by the IPI in 2011, the trends with the most impact on the parking industry include: increased demand for finding ways to increase parking revenues; increased demand for green parking and sustainable parking solutions; increased demand for solutions that allow electronic (cashless) payment for parking; increased move toward innovative technologies to improve parking access; increased need for improving customer service, and increased demand for improved security. According to the survey, among the subjects designated as the "next big thing" by the survey's participants, highest on the list was the integration of technology and automation for better efficiency ([http://www.parking.org/media/89685/ipi%20emerging%20trends\\_v7%20hi%20res.pdf](http://www.parking.org/media/89685/ipi%20emerging%20trends_v7%20hi%20res.pdf)).

Automated and mechanized parking systems have been around for many years. The direct customers of automated parking systems are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both) or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector. Recent years have seen an awakening of interest in this sphere, due to the trends in the parking industry in general, as noted above, as well as the crowded parking conditions in urban areas, the ever-growing number of vehicles and soaring land prices.

1.11.4 Technological changes that could significantly affect the operating segment

The field of parking solutions is also characterized by frequent technological developments, including the entry of new products and technologies, mechanical innovations enabling more efficient conveyance systems and developments in control and automation technology, as mentioned above, as well as in motion technology and materials technology. The Company works on the development, design, construction and/or upgrading of parking facilities, according to the requirements and technological changes in the different disciplines. Building an automated parking facility involves various disciplines, including mechanical and engineering design, construction (including foundations, shell and other building components), planning, production, supply and installation of mechanical conveyance systems, development and installation of electricity and control systems, development and installation of software systems and coordination between all those participating in the construction of the facility.

1.11.5 Competition in the segment and changes therein

In the parking solutions market the Company competes with a large number of multinational corporations (some of which are represented in Israel) that offer planning, installation, upgrading and maintenance services for automated parking facilities, including, among others, companies from the Automotion Group, LTV, Wohr and Westfalia.

1.11.6 Entry and exit barriers and critical success factors in the segment and changes therein

In the Company's estimation, the main entry barriers to the field of parking solutions include the knowledge and experience required for the analysis and design of parking facilities according to requirements, the duration of sale processes, due in large measure to the conservative nature of the target markets for these facilities (which traditionally are not technology-oriented), the need to interface with existing payment and collection systems, as well as the need for support and maintenance systems to provide the level of service and availability required for such facilities. In the Company's estimation, the main exit barriers are the Company's undertaking to complete parking facility construction projects in accordance with signed agreements and its commitment to service the facilities built by it in accordance with signed annual service agreements.

In the Company's estimation, key success factors in the field of parking solutions

include the knowledge and experience accumulated by the Company in the design and construction of automated logistics systems, as described above, the ability to offer components and solutions that conform to market requirements and trends, the functional reliability of the various components, including the offered software and control systems, and the capacity to build a high-level service and support system.

#### 1.11.7 Products and services

##### 1.11.7.1 Automated Parking Facilities

An automated parking facility is designed to accommodate two to three times the number of parking spaces within the same volume as a conventional self-park, thus saving on current operating costs while simultaneously improving the driver's personal security and safety and enhancing his driving experience. The parking process in an automated parking facility (or automated parking garage) is similar to the storage and retrieval of goods in an automated logistics system (automated warehouse). In an automated parking facility, the driver drives the vehicle into a parking compartment (or bay) which accepts the vehicle and, after the vehicle occupants have gotten out, transports the vehicle and parks it in the most suitable vacant space available in the facility. Subsequently, upon demand, the system returns the vehicle to a vacant compartment (bay).

Like the automated logistics systems described above, automated parking systems generally include the following components: (a) conveyance elements (controlled computerized mechanical systems, such as trolleys for horizontal conveyance of the vehicles and lifts for vertical conveyance, which perform the vehicle storage, retrieval and conveyance operations); (b) shelving systems (metal and concrete or another combination of materials) for storage (or parking) of the vehicle; (c) entry and exit compartments (or bays) through which the vehicle which is to be parked enters the facility and from which the driver picks up his vehicle; (d) control systems for controlling all of the system's mechanical elements, including regulators, sensors and control software. The components sometimes also include infrastructure elements such as foundations, shell, ceiling and other structural elements.

In this operating segment, the Company focuses on the provision of various services, primarily planning, engineering, construction and maintenance of customized automated parking facilities. As well, the Company engages in the development, engineering and production of the conveyance, control and software components for these facilities.

The Company also develops and markets, as a single suite together with the automated parking facilities built by it, an Automated Parking Management System (APMS) which enables automatic command, control and management of automated parking facilities, including management of the admission, parking and delivery of vehicles, as well as operation and synchronization of the movements of automatic conveying systems.

These software suites operate in the Microsoft Windows environment, under client-server architecture and/or Web-based interfaces, and are designed to support multiple

languages (including Hebrew) and to communicate with various management or billing systems. These software programs can be installed and implemented as is, like any other application program, without the need for software modifications to accommodate special needs, but it is also possible to adapt them to the specific and unique needs of each customer.

#### 1.11.7.2 Trends and changes

Several years ago, the Company began using its abilities, developments and years of experience in the design, construction and maintenance of complex conveying systems and advanced control systems (which are implemented in the field of automated logistics systems), also in the field of automated parking facilities. This field calls for tools, methods and systems very much like those required in the field of logistics systems. In both fields of logistics systems and automated parking facilities, the Company reuses various modules (mechanical modules, control modules and software modules) which are suited to the system's requirements and thus allow the Company to integrate and combine components in the design and construction stages.

As detailed above, the field of parking solutions has been in existence for many years, but recent years have seen an awakening of interest in the field. The Company estimates that various macroeconomic considerations, including the cost of land, manpower costs, transportation and environmental considerations, and the need to improve drivers' welfare, could serve to entrench automated parking technologies worldwide. However, the pace of penetration of automated parking systems and their acceptance by building developers, local authorities and city drivers worldwide is still unknown and the Company is unable at this stage to estimate it.

On June 21, 2011, the Company received a signed agreement from the City Hall of West Hollywood, California (the agreement had been signed by the Company on May 18, 2011), for the construction of an automated parking facility for 200 vehicles. This project, on which work is expected to begin during 2012, is estimated at a total of 2.6 million dollars. The Company will recognize the income from this project in its financial statements according to the completion method, based on the completion of the project's engineering stages. Construction of the project is expected to end in the second half of 2013. For further details, see the Company's immediate reports on events or matters outside the ordinary course of its business, included herewith by reference, from May 11, 2011 (Reference No. 2011-01-145434) and from June 21, 2011 (Reference No. 2011-01-189291).

On January 5, 2012, Unitronics Parking Solutions signed an agreement with a customer in which it undertook to plan, supply and install in Tel Aviv an automated parking facility for 150 vehicles. The consideration for the facility is estimated at a total of NIS 5.2 million, an amount which is not considered significant for the Company. Nevertheless, since this is the first facility on such a scale for the Company in Israel, the Company believes that the agreement could impact on its activity in the field of parking solutions in Israel. The Company estimates that its part in the construction of the facility will begin in early 2013 and end in the second half of that year. For further details, see the Company's immediate report on events or matters outside the ordinary course of its business, included herewith by reference, from January 5, 2012

(Reference No. 2012-01-008397).

#### 1.11.8 Segmenting of revenues and profits

The Company began operating in this field only several years ago, and therefore its income thus far from the construction of parking facilities comes to insignificant amounts, which, accordingly, have been presented within the systems segment. Following the establishment, in the third quarter of 2011, of Unitronics Parking Solutions, which is to coordinate operations in this sector, the Company will begin presenting its income in this segment separately from the systems segment. During the period of the report, and thereafter, agreements were signed for the construction of parking facilities (see section 1.11.7.2 above), however, the income in this segment for the reported periods has still not been recorded separately.

#### 1.11.9 Customers

The direct customers in the parking solutions sector are usually real estate developers who are interested in including an automated parking solution in a real estate project (office buildings, residential buildings or a combination of both) or local authorities seeking to provide parking solutions in their area of jurisdiction, as well as other customers from the private or public sector.

Customers in the parking solutions sector usually retain the Company to design and/or build one new automated parking facility at the customer's site or at a site which is being built by the customer, and to service and support the facility following its delivery for commercial use. In certain cases, the Company is retained to service, improve, upgrade or enhance an existing facility (which was installed by the Company or by third parties) at the customer's site. The Customer's services in the field of parking solutions are provided at present mainly in North America (U.S. and Canada) and in Israel, but are also offered to customers in other parts of the world.

During the period of the report, and thereafter, agreements were signed for the construction of parking facilities (see section 1.11.7.2 above). The parking facilities which have been and are presently being built by the Company in this field include a municipal parking lot in Hoboken, New Jersey, a parking lot in an integrated office building in Mexico City, a municipal parking lot in West Hollywood, California, and a parking lot in a residential complex in Tel Aviv.

Services in the field of parking solutions are provided pursuant to agreements whose terms vary from case to case, but which generally incorporate a list of defined and detailed tasks, technical and functional specifications which the automated parking facility that is being constructed will be required to meet (such as capacity and output), timetables (mostly ranging from 8 to 24 months for setting up the automated parking facility, depending on the timetables for the different construction stages, the complexity of the facility and other factors that differ from case to case) and installment payments according to the progress in work.

The Company typically provides a 12-month warranty for major sub-systems in the automated parking facilities (or longer periods, subject to the inclusion of the price for

such a period in the cost of the facility), which generally includes an undertaking to start attending to certain malfunctions within predefined timetables, a commitment to provide service against payment at the end of the warranty period, and an undertaking to ensure the availability of spare parts for defined periods.

Major customers: Given the early stage of development of this operating segment of the Company, there are no customers and/or transactions with or in which the Company engaged in this segment, the income from which accounts for 10% or more of the Company's total income in 2009, 2010 and 2011.

#### 1.11.10 Marketing and distribution

In the automated solutions segment, the Company operates in Israel (at Unitronics Parking Solutions) and in the U.S. (at Unitronics Inc. and its branch offices in New Jersey and Los Angeles) in-house marketing and sales teams consisting of several employees who handle relations with potential customers, prepare engineering and commercial responses to tenders, draw up price proposals, foster customer relations and locate business opportunities in Israel and the world.

If necessary, marketing activities in certain regions are sometimes carried out with the assistance of independent distributors (finders), who receive a sales commission in the event that their marketing activities mature into a binding commercial agreement between the Company and the customer. The Company's agreements with such distributors confer in some cases exclusive rights to distribute the Company's automated parking solutions in defined territories, subject to compliance with sales targets and for limited periods (usually one year) renewable subject to meeting specified minimum sales or subject to the Company's discretion in the event that the distributor fails to meet the specified minimum sales.

#### 1.11.11 Order backlog

Sales of services in the parking solutions sector involve an extended sales cycle, requiring substantial input of time and resources, including participation in presentations and tenders, alongside other participants, and the services themselves extend over several months and sometimes several years, depending on the complexity of the automated parking facility as well as the permits required for its setup, including building permits. The table below contains data on binding agreements for services in the field of parking solutions for the indicated periods, according to timetables and milestones of in the setup of these facilities:

| Period of recognized anticipated income | Agreements for implementation of parking solution services as of March 11, 2012 (closest possible date to this reporting date) in NIS thousands | Agreements for implementation of parking solution services as of December 31, 2011 in NIS thousands | Agreements for implementation of parking solution services as of December 31, 2010 in NIS thousands |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Q1 2011                                 | ---                                                                                                                                             | ---                                                                                                 | ---                                                                                                 |
| Q2 2011                                 | ---                                                                                                                                             | ---                                                                                                 | ---                                                                                                 |
| Q3 2011                                 | ---                                                                                                                                             | ---                                                                                                 | ---                                                                                                 |
| Q4 2011                                 | ---                                                                                                                                             | ---                                                                                                 | ---                                                                                                 |
| 2012 onward                             | ---                                                                                                                                             | ---                                                                                                 | ---                                                                                                 |
| Q1 2012                                 | 324                                                                                                                                             | 324                                                                                                 | ---                                                                                                 |
| Q2 2012                                 | 648                                                                                                                                             | 648                                                                                                 | ---                                                                                                 |
| Q3 2012                                 | 813                                                                                                                                             | 648                                                                                                 | ---                                                                                                 |
| Q4 2012                                 | 2,742                                                                                                                                           | 648                                                                                                 | ---                                                                                                 |
| 2013 onward                             | 9,009                                                                                                                                           | 4,212                                                                                               | ---                                                                                                 |
| <b>Total</b>                            | <b>13,536</b>                                                                                                                                   | <b>6,480</b>                                                                                        | <b>---</b>                                                                                          |

#### 1.11.12 Competition

For details on the competition structure in this field see Section 1.11.5 herein. The Company cannot, for now, make any assessment regarding the size of the local and global markets and its share therein. Nor has it any statistical figures on which it can base itself regarding this matter. Included among its competitors are bigger, more established companies than the Company, which have at their disposal financial and other means substantially superior to its own, including the means for research and development, marketing and selling, and a known name in the market. These competitors are able to respond ahead of the company to changing market needs, and can even offer the customers more flexible and convenient financing terms than those offered by the Company, thereby limiting the Company's ability to compete effectively with its rivals.

The Company's major competitors include companies from the Automotion Group, LTV, Wöhr, Westfalia and others. The Company competes and plans to continue competing with its rivals, primarily on the basis of quality and innovation of its products and services versus its rivals' solutions (including product functionality, flexibility and performance; standard of technical support and customer service offered by the Company). Even so, there is no certainty that the markets or existing/prospective customers will regard the Company's services as more worthwhile than its competitors' services. Likewise, there is no certainty that its competitors will not offer products and services that will make the Company's less competitive.

#### 1.11.13 Seasonality

The Company does not identify in the area of parking solutions any distinct seasonal pattern. Its services are consumed throughout the year without any set seasonal patterns.

#### 1.11.14 Production Capacity

Production capacity in the area of parking solutions is essentially the Company's ability to manufacture components for parking systems and to implement projects in this sector on a scope and at the times these are ordered, this capacity being based on internal Company teams, whose number was increased in 2011, with the establishment of Unitronics Parking Solutions. These teams engage primarily in the planning, engineering, development (mechanics, electricity, control and software), manufacture, assembly, installation and management of automated parking system construction projects.

Another operation carried out concurrently is the manufacture of mechanical assemblies by subcontractors. The use of subcontractors for such tasks ensures quality production by contractors specializing in the production processes of mechanical assemblies, and also allows for growth and flexibility, owing to the high production capacity of the existing subcontractors and the possibility to bring in more subcontractors as needed (subject to a learning and assimilation curve as detailed below). For further elaboration on subcontractors, see Section 1.11.18 below.

Selling processes of parking solution projects take months, and occasionally even years. Even after signing an agreement for system construction, the first months are characterized by planning involving the Company's engineers, thereby usually allowing the Company enough time to prepare for the execution stages requiring additional manpower and the use of subcontractors.

#### 1.11.15 Fixed Assets, Real Estate and Facilities

As of December 2011, the Company has been renting a building in the Yavneh Industrial Zone, where it coordinates the parking solutions operations. The leased area in Yavneh includes computerized system equipment, automated parking system components, motor vehicles, laboratory equipment, and office furniture/equipment, used for purposes of the stated activity. For details, see Section 1.13.4 below. Apart from this, and for purposes of this sphere of activity, the Company uses also the fixed assets, real estate and facilities serving the other spheres of activity (for an elaboration, see Section 1.12 below).

#### 1.11.16 Research and Development

The Company started to engage in this field just several years ago, as part of its activity in the systems sector. With the establishment of Unitronics Parking Solutions in the third quarter of 2011, the Company started recording development expenses separately for this sector. To date, no substantial amounts have been recorded by the Company for product and technology development in this sector.

The Company anticipates growing expenses in the development of components (modules, transport elements, software and control elements) in this sphere, expecting development expenses for 2012 to reach between NIS 4–8 million.<sup>12</sup>

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<sup>12</sup>The information regarding total anticipated development expenses in the area of parking solutions is forward-looking. The principal data serving as a basis for this information are the Company's development programs based, among other things, on an analysis of market surveys as detailed in Sections 1.7 and 1.11.3 above, an analysis of market needs and consumer preferences, as deduced from the Company's firsthand contacts with the markets, technological feasibility studies, the Company's assessments of development costs needed to fund the



#### 1.11.17 Human Capital

The Company's activity in the area of parking solutions is being conducted since the fourth quarter of 2011, mainly through Unitronics Parking Solutions, which is being provided with a range of services by the Company for this activity. As noted above, the Company is divided into departments, with all workers employed and involved in the Company's three operating segments, but focusing more on the matters relevant to their specific department (for details see Section 1.15 below).

#### 1.11.18 Suppliers and Subcontractors

The Company is a party to several non-exclusive agreements with a number of subcontractors for the manufacture of mechanical assemblies, in immaterial amounts to the Company. The Company is not engaged in any framework arrangement with them, hiring their services according to need and on an ad-hoc basis. The usual trade terms between the Company and the production subcontractors include open credit without guarantees, payment terms: net 60 EOM, and predetermined lead time (weeks or months according to complexity of production).

The Company is not dependent on certain subcontractors for production and can hire for this purpose other additional contractors. Nevertheless, replacing an existing subcontractor with a new one could involve delays stemming from a learning and assimilation curve of the Company's needs and/or use of unique production components customized to the Company's needs. The Company's assessment is that replacement of a subcontractor will not result in a substantial increase in costs.

#### 1.11.19 Operating Capital

1.11.19.1 Inventory: The Company does not keep substantial stocks on hand for this sphere of activity. Nevertheless, at times a works in progress inventory is recorded on a pinpoint-case basis, stemming from expenses due to works in progress in this sector (such as transport components manufactured for an ordered system) and generally reflecting a state of progress in project implementation, with data in respect thereof correct on a pinpoint basis at the reporting date only.

1.11.19.2 Warranty: In this sphere of activity, the Company generally grants 12 months' warranty for most of the system assemblies (or for longer periods, subject to cost-pricing of this period in the system's price). For further details, see Section 1.11.9 above.

1.11.19.3 Credit lines: As explained in Section 1.11.8, data has not yet been recorded on average lines of credit extended in supplier credit, subcontractor credit and customer credit, for this sector.

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implementation of developments, as well as Company estimates of anticipated revenues in this sector. Major factors that could keep this information from materializing are actual revenues generated by the sales of Unitronics Parking Solutions in 2012, the rate of investment needed in this activity, which could considerably overrun Company budgets in these matters, limitations in the ability to commercialize these technologies at competitive market prices or altogether, no development of markets and consumer culture suited to the use of the developed technologies, the superior financial and technological means available to a substantial part of the Company's competitors, all this in addition to the general risks detailed in Section 1.23 herein.

#### 1.11.20 Standards and Quality Control

As noted in Section 1.11.2 above, to the best of the Company's knowledge, there are currently no specific, detailed international standards in the area of parking solutions. The activity in this area is subject, in effect, to various directives and standards existing in various regions throughout the world, the bulk of them, as stated, non-specific to this area. Thus, part of the components comprising the systems being constructed by the systems department are designed according to different standards, including Israeli standards: IS 413 regarding earthquakes and IS 414 regarding wind resistance (concerning car park structure and parking shelf array systems where vehicles stand), standards concerning lift facilities such as IS 1202 (lift facilities – steel cables, in connection with car park elevators), and standards concerning power facilities and other safety standards; where required, conformance of the Company-constructed systems with the requirements of said standards is generally examined by independent professional inspectors, where such inspection is conducted individually on each system, in the framework of system completion procedures ahead of customer delivery.

Conformance with certain standards could be a binding legal requirement for marketing the Company's services in some of the Company's target markets, while in others it may be a market requirement even though there is no formal legal requirement. There is no certainty that the Company will manage to meet the requirements applicable to its services in order to be compliant with these standards or others if called for, and non-conformance with aforesaid standard requirements may limit the Company's ability to market its services in some of its target markets.

#### 1.11.21 Goals and Business Strategy

The Company aims to position itself as a global leader in the area of parking solutions, and to expand its operations in this sector both in Israel and abroad, through the export of its capabilities and technologies. Indexes for the evaluation of success in realizing these goals include, among others, the number of installations (automated parking systems constructed with its participation) per year in Israel and abroad, quantity and volume of technology sales and management products to customers and other entities outside Israel with which the Company collaborates in its operations in this sector, satisfaction of Company customers and business entities with which it has dealings, and the overall contribution of the parking solutions segment to the Company's profitability.

To realize these goals, the Company is working continually to improve the mechanical transport components and management and control software programs of the automated parking systems it developed, based on an ongoing analysis of market trends, on market surveys conducted periodically, as well as the responses of customers and business entities with which it has dealings. There is no certainty that the Company will actually be able to improve existing products and develop new ones in the area of parking solutions, this depending, among other things, on an analysis of market needs and customer predilections, as expressed in the Company's firsthand connections with the markets, technological feasibility, costs of potential developments, as well as the competition in the sector, as described in this annual report.

In addition, the Company is planning to continue developing and bolstering its international marketing setup for the parking solutions sector – at first, primarily in

North America and Israel. There is no certainty that the Company will actually be able to develop and bolster the Company's international marketing setup in this sector, this depending, among other things, on analyses of marketing characteristics and attributes of the markets for the Company's services, conducted periodically by the Company, and on the lengthy, complex selling process of these services as explained herein. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and overseas, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty regarding the conditions for the materialization of such opportunities and/or whether such opportunities will even present themselves to the Company.

#### 1.11.22 Development Forecast for the Coming Year

To allow for continued sales in the sector of automated parking systems, the Company must invest great amounts in development, marketing, sales promotion and personnel training, so it can offer existing and prospective customers products and services, designed to provide a suitable solution, which are more competitive and more efficient than those offered by its competitors.

The Company plans to continue its marketing activity and market penetration efforts with respect to automated car parks, the aim being to increase awareness of the advantages of these parking solutions.

In order to leverage and boost the Company's sales in the area of parking solutions, the Company plans to continue directing additional resources to the marketing and penetration activities, focusing on specific export markets, with the aim of expanding the scope of its target markets to include operations in this sector, mainly in North America and Israel.<sup>13</sup>

#### 1.11.23 Financial Information Regarding Geographical Regions

Operations in the parking solutions sector focus mainly on North America and Israel, but are conducted in other places around the world as well. As detailed in Section 1.11.8 above, as of the report date, no data have yet been recorded separately for the Company's activity in this sector, by geographical region.

#### 1.11.24 Environmental Protection, Environmental Risks and Management Thereof

On the whole, the Company's activity in this sector does not entail environmental risks, as this term is defined in Regulation 28 of the Securities Regulations (Prospectus Details and Prospectus Draft – Structure and Format), 5729-1969.

As of the publication date of this report and in view of the foregoing, the Company is of the opinion that in its activity in the area of parking solutions, the Company is not exposed to environmental risks that have or could have a material impact on it.

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<sup>13</sup>The Company's actual ability to succeed in developing and bolstering its marketing setup in the area of parking solutions is forward-looking information. Such information is based primarily on the analyses of the characteristics of the marketing and markets in respect of the Company's services in this sector, which the Company conducts periodically, and on the lengthy, complex selling process of these services as described herein. The principal factors that could prevent the materialization of this information are the keen competition in this sector, and the need to find distributors and/or possibilities for collaboration with suitable business entities with ability and experience in this field.

## 1.12 Other Activities

The Company has an additional activity, not included in the aforementioned key operating segments, which involves insignificant revenues and investments. This activity is primarily maintenance and servicing by its subsidiary, Unitronics Building Management and Maintenance (2003) Ltd. (hereinafter – "**Unitronics Management**"), in connection with the use of Unitronics Building (for details of subsidiary's operations, see section 1.22.1 below). The table below presents the Company's revenues from its subsidiary's aforesaid activity for the indicated periods:

|                                                  | For the year ended December 31 |      |      |
|--------------------------------------------------|--------------------------------|------|------|
|                                                  | 2010                           | 2010 | 2009 |
|                                                  | NIS in thousands               |      |      |
| Revenues from Unitronics Management's operations | 385                            | 416  | 489  |

### 1.12.1 Structure of the segment and changes therein

Unitronics Management is primarily engaged in the provision of maintenance services and similar services related to the use of Unitronics Building, as stated in section 1.22.1.1 below.

### 1.12.2 Restrictions, legislation, regulations and constraints applicable to the segment

The Company is unaware of any restrictions, legislation or unique constraints that apply to this segment.

### 1.12.3 Changes in the scope of activity in the segment and its profitability

Since this activity is limited to the provision of services for Unitronics Building only, the scope of activity does not change and is suitable for the size of the building. The profitability of this sector stems from the number of tenants (other than the Company) that work in Unitronics Building as compared to the size of space used by the Company. Since in the last few years the Company has been using more space for its own needs, at the expense of other tenants, both revenues and profitability have decreased.

### 1.12.4 Main entry and exit barriers to the segment and changes therein

In the Company's opinion there are no significant entry or exit barriers in this sector.

### 1.12.5 Substitutes for the products of this segment, structure of competition and changes therein

There are a multitude of companies operating in this sector that offer management services such as those provided by Unitronics Management. However, the Company has chosen to establish Unitronics Management in order to reduce the costs of services consumed by the Company. Consequently, the competition in this sector is not significant.

#### 1.12.6 Products and services

The Company's services in this sector include, among others, cleanings, gardening, and security services as well as repair and maintenance services for facilities and systems in Unitronics Building.

#### 1.12.7 Revenue breakdown and profitability of products and services

The Company's revenues from this operation are negligible and accounted for less than 1% of total revenues in each of the years 2009 through 2011.

#### 1.12.8 Customers

The Company is not dependent on particular customers in this sector, the loss of which could materially affect its business.

#### 1.12.9 Human capital

Unitronics Management operates from Unitronics Building without having its own offices, assets or employees. Its activity is carried out by the managers and employees of the Company, using Company assets.

### **Part IV – Matters concerning the Company's activities**

#### **1.13 Fixed assets, land, facilities, insurance and liens**

The major part of fixed assets used by the Company is Unitronics Building at Airport City where Company Israeli offices and facilities are located. Fixed assets also include IT systems, automated logistics system, automobiles, lab equipment, office equipment and furnishings.

In July 2011, the Company purchased capitalized lease rights to an unbuilt plot in the Hevel Modiin-Tirat Yehuda industrial zone, which is intended to be used by its Systems and Parking Solutions segments. For details, see section 1.13.3 below.

As of December 2011, the Company rents facilities in the Yavne industrial zone, which is primarily used by for its parking solutions business. The rented space in Yavne includes computer equipment, components of automated parking systems, vehicles, lab equipment and office furniture and equipment, which is used by this segment. For details see section 1.13.4 below. In addition, the Company rents a storage space. For details see section 1.13.6 below.

- 1.13.1. Unitronics Building – Lease from the Israel Land Administration: The Company has leasing rights, under lease agreements dated April 16, 2008, in the ground floor (including basement) and the first floor with a floor area of 1,295 m<sup>2</sup> and 841 m<sup>2</sup> attached yard area (hereinafter: "the Company's rights") of a building known as "**Unitronics Building**". The

Company's interest in Unitronics Building is also designated as part of Block 8632, Lot 27 (after initial parcellation of the land marked "3" in line with Urban Zoning Plan GZ/MK/566/1) at the following address: Airport City, P.O.B. 300, Ben Gurion Airport, 70100, Israel (hereinafter – **"the Company's interest in Unitronics Building"**). The Company has also acquired rights to an additional lot of 1,000 square meters adjacent to Unitronics Building, serving as parking lot for the Company's employees and visitors (hereinafter: **"the parking lot"**). The Company's interest in Unitronics Building and the adjacent parking lot was granted by agreement dated July 23, 2000 with Airport City Ltd. (hereinafter: **"ACL"**), whereby the Company obtained capitalized leasing rights (91%) to the Company's floors for 49 years, with an optional lease extension for a further 49 years. On April 16, 2008, the lease contracts for the Company's rights in Unitronics Building were signed by the Israel Land Administration. On February 15, 2010, Unitronics Building was registered as a condominium in the Condominium Registry at the Land Registry Bureau.

The Company's rights in Unitronics Building serves as collateral to secure financing for acquisition of its interest in this property, as set forth in sections 1.16.2-1.16.3 of this report. The amortized carrying amount of the Company's floors as of December 31, 2011 amounted to NIS 16,565,000. For its current operations, the Company fully uses the space on the Company's floors at Unitronics Building. The other floors at Unitronics Building (floors 2-4) (hereinafter: **"the private floors"**), are leased from ILA by a company controlled by Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board and CEO, and his wife Mrs. Bareket Shani (hereinafter – **"the lessor"**), and are leased to third parties, except for 1,106 m<sup>2</sup> leased to the Company (as set forth below in section 1.13.2). The rights in the private floors was acquired about one month prior to acquiring the Company's interest in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its interest in the Company floors, at a price per m<sup>2</sup> based on the same pricing basis used by the Company to acquire its rights.

- 1.13.2 Unitronics Building - lease from controlling shareholder: In addition to the Company floors, which are used in full by the Company, the Company also leases space in the private floors based on its variable needs from time to time, under terms identical to those used to lease space in the private floors to third parties, which also reflect lease terms generally applicable at Airport City in general. Thus, from August 2004 through August 2005, the Company leased 196 m<sup>2</sup> on the private floors, and from August 2005 through July 2009, the Company leased a further 436 m<sup>2</sup> under identical terms. The rent was originally set at \$13.52 per m<sup>2</sup> per month (plus management fee payable to ACL at \$1 per m<sup>2</sup> per month, and management fee at \$2 per m<sup>2</sup> per month payable to the Company's subsidiary, Unitronics Building Management and Maintenance (2003) Ltd., with respect to management of Unitronics Building), subject to a 4% increase after every 2 years of lease, whereas the Company may terminate the agreement at any time, subject to offering a substitute tenant acceptable to the lessor. The agreements, amendments there to and exercise of options based there upon have been approved by the Company's Audit Committee and Board of Directors as transaction with a controlling shareholder or with a Board member which does not require approval by the General Meeting (see immediate report dated March 26, 2007, reference no: 2007-01-345737, which is hereby included by way of reference, an immediate report, included hereby by way of reference, dated May

21, 2008 - reference no: 2008-01-141636 - as well as report on Extraordinary Transaction with a Company Officer, hereby included by way of references, dated May 21, 2008 - reference no: 2008-01-141642). For additional details, see section 4.8.2 of the annual report.

Following termination of the aforementioned lease in July 2009, and in view of business growth in the normal course of Company business, and due to recruitment of additional staff and expanded operations, the Company was required to further increase its operating space. Therefore, on May 21, 2009 the Company Board of Directors and Audit Committee approved, subject to approval by the General Meeting of Company shareholders, the signing of a new lease with the lessor, to lease 936 m<sup>2</sup> of office space at Unitronics Building, as well as 20 parking spaces. Under the lease agreement signed August 1, 2009, the lease term is 36 months starting on August 1, 2009 and may be terminated at any time with a 3-months prior notice by a resolution of the Company's Audit Committee.

Under terms of the lease, the rent is set at NIS 65 per m<sup>2</sup> per month, linked to the CPI, but no less than the CPI known upon the lease signing date (plus management fee payable to ACL at NIS 5 per m<sup>2</sup> per month, and management fee at NIS 9.5 per m<sup>2</sup> per month payable to the Company's subsidiary, Unitronics Building Management & Maintenance (2003) Ltd., which provides management and maintenance services for Unitronics Building). The rent for parking spaces is NIS 250 per each parking space (in total NIS 5,000 per month for 20 parking spaces). Total cost of the lease for the Company under the agreement is NIS 85,000 per month, linked to the CPI (excluding parking spaces and management fee), but no less than the CPI known upon the lease signing date.

The Company's Audit Committee and Board of Directors have determined that growth in Company business, including employment of additional staff, require the leasing of additional space. The aforementioned transaction allows the Company to lease additional space in the fastest, most efficient manner in the same building and without incurring expenses for relocation and/or expenses associated with the Company operating at multiple locations.

Although the Company's Board of Directors did not view the aforementioned transaction as an "Irregular Transaction", as defined in the Companies Law, for the sake of prudence, the Audit Committee and Board of Directors decided to take a conservative stance and regard this transaction as an "irregular transaction" and to submit it for approval by the General Meeting of Company Shareholders, pursuant to section 270(4) of the Corporate Act. The Audit Committee and Board of Directors further determined that the transaction is at market conditions and in the normal course of business, and is not detrimental to the Company's best interest. (For details of approval of this transaction by the Company's Board of Directors and Audit Committee, see Immediate Report about Event or Matter Outside the Normal Course of Corporate Business, hereby included by way of reference, dated May 21, 2009, reference no: 2009-01-117399).

On July 29, 2009, the General Meeting of Company shareholders approved the lease transaction from the lessor, as set forth above (for details see Immediate Report on Outcome of General Meeting to Approve Transaction with a Controlling Shareholder

and/or to Approve a Private Offer, hereby included by way of reference, reference 2009-01-182700, as well as an Immediate Report on Results of General Meeting dated July 29, 2009, reference no: 2009-01-182697).

On March 27, 2011, the Audit Committee and Board of Directors decided to approve an amendment to the lease agreement dated August 1, 2009 (“**the Amendment**”) between the Company and the lessor.

Pursuant to the Amendment, the Company rents from the lessor an additional 170 m<sup>2</sup> and an additional 10 parking places, apart from the 936 m<sup>2</sup> of office space and the 20 parking places rented by the Company in Unitronics House in Airport City, pursuant to the lease agreement, under identical terms (for details see immediate report on Event or Matter Outside the Ordinary Course of Company Business, hereby included by way of reference, dated May 21, 2009, reference no: 2009-01-117399, and immediate report on a Transaction with a Controlling Shareholder or a Director, which does not Require Approval by the General Meeting, hereby included by way of reference, dated March 27, 2011, reference no: 2011-01-094152). For additional details see section 4.7.3 of Chapter D of the Annual Report.

On March 29, 2012, the Audit Committee and Board of Directors approved the Company’s entry into an additional lease agreement, whereby the lease would be extended by an additional period of 36 months, at the same terms specified above. The extension of the lease is subject to the approval of the General Meeting of the Company’s Shareholders which, as of the report date, has not been given. For additional details, see section 4.5.7 of this report.

1.13.3 On July 7, 2011, the Company signed with an entity unrelated to the Company or to interested parties therein (hereinafter – “**the Seller**”), an agreement to acquire a real estate property (hereinafter in this section – “**the Agreement**”), which is an unbuilt plot of land covering 11,000 m<sup>2</sup>, in the Hevel Modiin-Tirat Yehuda industrial zone (“**the Property**”), in consideration for NIS 17,370,000 plus VAT. Under the Agreement, the Company purchased capitalized lease rights in the plot, which are registered with the Israel Land Administration in the seller’s name until January 1, 2057 (“**the Lease Period**”), and an additional lease period of 49 years commencing from the end of the Lease Period. The registration of the Company’s rights in the Property will be made up to 18 months from the date of the Agreement, or until all the requisite authorizations are furnished for the purpose of registering the rights, whichever is earlier. As at the report date, the registration of the Company’s rights in the Property with the Israel Land Administration has not ended. The Property is intended to be used by the Company’s Systems Department and Parking Solutions segment. For addition details see on the Agreement and the Property, see amending immediate report on an Event or Matter Outside the Ordinary Court of the Company’s Business, dated July 7, 2011, reference no: 2011-01-207288, which is hereby included by way of reference.

1.13.4 The Company rents from a third party which is unrelated to the Company and/or to interested parties therein (hereinafter in this section – “**the Lessor**”), a building in the Yavne industrial zone on an area of 2,100 m<sup>2</sup> (hereinafter in this section – “**the Leased Property**”) in consideration for monthly rent of NIS 55,650 (not including VAT), from



December 4, 2011 to December 31, 2013, where the Company houses its parking solutions business. The Company has an option to extend the lease by two additional periods, one from January 1, 2014 to June 30, 2014 (“**Option 1**”) and the second from July 1, 2014 to December 31, 2014 (“**Option 2**”). The Lessor has the right to exclude an area of 500 m<sup>2</sup> from the Leased Property during the period of Option 2, and insofar as it exercises its rights, the rent will be proportionately reduced. The Leased Property, which includes computer equipment, and automated parking system, lab equipment and officer furniture and equipment, is used for the parking solutions business.

- 1.13.5 As from March 1, 2008, the Company leases storage space with an area of 500 m<sup>2</sup> close to Airport City. The lease was signed for a 6-month term, and the Company has 6 options to extend the lease for a further 6-month term each. The rent paid by the Company, NIS 105,000 per year, is not material. At the end of December 2011, the lease on the said storage space ended.
- 1.13.6 Furthermore, pursuant to an agreement dated August 23, 2010 with the same lessor stated in section 1.13.5, which was not signed by the Lessor, but is nevertheless implemented, the Company leases as from August 8, 2010 an additional storage warehouse with an area of 500 m<sup>2</sup> (as of the report date, this is the only warehouse leased by the Company from this Lessor). The lease was signed for a 6-month term, and the Company has 6 options to extend the lease for a further 12-month term each. The rent paid by the Company, NIS 105,000 per year, is not material. This warehouse is used by the Company for storage of components related to the Products segments
- 1.13.7 Unitronics Inc.: The subsidiary Unitronics Inc. leases from a third party not related to the Company and/or to interested parties there in, office space in Quincy, near Boston, MA with a total area of 1,520 square feet (141 m<sup>2</sup>), leased through March 2013 for an annual rent of \$35,000.

Unitronics Inc. also leases from a third party not related to the Company and/or to interested parties there in, office space in Fort Lee, NJ with a total area of 1,400 square feet (130 m<sup>2</sup>), leased until October 31, 2013 for an annual rent amounting to US\$37,000.

- 1.13.8 Computer systems: The Company has computers and peripheral equipment used in its current operations, for different applications used in design, development, production, marketing and operations. This equipment includes servers, workstations, security and defense systems, backup systems and a variety of communication infrastructure. The system infrastructure is designed to allow some flexibility in growth and future increase in volume of operations.

The Company has an automatic warehouse operating at its facility in Unitronics Building at Airport City.

The Company has installed an ERP (Enterprise Resource Planning) system used by the purchasing, production and inventory departments of the Company as well as financial management and accounting, customer relationship and order management, project management, service and maintenance management etc. The Company has licenses of unlimited duration to use this software without any payment (other than payments made

in conjunction with installation and customization of the software to Company needs, and additional payments in case of additional users and/or upgrades).

As for Microsoft operating systems and Microsoft Office products, the Company has annual usage licenses whereby it regularly receives release updates and version upgrades. In other areas, the Company has licenses to use various software tools installed on its computers at terms and conditions generally accepted in the industry.

#### 1.13.9 Insurance

The Company and its subsidiaries are insured under an insurance policy (except for Unitronics Inc. – see section 1.13.9.5 below) which in the Company's opinion, provide it with appropriate insurance coverage, as follows:

##### 1.13.91. Property Insurance

The Company carries extended fire insurance, providing insurance coverage against common fire insurance risk, including earthquakes and other natural disasters, burglary as well as a rider for all-risk coverage - funds.

##### 1.13.9.2 Indirect damage insurance

The Company carries indirect damage insurance, which specifies fixed expenses and annual gross income at \$12,700,000, plus miscellaneous expenses at \$250,000.

##### 1.13.9.3 Third party insurance

The Company carries liability insurance for bodily injury and/or property damage to third parties with coverage up to \$5,000,000 per event and for overall injuries/damages incurred during the insurance term.

##### 1.13.9.4 Officers Liability Insurance

For details, see section 4.6.8 of this report.

##### 1.13.9.5 Insurance for Unitronics Inc.

The US subsidiary, Unitronics Inc. carries its own insurance coverage, separate from the Company's. This insurance includes property insurance, with coverage of \$1,000,000 per event and \$2,000,000 total coverage; employer liability and employee compensation insurance, with coverage up to 1,000,000 for accidental injury, \$1,000,000 per employee for bodily injury caused by illness, and \$500,000 in total for bodily injury caused by illness.

##### 1.13.9.6 Other miscellaneous insurance

The Company also provides other miscellaneous insurance, including contractor insurance, employer liability insurance, combined product and professional liability insurance, import/export shipment insurance, mechanical breakage insurance, electronic equipment insurance, terror damage insurance and insurance for goods in transit.

##### 1.13.9.7 In management's opinion, the Company is not under-insured.

#### 1.13.10 Liens

For details on liens see section 1.17.1 of this report.

#### 1.13.11. Geographic segments

For details on Company operations by geographical segment, see section 1.9.28 for products, section 1.10.22 for systems and section 1.11.22 for parking solutions. The data below is for the Company's operations in general:

##### **Total non-current assets by geographic regions:**

|                          | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--------------------------|-------------|-------------|-------------|
| Israel                   | 64,399      | 37,685      | 36,498      |
| North America            | 362         | 255         | 247         |
| Total non-current assets | 64,761      | 37,940      | 36,745      |

For further details on the Company's operations by geographic regions, see Note 25 to the financial statements (Chapter C of this report).

#### 1.14 Intangible assets

- 1.141. Overview: The Company claims copyright and rights to use technologies, knowledge and trade secrets (for patents and trademarks, see below).

The Company mainly protects its trade secrets and intellectual property by means of non-disclosure agreements with employees, consultants and some customers. It is uncertain whether these means provide sufficient protection, and they may not protect the Company in case of competitive development independently carried out by third parties.

##### 1.14.2 Patents and patent applications:

The Company has obtained a US patent with regard to certain aspects of its WilCo™ technology (see above). In 2004, the Company filed a patent application with regard to this technology under the European Patent Convention, which has yet to be granted.

Likewise, in 2008-2012, the Company filed patent applications (including provisional patents) with regard to certain aspects resulting from development of technologies related to control of automatic parking systems. These applications were filed in the USA, as well as under the international Patent Cooperation Treaty (PCT). As of the date of this report, no patents have been granted for these applications.

According to the Company's estimates, the time required for actual patent grant ranges from 3 to 5 years. Also, it is uncertain whether patents applied for by the Company would be recognized as innovations or granted within the aforementioned time frame.

Furthermore, the Company owns several sample patents registered in the USA, Israel and the European Union, with regard to controllers developed and manufactured by the Company.

#### 1.14.3 Trademark registration:

The name Unitronics and the Company logo are registered trademarks in Israel, Europe and the USA.

Over the years, the Company has filed applications with the US Patent and Trademark Office (USPTO) and with the Patent Registrar in Israel to register trademarks for various names, designs (logos) and samples used by the Company's different product ranges. Thus, the Company registered in the USA the trademarks OPLC ,JAZZ ,Visilogic and P<sup>2</sup> . From time to time, the Company files applications with the USPTO and with the Patent Registrar in Israel with regard to registration of various trademarks; there is no certainty that these applications would be granted.

#### 1.144. Internet domain names:

The Company has acquired rights to use domain names (including domain names with various country TLDs) in which the Company presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communications with current and potential customers. As customary, the Company is entitled to continue making exclusive use of these websites, subject to payment of annual fees (in immaterial amounts) to the company providing website maintenance.

1.14.5 In 2011, 2010 and 2009 the Company invested NIS 24,000, NIS 0 and NIS 0, respectively in its intellectual properties.

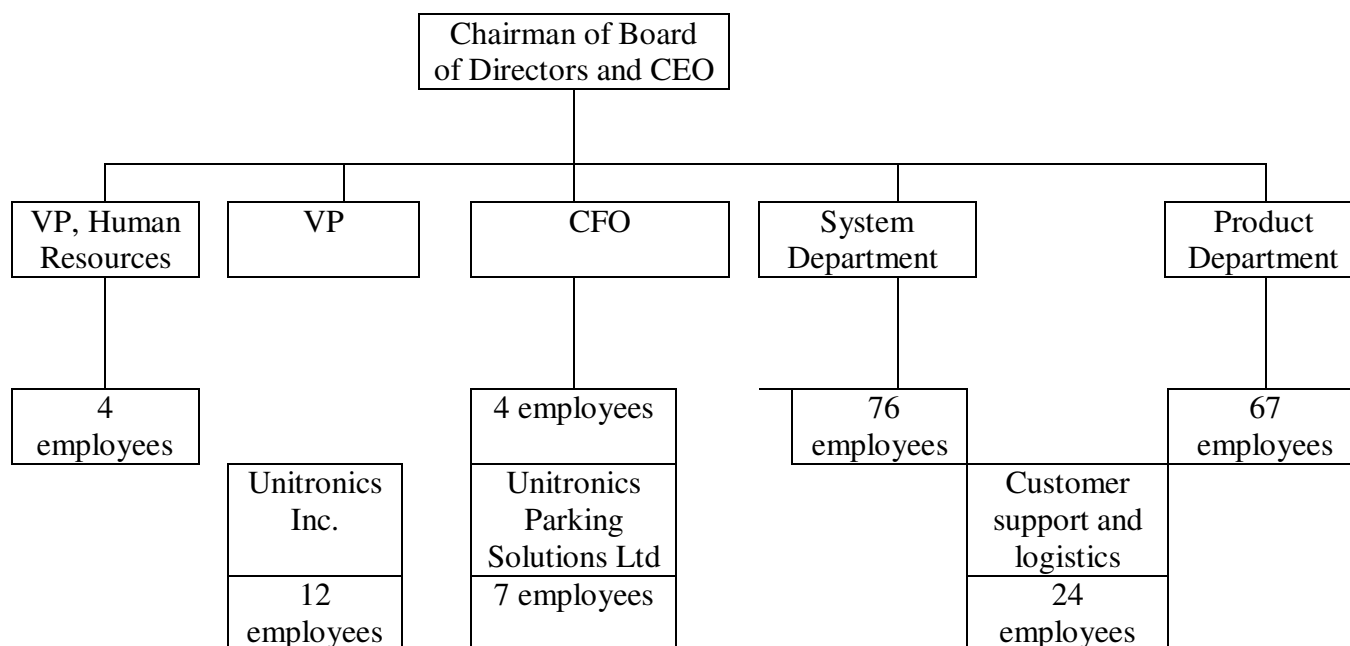
### 1.15 Human resources

1.15.1 Organizational structure: The Company's controlling shareholder, Mr. Haim Shani, serves as Company Chairman and CEO<sup>14</sup>. Several executives report to the CEO, as per the chart below, in charge of technology, finance and human resources. The Company's commercial operations are carried out by the Product Department and the System Department, each headed by a senior executive or executive team, reporting to the CEO, as well as through its active subsidiaries.

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<sup>14</sup> In accordance with resolutions by the General Meeting of Company shareholders dated April 13, 2004, July 3, 2007, December 9, 2010 and September 22, 2011 (for details, see immediate report concerning appointment of Board member (other than a corporation) or individual serving on behalf of a corporation which is a Board member, hereby included by way of reference, December 12, 2010, reference 2010-01-713496, dated December 9, 2010, reference no: 2010-01-713490, as well as amending immediate report on Results of a General Meeting to Approve a Transaction with a Controlling Shareholders and/or to Approve a Private Offer and/or to Approve a Double Office Chairman/CEO and/or Appoint an External Director, hereby included by way of reference, dated September 27, 2011, reference 2011-01-286377).

The Company's organizational chart and staff headcount as of the date of this report are as follows:



1.15.2. Company staff and composition: Soon prior to the date of this report, the Company employs a staff of 172 employees in Israel. Its subsidiary, Unitronics Inc. employs a staff of 12 employees (most of them with no written personal employment contracts), the subsidiary, Unitronics Parking Solutions employ a staff of 16 employees, and its subsidiary Unitronics Building Management & Maintenance (2003) Ltd. has no staff.

The composition of Company staff in Israel by occupation upon the listed dates was as follows:

| Occupation                                     | Staff headcount          |                   |                   |                   |
|------------------------------------------------|--------------------------|-------------------|-------------------|-------------------|
|                                                | Close to the report date | December 31, 2011 | December 31, 2011 | December 31, 2009 |
|                                                |                          |                   |                   |                   |
| Sales and Marketing                            | 15                       | 15                | 14                | 15                |
| Research and development                       | 48                       | 51                | 31                | 24                |
| Administration                                 | 16                       | 16                | 14                | 10                |
| Manufacturing, logistics and quality assurance | 41                       | 42                | 51                | 40                |
| Integration and support                        | 52                       | 57                | 56                | 43                |
| <b>Total</b>                                   | <b>172</b>               | <b>181</b>        | <b>166</b>        | <b>132</b>        |

Staff headcount in Israel by profession on the relevant dates:

| Profession                                                 | Staff headcount          |                   |                   |                   |
|------------------------------------------------------------|--------------------------|-------------------|-------------------|-------------------|
|                                                            | Close to the report date | December 31, 2010 | December 31, 2010 | December 31, 2009 |
| Clerks - administrative                                    | 5                        | 8                 | 7                 | 8                 |
| Professional field technicians                             | 13                       | 14                | 19                | 21                |
| Programmers (academic)                                     | 42                       | 49                | 31                | 20                |
| Engineers                                                  | 39                       | 33                | 30                | 17                |
| Technicians, warehouse staff and mechanical assembly staff | 21                       | 23                | 18                | 22                |
| Academic (general)                                         | 22                       | 20                | 23                | 15                |
| Practical engineers                                        | 30                       | 34                | 38                | 28                |
| <b>Total</b>                                               | <b>172</b>               | <b>181</b>        | <b>166</b>        | <b>132</b>        |

As of December 31, 2011, the subsidiary Unitronics Inc. had a staff of 12 employees, the subsidiary Unitronics Parking Solutions has a staff of 7 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff. As of December 31, 2010, the subsidiary Unitronics Inc. had a staff of 7 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff. As of December 31, 2009, the subsidiary Unitronics Inc. had a staff of 7 employees and the subsidiary Unitronics Building Management & Maintenance (2003) Ltd. had no staff.

The Company has increased its staff in the various segments during the reported period, as listed above. The significant increase in staff was required to support the growth of the Company's business, as described in this report, and in support of its business plans.

**1.15.3 Terms of employment:** Most Company employees are employed pursuant to written, individual employment contracts which include customary undertakings with regard to non-disclosure, non-competition and safeguarding of Company intellectual property. The Company's severance pay liabilities are partially covered by contributions to retirement insurance policies and pension funds. The balance of severance pay liabilities not covered by such contributions is subject to appropriate provision made on the Company's financial statements.

Labor relations at the Company are not subject to any specific collective bargaining agreements, including the general collective agreement for metal, electricity and electronics employees and the extension order applicable to this agreement.

The Company grants, from time to time, to employees stock options under the stock option plan adopted by the Company (for details, see section 4.9.3 of this report). Other than as listed below in section 4.6.2, the Company is under no obligation to grant stock options to any of its employees; in practice, stock options are granted by the Company Board of Directors, based on recommendations made by management, at the sole discretion of the Company Board of Directors.

On March 6, 2008 an amendment was published to the Companies Regulations (Rules Concerning Remuneration and Expenses of Independent Board Members) (Amendment),

2008. Following the publication of the amendment, the Company's Board of Directors resolved on May 22, 2008 to update the annual remuneration and the remuneration for participation of external directors serving on the Company's Board of Directors, which, effective March 6, 2008, will amount to NIS 25,000 and NIS 1,590, respectively. In accordance with this resolution, this update would also apply to remuneration paid to another director who serves on the Board of Directors but is not an external director (neither is he an interested party, other than by virtue of serving as a director), who prior to this update was paid an equal annual remuneration and participation remuneration as those paid to external directors of the Company (for details, see immediate reports, hereby included by way of reference, of Transaction with a Controlling Shareholder or with Board member which does not require approval by the General Meeting, dated May 21, 2008, references 2008-01-141624 and 2008-01-141627). The Company implements a policy whereby all directors in the Company (except for controlling shareholders) are paid an equal remuneration, which is based on the remuneration paid to external directors, and believes this policy constitutes an adequate balance between the Company's ability, under certain conditions, to pay higher remuneration to directors who are not external directors and the remuneration paid to external directors.

#### 1.15.4 Officers and senior management:

Senior officers are employed in the Company under personal labor agreement or under management and/or consulting services agreements. The terms of employment relating to officers, which have an employer-employee relations with the Company, *inter alia*, include a monthly salary, provisions for a pension fund and/or senior employees' insurance, provisions for a study fund, entitlement to an annual vacation and convalescence pay, reimbursement of expenses and company car. In addition, Company employees sign a confidentiality and non-competition agreement. The said employment agreements (except for Mr. Haim Shani and Mrs Bareket Shani's employment agreements) are for an unlimited period, where each party is entitled to terminate the agreement with a prior notice. Likewise, senior officers of the Company receive insurance coverage under a directors and officers' professional liability insurance policy. For details on the terms of employment of officers and senior management at the Company, see section 4.6 of this report.

In the periods between April 13, 2007 and July 3, 2007 as well as between July 3, 2010 and December 9, 2010, Mr. Haim Shani ceased to serve as Chairman of the Board of Directors, upon the termination of authorization periods pursuant to the resolutions of the general meetings of shareholders of the Company authorizing him to serve as both Chairman of the Board and CEO of the Company. During these periods Ms. Bareket Shani, Mr. Haim Shani's wife who serves as director, Vice CEO and Vice President of Human Resources in the Company, also served as Chairman of the Board (for details see the following reports included hereby by way of reference: Immediate Report on senior officer who ceased to hold office dated April 15, 2007, reference no: 316466-01-2007, Immediate Report on appointment of senior officer dated April 15, 2007, reference no: 316469-01-2007, Immediate Report on senior officer who ceased to hold office dated July 3, 2007, reference no: 313678-01-2007, Immediate Report on appointment of director dated July 3, 2007, reference no: 313717-01-2007, Immediate Report on outcome of general meeting, dated July 3, 2007, reference no: 313657-01-2007, Immediate Report on

senior officer who ceased to hold office dated June 30, 2010, reference no: 537480-01-2010, Immediate Report on appointment of director (other than a corporation) or individual who serves on behalf of a corporation who is a director, dated June 30, 2010, reference no: 537471-01-2010).

On December 9, 2010, Ms. Shani ceased to serve as Chairman of the Board (for details see Immediate Report on senior officer who ceased to hold office dated December 9, 2010, reference no: 2010-01-713502, which is hereby included by way of reference), and Mr. Shani who serves as CEO of the Company was appointed as Chairman of the Board for a period of three years (for details see Immediate Report on appointment of director other than a corporation) or individual who serves on behalf of a corporation who is a director, dated December 9, 2010, reference no: 2010-01-713496). This resolution was approved by the general meeting of shareholders of the Company on December 9, 2010 (for details see Section 1 of Immediate Report on outcome of general meeting, which was published on December 9, 2010, reference no: 2010-01-713490, which is hereby included by way of reference).

The Company is materially dependent on continued service by Mr. Haim Shani and Ms. Bareket Shani.

Loss of services of Mr. Shani or Ms. Shani may materially impact the Company's financial results.

This material dependence on continued service by Mr. Haim Shani and Ms. Bareket Shani is due, *inter alia*, to the following:

- (1) As Company founders, Mr. Shani And Ms. Shani have long-standing, close and direct knowledge of all technologies and products being developed, manufactured and distributed by the Company, from its inception to date, as well as with markets, customers and service providers of the Company.
- (2) Mr. Shani and Ms. Shani have a well-known reputation in the Company's business area, and the Company's reputation is tightly linked to the fact that Mr. Shani and Ms. Shani are controlling shareholders and officers of the Company.
- (3) Consequently, Mr. Shani And Ms. Shani are actively involved in all levels of the daily operation of the Company, and replacing them would require a very long training process, as well as replacements with similar knowledge and experience to those of Mr. Shani and Ms. Shani, which would require significant resources.
- (4) Furthermore, replacing Mr. Shani and Ms. Shani may involve significant costs, in view of the low pay they have been receiving from the Company over the years, compared to similar officers in companies of a similar size.

#### 1.15.5 The Company's investment in training and practice:

The Company provides internal training for staff in different departments, primarily in the field of work health and safety. This training is delivered by the Company's Safety Manager, as part of his job duties and compensation. The Company also provides, as part of international marketing operations and support for its distributors, professional training for distributors and regional sales staff. This training is delivered by Company support teams, at facilities of overseas distributors, and include rollout of new developments, as well as expansion of their knowledge of operation and marketing of current products. In the USA, regional training is delivered from time to time, attended by sales staff and distributors from near-by states. The cost of this training is included under the Company's



sales and marketing expenses - the Company does not maintain a separate budget dedicated to these expenses.

## 1.16 Investments

As of the date of this report and in the relevant reporting periods, the Company had no investments in investees, partnerships and ventures other than its subsidiaries.

## 1.17 Financing

1.171. Company operations are financed using the Company's own equity as well as external financing sources. The Company's external financing sources are as follows (the data below also includes amounts of special-purpose loan described below in section 1.17.2):

| Credit type                                    | As of December 31, 2011         |                   |                    | As of December 31, 2010         |                      |                      |
|------------------------------------------------|---------------------------------|-------------------|--------------------|---------------------------------|----------------------|----------------------|
|                                                | Credit amount, NIS in thousands | Interest rate     | Effective interest | Credit amount, NIS in thousands | Interest rate        | Effective interest   |
| Short-term bank credit (checking account)      | -                               | -                 | -                  | -                               | -                    | -                    |
| Long-term bank credit (USD)                    | 2,501                           | LIBOR + 2.02%     | LIBOR + 2.02%      | 2,710                           | LIBOR + 2.02%        | LIBOR + 2.02%        |
| Long-term bank credit (EUR)                    | (*)17,350                       | LIBOR + 1.93-3.41 | LIBOR + 1.93-3.41  | 15,637                          | LIBOR + 2.075%-1.93% | LIBOR + 2.075%-1.93% |
| Unlinked lease financing                       | 296                             | 9.9%              | 9.9%               | 381                             | 9.9%                 | 9.9%                 |
| Debentures (Series 2) (CPI-linked)             | 11,935                          | CPI + 6.1%        | CPI + 9.57%        | 17,207                          | CPI + 6.1%           | CPI + 9.57%          |
| Convertible debentures (Series 3) (CPI-linked) | 55,228                          | CPI+5.65%         | CPI+7.12%          | -                               | -                    | -                    |

The above table lists "Short-term bank credit (USD)" in the amount of NIS 2,501,000, and "Long-term bank credit (EUR)" in the amount of NIS 2,734,000 (out of the amount marked by (\*) in the table). This credit is secured by liens on Unitronics Building as specified in section 1.17.2 below. In addition, the above table includes "Short-term bank credit (EUR) in the amount of NIS 4,938,000 (out of the amount marked by (\*) in the table) in respect of the financing of a portion of the acquisition of capitalized lease rights of a real estate property, on an area of 11,000 square meters in the Hevel Modiin-Tirat Yehuda industrial zone (hereinafter – **"the Property"**). To secure the repayment of this Property, a pledge was registered with the Companies Registrar on the Company's rights in the Property (as of the date of this report, the pledge of lease rights to the Property has not been registered with the Land Registry and/or in the books of the Israel Land Administration, because the process of transfer of the rights at the Administration has not

been completed). For additional details see section 1.17.3 below.

The above table also lists "Non-linked lease financing", in the amount of NIS 286,000, secured by liens on vehicles.

There are no liens on the Company's investment portfolios.

As of December 31, 2011, the Company has current credit facilities (excluding credit for financing acquisition of Company interest in the Company floors, as described below), amounting to NIS 17.9 million - primarily in connection with provision of bank guarantees to secure Company obligations pursuant to systems-related agreements, as listed above. As of the date of this report, aggregate borrowings under the credit facility totaled NIS 17.5 million. Since December 31, 2010, the Company did not obtain additional credit in material amounts. Although as of the date of this report, the Company is unaware of any restrictions, it is uncertain whether these credit facilities would be renewed or whether the Company would be granted alternative credit facilities under similar terms and conditions or otherwise. Furthermore, credit documents signed by the Company and some Israeli banks stipulate that the bank's consent is required in certain cases of change in Company shareholders.

The Company has undertaken not to create a floating charge over any of its assets in favor of any third party without the prior written consent of Bank Leumi Le'Israel Ltd.

Under the Shelf Prospectus and the Offering Report published pursuant thereto, the Company has also undertaken to refrain from creating additional charges over its assets, apart from those existing on the date of signing the Debenture Trust Deed (Series 3) ("**the Deed**"). In favor of any third party, without the prior written consent of the Trustee, except for charge over real estate and/or equipment acquired by the Company after the date of the Deed, the pledging thereof shall only serve to secure the repayment of financing for the acquisition of the asset, which is the subject of the pledge (see section 1.4.8 above).

As of December 31, 2011 and the reporting date, the Company is in compliance with all the applicable covenants with regard to credit granted by third parties.

- 1.17.2 The acquisition of the Company's rights in the Company's Floors in the Unitronics Building was financed primarily through a credit facility totaling NIS 13,735,000 provided to the Company by the Industrial Development Bank of Israel Ltd. (hereinafter: the "**Industrial Development Bank**"), in accordance with the financing terms agreed between the parties on July 12, 2000.

On December 29, 2005, the Company fully repaid the outstanding debt balance under the credit facility extended to it in 2000 by the Industrial Development Bank, in the total amount (as of the above due date) of NIS 11,000,000 (eleven million shekels) (hereinafter: the "**Previous Credit Facility**"). This payment was made using two new loans provided to the Company by Bank Leumi LeYisrael Ltd. (hereinafter: "**Bank Leumi**") on December 29, 2005 (a loan totaling €1,015,000 and a loan totaling USD 1,200,000; hereinafter: the "**New Credit Facility**").

Under the terms of the New Credit Facility from Bank Leumi, the repayment of the loans will be spread over a period of 12 years from the date of the loan for the entire amount (as compared to the Previous Credit Facility, for which half the amount was due for payment in July 2006, and the remainder for payment within 10 years), plus interest at the rate of Libor + 2.02% (as compared to Libor + 2.50% under the Previous Credit Facility).

The outstanding debt to Bank Leumi as of December 31, 2011 under the New Credit Facility is NIS 5,235,000.

- 1.17.3 As part of financing the purchase of the Company's Floors, on February 12, 2008, the Board of Directors authorized the signing of a deed of pledge, power of attorney in favor of Bank Leumi and in favor of Airport City, and a letter of irrevocable instructions to the Israel Land Administration, all for the purpose of registering the leasing right in the Company's name and registering the new pledge, as aforesaid.

On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by way of a lien in favor of Bank Leumi, to secure the loans from Bank Leumi. In the wake thereof, two first-ranking pledges were created on May 1, 2008, on contractual rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008.

As specified above, in July 2011 the Company entered into agreement with an entity unrelated to the Company or to interested parties therein, for the acquisition of an unbuilt plot of land on an area of 11,000 square meters, in the Hevel Modiin-Tirat Yehuda industrial zone (hereinafter in this section – **"the Property"**). For additional details on the purchase agreement, see section 1.13.3 above. To finance the acquisition, the Company used its own equity capital and the credit framework provided by Bank Leumi. For Additional details on the financing of the acquisition of the Property and the pledge registered in respect thereof, see section 1.17.1 above.

## **1.18 Taxation**

For details on tax laws in Israel applicable to the Company see note 24 to the Company's financial statements, which are included in Chapter C of the report.

## **1.19 Limitations on and supervision of Company activities**

- 1.19.1 Business license: Company operations at Unitronics Building in Airport City are subject to obtaining a business license under the Business Licensing Law, 5728-1968. In June 2004 the Company received a business license, unlimited in time, for its plant at Airport City from the Business Licensing Department at the *Hevel Modi'in* Regional Council.

As of the date of publication of this report, the Company does not have a business license for its property in Yavne as stated in section 1.13.4, and the Company is taking steps to obtain a legal business license, in connection with its operation in this property. For details on the risks involved in an operation that requires a business license, without a license, see section 1.23 below.

- 1.19.2 Work safety: The Company has a safety officer at its plant, in charge of compliance with the work safety provisions. The Company holds annual training courses for employees of various departments on work safety issues.
- 1.19.3 Ministry of Defense: the Company is a recognized supplier to the Israeli Ministry of Defense as a manufacturer, distributor and service provider in the automated warehouse sector, as of November 25, 2002.
- 1.19.4 Regulation: for details see section 1.92, 1.9.26, 1.10.2, 1.10.19 and 1.12.2 of the Annual Report.

## **1.20 Material agreements and cooperation agreements**

- 1.20.1 The agreements listed in sections 2.14, 1.4.2, 1.4.7, 1.9.13, 1.10.7.2, 1.10.9 and 1.15.4 of the Annual Report are material agreements of the Company. In addition, the agreements detailed in this section are material agreements of the Company.
- 1.20.2 Acquisition of Company rights in Company Floors at Unitronics Building and financing of the acquisition: On July 23, 2000 the Company entered into an agreement concerning the purchase of rights in certain floors in the Unitronics Building, as detailed in section 6.12 above, under the financing terms specified in sections 1.17.2 and 1.17.3 above.
- 1.20.3 Debentures (Series 2): A series of NIS 34,000,000 par value registered debentures (Series 2) of the Company, bearing interest of 6.1% per annum, linked (principal and interest) to the Consumer Price Index and payable (principal) in 5 equal annual installments on August 25 of each of the years 2009 to 2013 (inclusive). The debentures (Series 2) were issued under the 2006 Prospectus at 94% of their par value.

On August 15, 2006 the Company contracted with Hermetic Trusts (1975) Ltd. (hereinafter: "**Hermetic**"), as trustee for the bonds (Series 2) offered under the 2006 Prospectus. The trust deed includes provisions as to the trustee's authority concerning waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening meetings of bondholders, and concerning the proceedings at meetings of bondholders, voting at such meetings, indemnification of the trustee, replacing the trustee and expiry of the trustee's office.

The Trustee's details are set forth below:

- |                                           |                                                                      |
|-------------------------------------------|----------------------------------------------------------------------|
| 1. Name of the Trustee                    | Hermetic Trusts (1975) Ltd.                                          |
| 2. Name of person in charge of the series | Dan Avnon and/or Meirav Ofer-Oren                                    |
| 3. Means of communications:               |                                                                      |
| 3.1 Telephone                             | 03-5274867                                                           |
| 3.2 Fax                                   | 03-5271451                                                           |
| 3.3 Email                                 | <a href="mailto:hermetic@hermetic.co.il">hermetic@hermetic.co.il</a> |
| 3.4 Postal address                        | 113, Hayarkon St., Tel-Aviv 63573<br>P.O. Box 3524, Tel Aviv 61034   |

On November 11, 2009, the Company published in the name of Hermetic and at its request, that as the Trustee for debentures holders (Series 2), Hermetic announced that the annual report concerning trust actions carried out by the Trustee during the period from July 9, 2008 to October 5, 2009, is available for the review of the debenture holders (Series 2) at the Trustee's offices (for details see Immediate Report on Annual Report – Trust for Debentures (Series 2) – dated November 11, 2009, reference no: 279951-01-2009).

On July 20, 2011, the Company published in Hermetic's name and at its request, that as the trustee for series 2 debenture holders, Hermetic announced that the annual report on the trust actions undertaken by the trustee during the period from October 2009 to July 14, 2011, is available to the Series 2 debenture holders at the trustee's offices (for details see Immediate Report on an Annual Report - Trust for Debentures (Series 2) – dated July 20, 2011, reference no: 2011-01-218295, which is hereby included by way of reference).

On January 8, 2009, at the approval of the Board of Directors, the Company bought back, off-the-floor and not from interested parties, 7,100,000 debentures (Series 2) at a price of NIS 74.45 for a consideration of NIS 5,286,000.

The Board explained that it approved the buyback because it constitutes an opportunity for a profitable transaction which can also improve the Company's cash flow over time (for details see Immediate Report on Concerning an Event or Matter Outside the Ordinary Course of Company Business dated January 8, 2009, reference no. 2009-01-008778).

In accordance with the Company's 2006 Prospectus, which states that debentures that will be acquired by the Company will be cancelled and delisted from trading on the Stock Exchange, on January 20, 2009 the acquired debentures, as stated above, were cancelled and delisted from trading (see immediate report on change in securities of the corporation, dated January 20, 2009, reference no: 2009-01-008772, which is hereby included by way of reference).

For additional details on outstanding debentures (Series 2), see section 2.7.1 of this report.

- 1.20.4 Underwriting agreement (2006 Prospectus): The Company entered into an underwriting agreement on August 15, 2006, regarding the securities offered by the Company under the 2006 Prospectus (hereinafter: **Underwriting Agreement**). The underwriting agreement formalized the underwriters' obligations with respect to the distribution and underwriting of the securities and their commissions (and expense reimbursement), which totaled approx. NIS 1,262 thousand. Under the agreement, the Company has undertaken to indemnify the underwriters for any amount they may be charged under a judgment or a settlement to which the Company has agreed (and the expenses thereof), due to the inclusion of a misleading detail in the prospectus; or due to the inadequacy of any detail in the 2006 prospectus; or as a result of any claim the grounds for which arise or derive from the 2006 prospectus, save information provided to the Company in writing by an underwriter to be used for the preparation of the 2006 Prospectus – totaling up to the amount of the immediate and future issue under the 2006 Prospectus, linked to the Consumer Price Index with the base CPI value being the CPI value known on the date of the underwriting agreement, provided the indemnification amount shall not exceed 25%

of the Company's equity at the time, based on the Company's most recent audited financial statements.

1.20.5 Debentures (Series 3): A series of NIS 56,442,000 par value registered debentures (Series 3) of the Company, bearing interest of 5.65% per annum, linked (principal and interest) to the Consumer Price Index and payable (principal) in 5 equal annual installments on March 23 of each of the years 2013 to 2017 (inclusive). The debentures (Series 3) were issued under the Shelf Prospectus and the Offering Report at 100% of their par value. For additional details see section 2.7.1.

1.20.6 Trust agreement (2011 Shelf Prospectus): On February 22, 2011, the Company entered into an trust agreement (in this section: "**the Deed**"), with Reznick, Paz and Nevo Trusts Ltd (in this section – "**the Trustee**"), which will serve as Trustee for debenture holders (series 3 to 7 and series 8 to 12) to be offered, insofar as they are offered, under the shelf offering report, pursuant to the Shelf Prospectus, provided that on the date of offering of the debentures by the Company the Company and the Trustee examine the possibility of the Trustee serving as trustee for the offered series of debentures, while examining the existence or absence of a conflict of interest between the holders of the relevant series, in accordance, *inter alia*, with the terms of the deed. The deed includes general provisions regarding the issue and expansion of debenture series, acquisition of debentures by the Company and/or related holders, the Company's undertakings (financial and other covenants), collateral, events allowing to declare the debentures immediately due and payable, claims and proceedings by the Trustee, conditions for early redemption of the debentures, debt seniority, the Trustee's powers and obligations to him, remuneration and indemnification of the Trustee and expiry of the trustee's office. In addition, the deed includes provisions relating to general meetings of the debenture holders.

1.20.7 On March 22, 2011, the Company contracted with Reznick, Paz, nevo Trusts Ltd (hereinafter: "**the Trustee**"), to serve as trustee for the bonds (Series 3) offered under the Shelf Prospectus and the Offering Report. The trust deed includes provisions regarding the Trustee's authority as to waiver, settlement, amendments to the trust deed, declaring the bonds immediately due and payable, convening bondholders meetings, and with regard to the proceedings at bondholders meetings, voting at such meetings, indemnification of the Trustee, replacing the Trustee and expiry of the Trustee's office.

The Trustee's details are set forth below:

- |                                           |                                                      |
|-------------------------------------------|------------------------------------------------------|
| 1. Name of the Trustee                    | Reznick, Paz, Nevo Trusts Ltd.                       |
| 2. Name of person in charge of the series | Yossi Reznick, CPA                                   |
| 3. Means of communications:               |                                                      |
| 3.1 Telephone                             | 03-6389200                                           |
| 3.2 Fax                                   | 03-6393316                                           |
| 3.3 Email                                 | <a href="mailto:trust@rpn.co.il">trust@rpn.co.il</a> |
| 3.4 Postal address                        | 14, Yad Harutzim St., Tel-Aviv                       |

## 1.21 Legal Proceedings

### 1.21.1 Dispute with Sammy Gharb

In January 2006, the Company, through its counsel in the United States, filed a claim in a US federal court against a private individual, Mr. Sammy Gharb (hereinafter - The **Defendant** or **Gharb**) who approached the Company and several distributors of the Company in the United States and in Europe with claims that by marketing the Company's products they were infringing a registered patent of his. In this claim Unitronics petitioned the court to declare the defendant's registered patent in the United States invalid, that Unitronics' actions do not infringe the defendant's intellectual property rights and that the defendants deliberately interfered in contractual relations between the Company and its customers and distributors.

On September 25, 2007, the court decided in an interim ruling, addressing a part of the parties' claims, to accept Unitronics' position and adjudged that Unitronics had not violated and is not violating the defendant's patent the subject of the claim. In addition, the court rejected the defendant's counter-claims against Unitronics.

On April 22, 2007, before the above proceeding came to an end, Gharb's aforementioned patent expired due to failure to make payments in respect thereof.

On October 28, 2010, Gharb filed an application with the District Court which was classified as a "complaint" against Hoboken City Hall in the State of New Jersey, and which mentioned the Company, the subsidiary, Unitronics Inc. and others. Although this claim is vague, it seems that Gharb is claiming infringement of the patent which had already expired. As of the date of the Prospectus, no statement of claim has been filed by the Company or its subsidiary.

Given that by July 7, 2011, the complaint had not been submitted by Garb to Unitronics, to the subsidiary or to other defendants, the complaint has been struck out due to a lack of submission.

### 1.21.2 Dispute with Robotic Parking

During 2006 Hoboken Citry Hall in New Jersey (hereinafter – "**Hoboken City Hall**") hired the Company's services for the repair and maintenance and rendering operational of an automated parking lot in the city (hereinafter – "**the parking lot**"), which was built and operated by Robotic Parking Systems Inc. (hereinafter – "**Robotic**").

During the performance of the works by the Company, Ronotic filed a claim against Hoboken City Hall and against the Company, inter alia, for violating patent and intellectual property rights and causing breach of contract.

This dispute was resolved by way of compromise. The key points of the compromise: mutual withdrawal of existing and/or future claims and allegations relating to the dispute, the subject of the aforementioned proceeding, without payment of any compensation. The

compromise agreement was signed by the parties on July 17, 2007, and validated as a court ruling by the US Court on July 20, 2007.

In addition, on July 21, 2009, the court in New Jersey authorized the Company to present its position in the framework of an lawsuit filed by Robotic against Hoboken City Hall, solely in connection with the presence of protected trade secrets of the Company in the possession of Hoboken City Hall. On October 30, 2009, the Company filed an application for an injunction against Robotic in order to prevent the latter's access to the Company's protected intellectual property and trade secrets, and an injunction as stated was granted, in part, on January 19, 2010. The Company and Robotic individually appealed the partial nature of the injunction, and on March 23, 2010, these appeals were rejected. The Company appealed the said ruling once again and its appeal was rejected. At this stage, the Company estimates that there is no imminent risk that its protected trade secrets will be exposed.

On March 16, 2011 Hoboken City Hall and Robotic held a conference call with the court's attendance. The Company petitioned the court to approve its participation in the call, but its request was denied. During the call, Hoboken city hall and Robotic reached a settlement agreement, and the court therefore struck out the claim and left the parties to renegotiate the matter if the agreement is not completed within 60 days.

On May 5, 2011 the court referred the company and Robotic to arbitration, despite the objection of both parties, and an arbitration session was scheduled for the end of July 2011.

On June 24, 2011, Robotic filed an application for the reopening of the hearing in its lawsuit against Hoboken city Hall in order to enforce the aforesaid settlement agreement. Although the attorneys of Hoboken City Hall reported that the City passed a resolution authorizing the settlement agreement, a hearing was scheduled in the file for August 15, 2011.

On July 16, 2009, the Company instituted proceedings in the State of New Jersey, USA, against Robotic, in a lawsuit for the granting of an injunction and compensation for damages in respect to breach of an agreement, breach of contract and abuse of legal proceedings, in consequence of Robotic's attempt to obtain information that is the Company's protected intellectual property and is in the possession of Hoboken City Hall. The Company's petition was rejected on June 18, 2010, and it subsequently filed another appeal.

On January 7, 2010 the Company submitted an application to add Mr. Constantine Hag as a defendant in the case against Robotic and to add a defamatory allegation to the claim on the part of Robotic and Mr. Hag. Its request in these matters was not accepted and the Company plans to include the said decision in the aforesaid appeal.

The rulings in the above appeals have been postponed pending the completion of arbitration proceeding between the parties under the court's supervision, which were held on December 20, 2010. As part of negotiations for a settlement, which were held on December 20, 2010, in connection with the above proceeding and other proceedings as set



forth below regarding Robotics and Hoboken, the parties were unable to reach agreements. On December 22, 2010 the Company submitted a status report with the appeals court, in which it requested an oral hearing in the appeal. A date for a hearing has not yet been scheduled.

This matter was also discussed in the arbitration process detailed above, and subject to the enforcement of the agreement between Robotic and Hoboken City Hall, the Company plans to file application to strike out the appeal, with the addition of an agreement with Robotic, pursuant to which Robotic will not request access to the Company's computers and software programs, provided the negotiations with Robotic on the matter lead to an agreement.

The dispute between the parties was settled by way of a settlement, the highlights of which are dismissal of the proceedings, without impairing rights and without paying any compensation. The settlement agreement was signed by the parties on November 14, 2011 and was validated by the US court on November 21, 2011.

#### 1.21.3 Dispute with Hoboken City Hall in New Jersey

According to the terms of the agreements between Unitronics and Hoboken City Hall in the state of New Jersey, USA, with regard to the automated parking lot system in the city of Hoboken, Hoboken City Hall undertook, *inter alia*, to indemnify Unitronics for any damage that would be incurred by it in consequence of Robotic's lawsuits (see above).

On April 22, 2010, the Company brought a lawsuit in the state of New Jersey, USA, against Hoboken City Hall in the state of New Jersey, in respect of breach of an agreement, on the grounds that the Company was not paid legal expenses and other expenses in connection with the settlement agreement detailed above.

On April 27, 2010, the statement of claim was served upon Hoboken City Hall, and an application to waive summonses was filed.

In response to the claim, Hoboken City Hall made allegations of breach of contract, bad faith and negligent false representation against the Company, which the Company rejected.

On July 6, 2010, the Company petitioned the court to order Hoboken City Hall to pay legal fees and legal expenses in the amount of US\$ 300,000 in connection with the proceeding against Robotics. The court dismissed the Company's petition, stating that there was more than one way to interpret the clauses of the agreement, which relate to reimbursement of the Company's expenses.

On November 18, 2010 the Company petitioned for an order for discovery of documents by Robotic, which are connected with Hoboken City hall. The court rejected the Company's request, and the Company filed a motion with the court of appeals. This appeal was rejected on June 21, 2011.

On April 12, 2011, pursuant to the court's instruction, a conference call was held with the participation of a judge in the attempt to reach a settlement agreement, but the parties

failed to reach agreements. The judge ordered the parties to furnish all the documents, by April 26, 2011, in accordance with the parties' requests for discovery of documents. Another call regarding the status of the proceedings was scheduled for May 10, 2011.

On June 3, 2011, the Company reached understandings regarding a settlement agreement with Hoboken City Hall. This agreement is conditional on the striking out of Robotics' lawsuit against Hoboken City hall as aforesaid. As a result, on June 6, 2011 the court struck out the Company's lawsuit against Hoboken City hall and allowed the parties to reopen the case if the agreement is not completed within 60 days. As aforesaid, Robotics' lawsuit against Hoboken City Hall was struck out on September 13, 2011.

On August 17, 2011, Hoboken City hall informed the Company that it is unable to complete the settlement agreement before January 2012. Therefore, the Company offered an amended settlement agreement, and on November 14, 2011, an amended settlement agreement was signed between the Company and Hoboken City Hall, pursuant to which the City hall would compensate Unitronics for a total amount of US\$290,000, which would be paid until and no later than January 20, 2012, and would constitute final settlement of the parties' claims. This amount was indeed paid in January 2012 and the proceedings in the case were struck out.

#### 1.21.4 **Administrative appeal against the Company**

Following the Company's reports dated February 6, 2011 regarding the construction of an automated warehouse (hereinafter – "**The Project**") for a customer in Israel (reference number 2011-01-038982(hereinafter – The Customer) and dated March 30, 2011 regarding the receipt of a signed agreement from the customer (reference number: 2011-01-100404) on June 28, 2011 the Company received an administrative appeal against the customer and against the Company (hereinafter – "**The Appeal**").

Pursuant to the appeal, the petitioner requested permission to review all the documents related and referring to the said tender, such that the customer's decision to declare the Company as a winner in the tender will be subject to scrutiny.

In addition, the petitioner asks the court to declare that until the process of review of the tender's documents by him is concluded and he is given an opportunity to investigate the customer's decision as aforesaid, the tender process has not in fact been completed and the customer may not enter into agreement with the Company in connection with the project and/or issue an order to the Company and/or carry out the customer's decision.

The district court set a date for hearing of the appeal, November 24, 2011, however, on October 2, 2011, the district court granted the validity of a decision to the procedural arrangement reached by the parties, pursuant to which they will enter into a dialogue in the attempt to end the dispute between them outside the courts.

During the hearing that was held in the Court on January 22, 2012, of the motion which was filed by the Company for the dismissal in limine of the administrative petition, a judgment was handed down in the petition putting an end to the proceedings therein.

During the hearing, the Counsel for the Petitioner gave notice that he would not attack the tender proceedings, and the results of the tender, however, he reserved the right to file a financial claim, insofar as necessary.

Under these circumstances, the parties reached a complete agreement regarding the continued clarification of the scope of the right to inspect the tender documents, at the Tender Committee of the customer, and in accordance with the agreed procedures. For details, see the immediate report of events or matters which deviate from the corporation's normal business, dated January 22, 2012, Ref. No. 2012-01-021807, which is included herein by way of reference.

#### 1.21.5 **Supplier's Claim Against the Company**

On December 15, 2011, one of the Company's suppliers (hereinafter: the "**Supplier**") filed a financial claim, by way of summary procedure, against the Company, for an immaterial amount, in the Petach Tikva Magistrate's Court, on the grounds that the Company is unlawfully retaining the balance of a payment, and also in respect of the unlawful enforcement of a bank guarantee, all in connection with projects implemented by the Company for customers.

On December 27, 2011, the Company filed an application for the depositing of a bank guarantee to secure its costs and to extend the period for the filing of an application for leave to defend by 30 days after the depositing of the bank guarantee.

On January 1, 2012, the Court granted the Company an extension for the filing of the application for leave to defend by January 22, 2012, and the Court ordered the Supplier to respond to the application for the depositing of a guarantee for costs within 20 days.

On January 22, 2012, the Company filed, through its legal advisors, an application for leave to defend, in which it made claims, *inter alia*, against the Supplier's conduct in the aforesaid projects, the non-performance of the works which the Supplier had undertaken to perform on time, and the causing of damages to the Company. In addition, the Company requested to offset, against the amount of the claim, even larger amounts, in respect of the damages caused to it, and it sought to claim these damages in a separate lawsuit (which was filed on February 13, 2012 – see details below). The date of the hearing has not yet been set.

Due to the preliminary stage of the claim, it is not possible to evaluate the chances thereof.

#### 1.21.6 **The Company's Claim Against the Supplier**

As aforesaid in section 1.21.5 above, on February 13, 2012, the Company filed, through its legal advisors, a financial claim in an amount of NIS 2.5 million (for the purposes of the court fee) in the Petach Tikva Magistrate's Court, against the Supplier.

In the Statement of Claim, the Company claims that the Supplier committed fundamental breaches, in all matters pertaining to its undertakings to the Company, pursuant to an agreement with regard to those projects of the Company and for those customers as stated

in section 1.21.5 above, and the damages caused to the Company in respect thereof.

On March 14, 2012, the Supplier filed a statement of defense and counterclaim in an amount of NIS 1.4 million, for a claimed unpaid balance owed him by the company as well as for damages and losses sustained in his claim as a result of the Company's actions. At the date of publication of the report, the Company has not yet filed a defense to the counterclaim.

Due to the preliminary stage of the claim, it is not possible to evaluate the chances thereof.

## **1.22 Subsidiaries**

### **1.21.1. Unitronics Building Management & Maintenance (2003) Ltd.**

#### **1.21.1.1 General Description**

Unitronics Building Management & Maintenance (2003) Ltd., (“**Unitronics Management**”) was incorporated on April 29, 2003 as a wholly owned subsidiary of the Company.

Unitronics Management has engaged, commencing as from March 2004, primarily in the provision of maintenance services, holding and similar services in connection with the use of Unitronics Building (part of which is leased by Unitronics, while part is leased by parties at interest in Unitronics as set forth in sub-paragraph 6.12 of this Prospectus). Pursuant to the decision of the audit committee and the Company's Board of Directors as of May 2003, Unitronics Management provides maintenance and holding services also to the other areas of Unitronics Building which are neither in use by the Company nor being leased by it, on condition that: (A) Unitronics Management will provide equal conditions to all lessees in Unitronics Building, which shall be similar to the conditions provided by other management companies in the environs of Unitronics Building; and (2) the effect of the provision of such services on the profitability of Unitronics, its assets or its liabilities, shall remain immaterial. In accordance with a decision of the Board of Directors of Unitronics, any deviation from the abovementioned decisions shall necessitate approval by the Board of Directors of Unitronics and any other approval required by law.

Unitronics Management operates out of Unitronics Building without offices, assets or designated employees of its own. The activity of Unitronics Management is carried out through managers and employees of Unitronics, making use of the assets of Unitronics, while all the occupants of the building pay for the Company's services on the basis of a key of charges that is identically applicable to all the tenants and requires payment pro rata to the area in use by each occupant. For details on the nature of the services provided by Unitronics Management and the payments collected by it (which are in amounts that are immaterial to the Company) see sub-paragraphs 1.11.

#### 1.22.1.2 Registered and issued capital, the Company's share

As of the date of this Report, the registered capital of Unitronics Management is NIS 100,000, divided into 100,000 ordinary shares of NIS 1 par value each., of which 1,000 shares have been issued, all of them held by the Company.

#### 1.22.1.3 Cost of Unitronics Management shares to the Company and the price at which they are recorded in its books

As of the date of this Report, the cost to the Company of shares of Unitronics Management held by the Company stands at NIS 1,000.

#### 1.22.1.4 Loans, credit, guarantees, investments in the Company

As of date of this Report, Unitronics Management has no debts to the Company and the Company has not issued any guarantees whatsoever in favour of Unitronics Management, with the exception of current debts in the ordinary course of business and in immaterial amounts.

#### 1.22.1.5 Holders of more than 25% of the share capital

As of the date of this Report, and since its incorporation, Unitronics Management has been wholly owned and controlled by the Company.

#### 1.22.1.6 Management fees, interest, dividend and other payments from Unitronics Management

During the periods reported in this Report, Unitronics Management has not paid and has not undertaken to pay the Company any management fees, interest or dividend whatsoever, other than defraying the refund of expenses of immaterial amounts.

#### 1.22.1.7 Directors and senior officers in Unitronics Management

The directors of Unitronics Management are: Messrs. Haim Shani, Bareket Shani and Zvi Livneh, all of whom serve as directors in the Company.

No General Manager has been appointed for Unitronics Management; Mr. Haim Shani, who also serves as CEO of the Company and chairman of its Board of Directors, serves in practice as the Chairman of the Board of Directors of Unitronics Management.

#### 1.22.1.8 Profits/ (losses) of Unitronics Management

For information regarding profits (losses) of Unitronics Management see table in section 1.22.3 below.

## 1.22.2 Unitronics Inc.

### 1.22.2.1. General description

Unitronics Inc. was incorporated on June 25, 2001, as a wholly owned subsidiary of the Company.

Unitronics Inc. engages primarily in the Company's marketing and distribution activities in the United States, and operates a network of some 95 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts, USA, where the Products Segment's activities are carried out, and another office in New Jersey, USA, where the Systems Segment's US activities are carried out. Unitronics Inc. has 12 employees engaging primarily in coordination and support for the marketing activities of the Company's distributors in the United States.

### 1.22.2.2 Registered and issued capital, the Company's share

As of the date of this Report, the registered share capital of Unitronics Inc. is \$10, divided into 1,000 shares of \$0.01 par value each, all of which have been issued to the Company and held by it.

### 1.22.2.3 Cost to the Company of Unitronics Inc. shares and the price at which they are recorded in its books

As of the date of this Report, the cost to the Company of the shares of Unitronics Inc. held by the Company is US \$10.

### 1.22.2.4 Loans, credit, guarantees, investments in the Company

The capital deficiency of Unitronics Inc. as of December 31, 2011, amounts to NIS 7,371,000. The current debt balance of Unitronics Inc, to the Company amounted to NIS 5,960,000 as of December 31, 2011. In addition, the Company has provided Unitronics Inc. with capital notes at an aggregate amount of NIS 10 million, unlinked and not bearing interest, as set forth in note e(3) of a special report pursuant to Regulation 9c in Chapter C of the Annual Report.

### 1.22.2.5 Holders of more than 25% of share capital

As of the date of this Report, and since its incorporation, Unitronics Inc. has been wholly owned and controlled by the Company.

### 1.22.2.6 Management fees, interest, dividend and other payments – Unitronics Inc.

During the periods reported in this Report, Unitronics Inc. did not pay and has not undertaken to pay the Company any management fees, interest or dividend.

### 1.22.2.7 Directors and senior officers in Unitronics Inc.

Haim Shani serves as director and Chairman of the Board of Unitronics Inc, and Mrs Bareket Shani, Mr's Shani wife, serves as a director in the Board of Unitronics Inc. For details on the of Mr. Shani's remuneration between the Company and Unitronics Inc. see sub-paragraph 4.6.2 of this Report.

### **1.22.3 Unitronics Parking Solutions**

#### **1.22.3.1. General description**

Unitronics Parking Solutions is engaged in the design, construction and maintenance of automated parking systems, including construction of new systems and/or upgrade and servicing of systems, as well as maintenance for these systems on the basis of framework agreements. The subsidiary's services are provided to customers in and outside Israel.

#### **1.22.3.2 Registered and issued capital, the Company's share**

As of the date of this Report, the registered share capital of Unitronics Parking Solutions. is NIS 1,000,000, divided into 1,000,000,000 shares of NIS 0.01 par value each, of which 10,000 shares in the amount of NIS 100 were issued to the Company and are held by it. In addition, 11,622,000 shares of Unitronics Parking Solutions in the amount of NIS 11,220 were allotted to the Company (the company share allotment report has not yet been submitted to the Companies Registrar) in return for the transfer of an investment property of the Company to Unitronics Parking Solutions, pursuant to an agreement dated March 29, 2012 regarding the management of the parking solutions business by the subsidiary. For additional details on this agreement and the approval thereof, see section 4.2 of the Annual Report.

#### **1.22.3.3 Cost to the Company of Unitronics Parking Solution's shares and the price at which they are recorded in its books**

As of the date of this Report, the cost to the Company of the shares of Unitronics Parking Solutions, held by the Company, is NIS 116,320.

#### **1.22.3.4 Loans, credit, guarantees, investments in the Company**

As of date of this Report, Unitronics Parking Solutions has no debts to the Company and the Company has not issued any guarantees whatsoever in favour of Unitronics Parking Solutions, with the exception of current debts in the ordinary course of business and in immaterial amounts.

#### **1.22.3.5 Holders of more than 25% of share capital**

As of the date of this Report, and since its incorporation, Unitronics Parking Solutions has been wholly owned and controlled by the Company.

#### 1.22.3.6 Management fees, interest, dividend and other payments – Unitronics Parking Solutions

During the periods reported in this Report, Unitronics Parking Solutions did not pay and under not undertaken to pay the Company any management fees, interest or dividend, except in respect of services provided to the subsidiary by the Company, including management and administrative services.

#### 1.22.3.7 Directors and senior officers in Unitronics Parking Solutions

Haim Shani serves as sole director of Unitronics Parking Solutions.

#### 1.22.4 Profit (loss) before and after tax, dividend, management fees and interest income from the subsidiary companies.

|                          | For the year ended December 31, 2011 |                 |                                                        | For the year ended December 31, 2010 |                                                        | For the year ended December 31, 2009 |                                                        |
|--------------------------|--------------------------------------|-----------------|--------------------------------------------------------|--------------------------------------|--------------------------------------------------------|--------------------------------------|--------------------------------------------------------|
|                          | Unitronics Parking Solutions Ltd     | Unitronics Inc. | Unitronics Building Management Maintenance (2003) Ltd. | Unitronics Inc.                      | Unitronics Building Management Maintenance (2003) Ltd. | Unitronics Inc.                      | Unitronics Building Management Maintenance (2003) Ltd. |
|                          | NIS in thousand                      |                 |                                                        |                                      |                                                        |                                      |                                                        |
| Profit (loss) before tax | (356)                                | (64)            | 290                                                    | ( 58)                                | ( 1,046)                                               | (226)                                | (133)                                                  |
| Profit (loss) after tax  | (356)                                | (64)            | 290                                                    | ( 58)                                | ( 1,046)                                               | (226)                                | (133)                                                  |
| Dividend                 | 0                                    | 0               | 0                                                      | 0                                    | 0                                                      | 0                                    | 0                                                      |
| Management fees          | 0                                    | 0               | 0                                                      | 0                                    | 0                                                      | 0                                    | 0                                                      |
| Interest income          | 0                                    | 0               | 0                                                      | 0                                    | 0                                                      | 0                                    | 0                                                      |

#### 1.22.5 Inactive subsidiaries:

In addition, the Company holds 100% of the issued share capital of Unitronics Industrie Automation GmbH, a company registered in Germany, and 30% of the issued share capital of Unitronics S.A. (Proprietary) Limited, a company registered in South Africa. These companies have been inactive for several years, and have neither assets, nor employees nor liabilities (for details see section 1.2 above).

#### 1.23 Discussion of risk factors

The following are risk factors affecting the Company (in the Products segment, in the Systems segment and in the Parking Solutions segment), and management's assessment as to the extent of their influence on its business:



| Type of risk                | Nature of risk                                                                                                                                                                                                                                                                                                                                                                                                                                   | Estimated extent of influence on the Company |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| <b>Macro risks</b>          | <i>Exposure to market vicissitudes:</i> the Company is exposed to changes in general factors affecting the principal markets in which it operates such as the slowdown in business activity in Israel and worldwide and the effects of security events in Israel and worldwide.                                                                                                                                                                  | High                                         |
|                             | <i>Exposure to interest rate risks:</i> the Company is exposed to changes in the Prime and Libor interest rates in connection with various loans as detailed in section 2.4.3.5 below.                                                                                                                                                                                                                                                           | Medium                                       |
|                             | <i>Currency exposure:</i> the Company is exposed to changes in the exchange rates of the US dollar and the euro against the NIS. See section 2.4.3.1.                                                                                                                                                                                                                                                                                            | Medium                                       |
|                             | <i>Exposure to investment in marketable securities:</i> the Company is exposed to changes in the prices of securities in which a material proportion of its monetary resources are invested. See section 2.4.3.4                                                                                                                                                                                                                                 | Medium                                       |
|                             | <i>Exposure to strikes in Israeli ports:</i> strikes in the naval ports and/or airports of the State of Israel are liable to delay the import of raw materials serving the Company (including components of logistical systems) and/or the export abroad of the Company's products, and thus adversely affect the supply dates to which the Company is committed, which is liable to involve expenses to the Company and/or hurt its reputation. | Low                                          |
| <b>Sector-related risks</b> | <i>Competition:</i> the Company is exposed to competition by companies whose resources and reputation exceed those of the Company as set forth in section 1.9.9 (in relation to the Products segment) and sections 1.10.7.2 and 1.10.12 (in relation to the Systems segment) as set forth above.                                                                                                                                                 | High                                         |
|                             | <i>Standardization:</i> the Company is exposed to risks deriving from the failure of its products or services to comply with certain standard requirements as set forth in sections 1.9.25 and 1.9.24 above.                                                                                                                                                                                                                                     | Medium                                       |
|                             | <i>Raw materials:</i> the Company is exposed to risks deriving from temporary shortages in electronic components worldwide and limited allocations of components (allocations and compatibility to the RoHS directive) by component manufacturers in cases of excess demand, as set forth in section 1.9.22 above.                                                                                                                               | Medium                                       |
|                             | <i>Construction inputs changes:</i> Since the company plans to build in the Hevel Modi'in industrial zone - Tirat Yehuda (the "Property"), an increase in construction inputs, including raw material prices and wages, may affect the company's contract prices with contractors with whom the Company may contact to perform constructions work in the property.                                                                               | Medium                                       |

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |        |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
|                                    | <i>Penetration into the parking solutions market:</i> the Company is exposed to risks arising from its activity in the automated parking solutions sector and the pace of implementation of solutions by global customers, as specified in sections 1.10.1 (b), 1.10.3 and 1.10.7.2 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Low    |
|                                    | <i>RoHS and WEEE directives:</i> the Company is exposed to risks deriving from the possibility that its products or services will fail to comply with the requirements of European directives, as set forth in sections 1.9.2 and 1.9.25 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Low    |
|                                    | <i>Development of technologies and/or new products:</i> the Company is exposed to the risks involved in the development of new products and/or technologies the success of their development or the marketing of which are doubtful as set forth in sections 1.9.7 and 1.9.12 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Low    |
|                                    | <i>Decline in the value of real estate in Israel::</i> the Company is exposed to the risk of recession in the real estate market in Israel, which would lead to impairment losses on its investment in a plot in the Hevel Modiin-Tirat Yehuda industrial zone.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Low    |
| <b>Risks unique to the Company</b> | <i>One-off projects:</i> a significant portion of the Company's revenues stem from a small number of material one-off transactions, consistent with the nature of activity in the Systems sector, as set forth in sections 1.9.13 and 1.10.9 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Medium |
|                                    | <i>Dependence on the Israeli market:</i> the Company's activity in the Systems segment is dependent on the Israeli market, which tends to be affected more than overseas markets by macro risks and the sector-related risks described above, and the demand for projects in this segment is smaller than the demand on corresponding global markets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Medium |
|                                    | <i>Dependence on founder and controlling shareholder:</i> the Company has material dependence on the continuing services of Mr. Haim Shani as set forth in section 1.15.4 above.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Medium |
|                                    | <i>Leveraging:</i> the Company has commitments for the repayment of loans, <i>inter alia</i> , in respect the issuance of debentures (Series 2) pursuant to the 2006 Prospectus, in respect of the issuance of debentures (series 3) under the Shelf Prospectus and Offering Report and in respect of a credit facility to finance part of the cost of acquiring capitalized lease rights in a property in the Hevel Modiin-Tirat Yehuda industrial zone. The Company's Board of Directors determined in its resolution that the Company has a sound cash flow and that it would be able to meet its commitments, including repayment of the loans in respect of the issuance of debentures (Series 2 and Series 3). However, if the Company's assessments regarding its financial soundness prove erroneous, and if the Company's investments using these loans as stated do not succeed, there is concern, although it is not likely, that the | Medium |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |        |
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|  | <p>Company will be unable to meet the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite its financial soundness, to comply with the terms of repayment in the future. The balance of the Company's liabilities for repayment of external loans as of December 31, 2011, totals NIS 87.3 million, as set forth in section 1.9.23 above.</p>                                                                                                                                                        |        |
|  | <p><i>Lack of sufficient financing for building on the property:</i> Lack of financing as aforesaid, could undermine the Company's plans to build on the property, undermine its plans as to the designated use of the property by its Systems segment and as a result, cause the Company losses and/or unexpected expenses in financing alternative facilities.</p>                                                                                                                                                                                                                                                                                                                           | Medium |
|  | <p><i>Unregistered intellectual property:</i> the Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property items). The Company is exposed to risks deriving from the non-registration of those intellectual property items with respect to which applications are pending (for details see sections 1.9.21, and 1.14.2) and with respect to intellectual property that has not been submitted for registration.</p>                                                                                                                                                                                          | Low    |
|  | <p><i>Low share prices and trading volumes:</i> the Company's shares are traded in the Stock Exchange in Belgium at prices significantly lower than the price at which they were offered to the public in 1999 (EUR 3.72 per share), and on the Tel Aviv Stock Exchange, at prices lower than those of the public offering in May 2004 (NIS 7.55 per share). There is no certainty that the price of the Company's share on the Stock Exchange will not continue to decline. Also, the volumes of trading in the Company's shares on the Stock Exchange in Belgium and on the Tel Aviv Stock Exchange are generally low and different, a fact which adversely affects their marketability.</p> | Low    |
|  | <p><i>Absence of arbitrage on the Stock Exchange in Israel and in Belgium:</i> even though the Company's shares are trade on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, it is not possible at this stage to hold parallel trading of the Company's shares on those two Stock Exchanges in real time. Under these circumstances, from time to time, gaps are created in the prices of the shares on those Stock Exchanges. There is no certainty that these gaps will shrink. Investors in the Company's securities, and also, under certain circumstances, the Company, are liable to sustain damages as a result of these gaps.</p>                           | Low    |
|  | <p><i>Failure to receive a building permit for the property:</i> the Company may not receive permits to build on the property</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Low    |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |     |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
|  | from the relevant authorities, which would undermine the execution of its plans for the property, on time and in general, and thus adversely impact its plan.                                                                                                                                                                                                                                                                                                                                                                                       |     |
|  | <i>Absence of a business license:</i> the Company does not hold a business license for the property it leases in the Yavne industrial zone, as stated in section 1.13.4, in contravention of the provisions of the Licensing of Business Law, 1968, and the regulations prescribed thereunder. Operating without a license could lead to the institution of proceedings against the Company and its officers, including criminal punishment which, <i>inter alia</i> , includes incarceration and/or fines, and civil and administrative sanctions. | Low |

## **Chapter B - Board of Directors Report on the State of Affairs of the Corporation (Reg. 10 - 10A)**

The Board of Directors is hereby honored to submit the Board of Directors Report on the State of Affairs of the Company for the year ending on December 31, 2011 (hereinafter: "the Reported Period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Regulations").

### **2.1. Summarized Description of the Corporate and its business environment (Reg. 10)**

#### **2.1.1. General**

The Company is engaged in several fields, as specified hereunder:

Products: The Company is engaged, via its Products Division, in the design, development, production, marketing, sales and support of PLCs (programmable logic controllers), which are computer-based electronic devices (hardware and software) used for the control and command of automated machines such as production systems and automatic systems for industrial storage, retrieval and logistics, and automatic parking facilities.

Systems: The Company is also engaged, through its Systems Division, in design, construction and maintenance services in the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automatic warehouses and automated distribution centers.

Automatic Parking Solutions: The Company is engaged, via a wholly owned subsidiary, which was established during the third quarter of 2011, in design, production, construction and maintenance services in the framework of automated systems for automatic parking solutions. For further details, see Section 2.2.2 below.

The Company is also engaged, via a wholly owned subsidiary, in the management and maintenance of Unitronics Building.

#### **2.1.2. Major Events During the Reported Period and Through Publication**

##### **2.1.2.1. Adoption of internal procedures with regard to reporting obligations**

On February 2, 2011, the Board of Directors of the Company adopted internal procedures designed to extend and intensify existing internal controls at the Company with regard to Company compliance with its statutory reporting obligations. For further details, see Section 6.23.20 of the Shelf Prospectus published by the Company on February 22, 2011.

#### 2.1.2.2. Establishment of a wholly owned subsidiary of the Company for the field of parking solutions

On July 20, 2011, Unitronics Parking Solutions Ltd. was incorporated and registered with the Registrar of Companies as a limited company wholly owned by the Company. For further details, see Section 4.2 of Chapter D of the annual report. At the Board of Directors meeting on August 2, 2011, it was decided that a new subsidiary would concentrate the Company's parking solutions activity and continue developing it within that framework. (See the immediate report on an event or matter outside the normal course of Company business, dated August 2, 2011, Reference No. 2011-01-229365, included herein by way of reference).

On August 7, 2011, the Company received a letter of inquiry from the trustee for the debentures (Series 3), Reznick, Paz, Nevo Trustees Ltd., in which the trustee, following debenture holders' inquiries to him pursuant to the Company's report on this matter, requested that the Company comment on the possible impact of the concentration of the Company's parking solutions activity at a new subsidiary wholly owned by the Company on the Series 3 debenture holders' rights, *inter alia*, in light of the Company's commitment to avoid creating additional liens, under the terms and conditions specified in the Deed of Trust for debentures (Series 3) (hereinafter: "**Deed of Trust (Series 3)**"). On August 9, 2011, the Company replied to the trustee, *inter alia*, that the decision to concentrate the parking solutions activity at a subsidiary wholly owned by the Company and continue developing this activity within the framework of the subsidiary does not contradict the terms and conditions for the Deed of Trust (Series 3) and does not constitute a deviation or violation with respect to the covenants or other terms and conditions in the Deed of Trust (Series 3), and therefore may not be construed as harming the obligations assumed by the Company in accordance with the debentures (Series 3), compliance with financial ratios, liquidity enhancement, etc. The Company clarified that, as a wholly owned subsidiary, the Company has full, effective control of everything that takes place within it, in terms of both the operative aspect by way of appointments, work plans, supervision, etc., and the economic aspect when the subsidiary's financial statements are consolidated with those of Unitronics, such that the subsidiary's financial results will be fully reflected in Unitronics' financial statements, and its activities will be as transparent to the debenture holders as it has been heretofore. The Company further clarified that it intends to act so that the subsidiary will eventually generate its own revenues and therefore be able to bear its own expenses and eventually generate profits for the Company in a manner that greatly increases the Company's assets, and that, as there is financial logic in preventing double costs, there is an intention to make use of the Company's services for the subsidiary's benefit (financial management, use of the Company's facilities, etc.), for a fee. The Company also indicated that, as with any other assets it holds, its holdings in the subsidiary are secured by the negative lien it took upon itself as part of the debentures (Series 3).

#### 2.1.2.3. Award of tender to construct an automated warehouse

On February 3, 2011, the Company was notified that it had been awarded the tender to construct an automated warehouse for a client in Israel. The project is valued at approximately NIS 30 million and is expected to be completed in the second half of 2012. On March 30, 2011, the Company received a signed agreement (for details, see the immediate reports on an event or matter outside the normal course of Company business, dated February 6, 2011, Reference No. 2011-01-038982, and March 30, 2011, Reference No. 2011-01-100404, respectively, included herein by way of reference).

#### 2.1.2.4. Agreement for construction of automatic parking facilities in California

On June 21, 2011, the Company received an agreement signed by the City of West Hollywood, California (USA) (hereinafter in this section: "the **Customer**"), which was signed by the subsidiary, Unitronics Inc., on May 18, 2011, for the construction of an automatic parking system for 200 vehicles for the Customer (hereinafter in this section: "the **Project**").

The Project, whose construction is expected to commence in 2012, is valued at approximately \$2.6 million (approximately NIS 9 million), a sum regarded as insignificant for the Company. However, the fact that the Project constitutes the Company's first penetration into the western US market might have a significant impact on its activities in that region. At the time of publication of the report, implementation of the Project had not yet commenced and was still at the stage of design and permit applications.

For further details, see the immediate reports on events or matters outside the normal course of Company business dated May 11, 2011, Reference No. 2011-01-145434, and June 21, 2011, Reference No. 2011-01-189291, respectively, included herein by way of reference).

#### 2.1.2.5. Agreement for construction of automatic parking facilities in Tel Aviv

On January 5, 2012, the Company's subsidiary, Unitronics Parking Solutions Ltd. (hereinafter in this section: "**Parking Solutions**"), signed an agreement with a third-party customer unconnected to the Company or the controlling shareholder therein (hereinafter in this section: "the **Agreement**"). According to the Agreement, Parking Solutions undertook to provide and install in Tel Aviv an automatic parking system for approximately 150 vehicles (hereinafter in this section: "the **System**"). The consideration for the System is valued at approximately NIS 5.2 million, a sum regarded as insignificant for the Company. However, the Company believes that, in light of the fact that such system, of such magnitude is installing for the first time in Israel, the Agreement might impact its activities in the field of parking solutions in Israel.

At the time of publication of this report, implementation of the Project had not yet commenced and was still at the design stage. The Company believes that construction of the System will commence within the next few months and end in the second half of 2013.<sup>1</sup>

For further details, see the immediate report on events or matters outside the normal course of Company business dated January 5, 2012, Reference No. 2012-01-008397, respectively, included herein by way of reference).

#### 2.1.2.6. Acquisition of a real estate asset

On July 7, 2011, the Company signed an agreement with a party unconnected to the Company or the controlling shareholder therein to acquire a real estate asset constituting a vacant lot on an area of approximately 11,000 m<sup>2</sup>, in the Hevel Modi'in Tirat Yehuda Industrial Zone (hereinafter in this section: "the **Asset**"), for NIS 17,370 thousand plus the legally required VAT.

To finance the acquisition, the Company made use of its equity capital and a credit facility totaling NIS 13 million, which was extended to it by Bank Leumi Le-Israel Ltd. ("**Credit Facility**"). During the Report Period, the Company used approximately NIS 5 million of the Credit Facility sum. The loan will be repaid in quarterly installments over a 12-year period, from the date on which any part of the loan is given, LIBOR rate + 3.41%, with payback of the principal commencing in July 2013. Within the framework of these terms, the Company mortgaged its rights in the asset for the benefit of the bank in order to secure the Credit Facility.

The terms for the balance of the Credit Facility extended to the Company have not yet been set, and the Company has been given several different options and interest tracks from which to choose.

For further details, see the immediate amending report on an events or matter outside the normal course of Company business, included herein by way of reference, dated July 7, 2011, Reference No. 2011-01-207288, and Sections 1.13 and 1.17 of Chapter A in the annual report).

#### 2.1.2.7. 2011 Prospectus

On February 22, 2011, the Company published a shelf prospectus ("the **2011 Prospectus**"). For the full version of the 2011 Prospectus and the amendment thereto, see the report dated February 22, 2011, Reference No. 2011-01-058260, and the report

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<sup>1</sup> Information regarding the Company's assessment of the expected time of commencement of construction of the Project is forward-looking information. The main data that constitute the basis for this information are the timetables that have been determined by the Customer; the current design stages of the Project; the need to obtain permits and approvals from various entities, and the dependence on essential implementation stages that will be carried out by the Customer's building contractor and at his responsibility before the implementation stages are commenced by the Company. The main factors that are likely to cause this information to materialize are changes in the implementation timetables for reasons over which the Company has no control (e.g. delays in obtaining permits or delays in the construction stages implemented at the Customer's responsibility).



dated March 17, 2011, Reference No. 2011-01-084435, respectively, included herein by way of reference. For further details on the 2011 Prospectus, see Section 1.4.7 of Chapter A in the annual report.

2.1.2.8. Shelf offering report pursuant to 2011 Prospectus, and issue results of debentures (Series 3)

On March 22, 2011, the Company published a shelf offering report ("**Offering Report**") pursuant to the 2011 Prospectus. Within the framework of said Offering Report, the public was offered up to NIS 56,250,000 nominal value debentures (Series 3) of the Company, which were offered at 100% of their nominal value, and linked (principal and interest) to the February 2011 CPI (which was published on March 15, 2011). The debentures are to be repaid (principal) in five (5) equal annual installments, which will be remitted on March 23 of each of the years 2013-2017. The interest on the debentures (Series 3) for the outstanding balance of the debentures (Series 3) will be paid in semiannual installments at equal rates, starting on September 23, 2011. The total nominal value of the debentures (Series 3) that the Company can offer at any time, including the debentures (Series 3) that were offered as part of said Offering Report, will not exceed NIS 75 million nominal value debentures (Series 3). For the full version of the Offering Report, see the report dated March 22, 2011, Reference No. 2011-01-088428, respectively, included herein by way of reference).

The consideration (gross) for the debentures allotted in accordance with the Shelf Offering Report totals approximately NIS 56,442,000 (in all, 56,442 debenture units (Series 3) have been allotted), and the annual interest rate borne by the debentures, as stipulated in the Tender, is 5.65%. (For details on the issue results, see the immediate report on the issue results pursuant to the Shelf Offering Report, dated March 24, 2011, Reference No. 2011-01-090993, included herein by way of reference.) Trading of the debentures (Series 3) on TASE commenced on March 28, 2011. For further details on the issue results pursuant to the Shelf Offering Report, see the report dated March 24, 2011, Reference No. 2011-01-090993, included herein by way of reference. For more information on the details of the offer pursuant to the Offering Report, see Section 1.4.8 of chapter A of the annual report.

2.1.2.9. Lien registration in favor of the holders of debentures (Series 3)

Pursuant to the Registrar of Companies certificate dated April 28, 2011, the Registrar recorded a lien on monies deposited in a bank account intended to ensure clearance of the payment of current interest on the principal of the debentures (Series 3) issued by the Company in March 2011 as part of the 2011 Prospectus and the Offering Report. According to the certificate, the date of creation of the lien is April 4, 2011. For details, see the immediate report on the registration of a lien for the holders of the debentures (Series 3), dated May 5, 2011, Reference No. 2011-01-141294, included herein by way of reference.

2.1.2.10. Amendment to a lease agreement with the controlling shareholder

On March 27, 2011, the Audit Committee and Board of Directors of the Company resolved to approve the signing of an amendment to the lease agreement dated August 1, 2009 ("the **Amendment**" and "the **Lease Agreement**") between the Company and a company owned by Mr. HAIM SHANI, the controlling shareholder in the Company, and his wife, Mrs. BAREKET SHANI ("the **Lessor**").

According to the Amendment, the Company will lease from the Lessor an additional 170 m<sup>2</sup> and an additional 10 parking spaces, beyond the 936 m<sup>2</sup> of office space and the 20 parking spaces that the Company leased at Unitronics House at Airport City as part of the Lease Agreement, at identical terms and conditions (for details, see the immediate report on an event or matter outside the normal course of Company business, included herein by way of reference, dated May 21, 2009, Reference No. 2009-01-117399, and the immediate report on a transaction with a controlling shareholder or Board member that does not require the approval of the General Meeting, dated March 27, 2011, Reference No. 2011-01-094152, included herein by way of reference). For further details, see Section 4.7.3 of Chapter D of the annual report.

2.1.2.11. Update of Authorized Signatories at the Company

On March 27, 2011, the Board of Directors of the Company resolved to update the signature rights at the Company. For details, see the immediate amending report on an event or matter outside the normal course of Company business, dated July 7, 2011, Reference No. 2011-01-094209, included herein by way of reference.

2.1.2.12. Amendment to the employment agreements with the controlling shareholder and his wife

On March 27, 2011, the Audit Committee and Board of Directors of the Company, subject to the approval of the General Meeting of the Company's shareholders, resolved to amend each of the employment contracts with Mr. Haim Shani, who is CEO, Chairman of the Board and the controlling shareholder in the Company, and Mrs. Bareket Shani, Mr. Shani's wife, Vice President, Head of Human Resources at the Company, and a Board Member at the Company, such that Mr. Shani's salary will be NIS 60,000 per month and Mrs. Shani's salary will be NIS 30,000 per month. In addition, the salaries of Mr. and Mrs. SHANI have been linked to the CPI (For further details, see the report on the transaction with the controlling shareholder dated March 30, 2011, Reference No. 2011-01-, included herein by way of reference.) The other employment terms and conditions remain unchanged (see Section 2.1.2.13 below with regard to an additional amendment to Mr. and Mrs. Shani's employment agreements).

On May 12, 2011, the General Meeting of the Company's shareholders approved the Amendment to the agreements, as set forth above (for details, see the immediate report on the meeting results, dated May 12, 2011, Reference No. 2011-01-146499, included

herein by way of reference). For further details, see Section 4.6.2 of Chapter D of the annual report.

2.1.2.13. Re-approval and amendment to the employment agreements with the controlling shareholder and his wife

In accordance with Section 275(a1) of the Companies Law, the employment contracts with Mr. Haim Shani (controlling shareholder, CEO and Chairman of the Board) and Mrs. Bareket Shani (Mr. Shani's wife, who also serves as a Board Member, the Vice President, and the Head of Human Resources at the Company) were submitted for re-approval and then approved by the Audit Committee and the Board of Directors of the Company on July 12, 2011, such that the same terms and conditions will apply to said contracts.

In light of the need for re-approval of the employment contracts with the controlling shareholder and his wife every 3 years, the employment contracts were amended, such that they will be valid until September 2014, and renew themselves thereafter for 3-year periods, subject to receipt of all the approvals required for same in accordance with the law.

(For further details, see the report dated July 24, 2011, with respect to an invitation to a General Meeting, Reference No. 2011-01-220248, included herein by way of reference; the immediate report on the results of the General Meeting, dated September 22, 2011, Reference No. 2011-01-282429, included herein by way of reference; the immediate report dated September 22, 2011, on the results of a meeting for approving a transaction with a controlling shareholder and/or for approving a private offering and/or approving a single individual as both the Company's chairperson and its CEO and/or appointing an external Board Member, Reference No. 2011-01-282438, included herein by way of reference; and the immediate amending report dated September 27, 2011, on the results of a meeting for approving a transaction with a controlling shareholder and/or for approving a private offering and/or approving a single individual as both the Company's chairperson and its CEO and/or appointing an external Board Member, Reference No. 2011-01-286377, included herein by way of reference). For further details, see Section 4.6.2 of Chapter D of the annual report.

2.1.2.14. Amendments to the Company's Articles of Association

Following enactment of the Administrative Enforcement Law, Amendment 16 to the Companies Law, and certain updates to the requirements of the Belgian Law, the Board of Directors of the Company resolved to recommend to the General Meeting that it amend the Company's Articles of Association, and on September 22, 2011, the General Meeting of the Company's shareholders resolved to approve an amendment to the Articles of Association in the following matters: (1) in the chapter on indemnity and insurance for officers, in a manner that will allow insurance and indemnity in connection with administrative enforcement; (2) expiry of a director's tenure on the date of notification of the imposition of enforcement means; and (3) reporting obligations of the Securities Authority in Belgium.

(For further details, see the immediate report dated July 24, 2011, with respect to an invitation to a General Meeting, Reference No. 2011-01-220248, included herein by way of reference; the immediate report on the results of the General Meeting, dated September 22, 2011, Reference No. 2011-01-282429, included herein by way of reference; and the immediate report dated September 27, 2011, on the results of a meeting for approving a transaction with a controlling shareholder and/or for approving a private offering and/or approving a single individual as both the Company's chairperson and its CEO and/or appointing an external Board Member, Reference No. 2011-01-286377, included herein by way of reference). For further details, see Section 4.14 of Chapter D of the annual report.

2.1.2.15. Amendment to insurance coverage and indemnity letters for the Company's Board Members and Officers

Following enactment of the Israel Securities Authority Enforcement Improvement Law (2011) (hereinafter: "the **Administrative Enforcement Law**"), the Audit Committee and Board of Directors of the Company (on July 12, 2011) and subsequently the General Meeting of the Company's shareholders (on September 22, 2011) approved an amendment to the insurance coverage for its officers, including the officers who are controlling shareholders and/or their relatives, in order to include insurance coverage in accordance with the Administrative Enforcement Law and Amendment 16 to the Companies Law.

In addition, the General Meeting of the Company's shareholders approved an amendment to the indemnity letters granted by the Company to all its officers who have received indemnity, including an amendment to the indemnity letters previously given to Mr. Haim Shani, Chairman of the Board and CEO, who is also the controlling shareholder in the Company, and to Mrs. Bareket Shani, Mr. Shani's wife, who serves as a Board Member at the Company, its Vice President and Head of Human Resources, in order to allow indemnity in connection with administrative enforcement, as set forth above. Further to the aforementioned approvals, all the Company's Board Members and officers who had received indemnity were issued amended indemnity letters in the version that had been approved.

(For further details, see the immediate reports, as stated in the reference in Section 2.1.2.14 above, as well as the immediate report on the granting of indemnity to an officer, dated September 22, 2011, Reference No. 2011-01-282483, included herein by way of reference. For further details, see Section 4.6.9 of Chapter D of the annual report.

#### 2.1.2.16. Appointment of Board Members and Senior Officers

2.1.2.16.1. At the General Meeting of the Company's shareholders on September 22, 2011, the following Board Members were appointed:

- Mr. Haim Shani, the Company's Chairman of the Board, CEO and controlling shareholder, and Mrs. Mrs. Bareket Shani, Mr. Shani's wife, who serves as a Board Member, the Vice President and Head of Human Resources at the Company, were appointed to an additional term as Board Members at the Company (Category C) until the convening of the Company's Annual General Meeting for 2014, in accordance with the Company's Articles of Association. For further details, see the immediate reports on the appointment of a Board Member (who is not a corporation) or an individual who serves on behalf of a corporation that is a Board Member, dated September 22, 2011, Reference No. 2011-01-282456 and Reference No. 2011-01-282453, included herein by way of reference.
- Mr. Joel Sela was appointed to an additional 3-year term as an external Board Member at the Company, in accordance with the Company's Articles of Association. For further details, see the immediate report on the appointment of a Board Member (who is not a corporation) or an individual who serves on behalf of a corporation that is a Board Member, dated September 22, 2011, Reference No. 2011-01-282474, included herein by way of reference.
- Mr. Edna Ramot was appointed as a Board Member at the Company (Category A) until the convening of the Company's Annual General Meeting for 2013. For further details, see the immediate report on the appointment of a Board Member (who is not a corporation) or an individual who serves on behalf of a corporation that is a Board Member, dated September 22, 2011, Reference No. 2011-01-282462, included herein by way of reference.

(For further details, see the immediate report on the results of the General Meeting on September 22, 2011, Reference No. 2011-01-282429, included herein by way of reference). For further details, see Section 4.15 of Chapter D of the annual report.

#### 2.1.2.16.2.

On February 26, 2012, the Company's Audit Committee and Board of Directors approved the appointments and employment terms and conditions with respect to 3 senior officers at the Company: Mr. Amir Anchel was appointed to the position of Vice President and Budget Director at the Company; Mr. Moshe Naar was appointed to the position of Vice President and Systems Division Director at the Company; and Mr. Jaakov (Koby) Vieder was appointed for the position of Senior Director NPI Quality and Reliability at the Company. (For details, see the immediate reports on the appointment of a senior officer (excluding the appointment of a Board Member and excluding an individual who was appointed on behalf of a corporation that is a Board Member, dated February 26, 2012, Reference No. 2012-01-052359, Reference No.

2012-01-052353, and Reference No. 2012-01-052341, included herein by way of reference). For further details on the aforementioned officers, see Section 4.11 of Chapter D of the annual report.

2.1.2.17. Granting indemnity and insurance to a new Board Member at the Company

On September 22, 2011, the Annual General Meeting of the Company's shareholders, pursuant to its approval of Ms. Edna Ramot as a Board Member at the Company, also approved the granting of an indemnity letter to Ms. Ramot, in accordance with the indemnity letter terms and conditions that apply to the other Board Members at the Company.

In addition, said General Meeting of the Company's shareholders resolved to approve insurance coverage for Ms. Edna Ramot in accordance with the criteria determined in the resolutions of the General Meeting, the Board of Directors and the Audit Committee with respect to the granting of insurance coverage to Board Members and officers at the Company, and which apply to the other Board Members at the Company, as same were amended as stated above.

(For further details, see the immediate report on results of the General Meeting, dated September 22, 2011, Reference No. 2011-01-282429, included herein by way of reference; the immediate report on the granting of indemnity to an officer, dated September 22, 2011, Reference No. 2011-01-282483, included herein by way of reference; and the immediate report on a transaction with a controlling shareholder and/or with a Board Member that does not require the approval of the General Meeting, Reference No. 2011-01-282486, included herein by way of reference). For further details, see Section 4.16.9 of Chapter D of the annual report.

2.1.2.18. Annual Report – Trustee for Debentures (Series 2)

On July 20, 2011, Hermetic Trusteeship (1975) Ltd., as the trustee for the holders of the Company's Series 2 Debentures, announced that the annual report on the trusteeship activities carried out by the trustee during the period commencing on October 10, 2009 and ending on July 14, 2011, is available for perusal by the Series 2 Debenture holders. For details, see the immediate report with respect to the annual report by the Series 2 Debentures trustee, dated July 20, 2011, Reference No. 2011-01-218295, included herein by way of reference.

2.1.2.19. Payment for debentures (Series 2)

On August 25, 2011, the Company made the third of five payments of principal for debentures (Series 2), issued by the Company as part of the 2006 Prospectus.

Subsequent to this payment, 10,760,000 debentures (Series 2) remain in circulation (for details, see the immediate report on the Company's financial position and listed securities, and the changes therein, dated August 25, 2011, Reference No. 2011-01-252843, included here in by way of reference.)

#### 2.1.2.20. Buy-back plan for Company shares

On September 18, 2011, the Board of Directors of the Company resolved to adopt a buy-back plan for the Company's shares ("the **Previous Plan**"), in whose framework the Board authorized the Company to purchase, from time to time, as part of the trading on TASE or Euronext in Belgium, or directly from unrelated parties, Company shares for a sum not exceeding NIS 2 million (including expenses related to implementation of the purchase, including fees for consultants and service providers related to the purchase, and therefore the anticipated cost of the plan was no greater than NIS 2 million). (For further details, see the immediate report on an event or matter outside the normal course of Company business, dated September 18, 2011, Reference No. 2011-01-277599, included herein by way of reference.) Within the framework of this plan, no shares had been purchased up to the time of publication of this report.

On November 17, 2011, the Board of Directors of the Company resolved to adopt a buy-back plan of the Company's shares ("the **New Plan**"), which replaced and nullified the Previous Plan set forth above (and this, as stated above, took place after no shares had been purchased as part of the plan up to the time of replacement thereof). As part of the New Plan, the Board of Directors of the Company authorized the Company to purchase, from time to time, as part of the trading on TASE or Euronext in Belgium, or directly from unrelated parties, Company shares for a sum not exceeding NIS 2 million (including expenses related to implementation of the purchase, including fees for consultants and service providers related to the purchase, and therefore the anticipated cost of the plan was no greater than NIS 2 million). The planned date for implementation of the New Plan is no later than March 31, 2012 (for further details, see the immediate report on an event or matter outside the normal course of Company business, dated November 17, 2011, Reference No. 2011-01-330585, included herein by way of reference.)

As of the date of publication of this report, the Company holds a total of 1,593,897 shares (out of 11,678,504 Ordinary Shares in the Company's issued share capital). For as long as the Company holds these shares, they constitute "dormant shares" as defined in the Corporate Act, 1999. For details on purchase plans that have been adopted by the Company, see the immediate reports on an event or matter outside the normal course of Company business, included herein by way of reference: a report dated December 7, 2009, Reference No. 2009-01-312105; a report dated March 4, 2010, Reference No. 2010-01-404196; a report dated May 23, 2010, Reference No. 2010-01-489135; a report dated November 11, 2010, Reference No. 2010-01-676662; a report dated March 27, 2011, Reference No. 2011-01-094101; a report dated September 18, 2011, Reference No. 2011-01-277599; a report dated November 17, 2011, Reference No. 2011-01-330585.

On March 29, 2012, the Board of Directors of the Company resolved to adopt a new buy-back plan. for further details, see the immediate report, dated March 29, 2012, Reference No. 2012-01-086538, included herein by way of reference.

## **2.2 Analysis of the financial condition**

### **2.2.1 Balance sheet**

#### **2.2.1.1 Assets**

Total assets in the Company's consolidated balance sheet as of December 31, 2011 increased to NIS 164,573,000 from NIS 127,031,000 as of December 31, 2010. The increase is primarily due to the growth in marketable securities and fixed assets net of a decrease in inventory, as stated below.

Cash and cash equivalents and marketable securities, as of December 31, 2011 and as of December 31, 2010, amounted to NIS 52,696,000 and NIS 36,242,000, respectively. Most of the growth stems from a positive cash flow from financing activities, which primarily include the issuance of debentures (Series 3) in March 2011, net of cash flow used in investment activity, as explained in section 3 below.

Restricted cash as of December 31, 2011 amounted to NIS 3,281,000. In accordance with the provisions of the Debentures Trust Deed (Series 3), the Company pledged a bank account in favor of the trustee of the debenture holders, at an amount equal to the payment of the annual interest on the debentures (Series 3), to secure the payment of the interest on the debenture principal.

The balance of trade receivables and accounts receivable as of December 31, 2011 and as of December 31, 2010 amounted to NIS 17,654,000 and NIS 14,219,000, respectively. The increase is primarily due to a rise in the balance of trade receivables in the Products Segment.

Inventory as of December 31, 2011 and as of December 31, 2010 amounted to NIS 16,505,000 and NIS 29,898,000, respectively. During 2010 this item increased as a result of specific procurement of raw materials required due to longer lead times for electronic components as well as one-off effects of outsourcing production through subcontractors. The Company believes that some improvement in the availability of components, a decrease in the aforementioned one-off effects and the streamlining of procurement processes and inventory management contributed to an improvement and decrease in this item (for additional details on raw material, suppliers and inventory, see Chapter A, section 6.9.23.1 of the 2011 Prospectus).

Inventory of work in progress remained essentially unchanged, amounting to NIS 7,362,000 as of December 31, 2011, compared to NIS 7,461,000 as of December 31, 2010.

Fixed assets grew to NIS 40,663,000 as of December 31, 2011, compared to NIS 21,819,000 as of December 31, 2010. Most of the growth stems from the acquisition of a real estate property, as explained in section 2.1.2.6 above.



Intangible assets grew to NIS 23,834,000 as of December 31, 2011, compared to NIS 15,717,000 as of December 31, 2010. Most of the growth stems from recognizing development assets of the Company, relative to development cost which meets the criteria for recognition as intangible asset, offset by current amortization. For details on capitalized development expenses, see details in section 1.9.12 above and section 2.2.3.4 below.

### Liabilities

Total short-term credit and current maturities of long-term liabilities remained essentially changed and they totaled NIS 10,585,000 as of December 31, 2011, compared to NIS 10,234,000 as of December 31, 2010.

The balance of trade payables decreased, totaling NIS 14,175,000 as of December 31, 2011, compared to NIS 25,755,000 as of December 31, 2010. The decrease in this item is mostly due to a decrease in the balance of trade payable, mainly in the Products Segment, and a parallel decrease in inventory, as set forth above.

Liabilities in respect of embedded derivatives (net) amounted to NIS 1,057,000 as of December 31, 2011, compared to NIS 3,951,000 as of December 31, 2010. The decrease in this item is primarily due to the rise in the EUR/NIS exchange rate in the reported period, as well as a decrease in outstanding payments in respect of sales contracts denominated in currencies other than the Company's functional currency. These contracts include embedded derivatives denominated in foreign currency.

The balance of accounts payable and accruals decreased, aggregating NIS 15,776,000 as of December 31, 2011, compared to NIS 23,648,000 as of December 31, 2010. Most of the decrease is due to a decrease in income in advance and accrued expenses in the Systems Segment.

Total non-current liabilities as of December 31, 2011 and as of December 31, 2010 amounted to NIS 79,257,000 and NIS 27,284,000, respectively. The increase is primarily due to the issuance of debentures (Series 3) in the amount of NIS 56,442,000 par value, as specified above, net of issuance expenses totaling NIS 2,569,000.

The Company's working capital as of December 31, 2011 and as of December 31, 2010 amounted to NIS 58,199,000 and NIS 25,503,000, respectively. The increase in working capital is primarily due to the increase in marketable securities as explained above, and a decrease in trade payables and accounts payable less increase in trade payables, net of a decrease in inventory, as set forth above.

The Company's shareholders equity as of December 31, 2011 and as of December 31, 2010 amounted to NIS 43,703,000 and NIS 36,159,000, respectively. The increase is primarily due to accumulated net income in the reported period, as specified below.

## 2.2.2 Analysis of financial condition by operating segments

As set forth above, the Company's commercial operations are performed by two business departments, the Products Department and the Systems Department. Commencing from the fourth quarter of 2011, the business activity in the area of parking solutions, which until then was part of the Systems Segment, is carried out by a wholly-owned subsidiary of the Company, Unitronics parking Solutions Ltd (hereinafter – “**Unitronics Parking Solutions**”). As of December 31, 2011, the sales turnover in Unitronics Parking Solutions is immaterial to the Company. For further details concerning the sectors of the Company's operating segments, see Chapter A (sections 1.8, 1.9, 1.10 and 1.11) above. Concurrently, the Company is engaged, via the subsidiary Unitronics Management & Maintenance (2003) Ltd., in the management and maintenance of the Unitronics Building.

### 2.2.2.1 The Products Segment

Total assets used by the Products Segment as of December 31, 2011 amounted to NIS 29,698,000 compared to NIS 40,665,000 as of December 31, 2010. The change is primarily due to a decrease in the inventory used by this segment.

Total liabilities in the Products Segment as of December 31, 2011 decreased to NIS 8,536,000, compared to NIS 17,057,000 as of December 31, 2010. The decrease in this item is primarily due to the decrease in trade payables in the Products Segment, as explained above.

### 2.2.2.2 The Systems Segment

Total assets used by the Systems Segment as of December 31, 2011 were essentially unchanged aggregating NIS 14,701,000, compared to NIS 13,283,000 as of December 31, 2010.

Total liabilities in the Systems Segment as of December 31, 2011 amounted to NIS 18,397,000 compared to NIS 33,080,000 as of December 31, 2010. The decrease in this item primarily stems from the decrease in the balance of accounts payable and in liabilities in respect of embedded derivatives, as explained above.

### 2.2.2.3 The Parking Solutions Segment through Unitronics Parking Solutions Ltd

Total assets used by Unitronics Parking Solutions, which was established in the third quarter of 2011, as of December 31, 2011, totaled NIS 829,000.

Total liabilities for Unitronics Parking Solutions, which was established in the third quarter of 2011, as of December 31, 2011 amounted to NIS 294,000.

#### 2.2.24 Unitronics Building Management & Maintenance

Total assets used by Unitronics Building Management & Maintenance were essentially unchanged as of December 31, 2011, amounting to NIS 67,000, compared to NIS 36,000 as of December 31, 2010.

Total liabilities used by Unitronics Building Management & Maintenance were essentially unchanged as of December 31, 2011, amounting to NIS 172,000, compared to NIS 96,000 as of December 31, 2010.

#### 2.2.2.5 Assets and liabilities not attributed to a specific operating segment

Total assets not attributed to a specific operating segment increased as of December 31, 2011, amounting to NIS 119,278, compared to NIS 73,047,000 as of December 31, 2010. The increase stems from a rise in cash and cash equivalents and marketable securities, fixed assets and intangible assets as explained above.

Total liabilities not attributed to a specific operating segment as of December 31, 2011, amounted to NIS 93,471,000, compared to NIS 40,639,000 as of December 31, 2010. The increase in this item is primarily due to the issuance of convertible debentures (Series 3), as specified above.

### **2.2.3 Operating Results**

#### 2.2.3.1 Below is a summary of the quarterly income statements for 2011

|                                   | <u>NIS, thousand</u> |                 |                 |                   |                  |
|-----------------------------------|----------------------|-----------------|-----------------|-------------------|------------------|
|                                   | <u>1-3/2011</u>      | <u>4-6/2011</u> | <u>7-9/2011</u> | <u>10-12/2011</u> | <u>1-12/2011</u> |
| Revenues                          | 40,367               | 34,933          | 33,094          | 33,308            | 141,702          |
| Cost of revenues                  | 28,953               | 26,212          | 23,542          | 24,012            | 102,719          |
| Gross profit                      | 11,414               | 8,721           | 9,552           | 9,296             | 38,983           |
| Development expenses, net         | 763                  | 455             | 691             | 1,082             | 2,991            |
| Selling & marketing expenses      | 3,331                | 3,317           | 3,701           | 3,742             | 14,091           |
| Administrative & general expenses | 2,325                | 1,815           | 1,882           | 2,179             | 8,201            |
| Profit from ordinary operations   | 4,995                | 3,134           | 3,278           | 2,293             | 13,700           |
| Financing income (expenses), net  | 399                  | (2,147)         | (2,971)         | (1,048)           | (5,767)          |
| Profit for the period             | 5,394                | 987             | 307             | 1,245             | 7,933            |

#### 2.2.3.2 Revenues

Company revenues in the year ended December 31, 2011 amounted to NIS 141,702,000, a 7% decrease compared to NIS 152,979,000 in the year ended December 31, 2010 and compared to NIS 84,118,000 in 2009. The year-over-year decrease in 2011 and the year-over-year increase in 2010, are primarily due to revenues from the Products Segment, as set forth below.

Revenues in the Products Segment in the year ended December 31, 2011 amounted to NIS 89,213,000, a 14% increase compared to revenues of NIS 77,965,000 in the year ended December 31, 2010. The revenues for 2010 represent a 36% increase compared to revenues of NIS 57,496,000 in the year ended December 31, 2009. The Company believes that the continued growth in revenues in the Product Segment during 2011 and 2010, as compared to corresponding periods, stems from a rise in the pace of growth of products above the levels recorded in the years prior to the global economic crisis, which began at the end of 2008 (for details see section 1.9.27 of this report).

Revenues in the Systems Segment in the year ended December 31, 2011 amounted to NIS 52,104,000, a 30% decrease compared to revenues of NIS 74,598,000 in the year ended December 31, 2010. The revenues in 2010 represent a 185% increase from revenues of NIS 26,133,000 in the year ended December 31, 2009. The changes recorded in revenues in the Systems Segment in 2011 and 2010 compared to corresponding periods, stem from fluctuations in the actual pace of progress in the construction of several logistic systems by the Company's Systems Segment, primarily the planning and construction of a logistic system for a customer in Israel, and in the pace of orders from customers for the construction of logistics systems in the reported periods, which, among others, is explained by the relative volatility in this operating segment (for details see sections 1.10.7.2 and 1.10.9b of this report)

Revenues from the Products Segment in the year ended December 31, 2011 accounted for 63% of total Company revenues for the year, while revenues from the Systems Segment in the same period constituted 37% of total revenues (less than 1% accounted for by other income). Revenues from the Products Segment for the year ended December 31, 2010, were 51% of total Company revenues for that year, while revenues from the Systems Segment for the same period were 49% of total revenues (less than 1% accounted for by other income). Revenues from the Products Segment for the year ended December 31, 2009, represented 68% of total Company revenues for that year, while revenues from the Systems Segment for the same period were 31% of total revenues.

#### 2.2.3.3 Cost of Revenues and Gross Profit

Gross profit for the year ended December 31, 2011 totaled NIS 38,983,000 (28% of total revenues for the period). Gross income for the year ended December 31, 2010 totaled NIS 44,254,000 (29% of total revenues for the period). Gross profit for the year ended December 31, 2009 totaled NIS 28,733,000 (34% of revenues for the period).

The change in gross profit margins in the year ended December 31, 2011 compared to corresponding periods is primarily due to the change in the revenue mix from different operating segments (the gross profit margins in the Systems Segments are lower than the profit margins in the Products Segments and accordingly, when the revenue mix from the Systems Segment increases, the weighted gross profit margins declines and vice versa), as explained above and from the fluctuations in the gross profit margins in the Company's operating segments (see analysis of the business results by operating segments in 2.2.4 below).

#### 2.2.3.4 Development Expenses, Net

R&D expenses, net for the year ended December 31, 2011 amounted to NIS 2,991,000. Total development expenses, net for the year ended December 31, 2010 amounted to NIS 3,149,000, compared to NIS 2,116,000 for the year ended December 31, 2009. In the reported periods, the Company recognized intangible assets in respect of development costs which met the conditions for recognition as intangible assets. In the year ended December 31, 2011, the Company recognized an intangible asset in respect of development costs in the amount to NIS 12,175,000. Development expenses in the reported periods, which grew from previous periods, reflect a continued and accelerated development of technologies to support continued the Company's business. The Company continues to adjust its staff size, among others in the development department, by recruiting employees, in order to support its business plans in the different segment. For information regarding the Company's assessment of its development expenses in 2012, see sections 1.9.20 and 1.11.16 in chapter A of this report.<sup>2</sup>.

#### 2.2.3.5 Selling and Marketing Expenses

Selling and marketing expenses for the year ended December 31, 2011 amounted to NIS

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<sup>2</sup>The information regarding the scope of the expected development expenses is forward-looking information. The main data which serve as a basis in this subject are the Company's development plans, which are based, *inter alia*, on the analysis of market surveys as set forth in chapter A sections 1.7, 1.9.3 and 1.11.3. the analysis of market requirements and customer preferences, as expressed in the Company's unmediated talks with the markets, technological feasibility, the Company's assessments regarding the costs of the development that will be required to finance the performance of the developments, and also the tough competition that exists in the industry, as specified in this Report. The main factors which could cause this information to be proven inaccurate are the rates of investment which shall be required in these operations, which could significantly deviate from the Company's budgets in these subjects, restrictions regarding the ability to commercialize these technologies at competitive market prices, or at all, the lack of the development of markets and a consumer culture which are suitable for use of the technologies that have been developed, and the preferred financial and technological means which are available to a significant part of the Company's competitors, and all of the foregoing is in addition to the general risks as set forth in section 1.22 of this Report.

Actual revenues materialize from sale of products in 2012, Investment rate required for this activity , which may significantly exceed the company's budget on these issues, limitations regarding the ability to commercialize these technologies at competitive market prices or at all, lack of market development and consumer culture appropriate use of technologies developed, and better technological means available for the significant number of the competitors, all in addition to the general risks set forth in Section 1.2.3 of this report.

14,091,000 (10% of revenues). Selling and marketing expenses for the year ended December 31, 2010 totaled NIS 11,189,000 (7% of revenues). Selling and marketing expenses for the year ended December 31, 2009 totaled NIS 9,896,000 (12% of revenues). Selling and marketing expenses recorded a steady growth in the years 2011 and 2010 compared to corresponding periods, and the Company believes that this item may grow in future quarters in line with changes in its operations, in support of its business plans<sup>3</sup>.

#### 2.2.3.6 General and Administrative Expenses

General and administrative expenses in the year ended December 31, 2011 amounted to NIS 8,201,000 (6% of revenues). General and administrative expenses in the year ended December 31, 2010 amounted to NIS 7,981,000 (5.2% of revenues). Administrative and general expenses in the year ended December 31, 2009 totaled NIS 6,613,000 (8% of revenues). The moderate growth in general and administrative expenses in the years 2011 and 2010 compared to corresponding periods stems from the adjustment of expenses required to for the support and management of the Company's growing business.

#### 2.2.3.7 Profit from Ordinary Activities

In the year ended December 31, 2011, the Company recorded a decrease in profit from ordinary activities, totaling NIS 13,700,000, compared to profit from ordinary activities of NIS 21,989,000 in the year ended December 31, 2010, and profit from ordinary activities of NIS 10,171,000 in the year ended December 31, 2009. The year-over-year decrease in profit from ordinary activities in 2011 primarily stems from the decrease in gross profit and in selling and marketing expenses as specified above. The year-over-year growth in profit from ordinary activities in 2010 primarily stems from the growth in gross profit, as specified above.

#### 2.2.3.8 Financing Income and Expenses

Net financing expenses in the year ended December 31, 2011 amounted to NIS 5,767,000, compared to NIS 11,010,000 in the year ended December 31, 2010 and compared to NIS 1,689,000 in the year ended December 31, 2009. The change in financing expenses in 2011 compared to corresponding periods is primarily due to revaluations and exchange rate differences in respect of embedded derivatives (income of NIS 1,929,000 in 2011 compared to expenses of NIS 7,710,000 in 2010 and expenses of NIS 1,286,000 in 2009), which were caused by changing trends in the EUR/NIS exchange rate during the said periods, especially the decline in the EUR/NIS exchange rate in the first half of 2010; a one-off recognition of financing income from buy-back of debentures (Series 1 and 2) in

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<sup>3</sup> Information with regard to the expected growth in selling and marketing expenses is forward-looking information. The main data that form the basis for this information are the Company's marketing activities, including staff recruitments, planned visits to exhibitions, training sessions for distributors and advertising expenses. The main factors likely to prevent this forecast from materializing are changes in the Company's marketing plans due to reasons beyond its control (such as changes at the Company's distributors, changes in the Company's main target markets and/or in markets in which the Company is not active and marketing activities of competitors).

2009; recognition of revaluation and interests from marketable securities as a result of fluctuations in the prices of marketable securities on the stock exchange; and changes in borrowing costs in respect of debentures arising from the balance of debentures compared to the reported periods.

#### **2.2.3.9 Net Profit**

For the year ended December 31, 2011, the Company posted a net profit of NIS 8 million (6% of revenues), compared to a profit of NIS 11 million (7% of revenues) for the year ended December 31, 2010, and a profit of NIS 8.5 million for the year ended December 31, 2009. The Company believes that the changes in the net profit reported in 2009-2011 primarily stem from the changes in profits from ordinary activities less net financing expenses, as explained above.

### **2.2.4 Analysis of business results by operating segments**

As stated above, as of the date of the report, the Company's commercial operations are primarily performed by two business divisions: the Products Division and the Systems Division. Details of the results of the different segments are set forth below.

#### **2.2.4.1 The Products Segments**

Results of the Products Segment for the year ended December 31, 2011 amounted to a profit of NIS 27,840,000, compared to a profit of NIS 28,568,000 in the year ended December 31, 2010 and a profit of NIS 22,329,000 in the year ended December 31, 2009. The year-over-year moderate decrease in the Segment's results for the year ended December 31, 2011 stems, in the Company's estimation, from the increase in selling and marketing expenses attributed to the Segment, and the decrease in the gross profit margin, net of the year-over-year increase in the Company's revenues in this Segment. The changes in the gross profit margins primarily stem from an increase in production costs in return for an increase in production capacity and the ability to meet market demands, as well as the effect of fluctuations in the main selling currencies against the NIS. The growth in the Segment's results in the year ended December 31, 2010 stems, in the Company's estimation, from the year-over-year increase in revenues in the Products Segment, net of the decline in the gross profit margin in this Segment, as a result of the decline in the EUR-NIS exchange rate.

#### **2.2.4.2 The Systems segment**

Results of the Systems Segment for the year ended December 31, 2011 amounted to a profit of NIS 1,104,000, compared to a profit of NIS 7,787,000 in the year ended December 31, 2010 and a profit of NIS 29,000 in the year ended December 31, 2009. The year-over-year decrease in the profit in 2011 stems from the decrease in the revenues in this Segment in the reported period as explained above, and from the fixed expenses required to support the Segment's operation. The growth in profitability in 2010 stems, in

the Company's estimation, from the growth in revenues in this Segment in reported periods, as explained above, as well as an improvement in the gross profit, net of the operating expenses required to support the Segment's operation.

### **2.3 Liquidity and financing sources**

As of December 31, 2011, 2010 and 2009 the Company's balance of cash, cash equivalents and marketable securities totaled NIS 52,696,000, NIS 36,242,000 and NIS 34,974,000, respectively. This growth primarily stems from a positive cash flow from financing activities, which includes the issuance of debentures (Series 3) in March 2011, net of cash flow used in investment activities as explained below. These data remained essentially unchanged from December 31, 2010 to December 31, 2011.

Cash flow from operating activities for the year ended December 31, 2011 amounted to a positive cash flow of NIS 5,899,000. The positive cash flow for this period arises from the profit for the year net of non-cash expenses, less a negative cash flow in respect of changes in net asset and liability items. Cash flow from operating activities for the year ended December 31, 2010 amounted to a positive NIS 13,147,000. The positive cash flow in 2010 was primarily due to the profit for the year net of non-cash expenses, less a negative cash flow in respect of changes in asset and liability items, net (mainly an increase in inventory net of an increase in trade payable). Cash flow from operating activities for the year ended December 31, 2009 amounted to a positive NIS 18,231,000. The increase in the positive cash flow in 2009 was primarily due to the profit for the year net of non-cash expenses and plus a positive cash flow in respect of changes in asset and liability items, net (mainly an increase in accounts payable net of an increase in inventory of work in progress).

Cash flow used in investment activities for the year ended December 31, 2011 amounted to NIS 54,828,000. The negative cash flow in 2011 is primarily due to recognition of investment in R&D assets, investment in fixed assets and acquisition of a real estate asset as specified above (see Chapter A, section 3 above). Cash flow used in investment activities for the year ended December 31, 2010 amounted to NIS 6,612,000,000. The negative cash flow in 2010 primarily stems from the recognition of investment in R&D assets and investment in fixed assets in this period. Cash flow from investment activities for the year ended December 31, 2009 amounted to a positive NIS 5,337,000. The positive cash flow in 2009 is primarily due to the disposal of marketable securities net of an investment in R&D assets.

The positive cash flow from financing activities in the year ended December 31, 2011 amounted to NIS 47,857,000. The positive cash flow primarily stems from the issuance of debentures (Series 3) as specified above. The cash flow used in financing activities in the year ended December 31, 2010 amounted to NIS 5,778,000. The negative cash flow is primarily due to the repayment of debentures (Series 1 and 2) as detailed above and the buy-back of Company shares, offset by the receipt of long-term bank loans as specified above. Cash flow from financing activities in the year ended December 31, 2009



amounted to a negative NIS 21,311,000. The negative cash flow in 2009 stems from the repayment and early redemption of debentures (Series 2).

As of December 31, 2011, the Company had credit facilities available for operating activity of NIS 17.9 million, of which NIS 17.5 million were utilized. As of December 31, 2010, the Company's credit facilities for operating activity totaled NIS 22.6 million and were fully utilized. The credit facilities as of the said dates were primarily used to provide guarantees to secure the Company's obligations in projects carried out by the Systems Segment.

## **2.4 Exposure to market risk and management thereof**

### **2.4.1 The market risks management officer**

The Company officers responsible for market risk management are the Company CEO, Mr. Haim Shani and Company CFO, Mr. Yair Itzkovich. The CFO is responsible for gathering information in accordance with the risks listed below, and for processing and presenting the information to the CEO on a quarterly basis. The CEO is responsible for analyzing the information and drawing operative conclusions during his quarterly meetings with the CFO. In addition to the quarterly frequency, and as needed, they review unusual developments and additional exposures to market risks arising from Company operations, in order to determine how these should be managed.

### **2.4.2 Supervisory means and execution of market risk management policy**

The CEO, as the additional officer responsible for market risk management, supervises a review and the implementation of operative conclusions, if any, as part of the quarterly meetings with the Company's CEO. In the quarterly meetings, Board members receive reports from the Company's CEO and/or CFO, with regard to exposures and market risk management, if any. This is effectively internal control over the implementation of the Company's market risk management policy.

### **2.4.3 Description of market risks**

#### **2.4.3.1 Exposure to exchange rate fluctuations**

The Company is exposed to exchange rate fluctuations, particularly changes in the US dollar and the Euro vis-a-vis the NIS, for the reasons set forth below:

Company assets which are exposed to exchange rate fluctuations primarily consist of cash and cash equivalents in various currencies (mainly Euro and US dollar), customer debt denominated in various currencies, depending on the customer, and which do not bear interest, and marketable securities linked to foreign currency.

Current liability items exposed to exchange rate fluctuations include: current maturities of

long-term loans, which are mostly linked to foreign currency, as well as trade payables in foreign currency, primarily the Euro and US dollar, liability components in respect of projects in the Systems Segment, which exposed to the Euro as specified above, and the value of embedded derivatives which reflect the exposure of future receipts from projects in the Systems Segment, which are exposed to the Euro. Non-current liabilities include, *inter alia*, debt in respect of a financing plan for the acquisition of rights in the Company's facilities at Airport City, rights in real estate in the Modiin-Tirat Yehuda industrial zone, as specified in section 2.2.2 above, and long-term bank loans, 13% of which are denominated in US dollars, and 87% – in Euro.

The Company's operations are partly conducted in foreign currency, or in NIS linked to foreign currency. In the Products Segment, most of the revenues are denominated in US dollar or linked to the US dollar, with the exception of revenues generated from sales in Europe, which are mostly denominated in Euro. In the Systems Segment, most of the Company's revenues derive from sales denominated in Euro or linked to the Euro, hence the decline in the EUR/NIS exchange rate is expected to negatively impact the Company's financing expenses, and thereby the profitability of operations priced in Euro (for the management of declines in exchange rates, see details on the Company's market risk management policy in section 2.4.4 below). The raw materials required for the manufacture of the Company's products mainly include various electronic and mechanical components, and their prices are mostly denominated in foreign currency, mainly US dollar and Euro.

#### 2.4.3.2 Exposure to changes in the Consumer Price Index

In August 2006, the Company issued debentures (Series 2). These debentures are linked to the Consumer Price Index, with a basic index of 188.1 (1993 average). Therefore, as of August 2006, the Company's exposure to changes in the CPI has increased. In March 2011 the Company issued debentures (Series 3). These debentures are linked to the Consumer Price Index, with a basic index of 212.73 (1993 average). Following the issuance of Series 3 debentures, the Company's exposure to changes in the CPI has increased.

Developments in Israel's economy, including depreciation and inflation, could give rise to fluctuations in the Consumer Price Index, and consequently could affect the Company's financing income and/or financing expenses.

#### 2.4.3.3 Risks associated with the acquisition of a real estate asset

As specified in section 2.1.2.6 above, the Company acquired a real estate asset in the Modiin-Tirat Yehuda industrial zone and plans, subject to the adoption of a detailed plan and the execution of detailed planning, depending on the Company's business developments and subject to any approval required by law, to expand the activities of its Systems Segment. As a result, the Company's exposure has increased to changes and irregular developments in the real estate market, and to changes in the prices of building inputs and in the financing required to carry out these plans.

#### 2.4.3.4 Risks associated with marketable securities

A portion of the Company's financial means is invested in marketable securities. Unusual developments in capital markets in Israel and worldwide could give rise to fluctuations in the prices of marketable securities traded on the stock exchange, and consequently could affect the Company's financing income and/or financing expenses.

#### 2.4.3.5 Interest risk

The Company has various loans in connection with the acquisition of rights in the Company's facilities at Airport City, rights in real estate in the Modiin-Tirat Yehuda industrial zone, as well as long-term bank loans denominated in foreign currency and other credit facilities bearing various interest rates and exposed to possible changes in the Prime and/or Libor interest rates.

### **2.4.4 The Company's market risk management policy**

#### 2.4.4.1 Exchange rate fluctuations

It is Company policy to try and reduce, for each contract, the exposure to exchange rate fluctuations by adjusting the income currency to the main expense currency, and/or reduce exposure by means of forward transactions in foreign currency. In the Systems Segment, the Company usually links the terms of payment (date/currency) from different customers to the terms of payment for subcontractors.

#### 2.4.4.2 Marketable securities

It is Company policy, with regard to its marketable securities, to reduce exposure to fluctuations in the market prices of marketable securities and to maintain stable returns through investments in diverse fixed-income assets. Accordingly, the available financial resources, as assessed by the Company from time to time, are invested.

#### 2.4.4.3 Disclosure on changes in the economic environment, the crisis in the Euro bloc and market risks

At the start of 2011 several factors hurt the global growth, including the tsunami and damage to the nuclear mines in Japan, and the rise in oil prices following the protests throughout the Arab world. Later in the year, indicators of a downturn increased both in developments and developing markets. The Euro bloc may pose a real threat to financial stability and global growth, in the absence of credible management for the debt crisis of certain European countries. The threat began from small countries, such as Greece, Portugal and Ireland, and had later spread to bigger countries, namely Italy and Spain (PIIGs). Since the heads of leading European countries disagree as to the best way to effectively manage the debt crisis, the Euro bloc is at risk of disintegration, with the

departure of some or all of the members. Such disintegration could entail a financial crisis and undermine global growth. Already this crisis is causing severe fluctuations in the prices of securities and in currency exchange rates.

Concurrent with the slowdown in global economy, during 2011 Israel saw a deceleration in its growth rate, which was reflected in lower growth forecasts published by the Bank of Israel. In addition, during the year the stock market recorded sharp declines and an increase in corporate bond yields, among others, on the back of concerns in capital markets, the crisis in the global economy, uncertainty with respect to geopolitical developments in the Middle East, social protests in Israel and worldwide and the recommendations of the Committee for Social-Economic Changes (including raising the taxes on corporate profits and capital gains).

The Company's sales to the countries in the Euro bloc and the countries in the European Common Market represent 27% of total company sales. For financial information on the Company's operating segments by geographic regions, see sections 1.9.28, 1.10.22 and 1.11.22 of the Annual Report). In addition, the Company has several agreements for automated logistic systems, which are denominated in Euro or linked to the Euro. For details on the main customers in this Segment, see section 1.10.9 of the Annual Report. These developments in the global and domestic economic environment, including the threats in the Euro crisis, and the potential depreciation of the Euro, are affecting and could continue to materially affect the business results of the Company and its subsidiaries (revenues and profits), as well as their liquidity, financing expenses, shareholders equity, the value of their assets and their ability to dispose of these assets, their business situation (including the demand for their products and services), their ability to raise financing for their day-to-day activities, including financing from banks and financial corporations, their financial covenants and their general activity.

**The aforementioned information in connection with the Company's estimates regarding the impact of the financial crisis in the Euro bloc on the Company is forward-looking information as the term is defined in the Securities Law. There is no certainty with regard to such estimation, *inter alia*, because it is based on information which is relevant on the reporting date and dependent on factors that are not in the Company's control, such as: the deepening of the financial crisis and its impact on additional countries, market conditions, etc.**

For additional details regarding the Company's exposure to market risks and the management thereof, see section 1.23 of the Annual Report.

#### **2.4.4.4 Risk associated with the global market for electronic components**

A decline in the availability of electronic components worldwide could affect the lead times for Company products, resulting in higher prices of such components as well as generate other potential exposures. To manage these exposures, the Company strives to continually streamline its procurement and inventory management procedures, *inter alia*,

by accelerating purchasing processes, outsourcing production processes (including component procurement) to external suppliers, and strengthening Company units involved with procurement and operations.

Apart from the activities set forth above, the market risk management policies and use of hedges during the reported year are presented to the Board of Directors on a quarterly basis, as part of the discussions of periodic reports.

#### **2.4.5 Forecast cash flow**

The Company's Board of Directors has determined, after reviewing the four warning signs set forth in Regulation 10(b)(14) of the Regulations pertaining to the disclosure of projected cash flow for financing the repayment of corporate liabilities, that the Company is not experiencing liquidity difficulties, it is capable of meeting its obligations, including full repayment of liabilities in respect of debentures (Series 2 and 3). The Board of Directors performs such review each quarter, along with the approval of the quarterly financial statements published by the Company.

## 2.4.6 Linkage basis and sensitivity analysis reports

### Consolidated linkage basis as of December 31, 2011

| As of December 31, 2011 |                   |                  |        |                     |                       |         |
|-------------------------|-------------------|------------------|--------|---------------------|-----------------------|---------|
| Israeli Currency        |                   | Foreign Currency |        |                     |                       | Total   |
| Unlinked                | Linked to the CPI | In Euro          | In USD | In other currencies | Non-monetary balances |         |
| -                       |                   |                  |        |                     |                       |         |
| NIS in Thousand         |                   |                  |        |                     |                       |         |
| 5,966                   | -                 | 5,603            | 4,888  | 10                  | -                     | 16,467  |
| 3,281                   |                   |                  |        |                     |                       | 3,281   |
| 17,969                  | 18,081            | -                | 179    | -                   | -                     | 36,229  |
| 7,575                   | -                 | 5,562            | 4,517  | -                   | -                     | 17,654  |
| -                       | -                 | 20               | -      |                     | -                     | 20      |
| 1,852                   | -                 | 0                | 442    | -                   | -                     | 2,294   |
| -                       | -                 | -                | -      | -                   | 16,505                | 16,505  |
| -                       | -                 | -                | -      | -                   | 7,362                 | 7,362   |
| -                       | -                 | -                | -      | -                   | 264                   | 264     |
| -                       | -                 | -                | -      | -                   | 40,663                | 40,663  |
| -                       | -                 | -                | -      | -                   | 23,834                | 23,834  |
| 36,643                  | 18,081            | 11,185           | 10,026 | 10                  | 88,628                | 164,573 |
|                         |                   |                  |        |                     |                       |         |
| -                       | 94                | 3,888            | 417    | -                   | -                     | 4,399   |
| -                       | 6,186             |                  |        | -                   | -                     | 6,186   |
| 7,436                   | -                 | 2,568            | 4,146  | 25                  | -                     | 14,175  |
| -                       | -                 | 1,077            | -      |                     | -                     | 1,077   |
| 15,033                  | -                 | -                | 743    | -                   | -                     | 15,776  |
| -                       | 203               | 13,461           | 2,084  | -                   | -                     | 15,748  |
| -                       | 60,977            | -                | -      | -                   | -                     | 60,977  |
| -                       | -                 | -                | -      | -                   | 2,532                 | 2,532   |
| 22,469                  | 67,460            | 20,994           | 7,390  | 25                  | 2,532                 | 120,870 |
|                         |                   |                  |        |                     |                       |         |
| 14,174                  | (49,379)          | (9,809)          | 2,636  | (15)                | 86,096                | 43,703  |

Consolidated linkage basis as of December 31, 2010

| As of December 31, 2010 |                          |                  |               |                              |       |
|-------------------------|--------------------------|------------------|---------------|------------------------------|-------|
| Israeli Currency        |                          | Foreign Currency |               |                              | Total |
| <u>Non-linked</u>       | <u>Linked to the CPI</u> | <u>In Euro</u>   | <u>In USD</u> | <u>Non-monetary balances</u> |       |

| NIS in Thousand |  |  |  |  |  |
|-----------------|--|--|--|--|--|
|-----------------|--|--|--|--|--|

**Assets**

|                                       |               |               |               |               |               |                |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Cash                                  | 3,829         | -             | 6,115         | 7,512         | -             | 17,456         |
| Marketable securities                 | 7,629         | 10,405        | -             | 752           | -             | 18,786         |
| Trade and income receivable           | 5,582         | -             | 5,315         | 3,322         | -             | 14,219         |
| Embedded derivatives                  | -             | -             | -             | -             | -             | -              |
| Other accounts receivable             | 863           | -             | -             | 408           | -             | 1,271          |
| Inventory                             | -             | -             | -             | -             | 29,898        | 29,898         |
| Inventory of work in progress         | -             | -             | -             | -             | 7,461         | 7,461          |
| Long-term deposits - operating leases | -             | -             | -             | -             | 404           | 404            |
| Fixed assets                          | -             | -             | -             | -             | 21,819        | 21,819         |
| Other assets                          | -             | -             | -             | -             | 15,717        | 15,717         |
| Total assets                          | <u>17,903</u> | <u>10,405</u> | <u>11,430</u> | <u>11,994</u> | <u>75,299</u> | <u>127,031</u> |

**Liabilities**

|                                                            |               |               |               |              |              |               |
|------------------------------------------------------------|---------------|---------------|---------------|--------------|--------------|---------------|
| Short-term loans and current maturities of long-term loans | -             | 85            | 3,730         | 387          | -            | 4,202         |
| Current maturities of debentures                           | -             | 6,032         | -             | -            | -            | 6,032         |
| Trade payables                                             | 14,010        | -             | 6,328         | 5,417        | -            | 25,755        |
| Embedded derivatives                                       | -             | -             | 3,951         | -            | -            | 3,951         |
| Accounts payable                                           | 23,147        | -             | -             | 501          | -            | 23,648        |
| Long-term loans from banks and others                      | -             | 296           | 11,907        | 2,323        | -            | 14,526        |
| Straight debentures                                        | -             | 11,175        | -             | -            | -            | 11,175        |
| Liabilities due to employee benefits, net                  | -             | -             | -             | -            | 1,583        | 1,583         |
| Total liabilities                                          | <u>37,157</u> | <u>17,588</u> | <u>25,916</u> | <u>8,628</u> | <u>1,583</u> | <u>90,872</u> |

|                          |                 |                |                 |              |               |               |
|--------------------------|-----------------|----------------|-----------------|--------------|---------------|---------------|
| Net assets (liabilities) | <u>(19,254)</u> | <u>(7,183)</u> | <u>(14,486)</u> | <u>3,366</u> | <u>73,716</u> | <u>36,159</u> |
|--------------------------|-----------------|----------------|-----------------|--------------|---------------|---------------|

### Sensitivity analysis of financial instruments as of December 31, 2011

As of the date of the statement of financial position, the Company performed 5 sensitivity tests in respect of changes in the upper range and lower range of 5% and 10% in market factors. The market tests were based on the model specified.

- 1) A table listing changes to the fair value of financial instruments sensitive to changes in the US dollar's exchange rate

|                             | Profit (loss) due to change, NIS<br>in thousands |              | NIS in<br>thousands<br>Fair value | Profit (loss) due to change, NIS<br>in thousands |              |
|-----------------------------|--------------------------------------------------|--------------|-----------------------------------|--------------------------------------------------|--------------|
|                             | 10%                                              | 5%           |                                   | -5%                                              | -10%         |
| NIS to dollar               | 4.203                                            | 4.012        | 3.821                             | 3.630                                            | 3.439        |
| Cash and cash equivalents   | 489                                              | 244          | 4,888                             | (244)                                            | (489)        |
| Marketable securities       | 18                                               | 9            | 179                               | (9)                                              | (18)         |
| Trade and income receivable | 452                                              | 226          | 4,517                             | (226)                                            | (452)        |
| Accounts receivable         | 44                                               | 22           | 442                               | (22)                                             | (44)         |
| Current maturities of loans | (42)                                             | (21)         | (417)                             | 21                                               | 42           |
| Trade payables              | (415)                                            | (207)        | (4,146)                           | 207                                              | 415          |
| Other accounts payable      | (64)                                             | (32)         | (639)                             | 32                                               | 64           |
| Long-term loans             | <u>(208)</u>                                     | <u>(104)</u> | <u>(2,084)</u>                    | <u>104</u>                                       | <u>208</u>   |
| Total                       | <u>274</u>                                       | <u>137</u>   | <u>2,740</u>                      | <u>(137)</u>                                     | <u>(274)</u> |

- 2) A table listing changes to the fair value of financial instruments sensitive to changes in the Euro's exchange rate

|                             | Profit (loss) due to change, NIS<br>in thousands |              | NIS in<br>thousands<br>Fair value | Profit (loss) due to change, NIS<br>in thousands |              |
|-----------------------------|--------------------------------------------------|--------------|-----------------------------------|--------------------------------------------------|--------------|
|                             | 10%                                              | 5%           |                                   | -5%                                              | -10%         |
| NIS to Euro                 | 5.432                                            | 5.185        | 4.938                             | 4.691                                            | 4.444        |
| Cash and cash equivalents   | 560                                              | 280          | 5,603                             | (280)                                            | (560)        |
| Trade and income receivable | 556                                              | 278          | 5,562                             | (278)                                            | (556)        |
| Current maturities of loans | (389)                                            | (194)        | (3,888)                           | 194                                              | 389          |
| Trade payables              | (257)                                            | (128)        | (2,568)                           | 128                                              | 257          |
| Other accounts payable      | 0                                                | 0            | 0                                 | 0                                                | 0            |
| Long-term loans             | <u>(1,346)</u>                                   | <u>(673)</u> | <u>(13,461)</u>                   | <u>673</u>                                       | <u>1,346</u> |
| Total                       | <u>(876)</u>                                     | <u>(437)</u> | <u>(8,752)</u>                    | <u>437</u>                                       | <u>876</u>   |



3) A table listing changes in the fair value of financial instruments sensitive to changes in the Consumer Price Index

|                                  | Profit (loss) due to change, NIS in thousand |                | NIS in thousands | Profit (loss) due to change, NIS in thousand |              |
|----------------------------------|----------------------------------------------|----------------|------------------|----------------------------------------------|--------------|
|                                  | 10%                                          | 5%             | Fair value       | -5%                                          | -10%         |
| CPI in points                    | 237.90                                       | 227.08         | 216.27           | 205.46                                       | 194.64       |
| Marketable securities            | 1,808                                        | 904            | 18,081           | (904)                                        | (1,808)      |
| Current maturities of loans      | (9)                                          | (5)            | (94)             | 5                                            | 9            |
| Current maturities of debentures | (619)                                        | (309)          | (6,186)          | 309                                          | 619          |
| Long-term loans                  | (20)                                         | (10)           | (203)            | 10                                           | 20           |
| Debentures (*)                   | <u>(6,098)</u>                               | <u>(3,049)</u> | <u>(60,977)</u>  | <u>1,190</u>                                 | <u>1,478</u> |
| Total                            | <u>(4,938)</u>                               | <u>(2,469)</u> | <u>(49,379)</u>  | <u>610</u>                                   | <u>318</u>   |

\* Debentures (Series 3) linked to a basic index of 212.73 points (1993 Average)

4) Table listing changes in the fair value of derivative financial instruments sensitive to changes in the underlying asset denominated in Euro:

|                                              | Profit (loss) due to change, NIS in thousand |                                     | NIS in thousands | Profit (loss) due to change, NIS in thousand |                                      |
|----------------------------------------------|----------------------------------------------|-------------------------------------|------------------|----------------------------------------------|--------------------------------------|
|                                              | 10% increase in the underlying asset         | 5% increase in the underlying asset | Fair value       | 5% decrease in the underlying asset          | 10% decrease in the underlying asset |
| Embedded derivatives                         | 91                                           | 46                                  | 20               | (46)                                         | (91)                                 |
| Liability in respect of embedded derivatives | <u>1,108</u>                                 | <u>554</u>                          | <u>(1,077)</u>   | <u>(554)</u>                                 | <u>(1,108)</u>                       |
| Total                                        | <u>1,200</u>                                 | <u>600</u>                          | <u>(1,057)</u>   | <u>(600)</u>                                 | <u>(1,200)</u>                       |

- 5) Table listing changes in the fair value of derivative financial instruments sensitive to changes in the underlying asset denominated in US dollars:

|                                            | Profit (loss) due to change, NIS in thousand |                                     | NIS in thousands | Profit (loss) due to change, NIS in thousand |                                      |
|--------------------------------------------|----------------------------------------------|-------------------------------------|------------------|----------------------------------------------|--------------------------------------|
|                                            | 10% increase in the underlying asset         | 5% increase in the underlying asset |                  | 5% decrease in the underlying asset          | 10% decrease in the underlying asset |
| Liability in respect of hedge transactions | <u>(153)</u>                                 | <u>(76)</u>                         | <u>(104)</u>     | <u>76</u>                                    | <u>153</u>                           |

- 6) A table listing changes to the fair value of financial instruments sensitive to changes in the prices of marketable securities:

|                    | Profit (loss) due to change, NIS in thousands |              | NIS in thousands | Profit (loss) due to change, NIS in thousands |                |
|--------------------|-----------------------------------------------|--------------|------------------|-----------------------------------------------|----------------|
|                    | 10%                                           | 5%           |                  | 5%-                                           | 10%-           |
| Local Government - | 1,548                                         | 774          | 15,475           | (774)                                         | (1,548)        |
| Local - Corporate  | 1,811                                         | 906          | 18,113           | (906)                                         | (1,811)        |
| Shares             | <u>264</u>                                    | <u>132</u>   | <u>2,641</u>     | <u>(132)</u>                                  | <u>(264)</u>   |
| Total              | <u>3,623</u>                                  | <u>1,812</u> | <u>36,229</u>    | <u>(1,812)</u>                                | <u>(3,623)</u> |

#### **2.4.7 Summary report of liabilities by repayment dates (Reg. 9d)**

For details on the Company's liabilities by repayments, as of December 31, 2011, see reported dated March 29, 2012, published by the Company together with the publication of this report.

## 2.5 Corporate governance aspects

### 2.5.1 Details on the Company's internal auditor

- (a) The Company's internal auditor is CPA Eyal Horovitz (legal expert) who has held this position since June 2000. His appointment was approved at the meetings of the Audit Committee and Board of Directors on June 18, 2000. To the best of the Company's knowledge, CPA Horovitz complies with provisions of Section 146(b) of the Companies Ordinance and provisions of Section 8 of the Internal Audit Act, 1992 (hereinafter: "**the Internal Audit Act**"). CPA Horowitz's qualifications for his position as the Company's internal auditor are his education as a CPA and jurist and his involvement in the audit as a CPA and an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors have reviewed his experience and track record in internal auditing of other public companies considering, among others, the type and size of the company as well as the scope and complexity of its operations.
- The Company's internal auditor has no business relations or other affiliations with the Company or its controlling shareholder, nor – to the best of the Company's knowledge - to affiliated entities.
- (b) CPA Horovitz is not an employee of the Company and provides internal auditing services to the Company as an external entity via **Backer Tilly Israel**, of 11 Menachem Begin Street, Ramat Gan (Corporate No. 557383031) which has an internal auditing department and whose employees have skills in various disciplines.
- (c) The officers in charge of the Company's internal auditor are the Chairman of the Board of Directors of the Company, and the Chairman of the Audit Committee of the Company, as a professional authority and as the person who instructs the internal auditor with regard to the subjects for the internal audit.
- (d) The annual and/or periodic audit plan<sup>4</sup> and considerations in its preparation: Major considerations in preparing the annual and/or periodic audit plan for the Company are: (1) proposals of the internal auditor for periodic and annual work plans; (2) proposals of members of the Company's Audit Committee and Board of Directors, based on, among others, the proposals of the internal auditor, internal audit subjects in past years, the recommendations of the Company's legal advisor and issues discussed at regular meetings of the Company's Audit Committee and Board of Directors; and (3) the size of the Company, its organizational structure and the nature and scope of its business activities; (4) the risk survey conducted by the Company and the required adjustments, as necessary. The Audit Committee and Board of Directors discuss and approve the annual and periodic plans and the issues to be reviewed by the internal auditor, and those issues are reviewed by the internal auditor as part of his annual work. The internal auditor is authorized to exercise his discretion as to whether to deviate from the original plan in

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<sup>4</sup> In January 2012, the internal auditor submitted a period report for the years 2009 through June 30, 2011 to the Chairman of the Board of Directors and to the Chairman of the Audit Committee.

order to review data he randomly found during the execution of the annual and periodic work plans. Should the internal auditor decide to conduct a comprehensive review of a subject or area not included in the list of issues approved by the Audit Committee for the annual work plan, the internal auditor will recommend that the Audit Committee's Chairman amend the plan, and the latter would raise the issue for discussion and approval during Audit Committee meetings.

- (e) From time to time, and insofar as necessary, the audit plan also addresses the Company's overseas operations. In its internal audit report for 2003, the internal auditor addressed several aspects of the operation of Unitronics Inc. (a wholly-owned subsidiary of the Company primarily engaged in coordinating the marketing and distribution activities of the Company in the US - for further details see section 6.21.2 of the 2011 Prospectus) - including monitoring the implementation of the internal auditor's recommendations on these issues. All Company documents relating to the operation of the Company and/or its overseas subsidiary are fully available to the auditor in Israel.

In addition, from time to time, and as needed, the audit plan also addresses the activities of the Company's subsidiaries in Israel. The Company's internal audit report for 2004 covered several aspects of the operation of Unitronics Building Management and Maintenance (2003) Ltd. - a wholly-owned subsidiary of the Company (for further details see section 1.21.1 above).

- (f) During the reporting period, 170 hours were spent by the internal auditor and his staff on internal auditing of the Company in Israel. The Board of Directors believes that this number of hours is consistent with the scope of activity reviewed by the auditor. The auditor is authorized to shift hours from one subject to another, and since his work is continuous, the auditor can shift hours from one year to the next in order to allow for an in-depth and extensive coverage of the reviewed subjects at his discretion. Furthermore, the extent of employment of the internal auditor is determined each year together with the approval of the work plan, while taking into consideration the scope of the work plan for the relevant year, its complexity and the sensitivity of the subjects reviewed during that year.

| 2011 | 2010 | Hours                                                                                                          |
|------|------|----------------------------------------------------------------------------------------------------------------|
| 170  | 75   | Hours spent on internal audit of the Company with respect to its operations in Israel.                         |
| 0    | 0    | Hours spent on internal audit of investee companies, with regard to their operations in Israel.                |
| 0    | 0    | Hours spent on internal audit of the Company and investee companies, with regard to their operations overseas. |

To date the planned annual number of hours has not been reduced; nevertheless the auditor shifts hours between subjects and from one year to another.

- (g) The internal auditor, pursuant to his notice to the Company dated February 17, 2005, performs the audit at the Company in accordance with generally accepted professional standards, as stated in Section 4(b) of the Internal Audit Act, 1992, which are based on the professional standards for internal auditing of the Israeli Internal Auditors' Chamber. In the Board of Directors' opinion, the internal auditor meets the requirements stipulated by the above standards, having regard to the internal auditor's professional aptitude, skills, the duration of his employment by the Company, his familiarity with the Company and the manner in which he edits, submits and presents the findings of his audits to the Company.
- (h) Review of material transactions: the internal auditor did not review the material transactions as the term is defined in Section 5(f) of the Fourth Addendum to the Regulations, which the Company executed during the reporting period, including the process of their approval.
- (i) All documents and information requested by the internal auditor, including those regarding operations of subsidiaries, are provided to him as stipulated by Section 9 of the Internal Audit Act and he is granted free access to such information, including continuous, unmediated access to Company information systems, including its financial data.
- (j) Below are details of the dates in which a written report on the internal auditor's findings was submitted to the Chairman of the Board of Directors and the Chairman of the Audit Committee, and the dates on which a discussion was held on the reports at the Audit Committee and/or at the Board of Directors of the Company.

| Topic                                           | 2010 report | 2011 reports |
|-------------------------------------------------|-------------|--------------|
| Report no 1:                                    |             |              |
| Date of submission of internal auditor's report | 16/12/10    | 19/5/2011    |
| Date of discussion by Audit Committee           | 28/12/10    | 30/01/12     |
| Date of discussion by Board of Directors        | 28/12/10    | 30/01/12     |
| Report no 2:                                    |             |              |
| Date of submission of internal auditor's report | -           | 25/01/12     |
| Date of discussion by Audit Committee           | -           | 30/01/12     |
| Date of discussion by Board of Directors        | -           | 30/01/12     |

- (k) The Board of Directors of the Company believes that the scope, nature and continuity of the activity and work plan of the Company's internal auditor are reasonable, considering the size of the Company, its organizational structure and the nature and scope of its business activities, and that they allow fulfilling the objectives of the internal audit.

- (L) The internal auditor's fee for services rendered in 2011 amounted to NIS 37,000. The internal auditor is paid an hourly rate of NIS 218. In the Board of Directors' opinion, the remuneration of the internal auditor does not influence his professional judgment considering, among others, the Board of Directors' impression of the manner in which he performs the work of internal auditor at the Company, the level of detail, accuracy and diligence of the audit findings submitted by him to date, as well as the amount of his overall income relative to his wages as the Company's internal auditor.

#### **2.5.2 Directors having Accounting Skills:**

At its meeting held on March 18, 2004, the Company's Board of Directors determined that the proper minimal number of directors of the Company having accounting and financial skills, taking into consideration, *inter alia*, the size of the Company, the type of its operation, its complexity, etc, would be one director, for as long as the Company's Board of Directors comprises up to six members. Currently, the Company is served by three Board members having accounting and financial skills out of the five Board members: Mr. Zvi Livne, a CPA by education and current occupation; Mr. Moshe Baraz, a CPA by education and CFO by current occupation; and Mr. Yoel Sela, the current CEO with many years' experience as CFO and CEO of companies in various fields (for further details see section 4.10.1 of the annual report).

#### **2.5.3 Independent directors**

As of the reporting date, the Company's Articles of Association do not incorporate the provisions of the Companies Law, 1999, regarding the number of independent directors in its Articles of Association.

#### **2.5.4 Donations policy**

The Company's Articles of Association has no provisions for making charitable donations, and therefore the Company has no policy concerning charitable donation and has not made any such donations in the relevant periods.

#### **2.5.5 Disclosure with regard to compensation of auditing CPA**

The CPAs of the Company and of its subsidiaries in Israel are (1) Amit Halfon, CPA of Ramat Gan, Israel and (2) Clarke, Snow & Riley LLP of Quincy, MA, USA, respectively. The CPA's fee is based on the scope of work undertaken. The fee is determined by the Company Board of Directors under the authority granted to it by the General Meeting of Company shareholders, which appointed the CPAs.

Below are details of the total remuneration of the Company's auditors in respect of audit and other services<sup>5</sup>:

| CPA                                      | Company to which service was rendered                       | Type of the Service                                     | 2011 NIS in thousands | 2011 Work hours | 2010 NIS in thousands | 2010 Work hours |
|------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------|-----------------------|-----------------|-----------------------|-----------------|
| Amit Halfon, CPA, Ramat Gan, Israel      | UNITRONICS (1989) (R"G) Ltd. And its subsidiaries in Israel | Audit services, audit-related services and tax services | 215                   | 1,042           | 215                   | 1,008           |
|                                          |                                                             | Services related to the prospectus                      | 200                   | 286             |                       |                 |
|                                          |                                                             | Consulting services                                     | 75                    | 155             | 69                    | 317             |
| Clarke, Snow & Riley LLP Quincy, MA, USA | UNITRONICS Inc.                                             | Audit services, audit-related services and tax services | 220                   | 291             | 150                   | 256             |
|                                          |                                                             | Consulting services                                     | 53                    | 47              | -                     | -               |

## 2.6 **Disclosure requirements in connection with financial reporting**

### 2.6.1 **Critical accounting estimates:**

The critical accounting estimates used in the financial statements are: (a) benefits in respect of severance pay and other post-retirement benefits; (b) development costs (c) embedded derivatives.

#### (a) **Pension benefits and other post-employment benefits**

Liabilities in respect of post-employment defined benefit plans are determined by using actuarial valuation techniques. Calculation of the liability involves setting assumption with regard to, inter alia, discount rates, expected rates of return on assets, rate of wage increase and employee turnaround rates. These estimates are subject to material uncertainty, because these are long-term plans.

#### (b) **Development costs**

Development costs are capitalized in accordance with the accounting policy set forth in Notes to the financial statements. To determine the amounts to be capitalized as an asset, management estimates the future cash flows from the asset and the projected beneficial period.

<sup>5</sup> The fee to the Company's subsidiaries in Israel is included in the fee charged by Amit Halfon, CPA, and its percentage is immaterial.

(c) Embedded derivatives

The value of embedded derivatives with respect to transactions that are expected to generate a future cash flow in Euro, which is not the Company's functional currency, is determined using economic valuation techniques. Calculation of the value of embedded derivatives involves making assumptions, *inter alia*, with regard to future exchange rates, discount rates and cash flow timing. There is material uncertainty with regard to these estimates, due to cash flows spanning extended periods and to exchange rate volatility.

**2.7 Specific disclosure to debenture holders**

**2.7.1 Corporate debentures (Reg. 10(b)(13))**

|     |                                                                                 |                                                                                                                                                                                       |
|-----|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) | Security                                                                        | Debenture (Series 2)                                                                                                                                                                  |
| A   | Issue date                                                                      | August 2006                                                                                                                                                                           |
| B   | Total par value upon issuance                                                   | 34,000,000                                                                                                                                                                            |
| C   | Par value as of the report date                                                 | 10,760,000                                                                                                                                                                            |
| D   | Par value in accordance with linkage terms – as of the report date              | 12,371,000                                                                                                                                                                            |
| E   | Accumulated interest as of the report date                                      | 265000,                                                                                                                                                                               |
| F   | Liability carrying amount as of the report date                                 | 11,935,000                                                                                                                                                                            |
| G   | Market value                                                                    | 13,073,000                                                                                                                                                                            |
| H   | Interest type and description                                                   | 6.1% p.a.                                                                                                                                                                             |
| I   | Payment dates of the principal balance                                          | Two outstanding equal annual installments starting on August 25, 2012                                                                                                                 |
| J   | Interest payment dates                                                          | On each 25 <sup>th</sup> day of February and August of the years 2012-2013                                                                                                            |
| K   | Details of principal and interest linkage                                       | Principal and interest linked to the Consumer Price Index, base rate of 188.1 or higher (July 2006 CPI; base: 1993)                                                                   |
| L   | Are debentures convertible                                                      | Not convertible                                                                                                                                                                       |
| M   | Is corporate entitled to early redemption                                       | Not entitled                                                                                                                                                                          |
| N   | Is payment of obligation guaranteed in deed of trust                            | NO                                                                                                                                                                                    |
| O   | Is this liability material to the Company                                       | YES                                                                                                                                                                                   |
| (2) | Trustee for debenture series with trust company; contact information of trustee | Hermetic Trusteeship (1975) Ltd.,<br>DAN AVNON and/or MERAV OFER-OREN,<br>113 HA-YARKON Street, TEL AVIV 63573<br>Tel.03-5274867<br>Fax: 03-5271451<br>Email: hermetic@hermetic.co.il |



(5+6) As of the date of this report, the Company was, to the best of its knowledge, in compliance with all terms and conditions in accordance with the Deed of Trust for debentures (Series 2); the Company was not in breach of any obligation or condition set forth in the Deed of Trust, which are not of a technical nature, and there was no cause for declaring the debentures immediately due and payable.

(8) The debentures (Series 2) are not secured by any liens.

|     |                                                                                 |                                                                                                                                                                                       |
|-----|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) | Security                                                                        | Debentures (Series 3)                                                                                                                                                                 |
| A   | Issue date                                                                      | March 2011                                                                                                                                                                            |
| B   | Total par value upon issuance                                                   | 56,442,000                                                                                                                                                                            |
| C   | Par value as of the report date                                                 | 56,442,000                                                                                                                                                                            |
| D   | Par value in accordance with linkage terms – as of the report date              | 57,380,000                                                                                                                                                                            |
| E   | Accrued interest as of the report date                                          | 882,000                                                                                                                                                                               |
| F   | Liability carrying amount as of the report date                                 | 55,228,000                                                                                                                                                                            |
| G   | Market value                                                                    | 58,107,000                                                                                                                                                                            |
| H   | Interest type and description                                                   | 5.65% p.a.                                                                                                                                                                            |
| I   | Payment dates of the balance of the principal                                   | Five equal annual installments commencing on March 23, 2013                                                                                                                           |
| K   | Future interest payment dates                                                   | On each 23 <sup>rd</sup> of March and September commencing on March 23, 2012 through March 23, 2017                                                                                   |
| L   | Details of principal and interest linkage                                       | Principal and interest linked to the Consumer Price Index, at a base rate of 212.73 (February 2011 CPI; base: 1993)                                                                   |
| L   | Are debentures convertible                                                      | Not convertible                                                                                                                                                                       |
| M   | Is corporate entitled to early redemption                                       | Entitled                                                                                                                                                                              |
| N   | Is payment of obligation guaranteed in the Deed of Trust                        | NO                                                                                                                                                                                    |
| O   | Is this liability material to the Company?                                      | YES                                                                                                                                                                                   |
| (2) | Trustee for debenture series with trust company; contact information of trustee | Hermetic Trusteeship (1975) Ltd.,<br>DAN AVNON and/or MERAV OFER-OREN,<br>113 HA-YARKON Street, TEL AVIV 63573<br>Tel.03-5274867<br>Fax: 03-5271451<br>Email: hermetic@hermetic.co.il |

(5+6) As of the date of this report and during the year, the Company was, to the best of its knowledge, in compliance with all terms and conditions prescribed in the Deed of Trust for debentures (Series 3); the Company was not in breach of any obligation or condition set forth in the Deed of Trust, which are not of a technical nature, and there was no cause for declaring the debentures immediately due and payable. For details on the Debenture (Series 3) Trustee's application to the Company in connection with the establishment of a subsidiary that will operate the Company's parking solutions business, and on the matter of the Company's undertaking to refrain from creating further liens as set forth in the Trust Deed (Series 3) and the Company's response to the application, see section 2.1.2.2 above.

- (8) On April 4, 2011, a pledge over the bank account was registered with the Companies Registrar, at an amount equal to the annual interest payment on the debentures, to secure the payment of interest on the debentures (Series 3). As long as the Company has an outstanding balance of the debentures (Series 3), the Company shall refrain from creating further liens on its assets, apart from those that existed on the date of signing the Trust Deed, which was signed in connection with the debentures (Series 3), in favor of any third party, without the prior written consent of the Trustee, except with respect to liens on real estate and/or equipment acquired by the Company subsequent to the date of signing the Trust Deed, which may be pledged solely to secure financing provided for acquisition of the pledged asset – which the Company may create with no limitation in favor of any person or corporation. Subject to the aforesaid, the Company shall be entitled to create, with no limitation, additional liens of any type on all or part its assets, without derogating from the Company's ability to commit to third parties to refrain from creating further liens and without derogating from such undertakings to the banks prior to the date of signing the Debenture Trust Deed (Series 3).

## **2.8 Remuneration of senior corporate officers**

The Company sees considerable importance in the significant, continued contribution of the senior officers listed in the table in section 4.11 of this report, and believes that a direct link exists between their remuneration and Company success. The Company regards these officers as an important component of its operations.

At the meeting held on March 27 2012 the Board of Directors of the Company held an in-depth discussion on the terms of employment/office of each of officer and interested parties in the Company, which are enumerated in Regulation 21. Among others, the Board of Directors discussed the relation between the remuneration paid during the reported period to each of them and their respective contribution to the Company during the reported period as well as the activities carried out by each of them during the reported period. For the purpose of the discussion, members of the Board of Directors were presented, ahead of the discussion, with relevant data with regard to each officer and interested party, as required by the provisions of Regulation 21. In addition, additional information was submitted to the members of the Board in connection with each of the senior officers, as aforesaid, which, in the Board of Directors' opinion, allows for an adequate review, including the terms of the relevant employment agreement, details on the activities of senior officers during the reported year, and comparative data on remunerations in companies with similar attributes as those of the Company, which operate in the same area and have the same scope of activity.

During the meeting a discussion was held on the contribution of each officer during the reported period, to determine if the remuneration paid to said officer is fair and reasonable.

In conjunction with this review, the Board of Directors reviewed the employment terms of

each officer individually, based on the following criteria:

1. Assessment of the function, performance and contribution of each officer, including their compliance with requirements of their office.
2. Scope and complexity of the officer's position, and their contribution to Company achievements and financial results for the most recent reported year.

As for Mr. Haim Shani and Ms. Bareket Shani, the Board of Directors and Audit Committee have determined that the Company is materially dependent on their continued service. For further details on the employment agreements with Mr. and Ms. Shani, and on the aforementioned dependence, see section 4.6.2 of the Annual Report.

As for Mr. Amir Anchel, the Board of Directors and Audit Committee have determined that in view of his proven experience and familiarity with the Company, his terms of employment are fair and reasonable. For further details on Mr. Anchel's employment agreement, see section 4.6.3 below. On February 26, 2012, Mr. Anchel began to serve as VP and Head of Budgets. Mr. Anchel's prior position with the Company as head of the Systems Division is filled by Mr. Moshe Naar as specified below.

As for Mr. Moshe Naar, the Board of Directors and Audit Committee have determined that in view of his proven experience and skills, as well as the scope and complexity of his position with the Company, and the significance of the Systems Division to the Company's business, his terms of employment are fair and reasonable.

As for Mr. Kobi (Yaakov) Vieder, the Board of Directors and Audit Committee have determined that in view of his proven experience and skills, as well as the scope and complexity of his position with the Company, which is a new position that will be developed by Mr. Wieder, his terms of employment are fair and reasonable.

As for Mr. Yair Itzkovich, the Board of Directors and Audit Committee have determined that in view of his extensive experience in finance management and long-standing familiarity with Company operations, his employment terms are fair and reasonable. For further details on Mr. Itzkovich's employment agreement, see section 4.6.4 below.

As for Mr. Eyal Saban, the Board of Directors and Audit Committee have determined that in view of his technology and marketing skills, which are of importance to Company management, his employment terms are fair and reasonable. For further details on Mr. Saban's employment agreement, as amended on January 31, 2012, see section 4.6.5 below.

For further details on senior officers, including their education and experience, see section 4.11 below.

After reviewing the aforementioned criteria and conditions, as well as specific circumstances of each officer as set forth above, the Board of Directors has resolved, for each officer individually, that the remuneration paid to each one represents a fair,

reasonable and appropriate compensation for their critical services, and are in line with Company operations and needs and does not deviate from the standard wages for companies of the type and size of the Company. In addition, the Board of the Directors deems that the senior officers meet the requirements of their position as well as the provisions of the agreements signed with them.

## **2.9 Details on the process of approval of the Company's financial statements**

### **2.9.1 Preparation of the financial statements**

The Company's financial statements are prepared by the Company's CFO. The statements are reviewed and audited by the Company's auditor, who is given complete access to all the data and information in the Company, including meetings with Company employees and directors, as required by him. After review/audit by the Company's auditor, the financial statements are submitted to members of the Financial Statement Review Committee.

### **2.9.2 Financial Statement Review Committee**

With the entry into effect of the Companies Regulations (Directives and conditions for approval process of financial statements), 2010, the Audit Committee was appointed by the Company Board of Directors (at its meeting on November 11, 2010) to also serve as the Financial Statement Review Committee ("the **Committee**"), with composition and meaning as per said regulations, with respect to financial statements as of December 31, 2010 or later. As of the report date, the following Board members serve on the Committee:

| Name                                                        | Zvi Livne,<br>CPA | Joel Sela, CPA  | Moshe Baraz,<br>CPA |
|-------------------------------------------------------------|-------------------|-----------------|---------------------|
| Is he an independent Board member or external Board member? | No                | External member | External member     |
| Is he Chairman of the Financial Statement Review Committee? | No                | No              | YES                 |
| Has he financial and accounting expertise?                  | YES               | YES             | YES                 |
| Has he provided a statement prior to being appointed?       | YES               | YES             | YES                 |

\* For details on the education and experience of members of the Financial Statement Review Committee, see section 4.10 below.

As part of the process of approval of the financial statements as of December 31, 2011, the Committee held a meeting on March 27, 2012. At this meeting, the committee discussed effectiveness of internal control over financial reporting and disclosure by the

Company, conducted by the reporting supervisor, the supervision and control supervisor, and supervised by the steering committee, which serves as the supreme control entity over compliance with reporting requirements, pursuant to internal procedures adopted by the Board of Directors on February 2, 2011, in connection with periodic and immediate reports. A comprehensive discussion of material issues was conducted to formulate recommendations by the committee to the Board of Directors, for discussion and approval of the financial statements; subsequently, the Committee confirmed its recommendations.

The committee meeting dated March 27, 2012 was attended by the following invitees: Committee members (Zvi Livne, CPA; Joel Sela, CPA; and Moshe Baraz, CPA); other members of the Board of Directors (Messrs: Haim Shani, Bareket Shani and Edna Ramot), Mr. Yair Itzkovich, CFO; Mr. Eyal Saban, VP; Mr. Nir Weissberger, Company Attorney; Mr. Haim Halfon, Company Auditor; Mr. Avi Peleg, Company Auditor; and Mr. Miguel Elhanati, the Company's Internal Auditor.

The committee discussed and formulated its recommendations for the Board of Directors with regard to the following: Assessments and estimates made with regard to financial statements; internal controls related to the financial reporting process; completeness and appropriateness of disclosure on the financial statements; accounting policy adopted and accounting treatment applied to material issues; valuations including their underlying assumptions and estimates. The draft financial statements and committee recommendations were submitted to the Board of Directors for review two business days prior to the Board meeting to discuss the financial statements, which the Board of Directors considers a reasonable timeframe to submit the recommendations to the Board of Directors.

### **2.9.3 Company Board of Directors**

The Company views its Board of Directors as the entity in charge of the ultimate control in the matter of the Company's financial statements. The members of the Board of Directors and their respective duties in the Company are:

1. Mr. Haim Shani – Chairman of the Board of Directors and CEO of the Company, and a Board member having professional qualifications.
2. Ms. Bareket Shani – A Board member having professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.
3. Mr. Zvi Liven, CPA - Board member with accounting skills, member of the Credit and Investment Committee, member of the Audit Committee, and a member of the Financial Statement Review Committee.
4. Mr. Joel Sela, CPA - external, independent director, having accounting skills, member of the Audit Committee, member of the Financial Statement Review Committee, member of the Credit and Investment Committee of the Company Board of Directors.
5. Mr. Moshe Baraz, CPA - external, independent director, having accounting skills, member of the Audit Committee, Chairman and member of the Financial Statement

Review Committee and a member of the Securities Committee of the Company Board of Directors.

6. Ms. Edna Ramot – director having professional qualifications.

After the Board members reviewed the financial statements, the Board of Directors held a meeting to present and discuss these financial statements. At its meeting on March 29, 2012, the Company's management reviewed the main data of the financial statements. The meeting was attended by the Company's auditor who responded to questions addressed to him by the Board of Directors (as did the Company CEO and CFO). At the end of the discussion, the Board of Directors voted and approved the financial statements.

## **2.10 Share buy-back**

For details on the adoption of plans for Company shares buybacks, see sections 1.4.1, and 2.1.2.20 above and section 4.15 below.

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Haim Shani, CEO and Chairman  
of the Board of Directors

March 29, 2012

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Zvi Livne, Director

March 29, 2012

**UNITRONICS (1989) (R"G) LTD**

**Financial Statements  
December 31, 2011**

**Unitronics (1989) (R"G) Ltd**

**Financial Statements**

**December 31, 2011**

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**Independent Auditors' Report**

**To the shareholders of Unitronics (1989) (R"G) Ltd.**

**About the components of internal control over financial reporting audit in accordance with section 9B(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited components of internal control over financial reporting of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter the "Group"), as at December 31, 2011. These components of internal control were set as explained in the next paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of components of internal control over financial reporting included in the accompanying periodic report for the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard no. 104 of the Institute of Certified Public Accountants in Israel "audit of the internal control components over financial reporting" (hereinafter the "Audit Standard 104"). These components are: (1) entity level controls, including controls on the preparation process and closing of the financial reporting and general controls of information systems, (2) controls on the process of revenue - revenue recognition from projects (3) controls on the process of development costs - the establishment of assets, discounting and impairment (all of these together are called the "audited control elements").

We conducted our audits in accordance with Audit Standard 104. This standard requires that we plan and perform the audit to identify the audited control elements and to obtain reasonable assurance whether these control elements have been maintained effectively in all material respects. The audit includes obtaining an understanding of internal control over financial reporting, identifying the audited control elements, assessing the risk that a material weakness exists in the audited control elements, as well as review and assessment of effective planning and maintaining of these audited control elements based on the estimated risk. Our audit, for those audited control elements, also included performing such other procedures as we considered necessary under the circumstances. Our audit referred only to the audited control elements, unlike internal control of all essential processes over financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual influences between the audited control elements and those who are not audited, and therefore our opinion do not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general, and elements from it in particular, may not prevent or detect a misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the company effectively maintained, in all material respects, the audited control elements as at December 31, 2011.

We also audited, in accordance with generally accepted auditing standards, the company's financial statements as at December 31, 2011 and 2010 and each of the three years the last of which ended December 31, 2011, and our report, from March 29, 2012 included unqualified opinion on these financial statements.

Amit, Halfon  
Certified Public Accountants (Israel)

Ramat-Gan  
March 29, 2012

16 Aba Hillel Silver St. Ramat-Gan 52506 Israel Tel: +972-3-6123939 Fax: +972-3-6125030 e-mail: office@ahcpa.co.il

Amit, Halfon is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

**Independent Auditors' Report**  
**To the shareholders of Unitronics (1989) (R"G) Ltd.**

We have audited the accompanying consolidated statements of financial position of Unitronics (1989) (R"G) Ltd. (hereinafter the "Company"), as at December 31, 2011 and 2010 and the consolidated statements of operations, of shareholders' equity and of cash flows for each of the three years the last of which ended December 31, 2011. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of a subsidiary whose assets constitute 5% and 5% of the total consolidated assets as at December 31, 2011 and 2010, respectively, and whose revenues constitute 18%, 13% and 18% of the total consolidated revenues for each of the three years the last of which ended December 31, 2011. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of the subsidiary, is based on the opinions of the other auditors.

We conducted our audits in accordance with auditing standards, generally accepted in Israel, including those prescribed under the Auditors Regulations (Auditor's Mode of Performance) 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the above financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2011 and 2010, and the results of operations, changes in shareholders' equity and cash flows of them for each of the three years the last of which ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

We have audited also, in accordance with standard no. 104 of the Institute of Certified Public Accountants in Israel "audit of the internal control components over financial reporting", internal control components over financial reporting of the company as at December 31, 2011, and our report from March 29, 2012 included unqualified opinion on the effectively existence of these components.

Amit, Halfon  
Certified Public Accountants (Israel)

Ramat-Gan  
March 29, 2012

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Financial Position**

|                              |        | December 31,<br>2011                                        | December 31,<br>2011<br>(in thousands) | December 31,<br>2010  |
|------------------------------|--------|-------------------------------------------------------------|----------------------------------------|-----------------------|
|                              | Note   | Convenience<br>translation<br>into EURO,<br>(unaudited) (1) | NIS                                    |                       |
| <u>Current assets</u>        |        |                                                             |                                        |                       |
| Cash and cash equivalents    | 3      | 3,335                                                       | 16,467                                 | 17,456                |
| Restricted cash              | 16B(2) | 664                                                         | 3,281                                  | -                     |
| Marketable securities        | 4      | 7,337                                                       | 36,229                                 | 18,786                |
| Accounts receivable -        |        |                                                             |                                        |                       |
| Trade                        | 5      | 3,575                                                       | 17,654                                 | 14,219                |
| Other                        |        | 464                                                         | 2,294                                  | 1,271                 |
| Embedded derivatives         |        | 4                                                           | 20                                     | -                     |
| Inventory                    | 6      | 3,342                                                       | 16,505                                 | 29,898                |
| Inventory - work in progress | 7      | 1,491                                                       | 7,362                                  | 7,461                 |
|                              |        | <u>20,212</u>                                               | <u>99,812</u>                          | <u>89,091</u>         |
| <u>Non-current assets</u>    |        |                                                             |                                        |                       |
| Long-term deposits           |        | 53                                                          | 264                                    | 404                   |
| Property and equipment, net  | 8      | 8,235                                                       | 40,663                                 | 21,819                |
| Intangible assets, net       | 9      | 4,827                                                       | 23,834                                 | 15,717                |
|                              |        | <u>13,115</u>                                               | <u>64,761</u>                          | <u>37,940</u>         |
|                              |        | <u><b>33,327</b></u>                                        | <u><b>164,573</b></u>                  | <u><b>127,031</b></u> |

\_\_\_\_\_  
Haim Shani  
Chairman of the Board of Directors  
And Chief Executive Officer

\_\_\_\_\_  
Tzvi Livne  
Director

\_\_\_\_\_  
Yair Itscovich  
Chief Financial Officer

Approved: March 29, 2012

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Financial Position**

|                                                                      |      | December 31,<br>2011                                        | December 31,<br>2011  | December 31,<br>2010  |
|----------------------------------------------------------------------|------|-------------------------------------------------------------|-----------------------|-----------------------|
|                                                                      |      |                                                             | (in thousands)        |                       |
|                                                                      | Note | Convenience<br>translation<br>into EURO,<br>(unaudited) (1) | NIS                   |                       |
| <u>Current liabilities</u>                                           |      |                                                             |                       |                       |
| Current maturities of non-current loans                              | 10A  | 891                                                         | 4,399                 | 4,202                 |
| Current maturities of bonds and convertible bonds                    | 10B  | 1,253                                                       | 6,186                 | 6,032                 |
| Accounts payable -                                                   |      |                                                             |                       |                       |
| Trade                                                                | 11   | 2,871                                                       | 14,175                | 25,755                |
| Other                                                                | 12   | 3,195                                                       | 15,776                | 23,648                |
| Embedded derivatives                                                 | 27E  | 217                                                         | 1,077                 | 3,951                 |
|                                                                      |      | <u>8,427</u>                                                | <u>41,613</u>         | <u>63,588</u>         |
| <u>Non current Liabilities</u>                                       |      |                                                             |                       |                       |
| Loans from the banks and others                                      | 13   | 3,189                                                       | 15,748                | 14,526                |
| Bonds                                                                | 14   | 12,348                                                      | 60,977                | 11,175                |
| Liabilities for benefits to employees, net                           | 15   | 513                                                         | 2,532                 | 1,583                 |
|                                                                      |      | <u>16,050</u>                                               | <u>79,257</u>         | <u>27,284</u>         |
| <u>Contingent liabilities, mortgages, guarantees and commitments</u> | 16   |                                                             |                       |                       |
| <u>Shareholders' equity</u>                                          | 17   |                                                             |                       |                       |
| Share capital                                                        |      | 71                                                          | 352                   | 352                   |
| Share premium                                                        |      | 10,244                                                      | 50,588                | 50,588                |
| Capital reserve from translation of foreign operation                |      | (131)                                                       | (648)                 | (1,176)               |
| Company shares held by the company                                   |      | (1,345)                                                     | (6,643)               | (6,239)               |
| Retained earnings (loss)                                             |      | 11                                                          | 54                    | (7,366)               |
|                                                                      |      | <u>8,850</u>                                                | <u>43,703</u>         | <u>36,159</u>         |
|                                                                      |      | <u><b>33,327</b></u>                                        | <u><b>164,573</b></u> | <u><b>127,031</b></u> |

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Operations**

|                                                                 |      | For the year ended<br>December 31,                          | For the year ended<br>December 31, |         |        |
|-----------------------------------------------------------------|------|-------------------------------------------------------------|------------------------------------|---------|--------|
|                                                                 |      | 2011                                                        | 2011                               | 2010    | 2009   |
|                                                                 |      |                                                             | (in thousands)                     |         |        |
|                                                                 | Note | Convenience<br>translation into<br>EURO,<br>(unaudited) (1) | NIS                                |         |        |
| Revenues                                                        | 25   | 28,696                                                      | 141,702                            | 152,979 | 84,118 |
| Cost of revenues                                                | 18   | 20,802                                                      | 102,719                            | 108,725 | 55,385 |
| Gross profit                                                    |      | 7,894                                                       | 38,983                             | 44,254  | 28,733 |
| Development expenses, net                                       | 19   | 606                                                         | 2,991                              | 3,194   | 2,116  |
| Selling & marketing expenses                                    | 20   | 2,854                                                       | 14,091                             | 11,189  | 9,896  |
| General & administrative expenses                               | 21   | 1,660                                                       | 8,201                              | 7,981   | 6,613  |
| Capital gain                                                    |      | -                                                           | -                                  | 99      | 63     |
| Operating profit                                                |      | 2,774                                                       | 13,700                             | 21,989  | 10,171 |
| Financing income                                                | 22A  | 533                                                         | 2,633                              | 1,884   | 5,380  |
| Financing expenses                                              | 22B  | 1,701                                                       | 8,400                              | 12,894  | 7,069  |
| Profit for the year                                             |      | 1,606                                                       | 7,933                              | 10,979  | 8,482  |
| Basic profit per 1 ordinary<br>share NIS 0.02 per value (NIS)   | 26   | 0.159                                                       | 0.786                              | 1.059   | 0.771  |
| Diluted profit per 1 ordinary<br>Share NIS 0.02 per value (NIS) |      | 0.159                                                       | 0.782                              | 1.059   | 0.771  |

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of comprehensive income**

|                                                   |      | For the year ended<br>December 31,                          | For the year ended<br>December 31, |        |       |
|---------------------------------------------------|------|-------------------------------------------------------------|------------------------------------|--------|-------|
|                                                   |      | 2011                                                        | 2011                               | 2010   | 2009  |
|                                                   |      |                                                             | (in thousands)                     |        |       |
|                                                   | Note | Convenience<br>translation into<br>EURO,<br>(unaudited) (1) | NIS                                |        |       |
| Profit for the year                               |      | 1,606                                                       | 7,933                              | 10,979 | 8,482 |
| <u>Other comprehensive income</u>                 |      |                                                             |                                    |        |       |
| Actuarial gain (loss)                             | 15   | (104)                                                       | (513)                              | (375)  | 112   |
| Translation of foreign operation                  |      | 107                                                         | 528                                | (433)  | ( 10) |
| Other comprehensive income (loss)<br>for the year |      | 3                                                           | 15                                 | (808)  | 102   |
| Total comprehensive income for<br>the year        |      | 1,609                                                       | 7,948                              | 10,171 | 8,584 |

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Shareholders' Equity**

|                                           | <u>Share capital</u> | <u>Capital Reserve from share-based payments</u> | <u>Share premium</u> | <u>Capital reserve from translation of foreign operation</u> | <u>Company shares held by the company</u> | <u>Retained earnings (loss)</u> | <u>Total</u>  |
|-------------------------------------------|----------------------|--------------------------------------------------|----------------------|--------------------------------------------------------------|-------------------------------------------|---------------------------------|---------------|
| <b>NIS, in thousands</b>                  |                      |                                                  |                      |                                                              |                                           |                                 |               |
| <u>Balance at January 1, 2009</u>         | 352                  | 326                                              | 50,250               | (733)                                                        | (2,931)                                   | (26,564)                        | 20,700        |
| Purchase of company shares by the company | -                    | -                                                | -                    | -                                                            | (219)                                     | -                               | (219)         |
| Warrants expiration                       | -                    | (326)                                            | 326                  | -                                                            | -                                         | -                               | -             |
| Comprehensive income                      | -                    | -                                                | -                    | (10)                                                         | -                                         | 8,594                           | 8,584         |
| <u>Balance at December 31, 2009</u>       | 352                  | -                                                | 50,576               | (743)                                                        | (3,150)                                   | (17,970)                        | 29,065        |
| Purchase of company shares by the company | -                    | -                                                | -                    | -                                                            | (3,089)                                   | -                               | (3,089)       |
| Warrants exercise                         | (*)-                 | -                                                | 12                   | -                                                            | -                                         | -                               | 12            |
| Comprehensive income                      | -                    | -                                                | -                    | (433)                                                        | -                                         | 10,604                          | 10,171        |
| <u>Balance at December 31, 2010</u>       | 352                  | -                                                | 50,588               | (1,176)                                                      | (6,239)                                   | (7,366)                         | 36,159        |
| Purchase of company shares by the company | -                    | -                                                | -                    | -                                                            | (404)                                     | -                               | (404)         |
| Comprehensive income                      | -                    | -                                                | -                    | 528                                                          | -                                         | 7,420                           | 7,948         |
| <u>Balance at December 31, 2011</u>       | <u>352</u>           | <u>-</u>                                         | <u>50,588</u>        | <u>(648)</u>                                                 | <u>(6,643)</u>                            | <u>54</u>                       | <u>43,703</u> |

|                                                                        | <u>Share capital</u> | <u>Capital Reserve from share-based payment</u> | <u>Share premium</u> | <u>Capital reserve from translation of foreign operation</u> | <u>Company shares held by the company</u> | <u>Retained earnings (loss)</u> | <u>Total</u> |
|------------------------------------------------------------------------|----------------------|-------------------------------------------------|----------------------|--------------------------------------------------------------|-------------------------------------------|---------------------------------|--------------|
| <b>Convenience translation into EURO, in thousands (unaudited) (1)</b> |                      |                                                 |                      |                                                              |                                           |                                 |              |
| <u>Balance at January 1, 2011</u>                                      | 71                   | -                                               | 10,244               | (238)                                                        | (1,263)                                   | (1,491)                         | 7,323        |
| Purchase of company shares by the company                              | -                    | -                                               | -                    | -                                                            | (82)                                      | -                               | (82)         |
| Comprehensive income                                                   | -                    | -                                               | -                    | 107                                                          | -                                         | 1,502                           | 1,609        |
| <u>Balance at December 31, 2011</u>                                    | <u>71</u>            | <u>-</u>                                        | <u>10,244</u>        | <u>(131)</u>                                                 | <u>(1,345)</u>                            | <u>11</u>                       | <u>8,850</u> |

(\*) less than 1,000 NIS

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Cash Flows**

|                                                                              | For the year ended<br>December 31, | For the year ended<br>December 31, |         |          |
|------------------------------------------------------------------------------|------------------------------------|------------------------------------|---------|----------|
|                                                                              | 2011                               | 2011                               | 2010    | 2009     |
|                                                                              |                                    | (in thousands)                     |         |          |
| Convenience<br>translation into<br>EURO,<br>(unaudited) (1)                  |                                    | NIS                                |         |          |
| <u>Cash flows - operating activities</u>                                     |                                    |                                    |         |          |
| Profit for the year                                                          | 1,606                              | 7,933                              | 10,979  | 8,482    |
| Adjustments necessary to show the<br>cash flows from operations (Appendix A) | (412)                              | (2,034)                            | 2,168   | 9,749    |
| Cash flows provided by operating activities                                  | 1,194                              | 5,899                              | 13,147  | 18,231   |
| <u>Cash flows - investing activities</u>                                     |                                    |                                    |         |          |
| Sale of (investment in) marketable securities, net                           | (3,747)                            | (18,504)                           | (16)    | 12,298   |
| Purchase of property and equipment                                           | (4,142)                            | (20,454)                           | (1,608) | (2,364)  |
| Sale of property and equipment                                               | -                                  | -                                  | 115     | 180      |
| Investment in restricted cash                                                | (651)                              | (3,215)                            | -       | -        |
| Investment in long-term deposits                                             | (12)                               | (58)                               | (260)   | (166)    |
| Repayment of long-term deposits                                              | 4                                  | 21                                 | 167     | 218      |
| Investment in intangible assets                                              | (2,555)                            | (12,618)                           | (5,010) | (4,829)  |
| Cash flows provided by (used in)<br>investing activities                     | (11,103)                           | (54,828)                           | (6,612) | 5,337    |
| <u>Cash flows - financing activities</u>                                     |                                    |                                    |         |          |
| Receiving long-term loan                                                     | 994                                | 4,907                              | 14,552  | -        |
| Exercise of options                                                          | -                                  | -                                  | 11      | -        |
| Repayment of long-term loans                                                 | (887)                              | (4,382)                            | (2,713) | (1,076)  |
| Bond issue                                                                   | 10,916                             | 53,903                             | -       | -        |
| Repayment of convertible bonds                                               | -                                  | -                                  | (8,600) | (8,600)  |
| Early redemption of bonds                                                    | -                                  | -                                  | -       | (5,286)  |
| Early redemption of convertible bonds                                        | -                                  | -                                  | -       | (272)    |
| Repayment of bonds                                                           | (1,249)                            | (6,167)                            | (5,939) | (5,858)  |
| Purchase of company shares by the company                                    | (82)                               | (404)                              | (3,089) | (219)    |
| Cash flows provided by (used in)<br>financing activities                     | 9,692                              | 47,857                             | (5,778) | (21,311) |
| Translation differences in respect of foreign<br>operation cash balances     | 17                                 | 83                                 | (129)   | 12       |
| Change in cash and cash equivalents                                          | (200)                              | (989)                              | 628     | 2,269    |
| Cash and cash equivalents at beginning of year                               | 3,535                              | 17,456                             | 16,828  | 14,559   |
| Cash and cash equivalents at end of year                                     | 3,335                              | 16,467                             | 17,456  | 16,828   |

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.



**Unitronics (1989) (R"G) Ltd.**  
**Consolidated Statements of Cash Flows**

|                                                                                             | For the year<br>ended<br>December 31, | For the year ended<br>December 31, |              |              |
|---------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------|--------------|--------------|
|                                                                                             | 2011                                  | 2011                               | 2010         | 2009         |
|                                                                                             |                                       | (in thousands)                     |              |              |
| Convenience<br>translation<br>into EURO,<br>(unaudited) (1)                                 |                                       | NIS                                |              |              |
| <u>Appendix A - Adjustments</u><br>necessary to show the cash flows<br>from operations      |                                       |                                    |              |              |
| Depreciation and amortization                                                               | 1,426                                 | 7,046                              | 6,370        | 6,844        |
| Loss (profit) from marketable securities, net                                               | 215                                   | 1,061                              | (651)        | (2,717)      |
| Changes in liabilities for benefits to<br>Employees, net                                    | 88                                    | 436                                | 271          | 246          |
| Capital gain                                                                                | -                                     | -                                  | (99)         | (63)         |
| Reevaluation of restricted cash                                                             | (13)                                  | (66)                               |              |              |
| Reevaluation of warrants and conversion option of<br>convertible bonds                      | -                                     | -                                  | (99)         | 83           |
| Exchange rate changes of long-term loans, bonds<br>and convertible bonds                    | 452                                   | 2,233                              | (399)        | 1,649        |
| Reevaluation of embedded derivatives                                                        | (586)                                 | (2,894)                            | 2,450        | 1,286        |
| Profit from early redemption of bonds                                                       | -                                     | -                                  | -            | (1,838)      |
| increase in accounts receivable - trade                                                     | (648)                                 | (3,200)                            | (1,003)      | (2,106)      |
| increase in accounts receivable - other                                                     | (174)                                 | (860)                              | (887)        | (273)        |
| Decrease (increase) in inventory                                                            | 2,750                                 | 13,580                             | (18,080)     | 1,364        |
| Decrease (increase) in inventory - work in progress                                         | 22                                    | 107                                | 374          | (7,835)      |
| Increase (decrease) in accounts payable - trade                                             | (2,345)                               | (11,581)                           | 15,001       | 1,213        |
| Increase (decrease) in accounts payable - other                                             | (1,599)                               | (7,896)                            | (1,080)      | 11,896       |
|                                                                                             | <u>(412)</u>                          | <u>(2,034)</u>                     | <u>2,168</u> | <u>9,749</u> |
| <u>Appendix B - Non-cash operations</u>                                                     |                                       |                                    |              |              |
| Bonds issue expenses                                                                        | <u>6</u>                              | <u>30</u>                          | <u>-</u>     | <u>-</u>     |
| <u>Appendix C - Additional information on cash flows<br/>regarding operating activities</u> |                                       |                                    |              |              |
| Cash paid during the year for:                                                              |                                       |                                    |              |              |
| Interest                                                                                    | <u>695</u>                            | <u>3,433</u>                       | <u>2,065</u> | <u>2,628</u> |
| Taxes on income                                                                             | <u>22</u>                             | <u>108</u>                         | <u>108</u>   | <u>108</u>   |
| Cash received during the year for:                                                          |                                       |                                    |              |              |
| Interest                                                                                    | 292                                   | 1,444                              | 639          | 835          |

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 1 - General**

- A. The Company was incorporated in August 1989. On November, 1999 the company completed an initial public offering of ordinary shares on the Euro. NM in Belgium (Euronext). On May, 2004 the company completed a public offering of ordinary shares convertible bonds and warrants on the Tel-Aviv stock exchange.
- B. Details of the subsidiaries, their activities and the rate of holdings therein:
1. Unitronics Inc. (hereinafter "Unitronics U.S.A").  
The company holds 100% of the equity and control of Unitronics U.S.A. Unitronics U.S.A was established in the United States of America in 2001 by the company in order to further the marketing, sale and distribution of its range of products in the U.S.A. Unitronics U.S.A commenced its operations in June 2001. Since 2006 Unitronics U.S.A. operates in the projects area.
  2. Unitronics building management and maintenance (2003) Ltd. (hereinafter "Unitronics building").  
The company holds 100% of the equity and control of Unitronics building. Unitronics building was established in 2003 by the company in order to manage and maintain the companies building. Unitronics building commenced its operations in January 2004.
  3. Unitronics parking solutions Ltd. (hereinafter - "Parking solutions"). The company holds 100% of the equity and control of Parking solutions. Parking solutions was established in the last quarter of 2011 to coordinate the marketing activities, planning, construction and maintenance of automated parking systems. See also Note 16 C (2).
- C. The Company designs, develops, manufactures and markets Programmable Logic Controllers - which are specialized computer-based electronic devices used in an automation process to control machinery and other systems. The Company also provides design, construction and maintenance services within the framework of projects for the automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses and distribution centers as well as automated parking systems.
- D. Definitions  
The company - Unitronics (1989) (R"G) Ltd  
Consolidated companies - companies under the company's control (as defined in IAS27) which their financial statements consolidated with the company.  
Related parties - as defined in IAS24.  
Interested parties and controlling shareholders - as defined in Israeli Securities Regulations (Annual Financial Statements), (2010)  
The group - the company and the consolidated companies.
- E. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar and the Euro:

| <u>As of</u>                    | <u>Israeli CPI</u> | <u>Exchange rate of</u> | <u>Exchange rate of</u> |
|---------------------------------|--------------------|-------------------------|-------------------------|
|                                 | <u>Points (*)</u>  | <u>one Euro</u>         | <u>one U.S. dollar</u>  |
|                                 |                    | <u>NIS</u>              | <u>NIS</u>              |
| December 31, 2011               | 216.27             | 4.9381                  | 3.821                   |
| December 31, 2010               | 211.67             | 4.7379                  | 3.549                   |
| December 31, 2009               | 206.19             | 5.4417                  | 3.775                   |
| <b>Change during the period</b> | <b>%</b>           | <b>%</b>                | <b>%</b>                |
| December 31, 2011               | 2.17               | 4.23                    | 7.66                    |
| December 31, 2010               | 2.66               | (12.93)                 | (5.99)                  |
| December 31, 2009               | 3.92               | 2.73                    | (0.71)                  |

(\*) The index on an average basis of 1993 = 100.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 1 - General (cont'd)**

F. Convenience translation into EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at December 31, 2011 (EURO 1 = NIS 4.9381).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

**Note 2 - Significant Accounting Policies**

A. Basis of presentation of the financial statements

The Company's financial statements were prepared on the basis of cost, excluding derivative and financial instruments, which are measured at fair value through the statement of operations (see (E) below), and liabilities for benefits to employees which are measured in accordance with the provisions of IAS 19 (see (Q) below).

Preparation of the financial statements

These financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter: "IFRS"). These standards include:

1. International Financial Reporting Standards (IFRS).
2. International Accounting Standards (IAS)
3. Clarifications to the International Financial Reporting Standards (IFRIC) and to the International Accounting Standard (SIC).

Also, the financial statements were prepared in accordance with the disclosure requirements of Israeli Securities Regulations (Annual Financial Statements), 2010.

Consistent accounting policies

The accounting policies adopted in the financial statements have been adopted on a consistent basis for all the presented periods.

Consolidated financial statements

The consolidated financial statements include the statements of companies in which the Company has control (subsidiaries). Control exists when the Company has the ability, directly or indirectly, to outline the financial and operative policies of the controlled company. When examining control, the effect of potential voting rights, which can be exercised on the balance sheet date, is taken into account. The consolidation of the financial statements is carried out from the date of achieving control, up to the date on which the control is discontinued. Significant mutual balances, transactions and profits and losses resulting from transactions between the companies in the Group, have been fully cancelled in the consolidated financial statements.

The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The accounting policies in the financial statements of the subsidiaries have been consistently applied with those applied in the Company's financial statements.

B. Assumptions and estimates

At the time of preparation of the financial statements, management is required to use its discretion and to be assisted by estimates, evaluations and assumptions affecting the implementation of the accounting policies and the amounts reported of assets and liabilities, revenues and expenses. The estimates and assumptions on which they are based are reviewed on a current basis. Changes in accounting estimates are recorded during the period in which the change in the estimate took place.

The following are the main assumptions made in the financial statements in connection with uncertainty on the balance sheet date, and critical estimates calculated by the Company and where significant changes in the estimates and assumptions are likely to change the values of assets and liabilities in the financial statements in the next year of report:

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

B. Assumptions and estimates (cont'd)

Benefits for severance pay and other benefits after retirement

Liabilities for defined benefit plans after employment are determined using actuarial evaluation techniques. The calculation of a liability is connected with determining assumptions, inter alia, regarding the rate of discounting, the yield rate expected on assets, the rate of increase in wages, and the rate of employee turnover. There is significant uncertainty regarding these estimates due to the plans being long-term. See additional information in note 15.

Development costs

Development costs are discounted in accordance with the accounting principles set forth in note 2(k). In order to determine the amounts earmarked for discounting, management estimates, inter alia, the cash flows expected to result from the asset and the expected period of benefits. See also note 9.

Embedded derivatives

Value of embedded derivatives, in respect of transactions that its expected future cash flow denominated in Euro, which is not the company's functional currency, is determined using the techniques of economic assessments. Calculation of value of embedded derivatives involves determining assumptions, among other things, about future exchange rates, discount rates and dates of the cash flow. There is significant uncertainty for these assumptions due to the deployment of cash flows over long periods and due to fluctuation in exchange rates. See more information in Note 27(E).

C. Functional currency and foreign currency

1. Functional currency and presentation currency

The financial statements are presented in NIS, the Company's functional currency, which is the currency that best reflects the economic environment and transactions in which the Company operates.

The functional currency was determined separately for each subsidiary; and according to this currency, the financial condition and results of operations of the subsidiaries are measured. When the functional currency of the subsidiary is different from that of the Company, the subsidiary comprises foreign operations, where the data in the financial statements are translated, in order to include them in the Company's financial statements as follows:

- a. Assets and liabilities on every balance sheet date (including comparative figures) are translated according to the closing rates of exchange on every balance sheet date. Goodwill and all adjustments of fair value to the book value of the assets and liabilities on the date of acquiring the foreign operations are handled as assets and liabilities of foreign operations and translated according to the closing rate on every balance sheet date.
- b. Revenues and expenses for all periods are presented in the statement of operations (including comparative figures) are translated according to the average rates of exchange in all of the presented periods; but in those cases where there were significant fluctuations in the rates of exchange, revenues and expenses were translated according to the rates of exchanges that existed on the dates of the translations themselves.
- c. Share capital, capital reserves and other capital movements are translated according to the rates of exchanges on the date of their creation.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

C. Functional currency and foreign currency (cont'd)

1. Functional currency and presentation currency (cont'd)

- d. The retained earnings balance is translated based on the opening balance translated according to the rates of exchange at that time, and the relevant additional movements during the period, translated as mentioned in clauses (b) and (c) above.
- e. All rates of exchange differences created are classified as a separate item in shareholders' equity, in the capital reserve "Adjustments from translation of financial statements of foreign operations".

Loans which are essentially part of the investment of the foreign operations and are handled as part of the investment, where the linkage differences resulting from these loans are posted at that time to the statement of operations.

Rates differentials for loans in foreign currency, which are hedging of a net investment of foreign operations, are posted, less the tax effect, to shareholders' equity.

On the date of realizing the net investment, translation differences included in the framework of the capital reserve, as mentioned above, are recorded to the statement of operations.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded on their first recognition at the rate of exchange on the date of the transaction. Financial assets and liabilities denominated in foreign currency as translated to shekels according to the rate of exchange on the balance sheet date. Rate of exchange differences are posted to the statement of operations. Non monetary assets and liabilities are translated to shekels according to the rate of exchange on the date of the transaction. Non monetary assets and liabilities denominated in foreign currency and presented at their fair value are translated to shekels according to the rate of exchange on the date on which the fair value was determined.

D. Cash and cash equivalents

Cash and cash equivalents include short-term highly liquid investments, which can be converted to a fixed amount of cash, and where the exposure to a change in their value is insignificant. These investments will be considered as cash where the original period of redemption does not exceed three months from the date of the investment in them and they are not restricted.

E. Financial instruments - classification and measurement

A financial instrument is any contract which creates both a financial asset for one entity and a financial liability or capital instrument for another entity.

A hybrid financial instrument is a contract that includes a hosting contract being a non derivate host contract and an embedded derivative.

- 1. The accounting treatment of financial instruments is based on their classification to one of the four following groups:
  - A financial assets measured at fair value through the statement of operations.
  - Investments held for redemption.
  - Loans and other receivables.
  - Financial assets available for sale.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

E. Financial instruments - classification and measurement (cont'd)

1. (cont'd)

a. Financial assets measured at fair value through the statement of operations

Financial assets measured at fair through the statement of operations, include financial assets held for trading and financial instruments earmarked on their initial recognition to be measured at fair value through the statement of operations.

Financial assets are classified as held for trading if purchased mainly for the purpose of sale or repurchase in the short term, or which are part of a portfolio of identified financial instruments measured together for which there is proof of a plan of action to produce profits in the short term, or which are not intended as a financial instrument (included an embedded derivate which can be separated from the host contract).

An entity can earmark a financial asset or a financial liability to this group, if this relates to a hybrid financial instrument, which meets the conditions detailed in the following paragraph, or the result of its use is more relevant information, due to a reduction in the lack of consistency in recognition or measurement (mismatch), or this relates to a group of financial instruments managed and valued on the basis of fair value according to a documented policy of risk management or investment strategy.

Regarding a hybrid financial instrument, the fully combined contract, can be earmarked as a financial instruments measured at fair value through the statement of operations, excluding in the event of an embedded derivative which does not cause a significant change in cash flows or when it is clear that the separation of the embedded instrument is forbidden.

Profits or losses from financial instruments included in this group are recorded to the statement of operations on their accrual.

b. Investments held to redemption

Investments held to redemption are financial assets which are non derivative and bear fixed payments or which can be determined, and have fixed redemption dates and the Company intends to hold them until redemption. After initial measurement, which is made at the fair value of the investments, the investments held for redemption are measured at to their reduced cost. This cost is calculated according to the amount initially recognized, less repayment of principal, plus or less accumulated reduction by the effective interest method for differences between the amount first recognized and amount which is repayable less a provision for an impairment in value. This calculation includes all payments required, received or made between the parties to the contract which are an integral part of the contract and affect the effective interest, the costs of the transaction all other payments of premium and discounts. Profits and losses are recorded to the statement of operations on the date of withdrawing the investments or in the case for a provision for impairment in value, and in the framework of a methodical amortization.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

E. Financial instruments - classification and measurement (cont'd)

1. The accounting treatment of financial instruments is based on their classification to one of the four following groups (cont'd)

- c. Loans and receivables

Loans and receivables are financial assets with fixed payments which can be determined, and are not traded in an active market. After the initial measurement, the loans and receivables are measured at depreciated cost by the effective interest method, less provisions for any impairment in value. This cost is calculated according to the amount first recognized less repayment of principal, plus or less accumulated reduction by the effective interest method for differences between the amount first recognized and amount which is repayable less the provisions for an impairment in value. This calculation includes all payments required, which were received or were made between the parties to the contract which are an integral part of the contract and affect the effective interest, the costs of the transaction all other payments of premiums and discounts. Profits and losses are recorded to the statement of operations on the date of withdrawing the investments or impairment in value is recorded for them, and in the framework of a methodical amortization.

- d. Financial instruments available for sale

Financial instruments available for sale are financial assets which are not classified to one of the above three groups. After initial measurement, financial assets available for sale are measured at their fair value. Profits or losses not yet realized are recorded directly to shareholders' equity to the 'reserve for Unrealized Profits, net'. On the date of withdrawing the investment, the profit or loss accrued, and which were recorded in the past in the framework of 'capital reserve' directly to shareholders' equity, will be recorded to the statement of operations. Effective interest revenues and expenses and rate of exchange differences for investments are recorded to the statement of operations by the effective interest method. Dividends received for investments will be recorded to the statement of operations as 'dividends received' on the date of entitlement to the payment.

2. Financial liabilities

- a. Financial liabilities presented at depreciated cost

Loans and interest bearing credit are first recognized at their fair value less costs related directly to the transaction (for example: the cost of raising a loan). After initial recognition, the loans and the interest bearing credit are presented at discounted cost using the effective interest method, taking into account the directly related costs of the transaction. Profits and losses are recognized in the statement of operations at the time of decreasing the loan and as a result of the current amortization.

- b. Financial liabilities measured at fair value through the statement of operations

Financial liabilities measured at fair value through the statement of operations include financial liabilities held for trading and financial liabilities earmarked on their first recognition to be presented at fair value. Changes in fair value are recorded to the statement of operations.

Regarding a hybrid financial instrument fully earmarked to fair value through the statement of operations, see 1(a) above.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

E. Financial instruments - classification and measurement (cont'd)

3. Fair value

Fair value of investments traded in active financial markets is determined by the market prices on the balance sheet date. Investments which do not have an active market, fair value is determined by accepted evaluation methods. These methods include referring to the terms of the transactions recently made under market conditions; referring to the market value of another instrument similar in nature, analysis of discounted cash flows or other costing models.

4. Financial instruments disposal

A financial asset (or part of a financial asset from a group of similar financial assets, if relevant) is disposal when:

- The contractual rights for receiving cash flows from the financial asset have expired; or
- The Company transferred its rights to receive cash flows from the asset; or
- The Company did not transfer its rights to receive cash flows from the asset, but the Company has an obligation to fully pay without any significant delays to a third party according to the engagement (pass-through) and transferred most of the risks and benefits in the asset; or
- The Company did not transfer most of the risks and benefits connected with the asset, and did not keep most of the risks and benefits connected with the asset, but the Company did transfer the control of the asset. If the control of the asset kept by the company, the company will continue recognizing the asset according to the continuing involvement of the Company in the asset.

Financial liability (or part of financial liability) will remove if, and only if, it extinguished - i.e. when the liability defined in a contract paid, cancelled or expired.

5. Embedded derivatives

The Company examines the existence of an embedded derivative and the need for separating it at the time that it becomes, for the first time, a party to an engagement. Revaluation of an embedded instrument is done only where there is a change in the engagement which affects the cash flows from the engagement.

Embedded derivatives are separated from the host contract and handled separately if, and only if, all the following conditions exist: the economic characteristics and risks inherent in the host contract and in the embedded derivatives are not connected clearly and strongly, a separate instrument with similar characteristics of those of the embedded instrument would meet the definition of a derivative, and the hybrid instrument in totality is not measured at fair value through the statement of operations.

6. Complex financial instruments issued by the Company

Complex financial instruments issued by the Company are separated to the component and the liability component included in the complex instrument. The liability component of the complex instrument is first recognized at fair value of a similar liability which does not have a conversion component. The capital component is first recognized as the difference between the fair value of the whole complex instrument and the fair value of the liability component. Direct transaction costs, including expenses from issuing the instrument, are associated with the liability component and to the capital component, proportionally with their book value.

After initial recognition, the liability component of a complex instrument is measured by the reduced cost method, which is amortized using the effective interest method, unless it is measured at fair value through the statement of operations. The capital component of a complex instrument is not re-measured after initial recognition.



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

E. Financial instruments - classification and measurement (cont'd)

7. Issue of a parcel

On an issue of securities in a parcel, the consideration received (before issue expenses) is allotted to the components of the securities issued in a parcel according to the following order of allotment: fair value is determined first for financial derivatives (such as warrants with an exercise addition in a currency which is different from the Company's functional currency) and other financial instruments which are periodically presented at fair value, thereafter the fair value for the financial liabilities and complex instruments (such as convertible bonds) which are not periodically presented at fair value, but at present value. The consideration allotted for capital instruments is determined as residual value, according to the difference obtained between the total consideration and the relevant consideration allotted as mentioned above. The issue expenses are allotted to every component according to the ratio of amounts determined for every component, as mentioned above, less the tax effect - if there is one regarding capital instruments. After such an allotment, every component is handled according to its contractual nature (financial liability or capital instrument).

8. Impairment in value of financial assets

The company examines on every balance sheet period whether there was impairment in value of financial assets or a group of financial assets.

Assets recorded at depreciated cost

If there is objective proof that there is a loss from an impairment in value for loans and receivables presented at depreciated cost, the amount of the loss is recorded to the statement of operations as the difference between the book amount of the assets and the present value of estimated future cash flows (which do not include future credit losses not yet accrued), which are discounted according to the original effective rate of interest of the financial asset (fixed rate of interest calculated at the time of the initial recognition). The book value of the asset is reduced by recording a provision; the amount of the loss is recorded to the statement of operations.

Financial instruments available for sale

If there is objective proof that there is a loss from an impairment in value, the amount of the loss is measured as the difference between the cost (less payments of principal and any amortization), and between the fair value less any loss from an impairment in value recorded in the past to the statement of operations. This loss is transferred from shareholders' equity to the statement of operations. During consecutive periods, the cancellation of the loss from the impairment in value, regarding capital instruments, is not recorded to the statement of operations, and the cancellation of the loss from the impairment in value for debt instruments is recorded to the statement of operations, if the increase in the fair value of the instrument can be objectively related to an event which occurred after the loss from the impairment in value was recorded to the statement of operations.

F. Provision for doubtful debts

The provision for doubtful debt is determined on a specific basis for debts whose collection, in the Company's management's opinion, is in doubt. The debts of customers whose value has declined will be withdrawn on the date on which it is decided that these debts are not collectible.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

G. Inventory

Inventory is measured at the lower of cost or net realizable value. Cost of inventory includes the purchasing cost of the inventory and the costs of bringing it to its present location and condition. The net realizable value is the estimated selling price in the normal course of business, less estimated costs to complete and costs likely to be incurred in making the sale.

The cost of the inventory is determined as follows:

- Raw materials and packaging - by the weighted moving average method.
- Goods in process - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses, less completion costs.
- Finished goods - on the basis of average cost which includes materials, labor, and other direct and indirect manufacturing expenses.

The Company periodically examines the condition of the inventory and its age, and makes provisions for slow-moving inventory accordingly. During certain periods where production is not at a normal output, the cost of inventory does not include other fixed and overhead costs, over and above those required for normal output. The costs, as mentioned, which were not loaded, are recorded as an expense in the statement of operations during the period in which they accrued. Furthermore, the cost of inventory does not include exceptional amounts of cost of materials, labor, and others resulting from inefficiency.

H. Operating turnover period

The Company's operating turnover period is 12 months.

I. Treasury stock

The Company's shares held by the Company are presented at cost which is set off from the Company's shareholders' equity. Profits or losses from the acquisition, sale, issue or cancellation of treasury stock are recorded directly to shareholders' equity.

J. Leases

The tests for classifying leasing as financial or operative is based on the nature of the agreements and are examined on the date of the engagement according to the rules set forth in IAS 17 - "leases".

1. Operative lease

Leasing agreements in which all the risks and benefits inherent in the ownership of the asset are not really transferred, and this is classified as operative leasing. Initial direct costs accrued are added to the book cost of the asset leased and recognized over the leasing period.

2. Financial lease

Leasing agreements where all the risks and benefits connected with ownership of the leased asset have been transferred to the Company - are classified as financial leasing. The leased asset is measured at the beginning of the lease period at the lower of fair value of the leased asset or at the present value of the minimum leasehold payments. A liability for leasehold payments is presented at its present value when the leasehold payments are allocated between financial expenses and repayment of the liability for the leasing, by the effective interest method.

After initial recognition, the leased asset is handled according to the accounting principles prevailing regarding this asset (see clause (K) below).

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

K. Fixed assets

Items of fixed assets are presented at cost plus direct purchasing costs less accumulated depreciation and less losses from accrued impairment in value and less investment grants received for them, and do not include expenses for current maintenance.

Components of a fixed asset item, with a significant cost compared to the total cost of the item, are depreciated separately by the components method.

Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

The expected useful life of items of fixed assets is as follows:

|                                |                    |
|--------------------------------|--------------------|
|                                | <u>%</u>           |
| Buildings                      | 2                  |
| Leasehold improvement          | 10                 |
| Machinery and equipment        | 10-33 (mainly 33%) |
| Vehicles                       | 15                 |
| Office furniture and equipment | 6-33 (mainly 7%)   |

Leasehold improvements are depreciated by the straight-line method over the period of the lease or according to the estimated life period of the assets, whichever shorter.

The residue value and useful life of every asset is examined at least every end of year, and changes are handled as a change in the accounting estimate by the 'from here on' method. Regarding examination of impairment in value of fixed assets, see (M) below.

Depreciation of fixed assets is discontinued on the earlier of the time at which the asset is classified as held for sale, and the time at which the asset is withdrawn. An asset is withdrawn from the books on the date of sale or when no economic benefits are expected from its use. Profit or loss from withdrawing an asset (calculated as the difference between the net consideration from the withdrawal and the depreciated book cost) is included in the statements of operations during the period in which the asset is withdrawn.

L. Intangible assets

Intangible assets which are purchased separately are measured on initial recognition at cost plus the direct acquisition costs. After initial recognition, intangible assets are presented at cost less accumulated amortization and less losses from accrued impairment in value.

In management's opinion, the intangible assets have a defined lifespan. The assets are amortized over their useful economic lifespan and are examined for any impairment in value when there are signs pointing to impairment in value of an intangible asset. The period of amortization and the method of amortization for an intangible asset, with a defined useful lifespan, are examined at least once a year. A change in the useful lifespan or in the pattern of expected consumption of economic benefits expected to result from the asset will be handled as a change in the period or a change in amortization, respectively, and reported as a change in accounting estimate. Amortization expenses for intangible assets, with a defined useful lifespan, are recorded to the statements of operations.

Software

Acquired licenses for computers software are recognized as an asset according to the acquisition costs and related costs. Depreciation is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

L. Intangible assets (cont'd)

Research and development expenses

Expenditure on research is recognized as an expense when it is incurred. Expenditure arising from development (relating to design and examination of new or improved products) is recognized if, and only if, an entity can demonstrate all of the following:

- a. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b. Its intention to complete the intangible asset and use or sell it.
- c. Its ability to use or sell the intangible asset.
- d. How the intangible asset will generate probable future economic benefits.
- e. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f. Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development costs, which do not meet the above conditions, are recognized as expenses when they are incurred. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date. Capitalized development expenses are recognized as an intangible asset. Amortization shall begin when the asset is available for use and is calculated at equal annual rates by the straight-line method over the expected useful life of the asset.

Impairment in value of development assets shall be handled according to IAS36 "impairment of assets" (see (M) below).

Amortization

The useful lifespan of intangible assets is as follows:

|                      | <u>Years</u> |
|----------------------|--------------|
| Software             | 3            |
| Patents and licenses | 5            |
| Development costs    | 5            |

M. Impairment in value of non financial assets

The Company examines the need for examining impairment in value of the book value of all non financial assets in the balance sheet, excluding inventory and deferred tax assets when there are signs, as a result of events, of changes in circumstances pointing to the book value not being recoverable. In those cases where the book value of non financial assets exceeds their recoverable value, the assets are reduced to their recoverable value. The recoverable value is the higher of the net selling price and the value of use. In evaluating the use value, future expected cash flows are discounted at a rate of discounting before tax, which reflects the specific risks of every asset. For an asset which does not create independent cash flows, the recoverable amount is determined for the unit which creates cash flows to which the asset belongs.

Losses due to impairment in value are recorded to the statements of operations.

N. Government grants

Government grants are recognized when there is a reasonable certainty that the grants will be received and that the Company will meet all the relevant conditions. Government investment grants relating to assets such as fixed assets are presented after setting them off from the assets for which the grants were received.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

N. Government grants (cont'd)

Government grants received from the Chief Scientist in Israel, for support of research and development activities, which includes an undertaking to pay royalties to the State, are contingent on making future sales resulting from the development, and are recognized on the date of their receipt as a liability if economic benefits are expected as a result of the research and development activities resulting in sales entitling the State to royalties. Amounts paid as royalties are recognized as a settlement on account of the liability. When no such economic benefit is expected, receipt of the grants is recognized as a reduction in Research & Development expenses in the statements of operations. In such a case, the liability to pay royalties is handled as a contingent liability in accordance with IAS 37, until the date on which the liability is recognized when the above conditions exist.

On every balance sheet date, the Company examines whether there is a reasonable certainty that the liability, fully or partly, will not be repaid (as the Company will not be required to pay royalties) based on the best possible estimate of future sales, and if such exists, the liability is withdrawn and profit is recognized in the statements of operations. If at a later period the future estimated sales show that the said reasonable certainty does not exist, the suitable liability reflecting the forecasted payment of royalties is recognized and, concurrently, the research & development expense is recognized in the statements of operations.

O. Taxes on income

Taxes on income in the statement of operations include current and deferred taxes. Tax expenses for current taxes or deferred taxes are posted to the statement of operations, unless they relate to items posted directly to shareholders' equity; in those cases even tax effect also is posted to the relative item in shareholders' equity.

1. Current taxes

The liability for current taxes is determined while using the tax rates and tax laws legislated or where legislation has in practice been completed by the balance sheet date, and adjustments required in connection with the tax liability for payment on account of previous years.

2. Deferred taxes

Deferred taxes are calculated for temporary differences between the amounts included in the financial statements and amounts taken into account for tax purposes, excluding a limited number of exceptions.

Deferred tax balances are calculated at the tax rate expected to apply when these taxes are posted to the statement of operations or to shareholders' equity, based on the tax laws legislated or whose legislation has in practice been completed by the balance sheet date. The amount of deferred taxes in the statement of operations expresses the changes in the above balances during the period of report.

In calculating deferred taxes, taxes which would apply in the event of realizing investments in investee companies, are not taken into account as long as the sale of investments in investee companies is not expected in the foreseeable future. Furthermore, deferred taxes for the distribution of profits as dividends by investee companies are not taken into account due to the Company's policy not to initiate the distribution of a dividend which results in any additional tax liability.

Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non current assets and non current liabilities, respectively. Deferred taxes are set off if there is a legal right which can be enforced enabling the set-off of a current tax asset against a current tax liability and the deferred taxes relate to the same entity which owes taxes to the same authority.

Deferred taxes receivable are recorded when there is reasonable basis to assume that there will be profits in the future enabling the utilization of the tax benefit.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

P. Share-based payments

Employees and other service providers of the Company are entitled to benefits by way of a share-based payment in consideration for capital instruments (hereinafter - transactions settled with capital instruments).

Transactions settled with capital instruments

The cost of transactions settled with capital instruments with employees is measured at the fair value of the capital instruments granted on the date of their granting. Fair value is determined through the use of the acceptable costing model. Regarding other service providers, the cost of the transactions is measured at fair value of the goods or services received in consideration for the capital instruments. In those situations where it is not possible to measure the fair value of the goods or services received, in consideration for the capital instruments, they are measured at fair value of the capital instruments granted.

The cost of transactions settled with capital instruments are recognized in the statements of operations together with an equivalent increase in shareholders' equity over the period in which the conditions of implementation or the service take place and end on the date that the relevant employee is entitled to compensation (hereinafter - the vesting period). The accumulated expense recognized for transactions settled with financial instruments on every reporting date, up to the vesting date, reflects the level of the vesting period that has passed, and the Company's best possible estimate regarding the number of capital instruments which will vest in the end. A debit or credit in the statements of operations reflects the change in the accumulated expense recognized at the beginning and the end of the period of report.

An expense for a granting which does not vest in the end is not recognized, excluding a granting whose vesting is dependent on market conditions handled as a granting which vested with no connection to meeting market conditions on the assumption that all the other terms of the vesting (service and/or implementation) were met.

When the Company makes changes in the terms of a granting, which is settled with capital instruments, an additional expense is recorded over and above the original expense calculated. An additional expense is recognized for every change which increases the total fair value of the share-based payment arrangement or which benefits the other employee/service provider according to fair value on the date of the change.

Cancellation of a granting settled with a capital instruments is handled as if it vested on the cancellation date, and the expenses not yet recognized for the granting are immediately recognized. Nevertheless, if the granting cancelled is replaced by a new granting earmarked as an alternative granting on the date on which it is granted, the granting cancelled and the new granting are both handled as a change in the original granting as described in the previous paragraph.

Q. Liabilities for benefits to employees

The company has a number of benefits to employees plans:

1. Short-term benefits for employees

Short-term benefits for employees include salaries, leave pay, illness pay, vacation pay and deposits with the National Insurance Institute, and are recognized as expenses on the provision of the services. A liability for a cash bonus or profit participation plan are recognized when the company has a legal or implied obligation to pay such amount for the service provided by the employee in the past, and which amount can be reliably estimated.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

Q. Liabilities for benefits to employees (cont'd)

2. Benefits after employment

The programs are generally financed by deposits in insurance companies and pension funds and are classified as defined deposit programs and as defined benefit programs.

The Company has defined contribution plan according to Section 14 of the Severance Pay Law, according to which the Company pays, on a permanent basis, payments without it having any legal or implied obligation to pay additional payment even if the principal does not accrue to sufficient amounts in order to pay all the benefits to the employee relating to the service of the employee during the current period and previous periods. Deposits in defined deposit programs for severance pay pursuant to Section 14 or for savings are recognized as an expense at the time of the deposit to the program, concurrent with receiving work services from the employee, and no additional provision is required in the financial statements.

Furthermore, the Company operates a defined benefit program for paying severance pay pursuant to the Severance Pay Law. According to the law, employees are entitled to receive severance pay on dismissal or on their retirement. The liability for severance pay is presented by the actuarial value method of the forecasted entitled unit. The actuarial calculation takes into account future wage increases and the rate of employees leaving, and this on the basis of an evaluation of the timing of the payment. The amounts are presented on the basis of discounting expected future cash flows, according to the interest rates of government bonds whose due date is close to the period of the liability relating to the severance pay.

The Company deposits amounts for its undertaking to pay severance pay for some of its employees, on a current basis, with pension funds and insurance companies and a central severance pay fund (hereinafter - the program's assets).

The liability for benefits to employees presented in the balance sheet represents the present value of the defined benefit plan, less the fair value of the program's assets. Assets resulting from this calculation are restricted to the cost of providing previous services plus the present value of available amounts and deducting future amounts which will be deposited in the program.

The Company chose one of the possible alternatives according to IAS 19, according to which the actuarial profits or losses are recorded to the comprehensive income (loss) when it is incurred.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

R. Recognition of revenues

Revenues are recognized in the statement of operations when the revenues can be reliably measured; it is expected that the economic benefits connected with the transaction will flow to the Company, and the cost accrued or which will accrue for the transaction can be reliably measured. The revenues are measured at the fair value of the consideration in the transaction, less commercial discounts, quantity discounts and returns.

The following are the specific provisions regarding recognition of the Group's revenues which must exist so as to recognize the revenue:

1. Revenues from sale of products are recognized when all the significant risks and benefits are passed to the buyer; in general, on the date of delivery of the product to the buyer (the distributor).
2. Revenues from services are recorded by the accrual method over the period of the service agreement.
3. Revenues from management fees of a building are recorded by the accrual method over the period of the agreement.
4. Revenues from work in a construction contract are recognized according to the rate of completion method, where all the following conditions exist: the revenues are known or can be reliably measured, the collection of revenues is expected, the cost connected with performing the work is known or can be reliably measured, there is no significant uncertainty regarding the ability of the Company to complete the work and meet the contractual terms with the customer, and the rate of completion can be reliably measured. The rate of completion is determined on the basis of completion of the engineering stages of the work. Regarding work for which a loss is expected, a full provision for the expected loss is made.

S. Discounts to customers

Current discounts to customers are included in the financial statements on their granting and are recorded to the revenues.

T. Earnings (loss) per share

Earnings (loss) per share are calculated according to the number of ordinary shares. Basic earnings per share includes only shares that actually exist during the period and potential ordinary shares (for example convertible bond and warrants) are included only when calculating diluted earnings per share, should their effect dilute the earnings per share when their conversion reduces earnings per share or increases the loss per share from continuing operations. In addition, convertible securities converted during the period are included in the diluted earnings per share, only after the date of conversion, and from that date the shares issued as a result of the conversion are included in basic earnings per share. The company's share in the subsidiaries' profits is calculated according to the company's share in the subsidiaries' earning per share multiplied by the number of shares held by the company.

U. Provisions

A provision is recognized when the Company has a legal obligation in the present or an implied obligation as a result of an event which occurred in the past, and it is expected that it will be required to use economic resources to settle the obligation and it is possible to reliably estimate it. Should the effect be significant, the provisions are measured by discounting future expected cash flows, and using the rate of interest before tax reflecting the market evaluation regarding the time value of money, and in certain cases even the specific risks connected with the liability.



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

V. Disclosure of new IFRS implemented in the reporting period

1. IAS 34 - Financial Reporting for Interim periods

Since 1 January 2011 the Company applies the amendment to IAS 34, Financial Reporting for Interim periods, significant events and transactions, which was published in the framework of the improvements project for 2010. According to the amendment disclosure requirements were added to the interim financial statements relating to significant events and transactions. Furthermore, the requirement to evaluate the material essence of events and transactions was dropped from the minimal disclosure requirements.

The amendment did not have any significant effect on the Group's disclosures to its consolidated interim financial statements.

2. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2011, but the first implementation did not have any significant effect on the Group's financial statements

- a. IFRS 7 - Financial Instruments: Disclosure.
- b. IAS 1 - Presentation of financial statements.
- c. IAS 24 - Related Party Disclosures.

W. Disclosure of new IFRS during the period prior to their implementation

1. In May 2011, the IASB published 4 New Standards: IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure regarding Rights in other Entities (hereinafter: "the New Standards") and IFRS 13 - Measurement of Fair Value and amended 2 existing standards: IAS 27R (amended in 2011) - Separate Financial Statements, and IAS 28R (amended in 2011) Investments in Affiliated Companies and in Joint Ventures.

The New Standards will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier implementation is possible. But if the Company decides to do so, it must adopt the New Standards in their entirety (excluding disclosure requirements in accordance with IFRS 12, which can be adopted separately). The Standards include transitory provisions with certain exemptions at the time of first implementation.

For the implementation date of IFRS 13 see Note d below.

The following are the main provisions of the Standards relevant for the Company and their expected effect on the Company:

a. IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces IAS 27 regarding the accounting treatment of consolidated financial statements, and includes the accounting treatment on the consolidation of structured entities which in the past were handled by SIC 12 - consolidation - entities for special purposes.

IFRS 10 does not include changes in consolidation procedures, but changes the definition of control for purpose of consolidation and includes a single model for consolidation purposes. According to IFRS 10, in order for control to exist it requires the existence of power and exposure or the right to variable returns from the investee company. Power is the ability to affect and to direct the operations of the investee company, which significantly affect the return on the investment.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

1. (cont'd)

a. (cont'd)

IFRS 10 stipulates that at the time of examining the existence of control, potential voting rights must be taken in account, only if they are real, compared to IAS 27 prior to the amendment, which stipulated that potential voting rights will be taken into account only if they can be exercised immediately and when management's intentions must be ignored as well as the financial ability to exercise these rights.

In addition, IFRS 10 stipulates that an investor may control even if he holds less than 50% of the voting rights in the investee company (effective control), and this contrary to the existing IAS 27 which enabled the choice of two models for consolidation - the effective control model and the legal control model.

In the Company's opinion, IFRS 10 is not expected to have a significant effect on the financial statements.

b. IAS 27R - Separate Financial Statements

IAS 27R replaces IAS 27 and only deals with separate financial statements. The existing directives regarding separate financial statements remain unchanged, in the framework of IAS 27R.

c. IFRS 12 - Disclosure regarding rights in other entities

IFRS 12 sets forth the disclosures requirements regarding the Company's investee entities, including subsidiaries, joint arrangements, affiliated companies, and structured entities. IFRS 12 expands the disclosure requirements relating to the consideration and assumptions that management used in determining the existence of control, joint control or significant influence in investee entities, and also in determining the type of joint arrangements. IFRS 12 also includes disclosure requirements regarding significant investee entities.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

d. IFRS 13 - Measurement of Fair Value

IFRS 13 stipulates assumptions regarding the method of measurement of fair value to the extent that such measurement is required according to the international standards. IFRS 13 defines fair value as the price that would have been received on the sale of an asset, or the price paid on the transfer of a liability in an orderly transaction between market participants at the time of the measurement.

In addition, IFRS 13 details the characteristics of market participants and stipulates that fair value will be based on the assumptions that market participants would have used. In addition, IFRS 13 stipulates that the measurement of fair value will be based on the assumption that the transaction will be carried out in the main market of the asset or liability, or in the absence of a main market, in the most advantageous market.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

1. (cont'd)

d. (cont'd)

IFRS 13 stipulates that the use of data which can be observed in the market must be maximized compared to the use of data which cannot be observed in the market. In addition IFRS 13 sets forth levels of fair value according to the source of the data used in determining the fair value:

Level 1: quoted prices (without adjustments) in an active market of identical assets and liabilities.

Level 2: data which are not quoted prices included in Level 1 which can be observed directly or indirectly.

Level 3: Data which are not based on market information which can be observed (valuation techniques without the use of market data which can be observed).

In addition IFRS 13 sets forth certain disclosure requirements.

The new disclosures, and the measurement of assets and liabilities of IFRS 13 required from now on, only relate to periods starting after the date of implementation - from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier adoption is possible. These new disclosures will not apply to comparative figures.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

In the Company's opinion, IFRS 13 is not expected to have a significant effect on the financial statements.

2. IAS 19 (Amended) - Employee Benefits

On June 2011, the IASB published IAS 19 (Amended) (hereinafter: "the Amendment"). The main amendments which were included in the Standard are:

- Actuarial profits and losses will be recognized only in other comprehensive income and not recorded to the statement of operations.
- The "Strip" method that enabled a postponement of actuarial profits or losses is cancelled.
- The yield on plan's assets will be recognized in the statement of operations, based on the rate of discounting used to measure the liabilities from benefits to employees, without relating to the actual composition of the investments portfolio.
- The distinction between short-term employee benefits and long-term employee benefits, will be based on the date of expected settlement, and not based on the date on which the employee is entitled to the benefits.
- Cost of past services resulting from changes in the plan will be immediately recognized.

The Standard will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 and thereafter. Early implementation is possible.

In the Company's opinion, IAS 19 (Amended) is not expected to have a significant effect on the financial statements.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

3. IAS 1 - Presentation of Financial Statements

On June 2011, the IASB published the amendment to International Accounting Standard No. 1 - Presentation of Financial Statements (IAS 1). The amendment relates mainly to the method of presentation of other comprehensive income items in the financial statements (hereinafter: "the Amendment").

According to the Amendment, the method for presenting items of other comprehensive income in the financial statements will be changed, so that other comprehensive income items, which in the future will be transferred to the statement of operations in subsequent periods, will be presented separately in the statement to comprehensive income items which will never be transferred to the statement of operations.

The Amendment does not cancel the possibility existing today to present the statement of operations and the statement of comprehensive income in two separate statements. Should the statement of operations and the statement of comprehensive income be presented as one statement, then the amendment changes the name of the statement from "statement of comprehensive income" to "statement of operations and comprehensive income", but nevertheless companies may use alternative names.

The Amendment will apply to annual periods starting from January 1, 2013 and thereafter and will be implemented retrospectively. Early adoption is possible.

The method of presentation in the Company's financial statements will be adjusted on first adoption of the amendment.

4. IFRS 7 - Financial instruments: Disclosures

The amendment to IFRS 7 clarifies the disclosure requirements presented in the Standard. According to the amendment, the quantitative and qualitative disclosure is emphasized as well as the nature and level of the risks resulting from financial instruments. Disclosure requirements regarding collateral that the Company holds were reduced and the disclosure requirements regarding credit were amended. The amendment was implemented retrospectively as from the financial statements for periods starting January 1, 2012. Early implementation is possible.

5. IFRS 9 - Financial instruments

- A. In November 2009 the first part of the first phase (phase 1) of IFRS 9 - Financial Instruments, as part of a project of replacing IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 (hereinafter - the Standard) focuses primarily on the classification and measurement of financial assets and applies to all financial assets covered by IAS 39.

According the Standard, on initial recognition all financial assets (including complex instruments where the host contract is a financial asset) will be measured at fair value. In subsequent periods debt instruments should be measured at amortized cost only if it meets the two following criteria:

- The asset is held as part of a business model that aims to own property to collect the contractual cash flows arising from them.
- According to the contractual terms of the financial asset, the Company may, at certain times, receive cash flows that are solely payments of principal and interest payments on the principal balance.

Notwithstanding the above, a company can, on initial recognition, designate a debt instrument that meets the two conditions stated at fair value through profit or loss if doing so eliminates or significantly reduces the asymmetry measurement or recognition (accounting mismatch) that would be caused otherwise.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 2 - Significant Accounting Policies (cont'd)**

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

5. IFRS 9 - Financial instruments (cont'd)

A. (Cont'd)

Subsequent measurement of any other debt instruments and other financial assets will be based on fair value.

Financial assets which are equity instruments will be measured at fair value in subsequent periods, and the difference will be charged to comprehensive income (loss), according to accounting policy for each instrument (amounts recognized in other comprehensive income will not be passed then to profit or loss). If an equity instrument held for trading purposes, you must measure them at fair value through profit or loss. The choice is final and cannot be changed. However, when a company changes its business model for managing financial assets, it must reclassify all financial instruments that are affected by a change in business model to reflect this change. In all other circumstances, no reclassification of financial instruments should take place.

Beginning date of the standard is January 1, 2015. Early adoption is permitted. First-time adoption will be retroactive with restatement of comparative figures, subject to the allowances specified in the standard.

In the Company's opinion, the standard is not expected to have a significant effect on the financial statements.

- B. In October 2010 amendments to the standard were published on removal and financial liabilities. Under the provisions of the amendments, should continue to implement the provisions of IAS 39 regarding the removal and financial liabilities for which the fair value alternative was not chosen (designation at fair value through profit or loss). Namely, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

Changes resulting from such amendments affect the measurement of selected liabilities for which fair value alternative. According to the amendments, the amount of change in fair value of the liability - which is attributed to changes in credit risk - will be charged to other comprehensive income. All other changes in fair value will be charged to profit or loss. If charging the change in fair value of the liability, resulting from changes in credit risk, to other comprehensive income producing accounting asymmetry in profit or loss, then the same change will be charged to profit or loss and not to other comprehensive income.

Also, under the amendments, liabilities for certain derivative on not quoted equity instruments will no longer be measured by cost, but only at fair value.

Beginning date of the amendments is January 1, 2015. Early adoption is permitted, provided that implements the provisions of the standard pertaining to the classification and measurement of financial assets (asset level). First-time Adoption of amendments will be made in advance with restatement of comparative figures, subject to the allowances specified amendments.

In the Company's opinion, the standard is not expected to have a significant effect on the financial statements.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 3 - Cash and cash equivalents**

|                  | December 31,<br>2011                                    | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
|------------------|---------------------------------------------------------|----------------------------------------|----------------------|
|                  | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                    |                      |
| Israeli currency | 1,208                                                   | 5,966                                  | 3,829                |
| Foreign currency | 2,127                                                   | 10,501                                 | 13,627               |
|                  | <u>3,335</u>                                            | <u>16,467</u>                          | <u>17,456</u>        |

**Note 4 - Marketable securities**

Marketable securities measured at fair value through the statement of operations

|                       | December 31,<br>2011                                    | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
|-----------------------|---------------------------------------------------------|----------------------------------------|----------------------|
|                       | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                    |                      |
| Stocks                | 537                                                     | 2,654                                  | -                    |
| Bonds:                |                                                         |                                        |                      |
| Linked to Israeli CPI | 3,662                                                   | 18,081                                 | 10,405               |
| Linked to USD         | 36                                                      | 179                                    | 752                  |
| Unlinked              | 3,102                                                   | 15,315                                 | 7,629                |
|                       | <u>7,337</u>                                            | <u>36,229</u>                          | <u>18,786</u>        |

**Note 5 - Accounts receivable - trade**

|                                                                            | December 31,<br>2011                                    | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
|----------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------|----------------------|
|                                                                            | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                    |                      |
| Related to work in progress in connection with<br>long-term contracts (*): |                                                         |                                        |                      |
| Open accounts                                                              | 985                                                     | 4,865                                  | 3,231                |
| Income receivable                                                          | 166                                                     | 818                                    | 1,121                |
|                                                                            | <u>1,151</u>                                            | <u>5,683</u>                           | <u>4,352</u>         |
| Others:                                                                    |                                                         |                                        |                      |
| Open accounts                                                              | 2,369                                                   | 11,696                                 | 9,664                |
| Post-dated checks receivable                                               | 70                                                      | 347                                    | 274                  |
|                                                                            | <u>2,439</u>                                            | <u>12,043</u>                          | <u>9,938</u>         |
|                                                                            | 3,590                                                   | 17,726                                 | 14,290               |
| Provision for doubtful debts                                               | (15)                                                    | (72)                                   | (71)                 |
|                                                                            | <u>3,575</u>                                            | <u>17,654</u>                          | <u>14,219</u>        |
| (*) Costs and recognized profits                                           | 10,551                                                  | 52,104                                 | 74,598               |
| Less bills of progress in work                                             | 9,536                                                   | 47,092                                 | 70,692               |
|                                                                            | 1,015                                                   | 5,012                                  | 3,906                |
| V.A.T on open accounts                                                     | 136                                                     | 671                                    | 446                  |
|                                                                            | <u>1,151</u>                                            | <u>5,683</u>                           | <u>4,352</u>         |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 5 - Accounts receivable - trade (cont'd)**

Costumers without provision for doubtful debts:

|                   | Customers without collection delay | Customers with collection delay of |               |                   | Total  |
|-------------------|------------------------------------|------------------------------------|---------------|-------------------|--------|
|                   |                                    | Up to 30 days                      | 30 to 60 days | More then 60 days |        |
|                   |                                    | <b>NIS (in thousands)</b>          |               |                   |        |
| December 31, 2011 | 12,520                             | 3,656                              | 247           | 66                | 16,489 |
| December 31, 2010 | 10,419                             | 2,001                              | 329           | 75                | 12,824 |

**Note 6 - Inventory**

|                   | December 31,<br>2011                           | December 31,<br>2011 | December 31,<br>2010 |
|-------------------|------------------------------------------------|----------------------|----------------------|
|                   |                                                | (in thousands)       |                      |
|                   | Convenience translation into EURO, (unaudited) | NIS                  |                      |
| Raw and packaging | 1,270                                          | 6,270                | 14,211               |
| Work in process   | 540                                            | 2,666                | 8,785                |
| Finished products | 1,532                                          | 7,569                | 6,902                |
|                   | 3,342                                          | 16,505               | 29,898               |

An impairment in value of inventory recorded to the cost of revenues in the reported year aggregated an amount of NIS 532 thousands (in 2010 - NIS 974 thousands).

**Note 7 - Inventory - work in progress**

|                                                  | December 31,<br>2011                           | December 31,<br>2011 | December 31,<br>2010 |
|--------------------------------------------------|------------------------------------------------|----------------------|----------------------|
|                                                  |                                                | (in thousands)       |                      |
|                                                  | Convenience translation into EURO, (unaudited) | NIS                  |                      |
| Cost of work performed                           | 11,236                                         | 55,484               | 72,170               |
| Less amounts charged to statements of operations | 9,745                                          | 48,122               | 64,709               |
|                                                  | 1,491                                          | 7,362                | 7,461                |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 8 - Property and equipment, net**

|                                 | Land<br>and<br>Buildings<br>(*) (**) | Leasehold<br>improvements | Machinery<br>and<br>Equipment | Motor<br>vehicles | Office<br>furniture<br>and<br>Equipment | Total   |
|---------------------------------|--------------------------------------|---------------------------|-------------------------------|-------------------|-----------------------------------------|---------|
|                                 | <b>NIS (in thousands)</b>            |                           |                               |                   |                                         |         |
| <b>Cost</b>                     |                                      |                           |                               |                   |                                         |         |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| January 1, 2010                 | 21,294                               | 1,083                     | 4,885                         | 1,031             | 2,366                                   | 30,659  |
| Additions                       | 350                                  | 167                       | 596                           | -                 | 495                                     | 1,608   |
| Disposals                       | -                                    | -                         | (774)                         | (315)             | (1)                                     | (1,090) |
| Translation differences         | -                                    | -                         | -                             | -                 | (32)                                    | (32)    |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| December 31, 2010               | 21,644                               | 1,250                     | 4,707                         | 716               | 2,828                                   | 31,145  |
| Additions                       | 19,490                               | 4                         | 666                           | -                 | 294                                     | 20,454  |
| Disposals                       | -                                    | -                         | (753)                         | -                 | (6)                                     | (759)   |
| Translation differences         | -                                    | -                         | -                             | -                 | 51                                      | 51      |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| December 31, 2011               | 41,134                               | 1,254                     | 4,620                         | 716               | 3,167                                   | 50,891  |
| <b>Accumulated depreciation</b> |                                      |                           |                               |                   |                                         |         |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| January 1, 2010                 | 4,404                                | 18                        | 3,142                         | 273               | 973                                     | 8,810   |
| Depreciation during the year    | 536                                  | 124                       | 592                           | 151               | 206                                     | 1,609   |
| Disposals                       | -                                    | -                         | (774)                         | (299)             | (1)                                     | (1,074) |
| Translation differences         | -                                    | -                         | -                             | -                 | (19)                                    | (19)    |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| December 31, 2010               | 4,940                                | 142                       | 2,960                         | 125               | 1,159                                   | 9,326   |
| Depreciation during the year    | 540                                  | 126                       | 625                           | 108               | 234                                     | 1,633   |
| Disposals                       | -                                    | -                         | (753)                         | -                 | (6)                                     | (759)   |
| Translation differences         | -                                    | -                         | -                             | -                 | 28                                      | 28      |
| Balance as at                   |                                      |                           |                               |                   |                                         |         |
| December 31, 2011               | 5,480                                | 268                       | 2,832                         | 233               | 1,415                                   | 10,228  |
| <b>Net book value as at</b>     |                                      |                           |                               |                   |                                         |         |
| <b>December 31, 2011</b>        | 35,654                               | 986                       | 1,788                         | 483               | 1,752                                   | 40,663  |
| <b>Net book value as at</b>     |                                      |                           |                               |                   |                                         |         |
| <b>December 31, 2010</b>        | 16,704                               | 1,108                     | 1,747                         | 591               | 1,669                                   | 21,819  |

(\*) The building is located in Kiri'at Sde Hateufa, on land leased from the government (Minhal). The land is leased for a period of 49 years and has been capitalized (91%). Including capitalization of direct borrowing costs.

(\*\*) In July 2011 the Company entered into an agreement to acquire the discounted leasehold rights of real estate property, for the use of the company, with an area of approximately 11 thousand square meters in Hevel Modi'in industrial zone - Tirat Yehuda (hereinafter - "the rights") for a total amount of NIS 17,370 thousand. See also Note 16c.



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 8 - Property and equipment, net (cont'd)**

|                                               | Convenience translation into euro |                        |                         |                |                                |
|-----------------------------------------------|-----------------------------------|------------------------|-------------------------|----------------|--------------------------------|
|                                               | Land and Buildings                | Leasehold improvements | Machinery and Equipment | Motor vehicles | Office furniture and Equipment |
|                                               | <u>(in thousands)</u>             |                        |                         |                |                                |
| <b>Cost</b>                                   |                                   |                        |                         |                |                                |
| Balance as at January 1, 2011                 | 4,383                             | 253                    | 953                     | 145            | 573                            |
| Additions                                     | 3,947                             | -                      | 135                     | -              | 60                             |
| Disposals                                     | -                                 | -                      | (152)                   | -              | (2)                            |
| Translation differences                       | -                                 | -                      | -                       | -              | 10                             |
| Balance as at December 31, 2011               | <u>8,330</u>                      | <u>253</u>             | <u>936</u>              | <u>145</u>     | <u>641</u>                     |
|                                               | <u>10,305</u>                     |                        |                         |                |                                |
| <b>Accumulated depreciation</b>               |                                   |                        |                         |                |                                |
| Balance as at January 1, 2011                 | 1,000                             | 29                     | 599                     | 25             | 235                            |
| Depreciation during the year                  | 110                               | 24                     | 127                     | 22             | 47                             |
| Disposals                                     | -                                 | -                      | (152)                   | -              | (2)                            |
| Translation differences                       | -                                 | -                      | -                       | -              | 6                              |
| Balance as at December 31, 2011               | <u>1,110</u>                      | <u>53</u>              | <u>574</u>              | <u>47</u>      | <u>286</u>                     |
|                                               | <u>2,070</u>                      |                        |                         |                |                                |
| <b>Net book value as at December 31, 2011</b> | <u>7,220</u>                      | <u>200</u>             | <u>362</u>              | <u>98</u>      | <u>355</u>                     |
|                                               | <u>8,235</u>                      |                        |                         |                |                                |

**Note 9 - Intangible assets, net**

|                                               | Patents and Licenses      | Software     | Development costs | Total         |
|-----------------------------------------------|---------------------------|--------------|-------------------|---------------|
|                                               | <u>NIS (in thousands)</u> |              |                   |               |
| <b>Cost</b>                                   |                           |              |                   |               |
| Balance as at January 1, 2010                 | 639                       | 1,372        | 19,580            | 21,591        |
| Additions - internal created                  | -                         | -            | 4,675             | 4,675         |
| Additions - bought                            | -                         | 335          | -                 | 335           |
| Disposals                                     | -                         | -            | (2,812)           | (2,812)       |
| Balance as at December 31, 2010               | 639                       | 1,707        | 21,443            | 23,789        |
| Additions - internal created                  | -                         | -            | 12,175            | 12,175        |
| Additions - bought                            | 23                        | 420          | -                 | 443           |
| Disposals                                     | -                         | (550)        | (1,055)           | (1,605)       |
| Balance as at December 31, 2011               | <u>662</u>                | <u>1,577</u> | <u>32,563</u>     | <u>34,802</u> |
|                                               | <u>34,802</u>             |              |                   |               |
| <b>Accumulated amortization</b>               |                           |              |                   |               |
| Balance as at January 1, 2010                 | 554                       | 972          | 5,328             | 6,854         |
| amortization during the year                  | 60                        | 268          | 3,702             | 4,030         |
| Disposals                                     | -                         | -            | (2,812)           | (2,812)       |
| Balance as at December 31, 2010               | 614                       | 1,240        | 6,218             | 8,072         |
| amortization during the year                  | 27                        | 311          | 4,163             | 4,501         |
| Disposals                                     | -                         | (550)        | (1,055)           | (1,605)       |
| Balance as at December 31, 2011               | <u>641</u>                | <u>1,001</u> | <u>9,326</u>      | <u>10,968</u> |
|                                               | <u>10,968</u>             |              |                   |               |
| <b>Net book value as at December 31, 2011</b> | <u>21</u>                 | <u>576</u>   | <u>23,237</u>     | <u>23,834</u> |
|                                               | <u>23,834</u>             |              |                   |               |
| <b>Net book value as at December 31, 2010</b> | <u>25</u>                 | <u>467</u>   | <u>15,225</u>     | <u>15,717</u> |
|                                               | <u>15,717</u>             |              |                   |               |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 9 - Intangible assets, net (cont'd)**

|                                                   | <b>Convenience translation into Euro, (unaudited)</b> |                 |                              |              |
|---------------------------------------------------|-------------------------------------------------------|-----------------|------------------------------|--------------|
|                                                   | <b>Patents<br/>and<br/>Licenses</b>                   | <b>Software</b> | <b>Development<br/>costs</b> | <b>Total</b> |
|                                                   | <b>(in thousands)</b>                                 |                 |                              |              |
| <b>Cost</b>                                       |                                                       |                 |                              |              |
| Balance as at January 1, 2011                     | 129                                                   | 346             | 4,342                        | 4,817        |
| Additions - internal created                      | -                                                     | -               | 2,466                        | 2,466        |
| Additions - bought                                | 5                                                     | 85              | -                            | 90           |
| Disposals                                         | -                                                     | (111)           | (214)                        | (325)        |
| Balance as at December 31, 2011                   | <u>134</u>                                            | <u>320</u>      | <u>6,594</u>                 | <u>7,048</u> |
| <b>Accumulated amortization</b>                   |                                                       |                 |                              |              |
| Balance as at January 1, 2011                     | 125                                                   | 251             | 1,259                        | 1,635        |
| Amortization during the year                      | 5                                                     | 63              | 843                          | 911          |
| Disposals                                         | -                                                     | (111)           | (214)                        | (325)        |
| Balance as at December 31, 2011                   | <u>130</u>                                            | <u>203</u>      | <u>1,888</u>                 | <u>2,221</u> |
| <b>Net book value as at<br/>December 31, 2011</b> | <u>4</u>                                              | <u>117</u>      | <u>4,706</u>                 | <u>4,827</u> |

amortization expenses

Intangible assets amortization is classified to the statement of operations as follows:

|                                                                   | <b>For the year ended<br/>December 31,</b> | <b>For the year ended<br/>December 31,</b> |              |              |
|-------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|--------------|--------------|
|                                                                   | <b>2011</b>                                | <b>2011</b>                                | <b>2010</b>  | <b>2009</b>  |
|                                                                   | <b>(in thousands)</b>                      |                                            |              |              |
| <b>Convenience<br/>translation into<br/>EURO,<br/>(unaudited)</b> | <b>NIS</b>                                 |                                            |              |              |
| Cost of revenues                                                  | 876                                        | 4,333                                      | 3,931        | 3,672        |
| Development expenses, net                                         | 14                                         | 67                                         | 44           | 51           |
| Selling & marketing expenses                                      | 9                                          | 43                                         | 29           | 35           |
| General & administrative<br>expenses                              | 12                                         | 58                                         | 26           | 115          |
|                                                                   | <u>911</u>                                 | <u>4,501</u>                               | <u>4,030</u> | <u>3,873</u> |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 10 - Current maturities of non current liabilities**

|                                             | December 31,<br>2011                                    | December 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------|---------------------------------------------------------|----------------------|----------------------|
|                                             |                                                         | (in thousands)       |                      |
|                                             | Convenience<br>translation into<br>EURO,<br>(unaudited) |                      | NIS                  |
| A. Current maturities of non current loans: |                                                         |                      |                      |
| Linked to the USD                           | 85                                                      | 417                  | 387                  |
| Linked to the EURO                          | 787                                                     | 3,888                | 3,730                |
| Not linked                                  | 19                                                      | 94                   | 85                   |
|                                             | <u>891</u>                                              | <u>4,399</u>         | <u>4,202</u>         |
| B. Current maturities of bonds:             |                                                         |                      |                      |
| Linked to the CPI                           | <u>1,253</u>                                            | <u>6,186</u>         | <u>6,032</u>         |

**Note 11 - Accounts payable - trade**

|                           |              |               |               |
|---------------------------|--------------|---------------|---------------|
| Suppliers                 | 2,486        | 12,274        | 19,984        |
| Post-dated checks payable | 385          | 1,901         | 5,771         |
|                           | <u>2,871</u> | <u>14,175</u> | <u>25,755</u> |

**Note 12 - Accounts payable - other**

|                              |              |               |               |
|------------------------------|--------------|---------------|---------------|
| Employees, payroll and taxes | 756          | 3,735         | 3,227         |
| Government institutions      | -            | -             | 644           |
| Provision for vacation       | 136          | 671           | 557           |
| Hedging transactions         | 21           | 104           | -             |
| Accrued expenses             | 701          | 3,458         | 3,536         |
| Prepaid income               | 1,576        | 7,783         | 320           |
| Advances from costumers      | 5            | 25            | 15,364        |
|                              | <u>3,195</u> | <u>15,776</u> | <u>23,648</u> |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 13 - Loans from banks and others**

A. Consisting of the following:

|                                         | Annual Interest<br>Rates<br>% | December 31,<br>2011                                    | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
|-----------------------------------------|-------------------------------|---------------------------------------------------------|----------------------------------------|----------------------|
|                                         |                               | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                    |                      |
| Long-term loans from banks:             |                               |                                                         |                                        |                      |
| Linked to the USD Libor+2.02(*)         |                               | 506                                                     | 2,501                                  | 2,710                |
| Linked to the EURO Libor+2.075-1.93(**) |                               | 2,514                                                   | 12,412                                 | 15,637               |
| Linked to the EURO Libor + 3.41(***)    |                               | 1,000                                                   | 4,938                                  | -                    |
| Less current maturities                 |                               | (872)                                                   | (4,305)                                | (4,117)              |
|                                         |                               | 3,148                                                   | 15,546                                 | 14,230               |
| Long-term loans from others:            |                               |                                                         |                                        |                      |
| Motor vehicles lessors                  |                               |                                                         |                                        |                      |
| - Not linked 9.90                       |                               | 60                                                      | 296                                    | 381                  |
| Less current maturities                 |                               | (19)                                                    | (94)                                   | (85)                 |
|                                         |                               | 41                                                      | 202                                    | 296                  |
|                                         |                               | 3,189                                                   | 15,748                                 | 14,526               |

(\*) As at December 31, 2011 - 2.4504%

(\*\*) As at December 31, 2011 - 3.05%-3.39%

(\*\*\*) As at December 31, 2011 - 4.91%. See also note 16B(3).

B. Aggregate maturities are as follows:

|                           |       |        |        |
|---------------------------|-------|--------|--------|
| Second year               | 935   | 4,614  | 4,211  |
| Third year                | 708   | 3,498  | 4,221  |
| Fourth year               | 401   | 1,982  | 2,952  |
| Fifth year                | 260   | 1,284  | 1,494  |
| Sixth year and thereafter | 885   | 4,370  | 1,648  |
|                           | 3,189 | 15,748 | 14,526 |

C. Mortgages - see note 16B.

**Note 14 - Bonds**

- On August, 2006 the company issued a series of bonds (series 2) at the amount of NIS 34 million (in exchange for 94% of their par value) payable in 5 equal payments starting at August 25, 2009. The bonds are linked to the Israeli CPI and bear fixed interest of 6.1% per annum. The effective interest - 9.57%.
- In 2009 the company purchased NIS 300 thousands convertible bonds (series 1) and NIS 7,100 thousands bonds (series 2) at a sum of NIS 5,558 thousands. As a result of the purchase the company recorded gain from early redemption of bonds at a sum of NIS 1.8 million.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 14 - Bonds (cont'd)**

3. On March 2011 the Company submitted a Shelf Offering Report pursuant to a Shelf Prospectus dated February 2011 (whose amendment was submitted in March 2011) (hereinafter - "Shelf Offering Report"). In accordance with the Shelf Offering Report, the Company issued NIS 56,442,000 par value bonds (Series 3) in exchange for their par value, repayable in five equal annual installments commencing from March 23, 2013. The bonds are linked to the Israeli Consumer Price index and bear a fixed annual interest of 5.65%, payable in semi-annual equal payments starting from September 23, 2011. The net proceeds of the issuance (net of issuance expenses) amounted to NIS 53,873,000. The annual effective interest rate is 7.12%.

Under the Shelf Offering Report, the Company entered into a trust Deed for bonds (Series 3) dated March 22, 2011 (hereinafter - "the trust Deed") pursuant to which it undertook, inter alia, to comply with financial covenants of a minimum shareholders equity which, for longer than two consecutive quarters, will not fall below NIS 20 million; a financial debt to CAP net, as the term is defined in the Trust Deed, of no more than 80% and to create a pledge in the amount of the annual interest payments on the bonds in favor of the holders of the bonds (Series 3) (see also note 16B(2)). As of the balance date the company meets the covenants.

|                                        | December 31,<br>2011                                    | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
|----------------------------------------|---------------------------------------------------------|----------------------------------------|----------------------|
|                                        | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                    |                      |
| Composition of bonds linked to the CPI |                                                         |                                        |                      |
| Series 2                               | 2,505                                                   | 12,371                                 | 18,096               |
| Less discount, net                     | (88)                                                    | (436)                                  | (889)                |
|                                        | 2,417                                                   | 11,935                                 | 17,207               |
| Less current maturities                | (1,253)                                                 | (6,186)                                | (6,032)              |
|                                        | 1,164                                                   | 5,749                                  | 11,175               |
| Series 3                               | 11,620                                                  | 57,380                                 | -                    |
| Less discount, net                     | (436)                                                   | (2,152)                                | -                    |
|                                        | 11,184                                                  | 55,228                                 | -                    |
|                                        | 12,348                                                  | 60,977                                 | -                    |

Aggregate maturities are as follows:

|                    |        |        |        |
|--------------------|--------|--------|--------|
| <u>Series 2</u>    |        |        |        |
| Current maturities | 1,253  | 6,186  | 6,032  |
| Second year        | 1,252  | 6,185  | 6,032  |
| Third year         | -      | -      | 6,032  |
|                    | 2,505  | 12,371 | 18,096 |
| <u>Series 3</u>    |        |        |        |
| Second year        | 2,324  | 11,476 | -      |
| Third year         | 2,324  | 11,476 | -      |
| four year          | 2,324  | 11,476 | -      |
| Fifth year onwards | 4,648  | 22,952 | -      |
|                    | 11,620 | 57,380 | -      |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 15 - Liabilities for benefits to employees, net**

A. Benefits after termination of employment

The Labor Laws and the Severance Pay Law in Israel require the Company to pay severance pay to an employee at the time of his dismissal or retirement, under certain circumstances, or to make current deposits in defined deposit plans under Section 14 of the Severance Pay Law, as described below. As a result the Company's liabilities are handled as a benefit after termination of employment. The calculation of the Company's liability for benefits to employees, after termination of employment, is made according to the employment agreement in effect, based on the employee's salary and period of employment, which create the right to receive severance pay.

The benefits to employees after termination of employment are generally financed by deposits classified as a defined benefit program or as a defined deposit program as detailed below.

B. Defined contribution plans

Regarding part of the payment of severance pay, the provisions of Section 14 of the Severance Pay Law - 1963 apply, according to which current deposits of the Company in pension funds and/or policies with insurance companies, exempts it from any additional liability to employees for which the above-mentioned amounts were deposited. These deposits and the deposits for savings are defined contribution plans.

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |       |      |
|---------------------------------------------------------|------------------------------------|------------------------------------|-------|------|
|                                                         | 2011                               | 2011                               | 2010  | 2009 |
|                                                         |                                    | (in thousands)                     |       |      |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |       |      |
| Expenses for defined contribution plans                 | 400                                | 1,977                              | 1,371 | 872  |

C. Defined benefits plans

The part of the severance pay payments not covered by deposits in defined contribution plans, as mentioned above, are handled by the Company as defined benefit plans according to which the liability for benefits to employees is recognized, and for it the Company deposits amounts in central severance pay funds, in pension funds and in suitable insurance policies.

1. Expenses recognized in statements of operations:

|                                |            |              |            |            |
|--------------------------------|------------|--------------|------------|------------|
| Current service cost           | 200        | 990          | 791        | 585        |
| Interest on obligation         | 63         | 311          | 235        | 364        |
| Expected return on plan assets | (43)       | (214)        | (195)      | (319)      |
|                                | <u>220</u> | <u>1,087</u> | <u>831</u> | <u>630</u> |
| Actual return on plan assets   | <u>33</u>  | <u>161</u>   | <u>284</u> | <u>715</u> |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 15 - Liabilities for benefits to employees, net (cont'd)**

C. Defined benefits plans (cont'd)

2. Amounts in the balance sheet:

|               | December 31,<br>2011                                    | December 31,<br>2011 | 2010    |
|---------------|---------------------------------------------------------|----------------------|---------|
|               |                                                         | (in thousands)       |         |
|               | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                  |         |
| Liabilities   | 1,641                                                   | 8,101                | 6,748   |
| Assets        | (1,128)                                                 | (5,569)              | (5,165) |
| Net liability | 513                                                     | 2,532                | 1,583   |

3. Changes in the present value of the defined benefit obligations:

|                                         | 2011                                                    | 2011           | 2010    |
|-----------------------------------------|---------------------------------------------------------|----------------|---------|
|                                         |                                                         | (in thousands) |         |
|                                         | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS            |         |
| Opening defined benefit obligation      | 1,368                                                   | 6,748          | 6,477   |
| Interest cost                           | 63                                                      | 311            | 235     |
| Service cost                            | 200                                                     | 990            | 791     |
| Liabilities extinguished on settlements | (83)                                                    | (408)          | (1,219) |
| Actuarial losses, net                   | 93                                                      | 460            | 464     |
| Closing defined benefit obligation      | 1,641                                                   | 8,101          | 6,748   |

4. The plan assets

- a. The plan assets include assets held by the pension funds, the suitable insurance policies and a central severance pay fund.

b. Changes in the fair value of plan assets:

|                                   |       |       |       |
|-----------------------------------|-------|-------|-------|
| Opening fair value of plan assets | 1,046 | 5,165 | 5,540 |
| Expected return                   | 43    | 214   | 195   |
| Contributions by employer         | 49    | 243   | 233   |
| Assets distributed on settlements | -     | -     | (892) |
| Actuarial gain, net               | (11)  | (53)  | 89    |
| Closing fair value of plan assets | 1,128 | 5,569 | 5,165 |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 15 - Liabilities for benefits to employees, net (cont'd)**

5. Principal actuarial assumptions for defined benefit plans:

|                                    | For the year ended<br>December 31, |         |           |
|------------------------------------|------------------------------------|---------|-----------|
|                                    | 2011                               | 2010    | 2009      |
|                                    | Rate (%)                           |         |           |
| Discount rate                      | 4.7                                | 4.75    | 4.00      |
| Expected return on plan assets (*) | 2.9 - 7.8                          | 2.1-6.7 | 5.50-6.30 |
| Future salary increases            | 3                                  | 1.87    | 1.90      |

(\*) according to the assets type

**Note 16 - Contingent Liabilities, Mortgages, guarantees and commitments**

A. Contingent liabilities

- The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products funded in part, by Government grants. At the time the grants were received, successful development of the related projects was not assured. The royalty rates vary from 2% to 5% of gross sales of a product or development resulting from the research. Royalties are payable up to 100% of the amount of such grants. The total grants less royalties paid at December 31, 2011 amount to NIS 516 thousands (EURO 105 thousands). The liability in respect of royalties to the Government at December 31, 2011 amounts to NIS 160 thousands (EURO 32 thousands) relating to projects that the company's management assumes royalties payments.
- On February 13, 2012 the Company filed through its legal counsel's claim of NIS 2.5 million against a supplier of the company engaged in manufacturing machinery systems and packaging lines (hereinafter - "the supplier"). According to the company, the supplier violated its obligations under the agreement and caused the company heavy damages. On March 14, 2012 the supplier submitted a counterclaim in the sum of NIS 1.4 million for payments the company owed him as well as for damages and losses sustained in his claim as a result of how the company operates. According to the company's legal advisors, in this preliminary stage, the likelihood of the claims can't be evaluated. The Company management estimates the prospects of the counterclaim low and therefore the financial statements does not include a provision.

B. Mortgages and guarantees

- In order to secure the company's liabilities to the bank, the company mortgaged with a first fixed charge on the company's contractual rights under lease agreements between the company and the Israeli Lands Administration ("Minhal"). As at December 31, 2011 these loans amount to a total of NIS 5,235 thousands (Euro 1,060 thousands) (as of December 31, 2010 amounted to NIS 5,770 thousands (Euro 1,168 thousands)). Furthermore, In order to secure the company's liability in respect of financial leasing, the rights to the leased cars were lined to the leasing companies.
- As a part of the company engagement in a trust deed for bonds (Series 3) on March, 22 2011 the company obligated, among other things, to write a first degree mortgage with unlimited amount on a deposit at an amount of the bonds annual interest payments in favor of bond holders (Series 3).



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 16 - Contingent Liabilities, Mortgages, guarantees and commitments** (cont'd)

B. Mortgages and guarantees (cont'd)

3. As a part of the company agreement from July 2011 to acquire land rights as specified in paragraph C (1) below, the company took a bank loan to finance part of the cost of acquisition, and accordingly, a first-degree pledge was recorded on the property rights in favor of the bank, in order to ensure the company's commitments. As at December 31, 2011 the loan amounts to approximately NIS 4,938 thousands (EURO 1 million).
4. Renewed agreement in December 2011 rental building built in the northern industrial company put a bank guarantee amounting to about 258 thousand.
5. As at December 31, 2011, the company gave performance guarantees to customers in the total amount of NIS 7.4 million (EURO 1.5 million).

C. Commitments

1. On July 2011 the Company engaged in an agreement for the acquisition of capitalized leasehold rights of a real estate, Intended for the use of the company, with an area of 11 thousand sq. m. in the industrial area of the Modi'in Region - Tirat Yehuda (hereinafter: "the Rights") in consideration for an amount of NIS 17,370 thousand plus VAT, as prescribed by law.  
The leasehold rights are registered with the Israel Lands Administration in the name of the seller until January 1, 2057 (hereinafter: "the Lease Period"), and thereafter an additional lease period of 49 years.  
As of the date of the approval of the financial statements, the rights in the real estate property have not yet been registered in the Company's name.  
In addition, a bank provided the Company with a loan to finance part of the cost of the acquisition; in order to secure this liability, a lien was registered on the real estate rights in favor of the bank.
2. On August 2011 the Board of Directors approved to concentrate the parking solutions activity in a new wholly owned subsidiary of the Company. On October 2011 the company transferred to the subsidiary, Unitronics Parking Solutions Ltd, assets with non significant value in exchange for the allocation of shares in the subsidiary within decision for concentrating the parking solutions activity.
3. For subsequent event regarding service agreement signed between the company and the wholly owned subsidiary, Unitronics Parking Solutions Ltd, see Note 28 (2).

**Note 17 - Share Capital**

A. Composition

|                                            | Number of shares              |                       |            |
|--------------------------------------------|-------------------------------|-----------------------|------------|
|                                            | December 31,                  |                       |            |
|                                            | December 31, 2011<br>and 2010 | 2011                  | 2010       |
|                                            | Authorized                    | Issued and fully paid |            |
| Ordinary shares of NIS 0.02 par value each | 11,674,504                    | 11,674,504            | 11,676,504 |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 17 - Share Capital** (cont'd)

B. Option plan

The Company maintains share option plan from the year 2003, pursuant to which share options in the Company may be granted to employees, officers, directors and consultants of the Company or its subsidiaries. Pursuant to the 2003 Option Plan 1,000,000 ordinary shares were reserved for issuance under this plan.

Under the option plan, the exercise price of options shall be determined by the board of directors, according to the option plan terms. The vesting schedule of the options is also determined by the board of directors. The options vest either immediately, or over a period of between one to four years and are typically exercisable for a period of four to five year. The 2003 Option Plan expires in the year 2013.

- C. In April, 2007 the company granted 210,000 options under 2003 plan to a consultant. The vesting dates of 105,000 options ("the first options") are September 1, 2007, 2008 and 2009 in equal settlements. The vesting dates of additional 105,000 options ("the additional options") are September 1, 2008, 2009 and 2010 in equal settlements. The first options can be exercised till August 31, 2011 and the additional options can be exercised till August 31, 2012. The options are exercisable at a price of Euro 1.30. The economic value of the options at the grant day according to B&S model is NIS 5 thousands. In addition the company granted 498,000 options which were not designated yet under 2003 plan to the company's trustee.

- D. Since August 2005 the company purchases, from time to time, shares of the company in both Tel Aviv stock exchange and Euronext.

In March 2011 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program was valid until June 30, 2011.

In September 2011 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 2 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program was valid until December 31, 2011.

After the balance sheet date the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 2 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program is valid until June 30, 2012.

As at December 31, 2011, the Company holds 1,593,897 shares, representing about 13.65% of the issued share capital of the Company, purchased in an amount of NIS 6,643 thousand (as at December 31, 2010, the Company held 1,530,416 shares purchased in an amount of NIS 6,239 thousand representing about 13.1% of the issued share capital of the company)..

E. Managing the Company's capital

The object of the Company in managing shareholders' equity is to maintain the Company's ability to ensure continuity of business and create a return for its shareholders, investors and other interested parties.

The Company operates to achieve a return on capital at the level acceptable in the branch and in the field of operations in the markets in which the Company operates. This return can be subject to changes according to the market factors in the branch and in the Company's business environment. The Company is not subject to any demands regarding minimum capital required or achieving a certain level of return on capital. However, the company has a minimum capital requirement as part of a trust deed for debentures (series 3) as described in Note 14(3).

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 18 - Cost of revenues**

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |                |               |
|---------------------------------------------------------|------------------------------------|------------------------------------|----------------|---------------|
|                                                         | 2011                               | 2011                               | 2010           | 2009          |
|                                                         |                                    | (in thousands)                     |                |               |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |                |               |
| Materials consumed and (*)<br>subcontractors            | 13,421                             | 66,274                             | 90,574         | 35,145        |
| Payroll and related benefits                            | 3,519                              | 17,377                             | 16,023         | 9,335         |
| Changes in work in process<br>and finished products     | 1,104                              | 5,452                              | (9,941)        | 1,353         |
| Depreciation and amortization                           | 1,053                              | 5,202                              | 4,888          | 4,523         |
| Management and<br>Maintenance costs                     | 91                                 | 446                                | 347            | 712           |
| Other expenses                                          | 1,614                              | 7,968                              | 6,834          | 4,317         |
|                                                         | <u>20,802</u>                      | <u>102,719</u>                     | <u>108,725</u> | <u>55,385</u> |

(\*) According to the agreements from 2010 and 2011 the Company is buying and selling inventories of raw materials to subcontractors for manufacturing for the company. The sell of inventories is at cost price, without gross profit. Since the significant benefits and risks for the inventories are not being transferred to the subcontractors, materials costs are decreased from proceeds from sales of raw materials sold to the subcontractors. In 2011 the proceeds from sales of raw materials amounted to about NIS 13.6 million (in 2010 amounted to NIS 15.7 million).

**Note 19 - Development expenses, net**

|                               |                |                 |                |                |
|-------------------------------|----------------|-----------------|----------------|----------------|
| Salaries and related benefits | 2,038          | 10,066          | 5,715          | 4,479          |
| Subcontractors                | 594            | 2,934           | 730            | 281            |
| Other expenses                | 439            | 2,165           | 1,424          | 1,923          |
| Less - capitalized expenses   | <u>(2,465)</u> | <u>(12,174)</u> | <u>(4,675)</u> | <u>(4,567)</u> |
|                               | <u>606</u>     | <u>2,991</u>    | <u>3,194</u>   | <u>2,116</u>   |

**Note 20 - Selling and marketing expenses**

|                                             |              |               |               |              |
|---------------------------------------------|--------------|---------------|---------------|--------------|
| Salaries and related benefits               | 1,294        | 6,392         | 5,033         | 4,194        |
| Travel and marketing<br>abroad              | 97           | 477           | 387           | 452          |
| Exhibits, advertising and other<br>expenses | 1,463        | 7,222         | 5,769         | 5,250        |
|                                             | <u>2,854</u> | <u>14,091</u> | <u>11,189</u> | <u>9,896</u> |

**Note 21 - General and administrative expenses**

|                                                |              |              |              |              |
|------------------------------------------------|--------------|--------------|--------------|--------------|
| Salaries and related benefits                  | 1,000        | 4,937        | 3,998        | 3,428        |
| Office rent, maintenance<br>and communications | 101          | 500          | 421          | 410          |
| Depreciation and amortization                  | 53           | 260          | 235          | 304          |
| Professional services                          | 370          | 1,825        | 2,807        | 2,011        |
| Bad and doubtful debts                         | 1            | 3            | 19           | 14           |
| Other expenses                                 | 135          | 676          | 501          | 446          |
|                                                | <u>1,660</u> | <u>8,201</u> | <u>7,981</u> | <u>6,613</u> |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 22 - Financing income (expenses)**

|                                                                                        | For the year ended<br>December 31, | For the year ended<br>December 31, |                |                |
|----------------------------------------------------------------------------------------|------------------------------------|------------------------------------|----------------|----------------|
|                                                                                        | 2011                               | 2011                               | 2010           | 2009           |
|                                                                                        | (in thousands)                     |                                    |                |                |
| Convenience<br>translation into<br>EURO,<br>(unaudited)                                | NIS                                |                                    |                |                |
| A. <u>Financing income</u>                                                             |                                    |                                    |                |                |
| Profit and interest from<br>marketable securities, net                                 | -                                  | -                                  | 1,283          | 3,542          |
| Profit from hedge transactions,<br>net                                                 | -                                  | -                                  | 183            | -              |
| Embedded derivatives                                                                   | 390                                | 1,929                              | -              | -              |
| Increase in value of cash                                                              | 48                                 | 235                                | -              | -              |
| Erosion of long-term loans<br>from banks                                               | -                                  | -                                  | 319            | -              |
| Reevaluation of warrants                                                               | -                                  | -                                  | 99             | -              |
| Profit from early redemption                                                           | -                                  | -                                  | -              | 1,838          |
| Others                                                                                 | 95                                 | 469                                | -              | -              |
|                                                                                        | <u>533</u>                         | <u>2,633</u>                       | <u>1,884</u>   | <u>5,380</u>   |
| B. <u>Financing expenses</u>                                                           |                                    |                                    |                |                |
| Financing cost relating to<br>bonds                                                    | 1,167                              | 5,762                              | 2,682          | 4,538          |
| Loss in hedging transaction                                                            | 35                                 | 175                                | -              | -              |
| Loss and interest from<br>marketable securities, net                                   | 17                                 | 85                                 | -              | -              |
| Loss on cash and cash<br>equivalents and bank<br>deposits                              | -                                  | -                                  | 1,976          | 213            |
| Financing cost relating to<br>long term debt                                           | 313                                | 1,541                              | -              | 399            |
| Reevaluation of warrants                                                               | -                                  | -                                  | -              | 83             |
| Embedded derivatives                                                                   | -                                  | -                                  | 7,710          | 1,286          |
| Others                                                                                 | 169                                | 837                                | 526            | 550            |
|                                                                                        | <u>1,701</u>                       | <u>8,400</u>                       | <u>12,894</u>  | <u>7,069</u>   |
| C. <u>Classification of finance income (expenses) according to finance instruments</u> |                                    |                                    |                |                |
| Financial assets at fair value<br>through the statement of<br>operations               | <u>(17)</u>                        | <u>(85)</u>                        | <u>1,283</u>   | <u>3,542</u>   |
| Financial liabilities measured<br>at reduced cost                                      | <u>(1,479)</u>                     | <u>(7,303)</u>                     | <u>(2,363)</u> | <u>(4,937)</u> |
| Financial liabilities fair value<br>through the statement of<br>operations             | -                                  | -                                  | 99             | (83)           |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 23 - Interested and related parties**

1. Transactions with interested and related parties:

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |       |       |
|---------------------------------------------------------|------------------------------------|------------------------------------|-------|-------|
|                                                         | 2011                               | 2011                               | 2010  | 2009  |
|                                                         |                                    | (in thousands)                     |       |       |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |       |       |
| Salaries and related benefits (*)                       | 319                                | 1,577                              | 1,602 | 1,492 |
| Bonus interested parties                                | 130                                | 643                                | 893   | 689   |
| Directors' remuneration (**)                            | 43                                 | 214                                | 103   | 127   |
| Rental expenses and management fees                     | 217                                | 1,074                              | 868   | 615   |
| (*) Number of recipients                                | 2                                  | 2                                  | 2     | 2     |
| (**) Number of recipients                               | 4                                  | 4                                  | 3     | 3     |

2. Officers Insurance

The company insured the liability of the directors and executives in accordance with the provision of the law. The policy covers the liability of the directors and executives of the company up to USD 5 million.

- 3 The annual general meeting of the Company's shareholders (the "AGM") has approved the indemnification and exemption of the Company's Office Holders as may be appointed from time to time, and/or those serving in Other Companies (excluding Office Holders which are Controlling Shareholders of the Company) pursuant to the provisions of the Indemnity Letter and the granting of Indemnity Letters to such Office Holders.

In addition, the AGM has approved the indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the Controlling Shareholder in the Company and his wife.

4. In April 2005 the general meeting of the company's shareholders approved to grant Mr. Haim Shani - an annual bonus at a rate of 7.5% of the Company's profit before taxes.  
in respect of each calendar year beginning on 2005 and as long as he serves as the Company's CEO.
5. In July, 2009 the Company shareholders general meeting approved a new lease agreement with a company controlled by the company's controllers. According to the new agreement the total rental office space is 936 square meters, as well as 20 parking spaces. According to the agreement, the rental is for an additional period of thirty six months, starting August 1, 2009. In addition, the company controlled by the company's controllers charge the company for management fees on the leased area for a third party.
6. In May 2009 the Audit Committee and the Board of Directors of the company decided to approve unilateral waiver of Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder in the company and his wife, about 15% of the salary and the related benefits for a limited period of 6 months at the end the salary and the related benefits will revert to their original terms (as in force prior to the waiver).
7. In March 2011 the Board of directors and the audit committee approved amendment to the lease agreement with a company controlled by the company's controllers from August 1, 2009. According to the amendment the total leased area will increase in 170 square meters of rental office space and 10 additional parking spaces in addition to 936 square meters of rental office space and 20 Parking spaces. In addition, the company controlled by the company's controllers charge the company for management fees on the leased area for a third party.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 23 - Interested and related parties (cont'd)**

8. In May 2011 the AGM approved the renewal and correction to the employment agreements of Mr. Haim Shani and Ms. Bareket Shani, the controlling shareholders, accordingly the monthly salary will be NIS 60 thousand and NIS 30 thousand, respectively. In addition, the controlling shareholders salary will be updated according to the CPI as of January 2012 and every year (at the beginning), added to their salary an amount equal to the percentage change in the past year. Other conditions under the agreements will remain the same.

**Note 24 - Taxes on Income**

**A. Income Tax Law (Adjustments for Inflation) - 1985**

According to the law, up to the end of 2007, the results for tax purposes were measured after being adjusted to changes in the consumer price index. In February 2008, the Knesset passed the amendment to the Income Tax Law (Adjustments for Inflation) - 1985, which restricts the Adjustments Law from 2008 and thereafter. As from 2008, the results for tax purposes are measured in nominal amounts, excluding certain adjustments for changes in the consumer price index during the period of up to December 31, 2007. The amendment to the law includes, inter alia, the cancellation of the addition and the deduction for inflation and additional deduction for depreciation for assets bought after December 31, 2007.

**B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.**

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.

- C. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company Tax rate of 25% during the 5 years thereafter. The application was approved on June 2000 (hereinafter: "first program"). Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax.

On October 2000 the company filed an expansion program to the above approved enterprise program. The expansion program was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004 (hereinafter: "second program").

The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax on the amount distributed.

The first program operating year is 2000 and for the second program is 2004. During the reporting period the first program benefits period ended, and the company's management does not expect utilization of tax benefits. In addition, in the reported period utilization of tax benefits under the second program is not expected.

In addition, after the balance date, the company chose in year 2010 as an election year of further expansion program (hereinafter - "Third program"). Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. Benefits realization period is limited up to the year 2021. Tax benefits arising from the third program will be given above the average basis for the three years preceding the election year. The company's management does not expect in the reported period utilization of tax benefits under the third program.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 24 - Taxes on Income** (cont'd)

D. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

|                                                                      | For the year ended<br>December 31, | For the year ended<br>December 31, |         |         |
|----------------------------------------------------------------------|------------------------------------|------------------------------------|---------|---------|
|                                                                      | 2011                               | 2011                               | 2010    | 2009    |
|                                                                      |                                    | (in thousands)                     |         |         |
| Convenience<br>translation into<br>EURO,<br>(unaudited)              |                                    | NIS                                |         |         |
| Profit (loss) before taxes on<br>income                              | 1,606                              | 7,933                              | 10,979  | 8,482   |
| Tax rate                                                             | 24%                                | 24%                                | 25%     | 26%     |
| Theoretical tax                                                      | 386                                | 1,904                              | 2,745   | 2,205   |
| Increase in taxes resulting<br>from non-deductible<br>expenses       | 14                                 | 70                                 | 50      | 61      |
| Temporary differences where<br>deferred taxes were not<br>recognized | (400)                              | (1,974)                            | (2,795) | (2,266) |
|                                                                      | -                                  | -                                  | -       | -       |

E. The Economic efficiency law, published in July 2009, established a gradual reduction of company tax rate. Accordingly the tax rate in 2011 is 24% and gradually reduced to a rate of 18% in 2016. In the reported period the law of change in the tax burden (legislative amendment), 2011 was approved. This law abolished the reduction in corporate tax rates from 2012 and after, and the corporate tax rate from 2012 onwards will be 25%.

F. The subsidiary, Unitronics Inc. is taxed under US tax laws and not entitled to benefits pursuant to the Encouragement of Industry (Taxes) Law, 1969. The Federal tax rate applicable to the subsidiary ranges between 15% and 35%; the state tax law applicable to the subsidiary in the State of Massachusetts is 8.75% and in the State of New Jersey ranges between 6.5% and 9%.

G. Final tax assessments

The Company has final tax assessments for all years up to 2007 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

H. Tax loss carry forward

As at December 31, 2011 the company's tax loss carry forward where deferred taxes were not recognized, amounts to approximately NIS 6 million (EURO 1.2 million) and the consolidated loss amount to approximately NIS 14 million (EURO 3 million).

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 25 - Operative segments**

1. General

- A. The group defined the Company's CEO who makes the strategic decisions as the chief operating decision maker, of the Group. The CEO reviews the internal reports of the Group in order to evaluate performance and allocate resources. The operating segments were determined based on these reports.

The CEO examines the segments operating performance on the basis of measuring operating income, this measurement basis is not affected by one time expenses in the operating segments, such as the costs of structural change and an impairment in the value of assets, where the impairment in value results from a single one time event. Interest revenues and expenses are not included in the results in each of the operating segments examined by senior management.

- B. The company and its subsidiaries operate in two main operative segments.  
 - Programmable Logic Controllers systems (hereinafter "The products segment").  
 - System integration projects (hereinafter "The system integration projects segment").
- C. Part of the revenues and expenses are allocated directly to the operative segments. Expenses, which relate to both segments, are allocated to the segments on a reasonable basis.
- D. The segment assets includes all the operation assets which the segment is using and contain especially accounts receivable trade and inventory. The segment liabilities includes all the operation liabilities which relate to the segment especially accounts payable trade and other and accrued severance pay, net.
- E. The company and subsidiaries revenues can also be classified geographically.

2. Report on operative segments

A. Revenues

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |         |        |
|---------------------------------------------------------|------------------------------------|------------------------------------|---------|--------|
|                                                         | 2011                               | 2011                               | 2010    | 2009   |
|                                                         |                                    | (in thousands)                     |         |        |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |         |        |
| Products                                                | 18,066                             | 89,213                             | 77,965  | 57,496 |
| System integration projects                             | 10,551                             | 52,104                             | 74,598  | 26,133 |
| Other                                                   | 79                                 | 385                                | 416     | 489    |
| Total revenues                                          | 28,696                             | 141,702                            | 152,979 | 84,118 |

B. Segment results and adjustment to the profit:

|                                                  |         |          |          |          |
|--------------------------------------------------|---------|----------|----------|----------|
| Products                                         | 5,638   | 27,840   | 28,568   | 22,329   |
| System integration projects                      | 224     | 1,104    | 7,787    | 29       |
| Other                                            | (12)    | (61)     | 69       | (223)    |
| Unallocated corporate<br>expenses                | (3,076) | (15,183) | (14,435) | (11,964) |
| Operating profit                                 | 2,774   | 13,700   | 21,989   | 10,171   |
| Unallocated corporate<br>financing expenses, net | (1,168) | (5,767)  | (11,010) | (1,689)  |
| Profit for the year                              | 1,606   | 7,933    | 10,979   | 8,482    |



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 25 - Operative segments (cont'd)**

2. Report on operative segments (cont'd)

C. Segment assets

|                              | December 31,                                            | December 31,   |                |
|------------------------------|---------------------------------------------------------|----------------|----------------|
|                              | 2011                                                    | 2011           | 2010           |
|                              |                                                         | (in thousands) |                |
|                              | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS            |                |
| Products                     | 6,014                                                   | 29,698         | 40,665         |
| System integration projects  | 2,977                                                   | 14,701         | 13,283         |
| Other                        | 181                                                     | 896            | 36             |
| Unallocated corporate assets | 24,155                                                  | 119,278        | 73,047         |
| Consolidated total assets    | <u>33,327</u>                                           | <u>164,573</u> | <u>127,031</u> |

D. Segment liabilities

|                                   |               |                |               |
|-----------------------------------|---------------|----------------|---------------|
| Products                          | 1,729         | 8,536          | 17,057        |
| System integration projects       | 3,726         | 18,397         | 33,080        |
| Other                             | 93            | 466            | 96            |
| Unallocated corporate liabilities | 18,929        | 93,471         | 40,639        |
| Consolidated total liabilities    | <u>24,477</u> | <u>120,870</u> | <u>90,872</u> |

E. Capital expenditure

|                                        | For the year ended<br>December 31,                      | For the year ended<br>December 31, |              |              |
|----------------------------------------|---------------------------------------------------------|------------------------------------|--------------|--------------|
|                                        | 2011                                                    | 2011                               | 2010         | 2009         |
|                                        |                                                         | (in thousands)                     |              |              |
|                                        | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                |              |              |
| Products                               | 39                                                      | 186                                | 413          | 249          |
| System integration projects            | 97                                                      | 780                                | 678          | 311          |
| Other                                  | 127                                                     | 636                                | -            | -            |
| Unallocated capital expenditure        | 6,434                                                   | 31,770                             | 5,527        | 6,633        |
| Consolidated total capital expenditure | <u>6,697</u>                                            | <u>33,072</u>                      | <u>6,618</u> | <u>7,193</u> |

F. Depreciation and amortization

|                                           |              |              |              |              |
|-------------------------------------------|--------------|--------------|--------------|--------------|
| Products                                  | 108          | 534          | 302          | 395          |
| System integration projects               | 168          | 827          | 496          | 494          |
| Unallocated depreciation and amortization | 1,150        | 5,685        | 5,572        | 5,955        |
| Total depreciation and amortization       | <u>1,426</u> | <u>7,046</u> | <u>6,370</u> | <u>6,844</u> |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 25 - Operative segments (cont'd)**

3. Geographical information

A. Revenues (according to the clients location)

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |                |               |
|---------------------------------------------------------|------------------------------------|------------------------------------|----------------|---------------|
|                                                         | 2011                               | 2011                               | 2010           | 2009          |
|                                                         |                                    | (in thousands)                     |                |               |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |                |               |
| Israel                                                  | 11,108                             | 54,854                             | 78,305         | 27,217        |
| Europe                                                  | 9,206                              | 45,462                             | 41,016         | 29,584        |
| America                                                 | 7,362                              | 36,356                             | 28,830         | 23,542        |
| Other destinations                                      | 1,019                              | 5,030                              | 4,828          | 3,775         |
|                                                         | <u>28,695</u>                      | <u>141,702</u>                     | <u>152,979</u> | <u>84,118</u> |

B. Non-current assets (according to the assets location)

|                                                         | December 31,<br>2011 | December 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------------------|----------------------|----------------------|----------------------|
|                                                         |                      | (in thousands)       |                      |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                      | NIS                  |                      |
| Israel                                                  | 13,041               | 64,399               | 37,685               |
| America                                                 | 74                   | 362                  | 255                  |
| Consolidated total non-current assets                   | <u>13,115</u>        | <u>64,761</u>        | <u>37,940</u>        |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 25 - Operative segments (cont'd)**

D. Principal customers

The revenues include revenues from principal costumers (which each one constitutes in excess of 10% revenues of company) :

|                                                         | For the year ended<br>December 31, | For the year ended<br>December 31, |        |       |
|---------------------------------------------------------|------------------------------------|------------------------------------|--------|-------|
|                                                         | 2011                               | 2011                               | 2010   | 2009  |
|                                                         |                                    | (in thousands)                     |        |       |
| Convenience<br>translation into<br>EURO,<br>(unaudited) |                                    | NIS                                |        |       |
| Costumer A (system<br>integration projects<br>segment)  | 5,691                              | 28,104                             | 55,305 | 8,969 |

**Note 26 - Profit per share**

Profit for the year

|                         |       |       |        |       |
|-------------------------|-------|-------|--------|-------|
| Basic and Fully diluted | 1,606 | 7,933 | 10,979 | 8,482 |
|-------------------------|-------|-------|--------|-------|

Weighted average share  
capital (number of shares)

|               |            |            |            |            |
|---------------|------------|------------|------------|------------|
| Basic         | 10,095,905 | 10,095,905 | 10,368,102 | 11,007,991 |
| Fully diluted | 10,142,875 | 10,142,875 | 10,368,102 | 11,007,991 |

**Note 27 - Financial Instruments**

A. Classification of financial asset and financial liabilities

The following is a classification of financial assets and financial liabilities in the balance sheets to groups of financial instruments in accordance with IAS 39:

|                                                                     | December 31,<br>2011  | December 31,<br>2010 |
|---------------------------------------------------------------------|-----------------------|----------------------|
|                                                                     | (in thousands)<br>NIS |                      |
| <u>Financial assets</u>                                             |                       |                      |
| Financial assets at fair value through the statement of operations: |                       |                      |
| Financial assets classified as held for trading                     | 36,229                | 18,786               |
| Loans and receivables                                               | 18,929                | 15,490               |
| <u>Financial liabilities</u>                                        |                       |                      |
| Financial liabilities measured at reduced cost                      | 108,459               | 69,654               |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

**B. Financial Risk factors**

The Company's operations expose it to various financial risks such as market risks (including currency risks, fair value risks relating to the rate of interest and price risks) credit risks, liquidity risks and cash flow risks relating to the rate of interest. The program for managing the Company's risks focuses on actions to reduce to a minimum the negative possible effects of the company's financial transactions.

Managing risks is carried out by the Company's management under the supervision of its Board of Directors.

**1. Market Risks**

**A. Currency and Index risks**

1. Most of the engagements that the Company had in the field of the systems are generally linked to the US dollar or the Euro. In addition a considerable part of the Company's sales in the field of products are dominated or linked to the US dollar or the Euro. Changes in the rates of exchange of the dollar against the shekel and of the Euro against the shekel, mainly during the period between the signing of the agreements and payment for them, are likely to create an exposure for the Company.
2. The Company policy is that the engagements and payments that the Company makes with sub-contractors and suppliers relating to the projects in the field of systems are denominated or linked to the US dollar or to the Euro. Therefore, changes in the rates of exchange of the US dollar against the shekel and of the Euro against the shekel are likely to create an exposure for the Company.  
It should also be stated that there is a certain protection in that in the field of systems the Company's policy is linkage of contracts with sub-contractors to the currency in which the engagement with the customer is linked.
3. The Company has bonds linked to the CPI index for large amounts, and therefore changes in consumer price index can create an exposure for the Company.
4. The Company has loans in US dollar and in Euro, and therefore changes in the rates of exchange of the US dollar and the Euro against the NIS can create an exposure for the Company.

**B. Interest risks**

The company has loans denominated in US dollar and in Euro, with variable interest in a spread from Libor.

Changes in the rates of interest are likely to affect the company's business results.

The Company has liquid balances, which are deposited in unlinked NIS balances, bearing interest, and therefore the Company is exposed to changes in the NIS rates of interest which are likely to affect the Company's business results.

**C. Price risks**

The Company has investments in marketable financial instruments on the stock exchange, mainly bonds, classified as financial assets measured at fair value through the statements of operations, for which the Company is exposed to a risk for fluctuations in the price of the securities based on stock exchange market prices. The balance in the financial statements as at December 31, 2011, of these investments, is NIS 36,229 thousands (2010 - NIS 18,786 thousands).

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

**B. Financial Risk factors (cont'd)**

**2. Credit Risks**

As at December 31, 2011 the company had trade account receivables and other account receivables amounting to approximately NIS 18,929 thousands. The company does not predict material credit risks in respect of trade account receivables and other account receivables.

**3. Instability risks**

The liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable likelihood to expect them.

The following table presents the contractual maturities dates of the financial liabilities (including interest payments):

**December 31, 2011:**

|                             | <u>Book Value</u> | <u>1th year</u> | <u>2th year</u> | <u>3th year</u> | <u>4th year</u> | <u>5th year and after</u> | <u>Total expected cash flow</u> |
|-----------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------------|---------------------------------|
| <u>NIS. (in thousands)</u>  |                   |                 |                 |                 |                 |                           |                                 |
| Accounts payable - trade    | 14,175            | 14,175          | -               | -               | -               | -                         | 14,175                          |
| Accounts payable - other    | 6,974             | 6,974           | -               | -               | -               | -                         | 6,974                           |
| Loans from banks and others | 20,147            | 4,799           | 5,381           | 3,867           | 2,261           | 6,641                     | 22,949                          |
| bonds                       | 67,163            | 10,183          | 20,957          | 13,748          | 13,097          | 24,249                    | 82,231                          |
|                             | <u>108,459</u>    | <u>36,131</u>   | <u>26,338</u>   | <u>17,612</u>   | <u>15,358</u>   | <u>30,890</u>             | <u>126,329</u>                  |

**December 31, 2010:**

|                             | <u>Book Value</u> | <u>1th year</u> | <u>2th year</u> | <u>3th year</u> | <u>4th year</u> | <u>5th year and after</u> | <u>Total expected cash flow</u> |
|-----------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|---------------------------|---------------------------------|
| <u>NIS. (in thousands)</u>  |                   |                 |                 |                 |                 |                           |                                 |
| Accounts payable - trade    | 25,755            | 25,755          | -               | -               | -               | -                         | 25,755                          |
| Accounts payable - other    | 7,248             | 7,248           | -               | -               | -               | -                         | 7,248                           |
| Loans from banks and others | 18,728            | 4,667           | 4,560           | 4,453           | 3,076           | 3,254                     | 20,010                          |
| bonds                       | 17,207            | 7,136           | 6,768           | 6,400           | -               | -                         | 20,304                          |
|                             | <u>68,938</u>     | <u>48,806</u>   | <u>11,328</u>   | <u>10,853</u>   | <u>3,076</u>    | <u>3,254</u>              | <u>73,317</u>                   |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

**C. Fair value**

The following table presents the balances in the financial statements and the fair value of financial instruments which are not presented in the financial statements according to their fair value:

| Book value   |      | Fair value   |      |
|--------------|------|--------------|------|
| December 31, |      | December 31, |      |
| 2011         | 2010 | 2011         | 2010 |

NIS, (in thousands)

**Financial liabilities (1)**

|                                             |        |        |        |        |
|---------------------------------------------|--------|--------|--------|--------|
| Convertible bonds linked to the Israeli CPI | 67,163 | 17,207 | 71,180 | 19,208 |
|---------------------------------------------|--------|--------|--------|--------|

(1) The fair value is based on stock market value as at the balance sheet date.

The balance in the financial statements of cash and cash equivalents, marketable securities, clients, debtors and receivables, credit from banks and others, obligations to suppliers and other payables are compatible to their fair values or near it.

**D. Classification of financial instruments at fair value rating**

The financial instruments presented in the balance sheet at fair value are classified, according to groups with similar characteristics, to the rating of fair value as follows, which is determined in accordance with the source of the data used in determining fair value:

- Level 1: Quoted prices (without adjustments) in an active market of identical assets and liabilities.
- Level 2: Data which is not quoted prices included in Level 1, which can be seen directly or indirectly.
- Level 3: Data which is not based on market data which can be seen (evaluation techniques without the use of market data which can be seen).

**Financial assets measured at fair value**

| <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------|----------------|----------------|
|----------------|----------------|----------------|

NIS, (in thousands)

**As at December 31, 2011:**

Financial assets at fair value through the statement of operations:

|                       |               |          |          |
|-----------------------|---------------|----------|----------|
| Marketable securities | <u>36,229</u> | <u>-</u> | <u>-</u> |
|-----------------------|---------------|----------|----------|

**Financial liabilities measured at fair value:**

**As at December 31, 2011:**

Financial liabilities at fair value through the statement of operations:

|          |          |          |          |
|----------|----------|----------|----------|
| Warrants | <u>-</u> | <u>-</u> | <u>-</u> |
|----------|----------|----------|----------|

During 2011 there were no transfers for measuring fair value of any financial instruments between Level 1 and Level 2, and there were no transfers to or from Level 3 from measuring fair value of any financial instruments.

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

**E. Embedded derivatives**

The Group has sales contracts denominated in currencies which are not the Company's functional currency. These contracts include embedded derivatives in foreign currency.

The embedded derivatives were separated and measured at fair value through the statement of operations. The liabilities balance in the financial statements of the embedded derivatives, as at December 31, 2011, is NIS 1,057 thousand (in 2010 - a liability of NIS 3,951 thousand).

**F. Sensitivity analyses for changes in market factors**

|             | Sensitivity analyses for changes<br>in the USD interest rate |                     |
|-------------|--------------------------------------------------------------|---------------------|
|             | Profit (loss)                                                |                     |
|             | 1% rate<br>increase                                          | 1% rate<br>decrease |
|             | NIS (in thousands)                                           |                     |
| <u>2011</u> | <u>(25)</u>                                                  | <u>25</u>           |
| <u>2010</u> | <u>(27)</u>                                                  | <u>27</u>           |

|             | Sensitivity analyses for changes<br>in the Euro interest rate |                     |
|-------------|---------------------------------------------------------------|---------------------|
|             | Profit (loss)                                                 |                     |
|             | 1% rate<br>increase                                           | 1% rate<br>decrease |
|             | NIS (in thousands)                                            |                     |
| <u>2011</u> | <u>(173)</u>                                                  | <u>173</u>          |
| <u>2010</u> | <u>(156)</u>                                                  | <u>156</u>          |

|             | Sensitivity analyses for changes<br>in the USD exchange rate |              |
|-------------|--------------------------------------------------------------|--------------|
|             | Profit (loss)                                                |              |
|             | 5% increase                                                  | 5% decrease  |
|             | NIS (in thousands)                                           |              |
| <u>2011</u> | <u>132</u>                                                   | <u>(132)</u> |
| <u>2010</u> | <u>168</u>                                                   | <u>(168)</u> |

|             | Sensitivity analyses for changes<br>in the Euro exchange rate |             |
|-------------|---------------------------------------------------------------|-------------|
|             | Profit (loss)                                                 |             |
|             | 5% increase                                                   | 5% decrease |
|             | NIS (in thousands)                                            |             |
| <u>2011</u> | <u>(437)</u>                                                  | <u>437</u>  |
| <u>2010</u> | <u>(527)</u>                                                  | <u>527</u>  |

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

E. Sensitivity analyses for changes in market factors (cont'd)

|             | Sensitivity analyses for changes<br>in the CPI |             |
|-------------|------------------------------------------------|-------------|
|             | Profit (loss)                                  |             |
|             | 5% increase                                    | 5% decrease |
|             | NIS (in thousands)                             |             |
| <u>2011</u> | <u>(2,469)</u>                                 | <u>610</u>  |
| <u>2010</u> | <u>(359)</u>                                   | <u>359</u>  |

|             | Sensitivity analyses for changes<br>in the marketable securities<br>market rates |                |
|-------------|----------------------------------------------------------------------------------|----------------|
|             | 5% increase                                                                      | 5% decrease    |
|             | NIS (in thousands)                                                               |                |
| <u>2011</u> | <u>1,812</u>                                                                     | <u>(1,812)</u> |
| <u>2010</u> | <u>939</u>                                                                       | <u>(939)</u>   |

Sensitivity analyses and the main working assumptions

The changes chosen in the relevant risk factors were determined in accordance with management's evaluations regarding possible and reasonable changes in these risk factors.

The Company prepared sensitivity analyses for the main market risk factors, which would affect the result of operations or the financial condition reported. The sensitivity analyses present the profit or loss or change in shareholders' equity (before tax) for every financial instrument, for the relevant risk factor chosen for it, correct as of every date of report. Examining the risk factors was done on the basis of the significant exposure of the results of operations or the financial condition for every risk factor relating to the functional currency and on the assumption that all the other factors are fixed.

F. Additional information regarding significant investments in financial assets

- Detail of the significant investments in groups of financial assets in accordance with IAS 39:

|                                                                     | December 31,<br>2011 | December 31,<br>2010 |
|---------------------------------------------------------------------|----------------------|----------------------|
|                                                                     | (in thousands)       |                      |
|                                                                     | NIS                  |                      |
| Financial assets at fair value through the statement of operations: |                      |                      |
| Marketable securities                                               | 36,229               | 18,786               |
| Financial assets at reduced cost:                                   |                      |                      |
| Loans and receivables                                               | 18,929               | 14,922               |
|                                                                     | <u>55,158</u>        | <u>33,708</u>        |

- The expiration date of the predicted essential investment by groups of financial instruments according to IAS 39 is up to a year.



**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 27 - Financial Instruments (cont'd)**

F. Additional information regarding significant investments in financial assets (cont'd)

3. Linkage conditions of financial assets according to groups of financial instruments in accordance with IAS 39:

December 31, 2011:

|                                                                           | US<br>Dollar               | Euro         | Linked to<br>the Israeli<br>CPI | Linked<br>to other<br>basis | Not<br>linked | Total         |
|---------------------------------------------------------------------------|----------------------------|--------------|---------------------------------|-----------------------------|---------------|---------------|
|                                                                           | <u>NIS, (in thousands)</u> |              |                                 |                             |               |               |
| Financial assets at fair<br>value through the<br>statement of operations: |                            |              |                                 |                             |               |               |
| Marketable securities                                                     | 179                        | -            | 18,081                          | -                           | 17,969        | 36,229        |
| Financial assets at<br>reduced cost:                                      |                            |              |                                 |                             |               |               |
| Loans and receivables                                                     | 4,600                      | 5,562        | -                               | -                           | 8,767         | 18,929        |
|                                                                           | <u>4,779</u>               | <u>5,562</u> | <u>18,081</u>                   | <u>-</u>                    | <u>26,736</u> | <u>55,158</u> |

December 31, 2010:

|                                                                           |              |              |               |          |               |               |
|---------------------------------------------------------------------------|--------------|--------------|---------------|----------|---------------|---------------|
| Financial assets at fair<br>value through the<br>statement of operations: |              |              |               |          |               |               |
| Marketable securities                                                     | 752          | -            | 10,405        | -        | 7,629         | 18,786        |
| Financial assets at<br>reduced cost:                                      |              |              |               |          |               |               |
| Loans and receivables                                                     | 3,730        | 5,315        | -             | -        | 5,887         | 14,992        |
|                                                                           | <u>4,482</u> | <u>5,315</u> | <u>10,405</u> | <u>-</u> | <u>13,506</u> | <u>33,708</u> |

4. Linkage conditions of financial liabilities according to groups of financial instruments in accordance with IAS 39:

December 31, 2011:

|                                                   |              |               |               |           |               |                |
|---------------------------------------------------|--------------|---------------|---------------|-----------|---------------|----------------|
| Financial liabilities<br>measured at reduced cost | <u>7,367</u> | <u>19,917</u> | <u>67,163</u> | <u>25</u> | <u>13,987</u> | <u>108,459</u> |
|---------------------------------------------------|--------------|---------------|---------------|-----------|---------------|----------------|

December 31, 2010:

|                                                   |              |               |               |          |               |               |
|---------------------------------------------------|--------------|---------------|---------------|----------|---------------|---------------|
| Financial liabilities<br>measured at reduced cost | <u>8,445</u> | <u>21,833</u> | <u>17,588</u> | <u>-</u> | <u>21,788</u> | <u>69,654</u> |
|---------------------------------------------------|--------------|---------------|---------------|----------|---------------|---------------|

**Unitronics (1989) (R"G) Ltd.**  
**Notes to the Financial Statements**

**Note 28 - Subsequent events**

1. Regarding filing of a claim by the company and a counterclaim after the balance sheet date, see Note 16 A (2).
2. After the balance sheet date the company signed an agreement with the subsidiary, Unitronics Parking Solutions Ltd. (hereinafter - "Parking Solutions"), effective from 1 October 2011 (hereinafter – "the effective date"), in which the Company will provide credit lines to parking solutions and services through the executive and operations departments. For such services parking solutions will be charged from the effective date and in each quarter according to mechanisms defined in the agreement.
3. Regarding the adoption of a plan to purchase additional ordinary shares of the Company after the balance sheet date see Note 17 D.

**Unitronics (1989) (R"G) Ltd.**  
**Appendix - List of Subsidiaries**

|                                                               | <u>Holding rate as at December<br/>31, 2011 and 2010</u> |                                     | <u>Total investment as at<br/>December 31,</u> |             |
|---------------------------------------------------------------|----------------------------------------------------------|-------------------------------------|------------------------------------------------|-------------|
|                                                               | <u>Shares with<br/>voting right</u>                      | <u>Shares with<br/>profit right</u> | <u>2011</u>                                    | <u>2010</u> |
|                                                               |                                                          |                                     | <u>(NIS, thousands)</u>                        |             |
| Unitronics Inc.                                               | 100%                                                     | 100%                                | 1,381                                          | 1,136       |
| Unitronics building management and<br>maintenance (2003) Ltd. | 100%                                                     | 100%                                | (251)                                          | (237)       |
| Unitronics parking solutions Ltd.                             | 100%                                                     | 100%                                | (300)                                          | -           |

## **UNITRONICS (1989) (R"G) LTD**

**Financial data from the consolidated financial  
statements attributed to the company itself**

**December 31, 2011**

**Unitronics (1989) (R"G) Ltd**

**Special report under Regulation 9C**

**Financial data from the consolidated financial statements**

**attributed to the company itself**

Following the financial data and separate financial information attributed to the company itself from the consolidated financial statements of the Group as at December 31, 2011 published in the periodic reports (hereinafter - the consolidated financial statements), presented in accordance with Regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied on the disclosure of the financial data described in Note 2 to the consolidated financial statements.

Consolidated companies - defined in Note 1D to the consolidated financial statements.

**To the shareholders of Unitronics (1989) (R"G) Ltd**

Re: Auditor's special report on separate financial information under Regulation 9C to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter - the "Company") as at December 31, 2011 and 2010 and for the three years the last of which ended December 31, 2011 which included in the company's periodic report. The separate financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the separate interim financial information of an affiliated company which the investment in it amount to NIS 1,381 thousands and 1,136 thousands as at December 31, 2011 and 2010 respectively, and which the company's share of its loss amount to NIS 48 thousands, NIS 486 thousands and NIS 1,274 thousands for the years ended at December 31, 2011, 2010 and 2009, respectively. The condensed financial information of that company were audited by other auditors whose report was furnished to us and our opinion, to the extent that they relate to financial information for that company, is based on the opinion of the other auditors.

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

In our opinion, based on our audit and on the reports of the above mentioned other auditors, the separate financial information is prepared, in all material respects, in accordance with regulation 9C of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Amit, Halfon  
Certified Public Accountants (Israel)

Ramat-Gan  
March 29, 2012

**Unitronics (1989) (R"G) Ltd**

**Assets and liabilities included in the consolidated financial statements  
attributed to the company**

|                               |                           | December 31,<br>2011                                        | December 31,<br>2011  | December 31,<br>2010  |
|-------------------------------|---------------------------|-------------------------------------------------------------|-----------------------|-----------------------|
|                               |                           |                                                             | (in thousands)        |                       |
|                               | Additional<br>information | Convenience<br>translation<br>into EURO,<br>(unaudited) (1) | NIS                   |                       |
| <u>Current assets</u>         |                           |                                                             |                       |                       |
| Cash and cash equivalents     | B                         | 2,878                                                       | 14,211                | 16,468                |
| Restricted cash               |                           | 664                                                         | 3,281                 | -                     |
| Marketable securities         | C                         | 7,337                                                       | 36,229                | 18,786                |
| Accounts receivable -         |                           |                                                             |                       |                       |
| Trade                         | C                         | 2,894                                                       | 14,289                | 11,483                |
| Other                         | C                         | 399                                                         | 1,969                 | 1,101                 |
| Accounts receivable - other - |                           |                                                             |                       |                       |
| subsidiaries                  | F                         | 1,382                                                       | 6,825                 | 4,437                 |
| Embedded derivatives          |                           | 4                                                           | 20                    | -                     |
| Inventory                     |                           | 3,061                                                       | 15,115                | 28,298                |
| Inventory - work in progress  |                           | 1,467                                                       | 7,243                 | 7,461                 |
|                               |                           | <u>20,086</u>                                               | <u>99,182</u>         | <u>88,034</u>         |
| <u>Non-current assets</u>     |                           |                                                             |                       |                       |
| Assets less liabilities       |                           |                                                             |                       |                       |
| associated with subsidiaries  | F                         | 168                                                         | 830                   | 899                   |
| Long-term deposits            |                           | 53                                                          | 264                   | 404                   |
| Property and equipment, net   |                           | 8,161                                                       | 40,301                | 21,564                |
| Intangible assets, net        |                           | 4,698                                                       | 23,198                | 15,717                |
|                               |                           | <u>13,080</u>                                               | <u>64,593</u>         | <u>38,584</u>         |
|                               |                           | <u><b>33,166</b></u>                                        | <u><b>163,775</b></u> | <u><b>126,618</b></u> |

\_\_\_\_\_  
Haim Shani  
Chairman of the Board of Directors  
And Chief Executive Officer

\_\_\_\_\_  
Tzvi Livne  
Director

\_\_\_\_\_  
Yair Itscovich  
Chief Financial Officer

Approved: March 29, 2012

(1) See Note A.

**Unitronics (1989) (R"G) Ltd**

**Assets and liabilities included in the consolidated financial statements  
attributed to the company**

|                                                       |                           | December 31,<br>2011                                        | December 31,<br>2011<br>(in thousands) | December 31,<br>2010  |
|-------------------------------------------------------|---------------------------|-------------------------------------------------------------|----------------------------------------|-----------------------|
|                                                       | Additional<br>information | Convenience<br>translation<br>into EURO,<br>(unaudited) (1) | NIS                                    |                       |
| <u>Current liabilities</u>                            |                           |                                                             |                                        |                       |
| Current maturities of non-current loans               |                           | 891                                                         | 4,399                                  | 4,202                 |
| Current maturities of bonds and convertible bonds     |                           | 1,253                                                       | 6,186                                  | 6,032                 |
| Accounts payable - Trade                              |                           | 2,811                                                       | 13,880                                 | 25,690                |
| Other                                                 | D                         | 3,093                                                       | 15,273                                 | 23,300                |
| Embedded derivatives                                  |                           | 218                                                         | 1,077                                  | 3,951                 |
|                                                       |                           | <u>8,266</u>                                                | <u>40,815</u>                          | <u>63,175</u>         |
| <u>Non current liabilities</u>                        |                           |                                                             |                                        |                       |
| Loans from the banks and others                       |                           | 3,189                                                       | 15,748                                 | 14,526                |
| Bonds                                                 |                           | 12,348                                                      | 60,977                                 | 11,175                |
| Liabilities for benefits to employees, net            |                           | 513                                                         | 2,532                                  | 1,583                 |
|                                                       |                           | <u>16,050</u>                                               | <u>79,257</u>                          | <u>27,284</u>         |
| <u>Shareholders' equity</u>                           |                           |                                                             |                                        |                       |
| Share capital                                         |                           | 71                                                          | 352                                    | 352                   |
| Share premium                                         |                           | 10,244                                                      | 50,588                                 | 50,588                |
| Capital reserve from translation of foreign operation |                           | (131)                                                       | (648)                                  | (1,176)               |
| Company shares held by the company                    |                           | (1,345)                                                     | (6,643)                                | (6,239)               |
| Retained earnings (loss)                              |                           | 11                                                          | 54                                     | (7,366)               |
|                                                       |                           | <u>8,850</u>                                                | <u>43,703</u>                          | <u>36,159</u>         |
|                                                       |                           | <u><b>33,166</b></u>                                        | <u><b>163,775</b></u>                  | <u><b>126,618</b></u> |

(1) See Note A.



**Unitronics (1989) (R"G) Ltd**

**Revenues and expenses included in the consolidated financial statements  
attributed to the company**

|                                                                 |                           | For the year ended<br>December 31,                          | For the year ended<br>December 31, |         |        |
|-----------------------------------------------------------------|---------------------------|-------------------------------------------------------------|------------------------------------|---------|--------|
|                                                                 |                           | 2011                                                        | 2011                               | 2010    | 2009   |
|                                                                 |                           |                                                             | (in thousands)                     |         |        |
|                                                                 |                           | Convenience<br>translation into<br>EURO,<br>(unaudited) (1) | NIS                                |         |        |
|                                                                 | Additional<br>information |                                                             |                                    |         |        |
| Revenues                                                        |                           | 23,528                                                      | 116,182                            | 131,953 | 68,810 |
| Revenues from subsidiaries                                      | F1                        | 3,695                                                       | 18,248                             | 16,250  | 10,428 |
| Total revenues                                                  |                           | 27,223                                                      | 134,430                            | 148,203 | 79,238 |
| Cost of revenues                                                |                           | 20,482                                                      | 101,143                            | 108,155 | 54,165 |
| Gross profit                                                    |                           | 6,741                                                       | 33,287                             | 40,048  | 25,073 |
| Development expenses, net                                       |                           | 579                                                         | 2,857                              | 3,194   | 2,116  |
| Selling & marketing expenses                                    |                           | 1,629                                                       | 8,045                              | 7,040   | 6,680  |
| General & administrative expenses                               |                           | 1,339                                                       | 6,610                              | 6,733   | 5,447  |
| General & administrative expenses<br>to subsidiaries            | F1                        | 125                                                         | 618                                | 613     | 546    |
| Capital gain                                                    |                           | 2                                                           | 11                                 | 99      | 63     |
| Operating profit                                                |                           | 3,071                                                       | 15,168                             | 22,567  | 10,347 |
| Financing income                                                |                           | 533                                                         | 2,633                              | 1,884   | 5,380  |
| Financing expenses                                              |                           | 1,651                                                       | 8,154                              | 12,986  | 6,971  |
| Profit after financing, net                                     |                           | 1,953                                                       | 9,647                              | 11,465  | 8,756  |
| The Company's share of<br>subsidiaries losses                   |                           | (347)                                                       | (1,714)                            | (486)   | (274)  |
| Profit for the year attributed<br>to the company's shareholders |                           | 1,606                                                       | 7,933                              | 10,979  | 8,482  |

(1) See Note A.

**Unitronics (1989) (R"G) Ltd**

**Comprehensive income included in the consolidated financial statements  
attributed to the company**

|                                                                                                  | For the year ended<br>December 31, | For the year ended<br>December 31, |                   |                 |
|--------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|-------------------|-----------------|
|                                                                                                  | 2011                               | 2011                               | 2010              | 2009            |
|                                                                                                  |                                    | (in thousands)                     |                   |                 |
| Convenience<br>translation into<br>EURO,<br>(unaudited) (1)                                      |                                    | NIS                                |                   |                 |
| Profit for the year attributed<br>to the company's shareholders                                  | -----1,606-----                    | -----7,933-----                    | -----10,979-----  | -----8,482----- |
| <u>Other comprehensive income</u>                                                                |                                    |                                    |                   |                 |
| Actuarial gain (loss)                                                                            | (104)                              | (513)                              | (375)             | 112             |
| Translation of foreign operation                                                                 | 107                                | 528                                | (433)             | (10)            |
| Other comprehensive income<br>(loss)<br>for the year attributed to the<br>company's shareholders | -----3-----                        | -----15-----                       | ----- (808) ----- | -----102-----   |
| Total comprehensive income<br>for the year attributed to the<br>company's shareholders           | =====1,609=====                    | =====7,948=====                    | =====10,171=====  | =====8,584===== |

(1) See Note A.

**Unitronics (1989) (R"G) Ltd**

**Cash Flows included in the consolidated financial statements  
attributed to the company**

|                                                                                              | For the year ended<br>December 31, | For the year ended<br>December 31, |         |          |
|----------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|---------|----------|
|                                                                                              | 2011                               | 2011                               | 2010    | 2009     |
|                                                                                              |                                    | (in thousands)                     |         |          |
| Convenience<br>translation into<br>EURO,<br>(unaudited) (1)                                  |                                    | NIS                                |         |          |
| <u>Cash flows - operating activities</u>                                                     |                                    |                                    |         |          |
| Profit for the year attributed to the<br>company's shareholders                              | 1,606                              | 7,933                              | 10,979  | 8,482    |
| Adjustments necessary to show the<br>cash flows from operations (Appendix A)                 | (102)                              | (502)                              | 4,203   | 10,032   |
| Cash flows provided by operating activities of<br>the company                                | 1,504                              | 7,431                              | 15,182  | 18,514   |
| Cash flows provided by (used in) operating<br>activities from transactions with subsidiaries | (685)                              | (3,388)                            | 369     | (1,514)  |
| Cash flows provided by operating activities                                                  | 819                                | 4,043                              | 15,551  | 17,000   |
| <u>Cash flows - investing activities</u>                                                     |                                    |                                    |         |          |
| Sale of (investment in) marketable securities, net                                           | (3,747)                            | (18,504)                           | (16)    | 12,298   |
| Purchase of property and equipment                                                           | (4,114)                            | (20,314)                           | (1,533) | (2,325)  |
| Sale of property and equipment                                                               | -                                  | -                                  | 115     | 180      |
| Investment in restricted cash                                                                | (651)                              | (3,215)                            | -       | -        |
| Investment in long-term deposits                                                             | (12)                               | (58)                               | (260)   | (166)    |
| Repayment of long-term deposits                                                              | 4                                  | 21                                 | 167     | 218      |
| Investment in intangible assets                                                              | (2,448)                            | (12,087)                           | (5,010) | (4,829)  |
| Cash flows provided by (used in)<br>investing activities                                     | (10,968)                           | (54,157)                           | (6,537) | 5,376    |
| <u>Cash flows - financing activities</u>                                                     |                                    |                                    |         |          |
| Receiving of long-term loans                                                                 | 994                                | 4,907                              | 14,552  | -        |
| Repayment of long-term loans                                                                 | (887)                              | (4,382)                            | (2,713) | (1,076)  |
| Bonds issue                                                                                  | 10,916                             | 53,903                             | -       | -        |
| Repayment of convertible bonds                                                               | -                                  | -                                  | (8,600) | (8,600)  |
| Early redemption of bonds                                                                    | -                                  | -                                  | -       | (5,286)  |
| Early redemption of convertible bonds                                                        | -                                  | -                                  | -       | (272)    |
| Repayment of bonds                                                                           | (1,249)                            | (6,167)                            | (5,939) | (5,858)  |
| Exercise of options                                                                          | -                                  | -                                  | 11      | -        |
| Purchase of company shares by the company                                                    | (82)                               | (404)                              | (3,089) | (219)    |
| Cash flows provided by (used in)<br>financing activities                                     | 9,692                              | 47,857                             | (5,778) | (21,311) |
| Change in cash and cash equivalents                                                          | (457)                              | (2,257)                            | 3,236   | 1,065    |
| Cash and cash equivalents at beginning of year                                               | 3,335                              | 16,468                             | 13,232  | 12,167   |
| Cash and cash equivalents at end of year                                                     | 2,878                              | 14,211                             | 16,468  | 13,232   |

(1) See Note A.

**Unitronics (1989) (R"G) Ltd**

**Cash Flows included in the consolidated financial statements  
attributed to the company**

|                                                             | For the year<br>ended<br>December 31, | For the year ended<br>December 31, |      |      |
|-------------------------------------------------------------|---------------------------------------|------------------------------------|------|------|
|                                                             | 2011                                  | 2011                               | 2010 | 2009 |
|                                                             |                                       | (in thousands)                     |      |      |
| Convenience<br>translation<br>into EURO,<br>(unaudited) (1) |                                       | NIS                                |      |      |

Appendix A - Adjustments

|                                                                        |         |          |          |         |
|------------------------------------------------------------------------|---------|----------|----------|---------|
| necessary to show the cash flows<br>from operations                    |         |          |          |         |
| The Company's share of                                                 |         |          |          |         |
| subsidiaries losses                                                    | 347     | 1,714    | 486      | 274     |
| Depreciation and amortization                                          | 1,415   | 6,989    | 6,321    | 6,828   |
| Loss (profit) from marketable securities, net                          | 215     | 1,061    | (651)    | (2,717) |
| Changes in liabilities for benefits to<br>employees, net               | 88      | 436      | 271      | 246     |
| Capital gain                                                           | (2)     | (11)     | (99)     | (63)    |
| Reevaluation of warrants and conversion option of<br>convertible bonds |         | -        | (99)     | 83      |
| Exchange rate changes of long-term loans and<br>convertible bonds      | 452     | 2,233    | (399)    | 1,649   |
| Reevaluation of restricted cash                                        | (13)    | (66)     | -        | -       |
| Reevaluation of embedded derivatives                                   | (586)   | (2,894)  | 2,450    | 1,286   |
| Profit from early redemption                                           | -       | -        | -        | (1,838) |
| Increase in accounts receivable - trade                                | (568)   | (2,806)  | (404)    | (2,220) |
| Increase in accounts receivable - other                                | (146)   | (722)    | (770)    | (304)   |
| Decrease (increase) in inventory                                       | 2,670   | 13,183   | (17,102) | 1,298   |
| Decrease (increase) in inventory - work in progress                    | 44      | 218      | 374      | (7,835) |
| Increase (decrease) in accounts payable - trade                        | (2,392) | (11,810) | 15,036   | 1,317   |
| Increase (decrease) in accounts payable - other                        | (1,626) | (8,027)  | (1,211)  | 12,028  |
|                                                                        | (102)   | (502)    | 4,203    | 10,032  |

**Appendix B - Non-cash transactions**

|                                                                        |            |              |              |          |
|------------------------------------------------------------------------|------------|--------------|--------------|----------|
| Transfer of intangible assets against capital<br>issue in a subsidiary | <u>24</u>  | <u>117</u>   | <u>-</u>     | <u>-</u> |
| Bonds issue expenses                                                   | <u>6</u>   | <u>30</u>    | <u>-</u>     | <u>-</u> |
| Capital note to subsidiary                                             | <u>203</u> | <u>1,000</u> | <u>1,000</u> | <u>-</u> |

(1) See Note A.

## Unitronics (1989) (R"G) Ltd

### Additional information

A. Convenience translation into EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated into EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at December 31, 2011 (EURO 1 = NIS 4.9381).

The translated EURO amounts presented in these financial data should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

B. Cash and cash equivalents attributed to the company as a parent company (excluding amounts in respect of subsidiaries)

|                           | US Dollar           | Euro         | Linked to the Israeli CPI | Linked to other basis | Not linked   | Total         |
|---------------------------|---------------------|--------------|---------------------------|-----------------------|--------------|---------------|
|                           | NIS, (in thousands) |              |                           |                       |              |               |
| <u>December 31, 2011:</u> |                     |              |                           |                       |              |               |
| Cash and cash equivalents | 2,679               | 5,603        | -                         | 10                    | 5,919        | 14,211        |
|                           | <u>2,679</u>        | <u>5,603</u> | <u>-</u>                  | <u>10</u>             | <u>5,919</u> | <u>14,211</u> |
| <u>December 31, 2010:</u> |                     |              |                           |                       |              |               |
| Cash and cash equivalents | 6,543               | 6,115        | -                         | -                     | 3,810        | 16,468        |
|                           | <u>6,543</u>        | <u>6,115</u> | <u>-</u>                  | <u>-</u>              | <u>3,810</u> | <u>16,468</u> |

C. Disclosure of financial assets attributed to the company as a parent company (excluding amounts in respect of subsidiaries)

1. The following is a classification of the substantial investments to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

|                                                                     | <u>December 31,</u><br><u>2011</u> | <u>December 31,</u><br><u>2010</u> |
|---------------------------------------------------------------------|------------------------------------|------------------------------------|
|                                                                     | (in thousands)<br>NIS              |                                    |
| Financial assets at fair value through the statement of operations: |                                    |                                    |
| Marketable securities                                               | 36,229                             | 18,786                             |
| Financial assets at reduced cost:                                   |                                    |                                    |
| Loans and receivables                                               | 22,194                             | 17,021                             |
|                                                                     | <u>58,423</u>                      | <u>35,807</u>                      |

2. The expiration date of the predicted essential investment by groups of financial instruments according to IAS 39 attributed to parent company is up to a year.

**Unitronics (1989) (R"G) Ltd**

**Additional information**

C. Disclosure of financial assets attributed to the company as a parent company (excluding amounts in respect of subsidiaries) (cont'd)

1. Linkage conditions of financial assets classified to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

December 31, 2011:

|                                                                           | US Dollar                  | Euro         | Linked to<br>the Israeli<br>CPI | Linked<br>to other<br>basis | Not<br>linked | Total         |
|---------------------------------------------------------------------------|----------------------------|--------------|---------------------------------|-----------------------------|---------------|---------------|
|                                                                           | <u>NIS. (in thousands)</u> |              |                                 |                             |               |               |
| Financial assets at fair<br>value through the<br>statement of operations: |                            |              |                                 |                             |               |               |
| Marketable securities                                                     | 179                        | -            | 18,081                          | -                           | 17,969        | 36,229        |
| Financial assets at reduced<br>cost:                                      |                            |              |                                 |                             |               |               |
| Loans and receivables                                                     | 1,188                      | 5,562        | -                               | -                           | 15,444        | 22,194        |
|                                                                           | <u>1,367</u>               | <u>5,562</u> | <u>18,081</u>                   | <u>-</u>                    | <u>33,413</u> | <u>58,423</u> |

December 31, 2010:

|                                                                           |              |              |               |          |               |               |
|---------------------------------------------------------------------------|--------------|--------------|---------------|----------|---------------|---------------|
| Financial assets at fair<br>value through the<br>statement of operations: |              |              |               |          |               |               |
| Marketable securities                                                     | 752          | -            | 10,405        | -        | 7,629         | 18,786        |
| Financial assets at reduced<br>cost:                                      |              |              |               |          |               |               |
| Loans and receivables                                                     | 5,101        | 5,316        | -             | -        | 6,604         | 17,021        |
|                                                                           | <u>5,853</u> | <u>5,316</u> | <u>10,405</u> | <u>-</u> | <u>14,233</u> | <u>35,807</u> |

## **Unitronics (1989) (R"G) Ltd**

### **Additional information**

**D. Disclosure of financial liabilities attributed to the company as a parent company (excluding amounts in respect of subsidiaries)**

**1. Account payable - other - attributed to the parent company**

|                              | <u>December 31,<br/>2011</u>                                      | <u>December 31,<br/>2011</u> | <u>December 31,<br/>2010</u> |
|------------------------------|-------------------------------------------------------------------|------------------------------|------------------------------|
|                              |                                                                   | <b>(in thousands)</b>        |                              |
|                              | <b>Convenience<br/>translation into<br/>EURO,<br/>(unaudited)</b> | <b>NIS</b>                   |                              |
| Employees, payroll and taxes | 727                                                               | 3,589                        | 3,125                        |
| Government institutions      | -                                                                 | -                            | 644                          |
| Provision for vacation       | 133                                                               | 655                          | 557                          |
| Hedging transactions         | 21                                                                | 104                          | -                            |
| Accrued expenses             | 566                                                               | 2,793                        | 3,290                        |
|                              | <u>1,447</u>                                                      | <u>7,141</u>                 | <u>7,616</u>                 |

**2. Instability risks attributed to the parent company**

The liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company's approach to management of the liquidity risk is to ensure, as far as possible, a sufficient level of liquidity to meet its obligations in due time.

The Company operates in order to enable the existence of sufficient levels of liquid means to pay the expected operating expenses and amounts required to meet its financial obligations. This does not take into account the potential effect of extreme scenarios where there is no reasonable possibility to expect them.

The following table presents the contractual maturities dates of the financial liabilities (including interest payments):

December 31, 2011:

|                             | <u>Book<br/>value</u>      | <u>1th<br/>year</u> | <u>2th<br/>year</u> | <u>3th<br/>year</u> | <u>4th year</u> | <u>5th year<br/>and after</u> | <u>Total<br/>expected<br/>cash flow</u> |
|-----------------------------|----------------------------|---------------------|---------------------|---------------------|-----------------|-------------------------------|-----------------------------------------|
|                             | <u>NIS. (in thousands)</u> |                     |                     |                     |                 |                               |                                         |
| Accounts payable - trade    | 13,880                     | 13,880              | -                   | -                   | -               | -                             | 13,880                                  |
| Accounts payable - other    | 15,273                     | 7,141               | -                   | -                   | -               | -                             | 7,141                                   |
| Loans from banks and others | 15,748                     | 4,799               | 5,381               | 3,867               | 2,261           | 6,641                         | 22,949                                  |
| bonds                       | 60,977                     | 10,183              | 20,957              | 13,745              | 13,097          | 24,249                        | 82,231                                  |
|                             | <u>105,878</u>             | <u>36,003</u>       | <u>26,338</u>       | <u>17,612</u>       | <u>15,358</u>   | <u>30,890</u>                 | <u>126,201</u>                          |

December 31, 2010:

|                             |               |               |               |               |              |              |               |
|-----------------------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|
| Accounts payable - trade    | 25,690        | 25,690        | -             | -             | -            | -            | 25,690        |
| Accounts payable - other    | 23,300        | 7,616         | -             | -             | -            | -            | 7,616         |
| Loans from banks and others | 14,526        | 4,667         | 4,560         | 4,453         | 3,076        | 3,254        | 20,010        |
| bonds                       | 11,175        | 7,136         | 6,768         | 6,400         | -            | -            | 20,304        |
|                             | <u>74,691</u> | <u>45,109</u> | <u>11,328</u> | <u>10,853</u> | <u>3,076</u> | <u>3,254</u> | <u>73,620</u> |

## **Unitronics (1989) (R"G) Ltd**

### **Additional information**

D. Disclosure of financial liabilities attributed to the company as a parent company (excluding amounts in respect of subsidiaries) (cont'd)

3. Linkage conditions of financial liabilities according to groups of financial instruments in accordance with IAS 39:

December 31, 2011:

|                                                | US Dollar           | Euro   | Linked to the Israeli CPI | Linked to other basis | Not linked | Total   |
|------------------------------------------------|---------------------|--------|---------------------------|-----------------------|------------|---------|
|                                                | NIS, (in thousands) |        |                           |                       |            |         |
| Financial liabilities measured at reduced cost | 7,034               | 19,917 | 69,751                    | 25                    | 14,191     | 110,918 |

December 31, 2010:

|                                                |       |        |        |   |        |        |
|------------------------------------------------|-------|--------|--------|---|--------|--------|
| Financial liabilities measured at reduced cost | 8,127 | 21,834 | 17,589 | - | 21,691 | 69,241 |
|------------------------------------------------|-------|--------|--------|---|--------|--------|

E. Disclosure of taxes on income attributed to the company itself

1. Tax laws applicable to the company itself

A. Income Tax Law (Adjustments for Inflation) - 1985

According to the law, up to the end of 2007, the results for tax purposes were measured after being adjusted to changes in the consumer price index.

In February 2008, the Knesset passed the amendment to the Income Tax Law (Adjustments for Inflation) – 1985, which restricts the Adjustments Law from 2008 and thereafter. As from 2008, the results for tax purposes are measured in nominal amounts, excluding certain adjustments for changes in the consumer price index during the period of up to December 31, 2007. The amendment to the law includes, inter alia, the cancellation of the addition and the deduction for inflation and additional deduction for depreciation as from 2008.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969.

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a listing in a stock exchange, and to amortize know-how acquired from third parties.



## **Unitronics (1989) (R"G) Ltd**

### **Additional information**

#### **E. Disclosure of taxes on income attributed to the company itself (cont'd)**

##### **1. Tax laws applicable to the company itself (cont'd)**

- C. On November 1999 the Company filed an application for Approved Enterprise status, with respect to investments in developing Internet based Programmable Logic Controllers. The Company has applied to participate in the Alternative Benefit Program under which a full tax exemption is available on its taxable profits attributable to the specific program approved during the first 2 years of the Benefit Period, as well as a Company tax rate of 25% during the 5 years thereafter. The application was approved on June 2000 (hereinafter: "first program"). Tax benefits resulting from the additional approved enterprise status will be calculated in respect of the increase in sales compared to the base year (as defined by the Law for the Encouragement of Capital Investments). Income derived by the Company from sources other than the program granted the status of Approved Enterprise, as well as income derived after the end of the benefits period, is subject to regular Company Tax.

On October 2000 the company filed an expansion program to the above approved enterprise program. The expansion program was approved on January 2003. Tax benefits resulting from the additional approved enterprise status are similar to the original approved enterprise program. On April 22, 2003 the Company has submitted a final report regarding the execution of the approved enterprise program and its additions. The approved enterprise program and its addition were approved on February 2004 (hereinafter: "second program").

The period of tax benefits, detailed above, is subject to a time limit of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. In the event of a distribution of cash dividends from income which is tax exempt due to the above, the Company would have to pay Company tax on the amount distributed.

The first program operating year is 2000 and for the second program is 2004. During the reporting period the first program benefits period ended, and the company's management does not expect utilization of tax benefits. In addition, in the reported period utilization of tax benefits under the second program is not expected.

In addition, after the balance sheet date, the company chose in year 2010 as an election year of further expansion program (hereinafter - "Third program"). Under this plan the company will be entitled to exemption from tax on undistributed profits during the first two years of the period of benefits and tax rate of 25% over the next five years of the benefit period. Benefits realization period is limited up to the year 2021. Tax benefits arising from the third program will be given above the average basis for the three years preceding the election year. The company's management does not expect in the reported period utilization of tax benefits under the third program.

##### **2. Tax rates applicable to the company itself**

The Economic efficiency law, published in July 2009, established a gradual reduction of company tax rate. Accordingly the tax rate in 2011 is 24% and gradually reduced to a rate of 18% in 2016. In the reported period the law of change in the tax burden (legislative amendment), 2011 was approved. This law abolished the reduction in corporate tax rates from 2012 and after, and the corporate tax rate from 2012 onwards will be 25%.

##### **3. Final tax assessments attributed to the company itself**

The Company has final tax assessments for all years up to 2007 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

##### **4. Tax losses attributed to the company itself**

As at December 31, 2011 the company's tax losses carry forward (where deferred taxes were not recognized) amounts to approximately NIS 6 million (EURO 1.2 million).

**Unitronics (1989) (R"G) Ltd**

**Additional information**

E. Disclosure of taxes on income attributed to the company itself (cont'd)

5. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

|                                                                      | For the year ended<br>December 31,                      | For the year ended<br>December 31, |         |         |
|----------------------------------------------------------------------|---------------------------------------------------------|------------------------------------|---------|---------|
|                                                                      | 2011                                                    | 2011                               | 2010    | 2009    |
|                                                                      |                                                         | (in thousands)                     |         |         |
|                                                                      | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                |         |         |
| Profit before<br>subsidiaries losses and<br>before taxes on income   | 1,954                                                   | 9,647                              | 11,465  | 8,756   |
| Tax rate                                                             | 24%                                                     | 24%                                | 25%     | 26%     |
| Theoretical tax                                                      | 469                                                     | 2,315                              | 2,866   | 2,277   |
|                                                                      |                                                         |                                    |         |         |
| Increase in taxes resulting<br>from non-deductible<br>expenses       | 14                                                      | 70                                 | 50      | 61      |
| Temporary differences where<br>deferred taxes were not<br>recognized | (483)                                                   | (2,385)                            | (2,916) | (2,338) |
|                                                                      | -                                                       | -                                  | -       | -       |

F. Capital notes, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

|                                      | For the year ended<br>December 31,                      | For the year ended<br>December 31, |        |        |
|--------------------------------------|---------------------------------------------------------|------------------------------------|--------|--------|
|                                      | 2011                                                    | 2011                               | 2010   | 2009   |
|                                      |                                                         | (in thousands)                     |        |        |
|                                      | Convenience<br>translation into<br>EURO,<br>(unaudited) | NIS                                |        |        |
| Revenues                             | 3,695                                                   | 18,248                             | 16,250 | 10,428 |
|                                      |                                                         |                                    |        |        |
| General & administrative<br>expenses | 125                                                     | 618                                | 613    | 546    |

## **Unitronics (1989) (R"G) Ltd**

### **Additional information**

#### **F. Capital notes, balances and substantial engagements with subsidiaries (cont'd)**

##### **2. Engagements with subsidiaries**

- a. The consolidated company Unitronics Inc. was established by the Company in 2001 to market, sell and distribute the company's products and to operate projects in the United States. The consolidated company acquires products and services from the company and sells these products and services to its customers.
- b. The consolidated company Unitronics building management and maintenance (2003) Ltd. was established by the Company in 2003 in order to manage and maintain the companies building. The company pays to the consolidated company management and maintenance fees for the area used by the company.
- c. Unitronics subsidiary Parking solutions Ltd. (hereinafter - "Parking solutions") was established in the fourth quarter of 2011 to coordinate the marketing activities, planning, construction and maintenance of automated parking systems.  
On October 2011 the company transferred to the subsidiary, Unitronics Parking Solutions Ltd, assets with non significant value in exchange for the allocation of shares in the subsidiary within decision for concentrating the parking solutions activity.

After the balance sheet date the company signed an agreement with Parking Solutions, effective from 1 October 2011 (hereinafter – "the effective date"), in which the Company will provide credit lines to parking solutions and services through the executive and operations departments. For such services parking solutions will be charged from the effective date and in each quarter according to mechanisms defined in the agreement.

##### **3. Capital notes and balances**

In December 31, 2007 the company provided eight capital notes in the amount of NIS 1 million each to the subsidiary Unitronics Inc (hereinafter - "Unitronics Inc.") against the current balance. On December 31, 2010 and 2011 the Company provided additional capital notes in the amount of NIS 1 million each to Unitronics Inc. at December 31, 2011, the balance of capital notes amount to NIS 10 million (as of December 31, 2010 – NIS 9 million). The Capital notes are nominated in NIS, not linked, do not bear interest and the maturity date will not be before the end of 5 years from the date they were provided. The repayment of this capital notes will defer to other obligations and will prior only to distribution of assets to shareholders in liquidation.

In addition there is ongoing balance of Unitronics Inc. as at December 31, 2011 in the amount of approximately NIS 6 million (approximately NIS 4.4 million as at December 31, 2010).

## **Chapter D - Additional Details about the Corporation (Reg. 10c - 29a)**

### **4.1 Use of the Proceeds of Securities (Reg. 10C)**

4.1.1 On February 23, 2011, the Company published a Shelf Prospectus (reference no: 2011-01-058260), which was amended on March 17, 2011 (reference no: 2011-01-084435) (the Shelf Prospectus and its amendment shall hereinafter be jointly referred to as: “**the Shelf Prospectus**”). Pursuant to the Shelf Prospectus, on March 22, 2011, the Company published a Shelf Offering Report (reference no: 2011-01-088428) (hereinafter – “**the Shelf Offering Report**”), under which the Company offered to issue and list for trading on the Tel Aviv Stock Exchange Ltd (hereinafter – “**the TASE**”), Debentures (Series 3), at such quantities and on such term as set forth in the Shelf Offering Report. On March 22, 2011, the CEO of the TASE gave his approval to list the Debentures (Series 3) for trading on the TASE. The total proceeds (gross) from the Debentures (Series 3), which were allocated to the winners of the tender that was held on March 23, 2011, amounted to NIS 56,442,000 (hereinafter – “**the proceeds of the offering**”). For additional details on the results of the offering, see Company Report dated March 24, 2011 (reference no: 2011-01-090993). Apart from the above Shelf Offering Report, as of the this date, the Company has not published additional shelf offering reports under the Shelf Prospectus.

4.1.2 The (net) proceeds of the offering as set forth in the Shelf Prospectus and in the Shelf Offering Report shall be used by the Company for its needs, as they shall be from time to time, including for the financing of the Company’s day-to-day activities, as shall be decided by the Board of Directors from time to time. In the Company’s estimation, up to 30% (net) of the proceeds of the offering were deposited and invested in diverse fixed-income assets, including but not limited to, interest-bearing deposits, foreign currency deposits, securities of the Israeli government, shares in leading market indices, rated corporate bonds or other securities, in which Israeli laws permit the investment of trust funds. The proceeds of the offering are used by the Company to finance its day-to-day activities.

### **4.2 List of Investments in Active Subsidiaries and in Related Companies (Reg. 11)**

Below are details regarding the Company's investments in active subsidiaries and in related companies as of the date of the Statement of Financial Position:

| <b>Subsidiary</b>                                          | <b>Type of Share</b> | <b>No. of Shares</b> | <b>Total par value</b> | <b>Value of Shares in the Financial Statement</b> |
|------------------------------------------------------------|----------------------|----------------------|------------------------|---------------------------------------------------|
| Unitronics Building Management and Maintenance (2003) Ltd. | Ordinary - NIS 1     | 1,000                | NIS 1,000              | NIS 1,000                                         |
| Unitronics Inc. (foreign company)                          | Ordinary – US\$ 0.01 | 1,000                | US\$ 10                | US\$ 10                                           |
| Unitronics Parking Solutions Ltd                           | Ordinary – NIS 0.01  | 116,320,000          | 116,320 NIS            | NIS 116,320                                       |

| Subsidiary                                                 | Value in the separate financial statement of each company, attached to the Company's financial statements | Share of Company's holdings in the capital, in voting and in the power to appoint directors in the total issued shares |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                            | NIS in thousands                                                                                          |                                                                                                                        |
| Unitronics Building Management and Maintenance (2003) Ltd. | (300)                                                                                                     | 100%                                                                                                                   |
| Unitronics Inc. (foreign company)                          | 1,136                                                                                                     | 100%                                                                                                                   |
| Unitronics Parking Solutions Ltd                           | (251)                                                                                                     | 100%                                                                                                                   |

#### 4.3 Changes in Investments in Active Subsidiaries and in Related Corporate (Reg. 12)

On July 20, 2011 Unitronics Parking Solutions Ltd was incorporated and registered (hereinafter – **“Unitronics Parking Solutions”**) with the Companies Registrar as a limited liability company. The Company holds 10,000 ordinary shares of NIS 0.01 par value each of Unitronics Parking Solutions, which represent 100% of its issued and paid-up capital. In the Board of Directors’ meeting dated August 2, 2011, it was decided that the Company’s parking solutions business would be managed by Unitronics Parking Solutions and this business would be further developed under this framework. Pursuant to an agreement dated March 29’ 2012 between the Company and Unitronics Parking Solutions, which was approved on March 29, 2012 by the board of directions of each company, the Company transferred to Unitronics Parking Solutions, on October 1, 2011, rights in an investment property (hereinafter – **“the Property”**). In consideration for the transfer of the Property, Unitronics Parking Solutions allotted to the Company 11,622,000 ordinary shares of NIS 0.01 par value each of Unitronics Parking Solutions, such that following the allotment, the Company holds 11,632,000 shares of Unitronics Parking Solutions, which account for 100% of the issued and paid-up capital of the Company.

#### 4.4 Revenues of Active Subsidiaries and Related Companies and Revenues from such(Reg. 13)

Below are details of the comprehensive income of the Company's active subsidiaries and its related companies in the last reported year that ended on or before the date of the statement of financial position of the corporation, adjusted to the date of the statement of financial position of the corporation:

| Subsidiary                                                 | Profit (Loss) Before Tax | Profit (Loss) After Tax | Dividends | Management fee | Interest revenues |
|------------------------------------------------------------|--------------------------|-------------------------|-----------|----------------|-------------------|
| NIS in thousands                                           |                          |                         |           |                | NIS in thousands  |
| Unitronics Building Management and Maintenance (2003) Ltd. | (64)                     | (64)                    | 0         | 0              | 0                 |
| Unitronics Inc.                                            | 290                      | 290                     | 0         | 0              | 0                 |
| Unitronics Parking Solutions Ltd                           | (357)                    | (357)                   | 0         | 0              | 0                 |

The Company did not receive any dividend, interest or management fees up to the date of the statement of financial position or for the period thereafter, and it is not entitled to receive any such dividend, interest or management fees.

#### 4.5 List of Loans (Reg. 14)

Not applicable (the provision of loans is not part of the Company's core business).

#### 4.6 Trading on the Stock Exchange (Reg. 20)

In the reported year, 56,442,000 par value Debentures (Series 3) were listed for trading on the Tel Aviv Stock Exchange Ltd, in 56,442 units, each of which consists of NIS 1,000 par value Debentures (Series 3), which the Company allotted pursuant to the Shelf Offering Report.

During the reported period, trading on the stock exchange of securities issued by the Company has not been suspended.

As of the date of this report, the Company holds 1,539,897 dormant shares. These dormant shares do not confer any rights on the Company (including any voting rights and/or rights in the equity). (For details see sections 2.1.3.20, 4.10.5 and 4.15 of the Annual Report).

#### 4.7 Remuneration of interested parties and senior officers (Reg. 21)

4.7.1. Below are details of the payments made by the Company and all payment undertakings (in cash and/or cash equivalents, loans, rights and any other benefit) which the Company took upon itself in the reported year, as recognized in the financial statements for the reported year, including with regard to retirement terms, for each of the five officers receiving the highest pay from among the Company's senior officers in that year (the three senior officers with the highest remuneration in the corporation, whose remuneration was provided in conjunction with their position with the corporation itself, are among the following five officers):

| Name           | Role                                        | Employment | Stake in corporate capital      | Pay (NIS thousands) | Bonus | Share-based payment | Management fee | Commission | Interest | Rent | Other | Total (NIS 000) |
|----------------|---------------------------------------------|------------|---------------------------------|---------------------|-------|---------------------|----------------|------------|----------|------|-------|-----------------|
| Haim Shani     | CEO and Chairman of the Board of Directors  | 100%       | 60.88% (60.25% fully diluted**) | 1,127               | 687   |                     |                |            |          |      |       | 1,814           |
| Amir Anchel    | Head of Systems Division <sup>5</sup>       | 100%       |                                 | 547                 |       |                     |                |            |          |      |       | 647             |
| Yair Itzcovich | CFO                                         | 100%       |                                 | 511                 | 60    |                     |                |            |          |      |       | 571             |
| Eyal Saban     | VP                                          | 100%       |                                 | 542                 |       |                     |                |            |          |      |       | 542             |
| Bareket Shani  | Director, Deputy CEO and VP Human Resources | 100%       |                                 | 517                 |       |                     |                |            |          |      |       | 517             |
|                | Other directors                             |            |                                 | 214                 |       |                     |                |            |          |      |       | 214             |

\*\* As of December 31, 2011.

<sup>5</sup> As of February 26, 2012, Mr. Amir Anchel serves as VP and Head of Budgets at the Company

For explanations of the relationship between remuneration paid to officers and their contribution, see section 2.13 of Chapter B above.

4.7.2 Mr. Haim Shani and Mrs. Bareket Shani– The Company is bound by personal employment agreements with Mr. Haim Shani (controlling shareholder and Chairman of the Board of Directors) and with Mrs. Bareket Shani (Mr. Shani's wife, who serves also as member of the Board of Directors) effective until September 22, 2014, which will be renewed for 3-year period each, subject to the all the approvals required by the law (hereinafter in this section – **"Employment Agreements"**). In accordance with the agreements, Mr. Shani serves as the Company's CEO, responsible for the management of the Company's entire business and Mrs. Shani as Deputy CEO and Head of Human Resources, both holding full time jobs.

Pursuant to the employment agreements, as of June 1, 2011, Mr. Shani's salary is NIS 60,000 and Ms Shani's salary is NIS 30,000. In addition, the salary is linked to the Consumer Price Index, such that as of January 2012, and each year, an amount equal to the percentage of change in the past year's CPI will be added to their wages. The base index for the purpose of calculating the amount of linkage added in January 2012, is the known index on March 2011, which was published on April 15, 2011. Prior to this amendment, and as specified below, until June 2011, the salary of Mr. Haim Shani and Mrs. Bareket Shani was US\$15,000 and US\$7,500, unlinked, respectively.

Mr. Shani's salary is split such that part of the overall wages is paid by a subsidiary wholly owned by the Company, Unitronics Inc., and the remainder is paid by the Company, in respect of his services as CEO of the Company; as a result of the split, there is no added cost of wages to the Company (consolidated with the subsidiary) compared to the cost of wages without the split.

In addition to the salary specified above, Mr. and Mrs. Shani are entitled to receive the following benefits: (a) stock options - at least 115% of the number of options granted to the most senior Company employee other than Mr. and Mrs. Shani, each, subject to all the statutory approvals, including the Stock Exchange's consent to list for trading the shares that are the subject of these options and the approval of the General Meeting of Company shareholders pursuant to Section 275 of the Companies Law; (b) standard social benefits, such as a senior officers' insurance (contributions of 5% of the monthly salary by the employee and 13.33% - by the Company); (c) a study fund (contributions of 2.5% of the monthly salary by the employee and 7.5% - by the Company), (d) use of Company car (without a specific car category) and expense reimbursement; and (e) an annual 30-day vacation, which may be accumulated for up to 2 years.

In addition, Mr. Haim Shani is entitled to an annual bonus in respect of each calendar year commencing 2005, and as long as Mr. Shani is employed as CEO of the Company (hereinafter in this section – **"the Framework Transaction"**), within 30 days of the date of approval of the financial statements by the Company's Board of Directors, in respect of each calendar year, at a rate of 7.5% of the pre-tax profit on that year (cost to the Company) (hereinafter – **"the Future Bonuses"**). The Future Bonuses be calculated each year (and not cumulatively), without accounting for losses, and will be paid within 30 days of the date of approval of the financial statements by the Company's Board of Directors, in respect of each calendar year as aforesaid, and approval of the Company's Audit Committee and Board of Directors that their terms are consistent with the terms prescribed in the Framework Transaction. The Framework Transaction was approved on April 12, 2005, by the General Meeting of Company Shareholders.

Termination of Mr. SHANI's employment agreement requires approval by a 75% majority of Board members and a prior notice of at least 6 months. Mr. Shani may terminate his employment agreement for any reason, subject to a 3-months notice. As for Mrs. Shani, each party may terminate the agreement subject to a 2-months notice, and the Company would be required to provide a material explanation for the termination, if initiated by the Company.

On March 8, 2011, the Company's Audit Committee and Board of Directors approved the payment of a NIS 893,000 bonus to Mr. Haim Shani in respect of 2010, pursuant to the terms of the Framework Transaction (for details see Immediate Report on a Transaction with a Controlling Shareholders or with a Director that does not Require the Approval of the General Meeting, dated March 8, 2011, reference no: 2011-01-073104, which is hereby included by way of reference).

On March 29, 2012, the Company's Audit Committee and Board of Directors approved the payment of a NIS 643,000 bonus to Mr. Haim Shani in respect of 2011, pursuant to the terms of the Framework Transaction (for details see Immediate Report on a Transaction with a Controlling Shareholders or with a Director that does not Require the Approval of the General Meeting, dated March 29, 2012 reference no: 2012-01-086565, which is hereby included by way of reference).

On March 27, 2011, the Company's Audit Committee and Board of Directors resolved, and on May 12, 2011, the General Meeting of the Company's Shareholders approved, to amend each of the employment agreements of Mr. Shani and Mrs. Shani, such that the wages of Mr. and Mrs. Shani will be in New Israeli Shekels rather than in dollars, as stipulated in previous employment agreements, and will be translated into NIS, based on the NIS 4.00/US\$ exchange rate, such that as of June 1, 2012, Mr. Shani's monthly wages will be NIS 60,000 (previously US\$15,000) and Mrs. Shani's monthly wages will be NIS 30,000 (previously US\$7,500), as specified in section 4.6.2 above. Commencing from January 2012, the salaries of Mr. and Mrs. Shani is linked to the Consumer Price Index.

In their resolution, the Audit Committee and Board of Directors stated that as the monthly wages of Mr. and Mrs. Shani prior to the said amendment, was determined in January 1999, when the dollar's exchange rate was NIS 4.15/dollar, and since then their monthly salary had not been updated except for voluntary pay cuts, as decided by Mr. and Mrs. Shani in 2003 and 2009, which created a continued erosion in their wages due to the dollar's depreciation vis-a-vis the shekel, the above amendment reflects the remuneration, which the Board of Directors intended to approve with the original signature of employment agreements. In addition, the Audit Committee and Board of Directors view the remuneration as appropriate to the services provided by Mr. and Mrs. Shani, given the importance and dependence attached by the Board to their continued employment in the Company, and as such will facilitate the continued provision of these services. (For additional details on the amendment of the terms of employment of Mr. and Mrs. Shani, see Immediate Report on a Transaction with a Controlling Shareholders therein, dated March 30, 2011, reference no: 2011-01-100569, and an Immediate Report on the Results of a General Meeting dated May 12, 2011, reference no: 2011-01-146499, which are hereby included by way of reference).

On July 12, 2011, the Audit Committee and Board of Directors resolved, and on September 22, 2011, the General Meeting of Company Shareholders approved, to re-approve the employment agreements of Mr. and Mrs. Shani, and to amend them in the manner described in section 4.6.2 above, such that they will be effective until September 22, 2014, and subsequently renewed for 3-year periods, subject to all the



statutory approvals. Consequently, the 5-year extension mechanism in Mr. and Mrs. Shani's employment agreements has been cancelled.

Below are the reasons given by the Audit Committee and Board of Directors for approving the above resolution:

- The employment agreements have been reapproved to comply with the new provisions of the Companies Law, regarding the approvals required in connection with the employment agreements with controlling shareholders, whose terms exceed 3 years.
- The Audit Committee and Board of Directors view the re-approval and amendment of the employment agreements, as appropriate to the services provided by Mr. and Mrs. Shani, given the importance and dependence attached by the Board to their continued employment in the Company, and as such will facilitate the continued provision of these services.
- The Board of Directors has determined that the Company is materially dependent on the continued services of Mr. Haim Shani and Mrs. Bareket Shani due, *inter alia*, to the following reasons:
  - (1) As Company founders, Mr. Shani and Mrs. Shani have long-standing, close and direct knowledge of all technologies and products being developed, manufactured and distributed by the Company, from its inception to date, as well as with markets, customers and service providers of the Company.
  - (2) Mr. Shani and Mrs. Shani have a well-known reputation in the Company's industry, and the Company's favorable reputation is tightly linked to the fact that Mr. Shani and Mrs. Shani are controlling shareholders and officers of the Company.
  - (3) Consequently, Mr. Shani and Mrs. Shani are actively involved in all levels of daily operations of the Company, and replacing them would require a very long training process, as well as replacements with similar knowledge and experience to those of Mr. Shani and Mrs. Shani, which would require significant resources.
  - (4) Furthermore, replacing Mr. Shani and Mrs. Shani may involve significant costs, in view of the low wages they have been receiving from the Company over the years, compared to similar officers in companies of a similar size.

(For additional details on the amendment of the terms of employment of Mr. and Mrs. Shani and their reapproval, see Immediate Report on a Transaction with a Controlling Shareholders therein, dated July 24, 2011, reference no: 2011-01-220248, an Immediate Report on the Results of a General Meeting to Approve a Transaction with a Controlling Shareholder dated September 22, 2011, reference no: 2011-01-282438 and an Amendment to an Immediate Report on the Results of a General Meeting to Approve a Transaction with a Controlling Shareholder dated September 27, 2011, reference no: 2011-01-286377, which are hereby included by way of reference).

4.7.3 Mr. Amir Anchel – On September 25, 2001, an employment agreement (hereinafter in this section: the "**Agreement**") was signed between the Company and Mr. Amir Anchel. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving a 30-days prior notice in writing.

Mr. Anchel's gross salary, pursuant to the agreement as amended from time to time, is calculated based on NIS 33,000, gross, per month of work. It was further stipulated in the Agreement that Mr. Anchel is entitled to the following fringe benefits: contributions

to executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. Anchel is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay). Until February 26, 2012 Mr. Anchel served as Director of the Systems Division and as of February 26, 2012, Mr. Anchel is VP and Director of Budgets in the Company, after his appointment and terms of employment was approved by the Audit Committee and Board of Directors on February 26, 2012. The terms of employments of Mr. Anchel have not been changed following the appointment.

- 4.7.4 Mr. Yair Itzkovich – On August 24, 2000, an employment agreement (hereinafter in this section: the "**Agreement**") was signed between the Company and Mr. Yair Itzkovich. The Agreement was made for an unspecified period, and it was stipulated that a party thereto may terminate it at any time by giving a 30-day prior notice in writing.

Mr. Itzkovich's gross salary, pursuant to the agreement as amended from time to time, is calculated based on NIS 32,000, gross, per month of work. It was further stipulated in the Agreement that Mr. Itzkovich is entitled to the following fringe benefits: contributions to executive insurance policy, pension fund and continuing education fund and use of a company car. In addition, Mr. Itzkovich is entitled under the Agreement to social benefits (vacation days, sick days and convalescence pay). During 2011, Mr. Itzkovich was given a onetime grant of NIS 60,000 for his outstanding contribution this year

- 4.7.5 Mr. Eyal Saban - the Company's VP provides services via a service company under his control, in exchange for payment of a fixed management fee, pursuant to a service agreement dated March 22, 2004 (hereinafter in this section – "**the Agreement**"). Between June 2007 and April 2010, Mr. SABAN provided his services to the Company two days a week.

The Agreement was made for an unspecified period starting on January 2000, and it was stipulated that a party thereto may terminate it at any time by giving a 60-day prior notice in writing. The agreement, as amended from time to time, stipulates that in exchange for Mr. Saban's services, the service company under his control would be paid a monthly management fee of NIS 45,200. The service company is required to make contributions for social benefits with respect to his employment, as well as all statutory payments, and to compensate the Company for any damage or loss incurred due to any determination that employer-employee relations exist between the Company and the service provider. Mr. Saban personally guarantees the obligations of the service company. The Company believes that it has no material exposure to claims of employer-employee relations between the Company and Mr. Saban, based *inter alia* on the legal opinion obtained by the Company, whereby it is unlikely that any judicial authority would determine that such employer-employee relations exist. On January 30, 2012, the Company's Audit Committee and Board of Directors approved an amendment to the services agreement, effective between February 1, 2012 and August 31, 2012, whereby, during this period the scope of services provided by Mr. Saban would be reduced by 20% from a full-time position to 80% position and the consideration would be reduced by a commensurate 20%. From February 1, 2012 to August 31, 2012, as aforesaid, the service company controlled by Mr. Saban, is paid a total of NIS 36,160 per month.

- 4.7.6 According to a resolution of the Audit Committee and Board of Directors, approved by the Annual General Meeting of Company Shareholders on August 9, 2001, the Company's Independent Board Member and directors who do not serve as officers at

the Company are entitled to annual compensation and participation compensation at the "fixed amount" specified in the Second and Third Addendum to the Companies Regulations (Rules regarding Compensation and Expense Reimbursement of External Directors), 2000 (hereinafter – "**Compensation Regulations**"), and in accordance with the relevant rating of the Company's capital.

On May 21, 2008, the Board of Directors and Audit Committee approved raising the annual compensation and participation compensation to NIS 25,000 and NIS 1,590, respectively, for Mr. Moshe Baraz, an external director of the Company, and for Mr. Ron Mishael, who served at the time as an external director of the Company, which is the "fixed amount" specified in the Second and Third Addendums to the Compensation Regulations, and in accordance with the relevant rating of the Company's capital. This raise came into effect on March 2008 (the date when the amended regulations came into force).

The Board of Directors and Audit Committee determined that the aforesaid resolution is in accordance with the Compensation Regulations, which provide in Section 14 (Scope) that the compensation of external directors, who have served for five months since the date of publication of said amendment, may be changed. The Board of Directors and Audit Committee further determined that the decision to raise the amount of compensation stemmed from the fact that Mr. Baraz and Mr. Mishael demonstrate dedication and devote their time and energy for the good of the Company, constituting a central pillar and an integral part of the Company and the reasons for its success, and the "fixed amount," as amended, constitutes appropriate compensation for their work on behalf of the Company. It should be noted that on December 15, 2008, Ron Mishael ceased to serve as an external director of the Company.

(For further details, see immediate report concerning a Transaction with a Controlling Shareholder or Board member that does not Require the Approval of the General Meeting, dated May 21, 2008, Reference No. 2009-01-141627, hereby included by way of reference).

On July 1, 2008, the Board of Directors approved an annual compensation and participation compensation for Mr. Joel Sela, subject to his being appointed an external director of the Company by the General Meeting, at the "fixed amount" specified in the Second and Third Addendums to the Compensation Regulations, and in accordance with the relevant rating of the Company's capital.

On September 23, 2008, the appointment of Mr. Joel Sela as an external director was approved by the General Meeting. (See immediate report concerning the Results of a Meeting, dated September 24, 2008, Reference No. 2008-01-004717, hereby included by way of reference). On September 22, 2011, Mr. Yoel Sela's appointment as external director of the Company was approved by the General Meeting for an additional term of three years (See Immediate Report of the Results of a Meeting dated September 22, 2011, Reference No: 2011-01-282429, which is hereby included by way of reference).

- 4.7.7 On May 21, 2008, the Board of Directors and Audit Committee approved increasing the annual compensation and participation compensation for Mr. Zvi Livne, a director of the Company, to NIS 25,000 and NIS 1,590, respectively, which is the "fixed amount" specified in the Second and Third Addendums to the Compensation Regulations, and in accordance with the relevant rating of the Company's capital. This increase became effective on March 2008 (the date when the amended regulations came into force). The Audit Committee and the Board of Directors stated that the aforementioned resolution is in accordance with Section 1a of the Companies Regulations (Relief for Transactions with Interested Parties), 2000, (hereinafter - "**Relief Regulations**"), which provides that the agreement of a public company with a director with respect to the terms of office

and employment, as they are defined in Section 270(3) of the Law, would not require the approval of the General Meeting, if the Audit Committee and Board of Directors have confirmed that the salary paid to the director does not exceed the maximum amount under Regulations 4, 5 and 7 of the Compensation Regulations. The Board of Directors and Audit Committee further stated that the Company attaches great importance to Mr. Livne's continued contribution to the Company's success during his years in office, and views him as an important pillar in its operations, and likewise, they view the decision to approve an increase in Mr. Livne's compensation to the "fixed amount," as amended, as a continued implementation of past policy to pay all the Company's directors (excluding the controlling shareholders) the same compensation, based on the compensation paid to external directors, and a reflection of their belief that this policy strikes a proper balance between the Company's ability, under certain conditions, to provide higher compensation to someone who is not an external director, and the compensation paid to external directors, as well as their belief that this compensation represents an appropriate consideration for Mr. Livne's essential services (for details, see Immediate Report on a Transaction with a Controlling Shareholder or Director that does not Require the Approval of the General Meeting, dated May 21, 2008, Reference No. 2008-01-141624, which is hereby included by way of reference).

On July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolutions of the Board of Directors from March 25, 2007 concerning Mr. Moshe Baraz, an external director of the Company, with respect to granting him indemnification under an indemnification permit as provided in the Company's Articles of Association, the inclusion of Mr. Baraz in the insurance coverage for directors and officers of the Company, and in addition it approved the granting of annual compensation and participation compensation (for details see Amending Report dated March 31, 2007, Reference No. 2007-01-354083, to the erroneous Immediate Report concerning Indemnification Provided to an Officer, dated March 31, 2007, and sections 2 and 3 of the Immediate Report concerning the Results of a Meeting, published on July 3, 2007, Reference No. 2007-01-313657, hereby included by way of reference).

On September 23, 2008, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 1, 2008, concerning Mr. Joel Sela, an external director of the Company, on the matter of granting indemnification under an indemnification permit as prescribed in the Company's Articles of Association, the inclusion of Mr. Sela in the insurance coverage for directors and officers of the Company, and it also approved the granting of annual compensation and participation compensation (for details, see Immediate Report on the Results of a Meeting, published on September 24, 2008, Reference No. 2008-01-004717, hereby included by way of reference).

On May 24, 2011, the Board of Directors and Audit Committee approved an annual compensation and participation compensation for Ms. Edna Ramot, subject to her appointment as a director (category A) of the Company by the General meeting, at NIS 25,000 and NIS 1,590, respectively (linked to the Consumer Price Index based on the December 2007 Base Index), which represent the "fixed amount" specified in the Second and Third Addendums to the Compensation Regulations, and in accordance with the relevant rating of the Company's capital. The Audit Committee and the Board of Directors stated that the aforementioned resolution is in accordance with Section 1a of the Relief Regulations, which stipulates that the agreement of a public company with a director with respect to the terms of office and employment, as they are defined in Section 270(3) of the Law, would not require the approval of the General Meeting, if the Audit Committee and Board of Directors confirmed that the salary paid to the director does not exceed the maximum amount pursuant to the Compensation Regulations.

The Board of Directors and Audit Committee further stated that they view the resolution to approve the compensation that will be paid to Ms. Ramot at the "fixed amount," as a continued implementation of past policy to pay all the Company's directors (excluding the controlling shareholders) the same compensation, based on the compensation paid to external directors, and a reflection of their belief that this policy constitutes a proper balance between the Company's ability, under certain conditions, to provide higher compensation to someone who is not an external director, and the compensation paid to external directors, as well as their belief that this compensation represents an appropriate consideration for Ms. Ramot's services. On September 22, 2011, Ms. Edna Ramot was appointed as a director (Category A) of the Company by the General Meeting. This resolution also included an approval to grant a letter of indemnification and insurance coverage to Ms. Ramot, similar to the ones granted to other officers of the Company, as stated in sections 4.6.8 and 4.6.9 below.

- 4.7.8 The Company has a directors and officers liability insurance policy for a sum of US\$ 5,000,000 (five million US dollars) per event and in total, in respect of damages that could occur during the insurance period (and a further US\$ 1,000,000 in respect of legal defense costs in Israel) (hereinafter – **"the Policy"**). The Company's deductible for insurance claims is between \$10,000 and \$50,000 per event, based on the type of insurance event and claim location. The insurance period is effective retroactively from August 9, 1989, and is renewed each year, with the approval of the Company's management, which was authorized by the General Meeting on April 12, 2005 to renew the directors and officer liability insurance policy from time to time, under similar conditions, for additional periods of up to 18 months each time (hereinafter in this section – **"the Framework Transaction"**).

On January 30, 2012 the Audit Committee and Board of Directors approved the renewal and extension of the Policy for directors and officers of the Company, who are controlling shareholders of the Company or their relatives, as well as for directors and officers who are not controlling shareholders of the Company and their relatives, for a period between July 1, 2011 and June 30, 2012 and approved the renewal and extension of the Policy for directors and officers of the Company, who are controlling shareholders of the Company or their relatives, as well as for directors and officers who are not controlling shareholders of the Company and their relatives, for an additional 12-month period from July 1, 2012 to June 30, 2013, under the same conditions as those of the Framework Transaction (for details see Immediate Report on a Transaction with a Controlling Shareholder or with a Director, which does not require the Approval of the General Meeting, dated January 30, 2012, Reference no: 2012-01-029271, which is hereby included by way of reference). The current Policy is effective until June 30, 2012.

- 4.7.9 The Company's Articles permit indemnification and exemption of officers, to the maximum extent permitted by the Companies Law (for details on the amendment of the Company's Articles of Association, see section 4.14 below). On May 9, 2006, the General Meeting of Company Shareholders approved the following: (a) indemnification and exemption of officers serving from time to time in the Company and/or in another company (except for officers who are controlling shareholders of the Company), in accordance with the provisions of the indemnification letter attached as Appendix B to the report on a transaction with a controlling shareholder, published on March 27, 2006 (hereinafter - **"Indemnification Letter"**), and issuance of an Indemnification Letter to such officers; and (b) approval of indemnification and exemption of Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder of the Company and his wife, pursuant to the provisions of the

Indemnification Letter, and issuance of an Indemnification Letter to Mr. Haim Shani and Mrs. Bareket Shani.

Pursuant to the above resolutions, the Company issued on May 18, 2006 Indemnification Letters as per the above to officers of the Company, including Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder of the Company and his wife. On March 25, 2007 the Company issued a further Indemnification Letter as per the above to Mr. Moshe Baraz, who began serving as an external director of the Company on December 8, 2006, and on December 3, 2008, the Company issued an additional Indemnification Letter as per the above to Mr. Joel Sela, who began his term of office as an external director of the Company on September 23, 2008 (for further details see section 4.6.6 above).

On September 22, 2011, the General Meeting of Company Shareholders, following the approval of the Audit Committee and Board of Directors on July 12, 2011, approved the following:

- (a) An amendment to the Company's Articles of Association, in view of the coming into force of the Improvement of Enforcement Processes in Securities Authority Law (Legislation Amendments), 5751-2011 ("**the Administrative Enforcement Law**"), and in view of the coming into force of Amendment No. 16 to the Companies Law (hereinafter – "**Amendment 16**"), such that the chapter addressing indemnification and insurance for officers will permit the insurance and indemnification of officers in connection with a payment to those harmed by a breach, who are entitled to insurance and indemnification, and the costs of administrative enforcement procedures pursuant to Chapter H3 (Imposition of a Financial Sanction by the Securities Authority), Chapter H4 (Imposition of Administrative Means of Enforcement by the Administrative Enforcement Committee) and Chapter I1 (Settlement to Refrain from Legal Proceedings or Termination of Proceedings, Stipulated by Conditions) of the Securities Law, including reasonable litigation expenses, including legal fees, and including by way of indemnification in advance, and payment to persons harmed by breach as stated in section 52.54(a)(1)(a) of the Securities Law.
- (b) Amendment and expansion of the insurance coverage for incumbent officers and those that will serve in the Company, who are not controlling shareholders and/or their relative, such that insurance coverage will be included, pursuant to the new arrangements enumerated in the Company's Articles of Association, as specified in section (a) above regarding insurance, in the insurance policy to incumbent directors and officers and those that will serve in the Company, who are not controlling shareholders and/or their relatives, in order to include coverage in the matters specified in section (a) above, which arise from the entry into force of the Administrative Enforcement Law and Amendment 16.
- (c) Amendment and expansion of the insurance coverage for incumbent officers and those that will serve in the Company, who are controlling shareholders and/or their relative, such that insurance coverage will be included, pursuant to the new arrangements enumerated in the Company's Articles of Association, as specified in section (a) above regarding insurance, in the insurance policy to incumbent directors and officers and those that will serve in the Company, who are controlling shareholders and/or their relatives, in order to include coverage in the matters specified in section (a) above, which arise from the entry into force of the Administrative Enforcement Law and Amendment 16.

- (d) Amendment and expansion of the letters of indemnification to incumbent directors and officers and to those that will serve in the Company and/or on behalf of the Company in a subsidiary and/or a related company, who are not controlling shareholders and/or their relatives, in the version that was attached as Appendix B to the Immediate Report on a Transaction between the Company and a Controlling Shareholder Therein dated July 24, 2011, Reference no: 2011-01-220248, which is hereby included by way of reference (hereinafter – **“new version of the indemnification letter”**).
- (e) Amendment and expansion of the letters of indemnification of Mr. Haim Shani, who serves as Chairman of the Board of Directors and CEO of the Company, and of Mrs. Bareket Shani, wife of Mr. Shani, who serves as director and VP of Human Resources at the Company, based on the new version of the new version of the indemnification letters, in order to allow for indemnification in connection with the administrative enforcement stated in section (a) above.

(For additional details on the General Meeting’s resolution dated September 22, 2011, see Immediate Report on a Transaction between the Company and a Controlling Shareholder Therein dated July 24, 2011, reference no: 2011-01-220248, an Immediate Report on the Results of a Meeting dated September 22, 2011, reference no: 2011-01-282429, an Immediate Report on the Results of a Meeting to Approve a Transaction with a Controlling Shareholder dated September 22, 2011, reference no: 2011-01-282438, and an Immediate Report on the Results of a Meeting to Approve a Transaction with a Controlling Shareholder, dated September 27, 2011, Reference no: 2011-01-286377, which are hereby included by way of reference which is hereby included by way of reference).

For details on officers of the Company who, as of the date of the report, are entitled to indemnification, see Immediate Report on the Issuance of Indemnification to Officers, dated September 22, 2011, reference no: 2011-01-282483.

#### 4.7.10. Salary and benefits

Below are details, to the best of the Company’s knowledge, of the benefits received by each of the interested parties in the Company, directly or indirectly, or benefits which he is entitled to receive from the Company, from a subsidiary, or from a related company, during the reported year:

During the reported period, the Company paid interested parties employed by it a total amount in NIS thousand (including related payments), according to the following breakdown:

| Interested Party | Paid by Balance Sheet Date |
|------------------|----------------------------|
|                  | NIS in thousands           |
| Haim Shani       | 1,707                      |
| Bareket Shani    | 513                        |
| Other directors  | 214                        |

#### 4.8a Control of the Corporation (Reg. 21a)

The controlling shareholder of the Corporation is Mr. Haim Shani. For more details about Mr. Shani, see section 4.10 below.

#### 4.8 Transactions with Interested Parties (Reg. 22)

Below are details, to the best of the Company's knowledge, regarding each transaction with the controlling shareholder of the Company or the controlling shareholder of the Company has a personal interest in its approval, which the Company has entered into in 2011 or at a later date and until the date of this report, or which is still in effect as of the date of this report:

##### **Other transactions which are not enumerated in section 270(4) of the Companies Law:**

- 4.8.1. In accordance with a resolution of the Audit Committee and Board of Directors from May 2003, Unitronics Building Management and Maintenance (2003) Ltd. ("**Unitronics Management**"), a wholly owned subsidiary of the Company, provides management and maintenance services for the floors of the Unitronics Building. These services include, primarily, service for elevators and air conditioning, electrical and fire detection systems in the Unitronics Building (contacting various suppliers in case of malfunction and/or for servicing and/or periodic testing, as per manufacturer's/supplier's instructions) as well as provision of cleaning, pest control, gardening and security services (via subcontractors). In return for these services, Unitronics Management charges monthly management fees at a rate of \$2 per square meter of each tenant's space in the Unitronics Building, and in addition charges separately for electricity consumption according to readings of separate meters for the Company and for the other tenants of the Unitronics Building (who share the expense, pro-rated to the area used by each tenant).

Unitronics Management also provides such management and maintenance services to the Private Floors in the Unitronics Building, leased by a company wholly owned by Mr. Haim Shani and Mrs. Bareket Shani. There is no written contract between the Company and Unitronics Management, and Mr. and Mrs. Shani, with regard to the management services. In practice, Mr. and Mrs. Shani require the tenants leasing the private floors (including the Company - see section 4.7.2 below) to pay the full management fees charged by Unitronics Management, and said tenants pay Unitronics Management directly for management services at the same rate per square meter paid by the Company (other than consumption of electricity, for which each tenant is charged according to a separate electricity meter).

For these services, Unitronics Management was paid in total NIS 1,003,000, NIS 1,028,000 and NIS 1,035,000 for 2009, 2010 and 2011, respectively; of which NIS 546,000, NIS 613,000 and NIS 619,000, respectively, were paid by the Company, and NIS 457,000, NIS 415,000 and NIS 416,000, respectively, by third parties. The decline in revenues from third parties is due to termination of leases for certain areas of the building, which in part were leased to the Company (see section 4.7.2 below) and in part - remained vacant for a period during and therefore, did not generate any revenues for Unitronics Management

- 4.8.2. In July 2009, an agreement terminated under which the Company had leased an area of 632 square meters in a building called Unitronics Building, which is located in Airport City ("**Unitronics House**") from a company controlled by Mr. Haim Shani, the controlling shareholder of the Company, who serves as Chairman of the Board of Directors and Company CEO, and Mrs. Bareket Shani, his wife, who serves as a director and Head of Human Resources in the Company (hereinafter - the "**Lessor**").

On May 21, 2009, the Board of Directors and Audit Committee approved, subject to the approval of the Shareholders General Meeting, the signing of a new lease agreement with the Lessor for the rental of 936 square meters of office space in the Unitronics



Building, as well as 20 parking spaces (hereinafter – **“the lease agreement/lease transaction”**).

Under the terms of the lease agreement, the rent was set at NIS 65 per m<sup>2</sup> per month, linked to the CPI, but no less than the CPI known on the lease date (plus management fee payable to Airport City at NIS 5 per m<sup>2</sup> per month, and management fee at NIS 9.5 per m<sup>2</sup> per month payable to Unitronics Management, which provides management and maintenance services for the Unitronics Building). The rent for parking spaces is NIS 250 per each parking space (in total NIS 5,000 per month for 20 parking spaces). Total cost of the lease for the Company under the agreement is NIS 85 thousand per month, linked to the CPI (excluding parking spaces and management fee), but no less than the CPI known on the lease date.

According to the agreement, the lease is for a period of 36 months commencing August 1, 2009, terminable at any time with a 3-month prior notice, pursuant to a resolution of the Audit Committee.

Among their reasons for approving the transaction, the Audit Committee and Board of Directors determined that the growth in the Company's activity, including the employment of additional staff, has created a need for renting additional space. Approval of the above transaction will enable the Company to lease additional space in the quickest and most efficient manner, under the same roof, without moving expenses and/or expenses due to a split in activity among several facilities.

According to studies conducted by the Company and presented to the Audit Committee and Board of Directors, the rental terms are similar to the terms at which other areas owned by the Lessor in the Unitronics Building are leased to third parties that are not related to the Company or to the Company's controlling shareholders, and are also better than customary rental terms (price/period) in general at Airport City for areas of similar or inferior finishing level offering similar and/or inferior general services, which to the best of the Company's knowledge are being leased at the time of this report at prices ranging between NIS 60 and NIS 67 per m<sup>2</sup> (excluding management and maintenance fees). In addition, the option to terminate the agreement at any time allows the Company to adjust the use to its actual needs.

The Audit Committee and Board of Directors have also determined that the transaction was carried out at market conditions and during the ordinary course of business and is not detrimental to the Company's best interests.

On July 29, 2009, the General Meeting of Company Shareholders approved the aforesaid lease transaction.

(For further details see Immediate Report on an Event or Matter Outside the Company's Ordinary Business, dated May 21, 2009, Reference No.: 2009-01-117399, an Immediate Report on the Results of a Meeting for the Approval of a Transaction with a Controlling Shareholder and/or for the Approval of a Private Offer, dated July 29, 2009, Reference No. 2009-01-182700, and an Immediate Report on the Results of a Meeting, dated July 29, 2009, Reference No. 2009-01-182697, hereby included by way of reference.)

- 4.8.3 On March 27, 2011, the Audit Committee and Board of Directors decided to approve an amendment to the lease agreement dated August 1, 2009, (**“the Amendment”**) between the Company and the Lessor. Pursuant to the Amendment, the Company will rent from the Lessor an additional 170 m<sup>2</sup> and 10 parking places (hereinafter – **“the additional**

space”), apart from the 936 m<sup>2</sup> of office space and 20 parking places that had already been rented by the Company in Unitronics House under the lease agreement. The terms of the agreement will apply to the additional space as follows: the rental fees are NIS 65 per m<sup>2</sup> per month, linked to the CPI (plus management fees payable to Airport City of NIS 5 per m<sup>2</sup> per month, and management fees of NIS 9.5 per m<sup>2</sup> per month payable to Unitronics Management, which provides management and maintenance services for the Unitronics Building), and NIS 2,500 for the parking places. The total monthly rent payable by the Company to the Lessor for the additional space is NIS 13,500 per month (excluding management fees to Airport City and the subsidiary, and excluding rent for the parking space).

- 4.8.4 The Audit Committee and the Board of Directors of the Company determined that in light of the continued expansion of the Company's business operations as part of the normal course of the Company's business, including the recruitment of additional personnel and a growth in operations, a genuine need has arisen to lease an additional area. Without the possibility of leasing additional areas in the Unitronics Building, the Company would be required to lease areas near the Unitronics Building, upon similar or inferior conditions. Under such circumstances, one-time expenses and other current expenses would apparently be necessary in connection with operations split over more than one facility, whilst adversely affecting the operational efficiency. The leasing of the additional area in the Unitronics Building will allow a rapid and convenient expansion of the Company's offices and facilities, under a single roof, without any relocation costs and/or costs which are likely to be created following the split of the Company's operations between a number of different centers.

The lease terms pursuant to which the additional area shall be leased are identical or better for the Company, as compared with the terms and conditions upon which areas are leased in the area owned by the lessor in the Unitronics Building to third parties, which are not related to the Company or to the controlling shareholders of the Company, and they also reflect lease terms which are standard or better for the Company as compared with the lease terms in effect in Airport City in general for areas of a similar standard. In light of the foregoing, the Audit Committee and the Board of Directors of the Company determined that the transaction is in accordance with market conditions and is in the normal course of business, and that it does not harm the Company's interests, and that it complies with the terms of Regulation 1 (5) of the Relief Regulations. (For further details regarding the amendment of the lease agreement, see the Company's immediate report, dated March 27, 2011, Reference No. 094152-01-2011).

- 4.8.5 On the date March 29, 2012, it was resolved by the Audit Committee and the Board of Directors of the Company to approve the signing of an addendum to the lease agreement and the amendment, as stated in section 4.7.3 above, in such a manner that the lease period would be extended commencing from August 1, 2012, for 36 additional months. In the rest of the terms of the lease agreement and the amendment thereto, there were no changes whatsoever. The extension of the lease agreement is contingent upon and subject to the approval of the general meeting of the shareholders of the Company.

As part of their reasons for the approval of the transaction, the Audit Committee and the Board of Directors of the Company determined that the continued growth in the Company's operations, including the recruitment of additional personnel at the Company, has created a need for the continued lease of an area in such size as described in section 4.7.3 above. Approval of the said transaction will allow the Company to continue to lease an area in a size which is commensurate with the Company's needs, in

the most rapid and effective manner possible, both in the field of the products and in the field of the systems, in the same building in which the Company is based at the present time, and without any relocation costs and/or costs which are caused following the split of the Company's operations in these fields between a number of different centers (for further details regarding the building in the Yavne Industrial Zone which serves, as of the date of the publication of this report, the field of the Company's parking solutions, see section 1.13.4 of the Report).

According to examinations which were conducted by the Company and which were presented to the Audit Committee and the Board of Directors of the Company, it can be seen that the terms of the lease are similar to the terms upon which areas are leased in the area owned by the lessor in the Unitronics Building to third parties, which are not related to the Company or to the controlling shareholders of the Company, and they also reflect a benefit as compared with the lease terms (price/ term) in effect in Airport City in general for areas of a similar and/or inferior standard of finish, and which offer similar and/or inferior general services, and which, to the best of the Company's knowledge, are leased as of the date of this Report at prices ranging between NIS 65 and NIS 100 per square meter (not including management and maintenance fees). In addition, the possibility to terminate the Agreement at any time allows the Company to adjust the use to its actual needs.

In addition, the Audit Committee and the Board of Directors of the Company determined that the transaction is in accordance with market conditions and is in the normal course of business, and that it does not harm the Company's interests.

The aforesaid resolution with regard to the extension of the lease term pursuant to the existing agreement is subject to the approval of the general meeting of the shareholders of the Company.

- 4.8.6 In accordance with an oral agreement (which is not limited in time) between the Company and Mr. Albert Shaharabani (Mr. Haim Shani's father) which was made even before the Company became a public company, the Company hired the services of Mr. Albert Shaharabani for the performance of various administrative actions (and primarily, vehicular transportation services) in consideration of a monthly fee for an insignificant amount. Albert Shaharabani terminated his employment with the Company on February 22, 2011.

#### **Transactions Enumerated in Section 270 (4) of the Companies Law**

For details regarding transactions between the Company and the controlling shareholder of the Company or in which the controlling shareholder of the Company has a personal interest in the approval thereof, in which the Company engaged in the year 2011 or on a date subsequent to the end of 2011 and up to the date of this periodic report, or which is still in effect as of the date of this periodic report, see section 4.6 above.

- 4.8.7 Prior to the publication of the shelf prospectus of the Company which was published on February 22, 2011 (hereinafter: the "**Shelf Prospectus**"), discussions were held between the representatives of the Israel Securities Authority (hereinafter: the "**ISA**") and representatives of the Company in connection with the ISA's request of the Company to act to amend the Company's Articles in connection with the mechanism for the appointment of members of the Board of Directors, which is a mechanism of the type known as a staggered board of directors.

Against the background of the Company's disagreement with the position of the ISA in this matter, and so as to allow the publication of the prospectus without fully exhausting the

discussion of this matter, the Company gave notice (in writing) to the ISA, prior to the making of the amendment, of its consent to the following principles (which shall apply for such time as the Company's Articles shall not be modified, as aforesaid):

- (a) Even though the ISA and the Company have not fully exhausted the discussion of the matter of the amendment which the ISA has requested be made to the Company's Articles, in light of the current structure of holdings in the Company, the need does not arise at the present time to reach a determination in this matter, and accordingly, the ISA's permission for the publication of the prospectus was given subject to the terms set forth in section (b) below, which shall remain in full force and effect, for such time as the provisions of the Company's Articles include a mechanism of the type known as a staggered board of directors.
- (b) If, in the future, there shall be no controlling shareholder of the Company, or if the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company (and for this purpose, the terms "holding" and "control" shall be as construed in the Securities Law), and the Company shall wish to offer to the public shares or securities convertible into shares (including securities that may be exercised into shares) during the period in which there is no controlling shareholder of the Company or the controlling shareholder of the Company holds less than 45% of the voting rights of the Company, as aforesaid, or if, as a consequence of the offer to the public, as aforesaid, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company, the Company undertakes to apply to the ISA for the purpose of the completion of the discussion in the aforesaid matter, and it has undertaken not to make use of the Shelf Prospectus by way of the publication of shelf proposal reports by virtue of the Shelf Prospectus for the purpose of offering to the public shares or securities which are convertible into shares as aforesaid prior to the completion of the discussion of the matter, whether before the institutions of the ISA or before any other competent institution. In addition, the foregoing shall also apply to any private placement of shares or securities which are convertible into shares if, on the said date, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company, or if, as a consequence of the private placement, there shall be no controlling shareholder of the Company, or the controlling shareholder of the Company shall hold less than 45% of the voting rights of the Company.

In the Committee's notice to the ISA, it was also noted that the said notice or the ISA's permission to the publication of the prospectus does not and shall not constitute any form of consent by any of the parties to the claims of any other party. It was also clarified that the said notice or the ISA's permission shall not modify or derogate from the Company's position or the ISA's position in the above-mentioned matter, once the need shall arise to fully exhaust the discussion thereof.

#### 4.9 Holdings of interested parties and senior officers (Reg. 24)

Below are details, to the best of the Company's knowledge, regarding shares and other securities of the Company, a subsidiary and a related company of the Company held by each interested party in the Company as of the reporting date or as close to that date as possible (in this regard, the Company itself and senior officers therein constitute interested parties):

Company:

| Holder's name                 | Ordinary shares | Options (unlisted) | Unitronics Series 2 debentures | Unitronics Series 3 debentures | % in the issued capital | % in the voting | % in the issued capital | % in the voting |
|-------------------------------|-----------------|--------------------|--------------------------------|--------------------------------|-------------------------|-----------------|-------------------------|-----------------|
|                               |                 |                    |                                |                                | Undiluted               |                 | Fully diluted           |                 |
| Haim Shani <sup>2</sup>       | 6,139,551       | ---                | ---                            | ---                            | 60.88%                  | 60.88%          | 60.25%                  | 60.25%          |
| Unitronics (1989) (R"G) Ltd.* | 1,593,897       | ---                | ---                            | ---                            | 15.81%                  | 0               | 15.64%                  | 0               |

\* Buy-back of Company shares (creation of dormant shares in the Company's share capital)

Since August 2005, the Company from time to time purchases ordinary shares of the Company as part of the trading on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Brussels, Belgium. As of December 31, 2011, the Company held a total of 1,593,897 shares purchased as aforesaid (out of 11,678,504 ordinary shares in the Company's issued capital). These purchases were made for a total sum of NIS 6,643,000 and at prices of between NIS 1.51 and NIS 5.50 per share. As long as these shares are owned by the Company, they are "dormant shares" within the meaning of this term in the Companies Law, 1999. For further details see sections 2.12.20, 4.10.5 and 4.15 of the Annual Report.

The Company also purchased Series 2 debentures issued to the public (for details see section 1.20.3 of this report).

In subsidiaries and related companies:

None.

**4.10 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)**

**4.10.1 Registered and Issued Capital**

The Company's registered capital is NIS 2,000,000, divided into 100,000,000 ordinary shares with a par value of NIS 0.02 each.

The Company's issued capital is NIS 233,570.08, composed of 11,678,504 ordinary shares with a par value of NIS 0.02 each. As of the date of this annual report, the

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<sup>2</sup> These shares are held by Interprofessionnelle Effectendeposito - en Girokas N.V. - Caisse Interprofessionnelle de Depots et de Virements de Titres S.A. / EuroClear Belgium ("CIK") which is registered in the Company shareholder registry as the owner of the shares. To the best of the Company's knowledge, according to practice in Belgium and to CIK regulations, this entity serves as a registry and clearing house in Belgium, with shares of companies traded on the stock exchange in Belgium deposited with it under a global power of attorney, and the various trading transactions in shares made by banks, brokers and other authorized persons on the stock exchange recorded in its books. CIK thus fulfills a role essentially similar to that of nominee companies in Israel, whereby the shares of companies traded on the stock exchange in Belgium are registered through it. Shareholders who purchase Company shares on the stock exchange in Belgium transact the buying (or selling) via a securities account managed in their name at financial institutions (brokers, banks etc.) which are, directly or indirectly, members of the CIK system. The Company is unaware of other interested parties besides those listed above. These shares also include 50 Company shares held through CORPUS COLOSSUM Ltd., a private company registered in Israel, in which Mr. SHANI, the Company CEO and Chairman, holds 100% of issued share capital and voting rights.

Company holds a total of 1,593,897 dormant shares, which do not confer any rights in the Company (including voting rights and/or rights in capital).

#### 4.10.2. Securities - General

The Company's capital includes securities as follows:

105,000 options granted under option plans, whose terms are set forth in section 4.9.3 below, which are not listed for trading on the stock exchange.

#### 4.10.3 Convertible Securities - Stock Option Plans

The Company has two option plans, the 2001 Plan and the 2003 Plan (as defined below), whose main terms are listed below:

##### a. The 2001 Option Plan

An options plan from May 2001 (the "**2001 Plan**") for employees, officers and consultants of the Company or the Company's subsidiaries, which includes a framework for the purchase of 950,000 ordinary shares until 2011.

Options granted under the 2001 plan may be exercised in installments over the term of the options ("**the vesting period**"). The option's vesting period is determined by the Company Board of Directors and may vary from one offeree to another. Unless otherwise stated, options may be exercised in the fifth year after their grant date. The options may not be transferred by the offeree, other than by testament or inheritance laws, and during the offeree's lifetime, the options may only be exercised by the offeree or their legal representative. The options shall expire on such date and under such conditions to be specified by the Company Board of Directors. In general (for employees), no later than 12 months after termination of employment, other than in case of death or dismemberment, in which case the options may be exercised within a 3-month period. The 2001 plan includes adjustment mechanisms in case of changes in the Company's share capital (such as distribution of bonus shares, split or reverse split of share capital), merger, acquisition and re-structuring. The Company Board of Directors may also include on option agreements provisions which may accelerate vesting of options soon prior to such a merger or acquisition.

Under the 2001 Plan, options have been granted to employees, officers and consultants of the Company for the purchase of 793,499 ordinary shares at an exercise price ranging from €0.91 to €2.70 per share. All the options granted under this plan have expired, pursuant to their terms, without being exercised. In May 2011, the 2001 Plan ended, without any of the options allotted under the Plan to employees, officers and consultants of the Company, being exercised.

##### b. The 2003 Option Plan

An option plan from November 2003 (the "**2003 Plan**"), which complies with the provisions of Section 102 of the Israeli Income Tax Ordinance (New Version), including as amended in Amendment No. 132, dated January 1, 2003 (in this section: the "**Ordinance**"). The 2003 Plan is intended for employees and/or officers of the Company, its subsidiaries and/or parent company, who are not controlling shareholders, and includes a framework for the purchase of 1,000,000 ordinary shares until the year 2013. The options according to the 2003 Plan are granted under the "capital track" (as defined in Section 102(b)(2) of the Ordinance), they will be held in trust for at least 24 months from the tax

year in which they were granted, the profit from the sale of the underlying shares will be taxed at a rate of 25% only (instead of the marginal tax rate applicable to the offeree), and the Company will not be able to recognize the options as an expense. The exercise price of the options granted under the 2003 Plan will be no less than the par value of the shares underlying the options.

Options cancelled or not exercised within the timeframe specified for exercising them will become available once again, and may be granted anew under the plan to employees of the Company and its subsidiaries who are not interested parties in the Company by virtue of their holdings, and, subject to approval of the Tel Aviv Stock Exchange to list them for trading, also to other offerees under this plan who are not such employees. The other terms of the 2003 Plan are essentially similar to the terms of the 2001 Plan.

As of the report date, options under the 2003 Plan to purchase 607,000 ordinary shares have been granted to employees who are not interested parties, of which options to purchase 397,000 shares have expired unexercised as per their terms up to the report date.

On April 2007 options to purchase 210,000 ordinary shares were allotted to a former employee of the Company (for details see section 4.16.6 below). Out of these 210,000, 105,000 options are exercisable into Company ordinary shares until August 2011, and the remaining 105,000 options are exercisable into Company ordinary shares until August 2012, at an exercise price of €1.30 per share, all subject to vesting periods. On August 31 2012, 105,000 options expired out of the 201,000 options granted to a former employee. As of the report date, the former employee holds 105,000 options exercisable up to August 31, 2012.

The remaining options to purchase 498,000 shares grantable, as of the report date, under the 2003 Option Plan and exercisable into 498,000 Company shares have been transferred to a trustee on behalf of the Company, and are intended to be granted from time to time to employees who are not interested parties by virtue of their holdings (alone) in the Company and/or its subsidiaries, as instructed by the Board of Directors, which will also be authorized to determine and change at the time of each grant the exercise price, vesting period, exercise period and other option terms applying to any option granted as aforementioned (see further details in section 4.9.4 below).

#### 4.10. 4 Convertible Securities - Summary of Data

Below is a summary of the data of convertible securities in the Company's capital as of the report date:

| Type of convertible security / option plan | Framework of ordinary shares of NIS 0.02 par value each that were reserved for allotment / conversion | Amount of shares underlying securities that were actually allotted / granted out of the framework by the report date | Date of allotment / issuance | Amount of shares underlying securities that expired / were paid by the report date | Amount of shares receivable in the future for exercising options that were actually allotted / granted as of the report date (vested / non-vested) | Amount of shares exercisable (vested) / convertible as of the report date | Exercise price / conversion ratio | Expiration date              |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------|------------------------------|
| The 2003 Plan <sup>6</sup>                 | 1,000,000                                                                                             | 105,000                                                                                                              | 10.6.07                      | 0                                                                                  | 105,000                                                                                                                                            | 105,000                                                                   | €1.30                             | August 31, 2012 <sup>7</sup> |
|                                            |                                                                                                       | <sup>8</sup> 498,000                                                                                                 |                              |                                                                                    |                                                                                                                                                    | 0                                                                         |                                   |                              |
| <b>Total</b>                               | 1,950,000                                                                                             | 603,000                                                                                                              |                              |                                                                                    | 210,000                                                                                                                                            | 210,000                                                                   |                                   |                              |

Below is further information about the Company's option plans in force at the date of this annual report:

The percentage of option warrants which may be allotted pursuant to the option plans below, assuming full exercise of all option warrants in each plan, and assuming full dilution of all convertible securities in the Company as of December 31, 2011, is as follows:

| Effective option plans | Effective framework | Percentage of dilution calculated for all issued share capital |       | Percentage of dilution calculated for issued share capital excluding dormant shares |       | Effective |
|------------------------|---------------------|----------------------------------------------------------------|-------|-------------------------------------------------------------------------------------|-------|-----------|
| 2003                   | 895,000             | 7.12%                                                          | 8.15% | 8.15%                                                                               | 8.27% | 2013      |

#### 4.10.5 Registry of Shareholders of the Corporation (Reg. 24b)

<sup>6</sup> Out of the 210,000 options granted on June 10, 2007, 105,000 expired on August 31, 2011. For details, see section 4.9.3b above.

<sup>7</sup> The economic value of the option as of the grant date is €0.061 (based on data from the Tel Aviv Stock Exchange as set forth above). The total beneficial value of the options granted on the above date is €610.

<sup>8</sup> Options under the 2003 Option Plan transferred to a trustee as stated in section 4.9.3b above.



Below is a registry of shareholders of the Company as of the date of this report:

Shares registered in the owner's name

| Number of share certificates | Shareholder name (1)                           | Personal / Corporate ID | Address                            | Share class | Par value (NIS) | Number of Shares | From number | Through number | Allocation / transfer date | Certificate date | Remarks (2) |
|------------------------------|------------------------------------------------|-------------------------|------------------------------------|-------------|-----------------|------------------|-------------|----------------|----------------------------|------------------|-------------|
|                              | HAIM SHANI                                     | 056548142               | 20 BAZELET Street, SHOHAM          | Ordinary    | 0.02            | 6                |             |                | 28.10.99                   |                  |             |
|                              | INTERPROFESSIONELLE (CIK)                      | 959999996               | Brussels, Belgium                  | Ordinary    | 0.02            | 8,426,694        |             |                | 28.10.99                   |                  |             |
|                              | INTERPROFESSIONELLE (CIK)                      | 959999996               | Brussels, Belgium                  | Ordinary    | 0.02            | 437,638          |             |                | 17.01.01                   |                  | Allotment   |
|                              | CORPUS COLOSSUM Ltd.                           | 7-309554-51             | 20 BAZELET Street, SHOHAM          | Ordinary    | 0.02            | 50               |             |                | 27.3.01                    |                  | Transfer    |
|                              | INTERPROFESSIONELLE (CIK)                      | 959999996               | Brussels, Belgium                  | Ordinary    | 0.02            | 109,410          |             |                | 29.1.03                    |                  | Allotment   |
|                              | INTERPROFESSIONELLE (CIK)                      | 959999996               | Brussels, Belgium                  | Ordinary    | 0.02            | 1,902,748        |             |                | 18.12.03                   |                  | Allotment   |
|                              | INTERPROFESSIONELLE (CIK)                      | 959999996               | Brussels, Belgium                  | Ordinary    | 0.02            | (1,000,000)      |             |                | 12.04.05                   |                  | Transfer    |
|                              | BANK LEUMI LE-ISRAEL Registration Company Ltd. | 51-009806-4             | 32 YEHUDA HA-LEVI Street, TEL AVIV | Ordinary    | 0.02            | 800,000          |             |                | 20.5.04                    |                  | Allotment   |
|                              | BANK LEUMI LE-ISRAEL Registration Company Ltd. | 51-009806-4             | 32 YEHUDA HA-LEVI Street, TEL AVIV | Ordinary    | 0.02            | 1,000,000        |             |                | 12.04.05                   |                  | Transfer    |
|                              | BANK LEUMI LE-ISRAEL Registration Company Ltd. | 51-009806-4             | 32 YEHUDA HA-LEVI Street, TEL AVIV | Ordinary    | 0.02            | 1,958            |             |                | 22.4.10                    |                  | Allotment   |
|                              |                                                |                         | Total                              |             |                 | 11,678,504       |             |                |                            |                  |             |

Dormant shares

| Share certificate number | Share class | Par value (NIS) | Number of Shares | From number | Through number | Date of purchase / conversion of shares into dormant shares | Comments                |
|--------------------------|-------------|-----------------|------------------|-------------|----------------|-------------------------------------------------------------|-------------------------|
|                          | Ordinary    | 0.02            | 2,468            |             |                | 17/08/2005                                                  | Purchase by the Company |
|                          | Ordinary    | 0.02            | 990              |             |                | 18/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 1,050            |             |                | 21/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 500              |             |                | 22/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 800              |             |                | 23/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 14,000           |             |                | 30/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 10,000           |             |                | 31/08/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 12,954           |             |                | 01/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 5,000            |             |                | 04/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 4,000            |             |                | 07/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 320              |             |                | 12/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 400              |             |                | 13/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 1,000            |             |                | 20/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 1,000            |             |                | 22/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 7,000            |             |                | 26/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 1,265            |             |                | 27/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 2,000            |             |                | 28/09/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 3,778            |             |                | 21/11/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 50,000           |             |                | 19/12/2005                                                  | "                       |
|                          | Ordinary    | 0.02            | 3,000            |             |                | 05/01/2006                                                  | "                       |
|                          | Ordinary    | 0.02            | 10,900           |             |                | 08/01/2006                                                  | "                       |
|                          | Ordinary    | 0.02            | 420,000          |             |                | 30/11/2006                                                  | "                       |
|                          | Ordinary    | 0.02            | 25,000           |             |                | 06/05/2007                                                  | "                       |
|                          | Ordinary    | 0.02            | 35,544           |             |                | 7/11/2007                                                   | "                       |
|                          | Ordinary    | 0.02            | 51,911           |             |                | 17/9/2008                                                   | "                       |
|                          | Ordinary    | 0.02            | 34,981           |             |                | 9/12/2009                                                   | "                       |
|                          | Ordinary    | 0.02            | 7,475            |             |                | 10/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 11,619           |             |                | 23/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 11,455           |             |                | 24/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 11,678           |             |                | 27/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 1,096            |             |                | 28/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 9,907            |             |                | 30/12/2009                                                  | "                       |
|                          | Ordinary    | 0.02            | 6,200            |             |                | 03/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 32,757           |             |                | 05/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 23,828           |             |                | 07/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 5,700            |             |                | 10/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 14,562           |             |                | 11/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 12,704           |             |                | 12/01/2010                                                  | "                       |
|                          | Ordinary    | 0.02            | 7,493            |             |                | 13/01/2010                                                  | "                       |

|                          | Ordinary    | 0.02            | 10,470           |             |                | 14/01/2010                                                  | "        |
|--------------------------|-------------|-----------------|------------------|-------------|----------------|-------------------------------------------------------------|----------|
|                          | Ordinary    | 0.02            | 18,730           |             |                | 17/01/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 25,023           |             |                | 19/01/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 10,498           |             |                | 20/01/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 11,098           |             |                | 26/01/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 71,500           |             |                | 01/02/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 35,000           |             |                | 03/02/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 13,000           |             |                | 07/02/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 28,169           |             |                | 08/02/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 45,998           |             |                | 10/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 23,896           |             |                | 11/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 36,580           |             |                | 15/03/2010                                                  | "        |
| Share certificate number | Share class | Par value (NIS) | Number of Shares | From number | Through number | Date of purchase / conversion of shares into dormant shares | Comments |
|                          | Ordinary    | 0.02            | 17,871           |             |                | 16/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 24,000           |             |                | 18/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 2,000            |             |                | 23/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 13,000           |             |                | 26/03/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 26,000           |             |                | 27/04/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 8,000            |             |                | 28/04/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 7,200            |             |                | 10/05/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 10,000           |             |                | 12/05/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 3,320            |             |                | 24/05/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 11,900           |             |                | 27/05/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 2,100            |             |                | 31/05/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 29,663           |             |                | 14/06/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 30,180           |             |                | 22/06/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 18,400           |             |                | 24/06/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 21,000           |             |                | 12/07/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 1,100            |             |                | 26/07/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 3,500            |             |                | 29/07/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 60,585           |             |                | 04/08/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 20,000           |             |                | 14/11/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 34,300           |             |                | 13/12/2010                                                  | "        |
|                          | Ordinary    | 0.02            | 16,718           |             |                | 13/01/2011                                                  | "        |
|                          | Ordinary    | 0.02            | 9,105            |             |                | 31/01/2011                                                  | "        |
|                          | Ordinary    | 0.02            | 13,425           |             |                | 14/04/2011                                                  | "        |
|                          | Ordinary    | 0.02            | 6,233            |             |                | 21/04/2011                                                  | "        |
|                          | Ordinary    | 0.02            | 18,000           |             |                | 28/04/2011                                                  | "        |
|                          |             | Total           | 1,593,897        |             |                |                                                             |          |

### Material shareholders

| Shareholder name                               | Share class | Par value (NIS) | Number of Shares | Holding stake (1) | Start date of material shareholder status | End date of material shareholder status | Comments (2) |
|------------------------------------------------|-------------|-----------------|------------------|-------------------|-------------------------------------------|-----------------------------------------|--------------|
| Interprofessionelle (CIK)                      | Ordinary    | 0.02            | 9,876,490        |                   | 28.10.99                                  |                                         |              |
| Haim Shani                                     | Ordinary    | 0.02            | *6,139,551       |                   | 9.8.89                                    |                                         |              |
| Bank Leumi Le-Israel Registration Company Ltd. | Ordinary    | 0.02            | 1,801,958        |                   | 20.5.04                                   |                                         |              |
| Unitronics (1989) (R"G) Ltd.                   | Ordinary    | 0.02            | 1,556,239        |                   |                                           |                                         |              |

#### 4.11a Registered address (Reg. 25a)

Company's registered office: Unitronics Building, Ha-Arava Street, Airport City, PO BOX 300, Ben Gurion Airport, 70100.

Email: [info@Unitronics.com](mailto:info@Unitronics.com).

Telephone number: 03-9778888

Fax number: 03-9778877

#### 4.11 Board Members of the Corporation (Reg. 26)

Details of Board members: The following details for each directors of the Company, by the following sub-sections: (1) name of the director; 1(a) ID number; (2) date of birth; (3) address for service of process; (4) citizenship; (5) membership in a committee or committees of the Board of Directors; (6) is the director an external director as defined in the Companies Law - yes/no, and does the director have accounting and financial expertise or professional qualifications; (7) is the director an employee of the Company, of a subsidiary, of a related company or of an interested party in the Company - the position or positions which the director holds therein; (8) date on which the director assumed office as a director of the Company; (9) education and occupation in the past five years, listing professions or fields of education, institution and the academic title or professional diploma held, and listing the corporations in which he serves as a director; (10) is the Board member, to the best of the knowledge of the Company and its other directors, a relative of another interested party in the Company - yes/ no, and details; (11) is the director considered by the Company as having accounting and financial expertise required for conforming to the minimum number determined by the Board of Directors pursuant to Section 92(a)(12) of the Companies Law - yes/ no; (12) Is responsible for market risk management at the Company – yes/no.

- a. (1) Haim Shani; (1a) 056548142; (2) July 31, 1960; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Chairman of the Board of Directors of the Company and a member of the Securities Committee<sup>9</sup>; (6) No; has professional qualifications; (7) Yes, CEO of the Company, a Board member and the senior officer of Unitronics Building Management and Maintenance (2003) Ltd., Board member and president of Unitronics Inc.; (8) August 20, 1989; (9) High school; serves as a director in Cardiosense Ltd., Corpus Colossus Ltd., Netrix Ltd.; (10) Yes, the husband of Mrs.

<sup>9</sup> Regarding this matter see Section 4.16.7 below.

Bareket Shani, a director and officer of the Company (see details here in below); (11) No; (12) yes - for details see section 2.4.1 of Chapter B of the Annual Report.

- b. (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) Director and a member of the Securities Committee and of the Credit and Investments Committee; (6) No; has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a Board member of Unitronics Building Management and Maintenance (2003) Ltd.; (8) July 6, 1999; (9) Academic, BSc. in management and industrial engineering from the Technion - Israel Institute of Technology; (10) Yes, the wife of Mr. Haim Shani, Chairman of the Board of Directors and CEO of the Company; (11) No; (12) No.
- c. (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Ha-Sandler Street, Haifa; (4) Israeli; (5) Director, member of the Audit Committee, member of the Credit and Investment Committee, member of the Financial Statement Review Committee, Board member with accounting expertise; (6) No; has accounting and financial expertise as well as professional qualifications; (7) Yes, a Board member of Unitronics Building Management and Maintenance (2003) Ltd.; (8) July 8, 1999; (9) Academic, B.A in economics and accounting from Tel Aviv University, M.B.A from Tel Aviv University, holds an accountant diploma; serves as a financial and commercial advisor to a number of Israeli companies; senior partner in the accounting firm, Schiffer, Fogel, & Livne, CPA; (10) No; (11) Yes; (12) No.
- d. (1) Moshe Baraz; (1a) 058263476; (2) August 2, 1963; (3) 73 Adulam Street, Shoham; (4) Israeli; (5) Board member, member of the Audit Committee, the Financial Statement Review Committee and of the Securities Committee, has accounting and financial expertise as well as professional qualifications; (6) Yes; has accounting and financial expertise as well as professional qualifications; (7) No; (8) December 8, 2006; (9) Academic - B.Ed. from the College of Management; Serves as VP and CFO of Kfar Ha-Macabia since 2004, and as Board member of Gam Dagan Management and Holdings, Ltd.; (10) No; (11) Yes; (12) No.
- e. (1) Joel Sela; (1a) 0515621552; (2) April 21, 1953; (3) 66 Nurit St., Shoham; (4) Israeli; (5) Board member, member of the Audit Committee, of the Financial Statement Review Committee, the Credit and Investment Committee, and of the Investments Committee, has accounting and financial expertise as well as professional qualifications; (6) Yes; has accounting and financial expertise as well as professional qualifications; (7) No; (8) September 23, 2008; (9) Academic; B.A. in economics and accounting from the Tel Aviv University. CEO of Net Intent Ltd. from February 2001. Many years of experience as CFO and CEO of companies in diverse fields; (10) No; (11) Yes; (12) No.
- f. (1) Edna Ramot; (1a) 50499128; (2) January 26, 1951; (3) 2 Harduf St., Ramat Efal 52960; (4) Israeli; (5) Director; (6) No; has professional skills; (7) No; (8) September 22, 2011; (9) Academic; B.A. English literature and linguistics, Bar-Ilan University between 2007-2011, self-employed in the area of personal training and business consultation; (10) No; (11) No, it should be noted that she is the sister of the Company's legal consultant; (12) No.

4.11.1 Directors having Accounting Skills: At the meeting of the Company's Board of Directors held on March 18, 2004, the Company's Board of Directors determined that the proper

minimal number of directors of the Company having accounting and financial skills, taking into consideration, *inter alia*, the size of the Company, the type of its operation, its complexity, etc, would be one Board member, for as long as the Company's Board of Directors comprises up to six members. In actual fact, three directors with accounting and financial expertise out of six members of the Board of Directors serve at the Company, namely, Mr. Zvi Livne (who is a CPA by training and by profession today), Mr. Moshe Baraz (who is a CPA by training and serves as VP and CFO), and Mr. Joel Sela (who holds a B.A. in economics and accounting and serves as CEO).

#### 4.11.2 Senior Officers (Reg. 26A)

Below are details with regard to each of the senior officers of the Company whose details were not set forth in Section 4.10 above, according to the following subsections: (1) name of the officer; 1(a) ID number; (2) date of birth; (2a) date on which the officer assumed office; (3) position held by the officer with the Company, a subsidiary, a related company or an interested party in the Company; (4) is the officer related to another senior officer or to an interested party in the Company? - yes/no (5) education and business experience in the past five years, specifying the professions or fields of education, institution and the academic title or professional diploma held; (6) is the officer responsible for market risk management at the Company – yes/no.

- a. (1) Eyal Saban; (1a) 058138710; (2) July 21, 1963; (2a) January 1, 2000; (3) VP; (4) No; (5) High school graduate and graduate of IDF Mamram training school; since 1995 has been serving as the manager of Netium Ltd.; serves as a Board member and CEO of Netium Ltd; (6) No.
- b. (1) Yair Itzkovich; (1a) 058858176; (2) December 9, 1964; (2a) January 1, 1999; (3) Chief Financial Officer (CFO); (4) No; (5) High school education and Level III Bookkeeping from the Ministry of Labor at the College of Management.; (6) Yes – for details see section 2.4.1 of Chapter B in the Annual Report.
- c. (1) Amit Harari; (1a) 033591843; (2) 11/25/1976; (2a) 10/26/2010; (3) VP and Director of Products Division; (4) No; (5) Academic, BSc in Industrial Engineering from Technion, MBA from Tel Aviv University; prior to joining the Company, served as VP with Computer Business Solutions Ltd; (6) No.
- d. (1) Amir Anchel; (1a) 057697906; (2) 27/06/1962; (2a) 26/02/2012; (3) VP and Director of Budgets; (4) No; (5) Academic, BSc in Computer Engineering from Technion; prior to joining the Company, served as Director of the Systems Division at the Company; (6) No.
- e. (1) Moshe Naar; (1a) 054166087; (2) 17/02/1957; (2a) 26/02/2012; (3) VP and Director of the Systems Division; (4) No; (5) Academic, BSc in Mechanical Engineering from Ben-Gurion University, M.S.M. Boston University; prior to joining the Company, served as Director of Production at Hazera Genetics; (6) No.
- f. (1) Eyal Horowitz; (1a) 058876574; (2) 7/5/1964; (2a) 6/18/2000; (3) Internal Auditor of the Company; (4) No; (5) Academic, LL.B. from the Herzeliya Interdisciplinary Center; BA in Business Management and Accounting from the College of Administration in Tel Aviv; CPA, Managing Partner, Head of the accounting firm Oren Horowitz & Co. through its dissolution in 2008; Managing Partner and CEO of

accounting firm Horowitz, Idan Sabo, Tevet & Cohen Tabach; Senior Lecturer - academic track, College of Management.

4.12 Number of authorized Signatories as determined by the corporation (Reg. 26b)

In accordance with the Board of Directors' resolution dated March 27, 2011, and pursuant to a Securities Authority's directive from January 3, 2008, regarding disclosure of the number of authorized signatories in a corporation, there are two independent signatories in the Company: the controlling shareholder of the Company, Mr. Haim Shani and his wife Mrs. Bareket Shani. For the details mentioned in Regulation 26a of the Securities Regulations (Periodic and Immediate Reports), 1970, regarding Mr. and Mrs. Shani, see section 4.10 above.

(For details, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Corporation's business, dated March 27, 2011, Reference No. 2011-01-094209, hereby included by way of reference.)

4.13 Corporation's Independent Auditor (Reg. 27)

Amit Halfon, CPA - 16 Abba Hillel Street, Ramat Gan.

4.14 Amendment of the Articles or Memorandum of Association (Reg. 28)

On September 22, 2011, the General Meeting of Shareholders of the Company approved, following the approval of the Audit Committee and Board of Directors on July 12, 2011, to amend the Company's Articles of Association as follows:

(1) such that the chapter addressing indemnification and insurance for officers will permit the insurance and indemnification of officers in connection with a payment to those harmed by a breach, who are entitled to insurance and indemnification, and the costs of administrative enforcement procedures pursuant to Chapter H3 (Imposition of a Financial Sanction by the Securities Authority), Chapter H4 (Imposition of Administrative Means of Enforcement by the Administrative Enforcement Committee) and Chapter I1 (Settlement to Refrain from Legal Proceedings or Termination of Proceedings, Stipulated by Conditions) of the Securities Law, including reasonable litigation expenses, including legal fees, and including by way of indemnification in advance, and payment to persons harmed by breach as stated in section 52.54(a)(1)(a) of the Securities Law.

(2) amendments following the entry into force of Amendment No. 16 to the Companies Law, regarding the expiry of the term of office of a director on the date of delivery of notice on imposition of enforcement measures as prescribed in Section 232a of the Company Law and in connection with indemnification following financial sanction;

(3) An amendment to the section dealing with reporting obligations to the securities authority in Belgium, in order to adapt them to the updated requirements of the Belgian statute with regard to the entity to which changes in the holdings of certain shareholders should be reported, since the Company's shares are traded on the Euronext in Belgium.

(For additional details on the amendments of the Company's Articles, see Immediate Report of the Company dated September 22, 2011, reference no: 2011-01-282489, which is hereby included by way of reference, to which an updated version of the Company's amended Articles is attached).

4.15 Recommendations and Resolutions of the Directors and Resolutions of Extraordinary General Meeting (Reg. 29)

**Directors' recommendations to the General Meeting and resolutions that do not require the approval of the General Meeting:**

Since August 2005, given the relatively low prices of shares on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Brussels, Belgium and as a vote of confidence in the Company and its performance, the Company from time to time purchases ordinary shares of the Company as part of the trading on the stock exchanges. Under these plans, the Board of Directors authorized the Company to purchase, from time to time, as part of the trading on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Brussels, or directly from unrelated parties, shares at a maximum amount determined separately for each plan, for a fixed period, after it had reviewed and confirmed the existence of conditions for "distribution" pursuant to the Companies Law and other relevant data. The financing of all the buyback plans came from the Company's revenues from operating activities. For details about any plan adopted as aforesaid, see immediate reports on an Event or Matter Deviating from the Ordinary Course of the Company's Business, detailed below, which are hereby included by way of reference: report dated December 7, 2009, reference no: 2009-01-312105; report dated March 4, 2010, reference no: 2010-01-404196; report dated May 23, 2010, reference no: 2010-01-489135; report dated November 11, 2010, reference no: 2010-01-676662; report dated March 27, 2011, reference no: 2011-01-094101; report dated September 18, 2011, reference no: 2011-01-2777599; report dated November 17, 2011, reference no: 2011-01-330585.

As of the date of publication of this report, the Company holds a total of 1,593,897 shares, purchased as aforesaid, out of 11,678,504 ordinary shares in the Company's issued share capital. These buybacks were made for an aggregate amount of NIS 6,643,000 and at prices of NIS 1.51 to NIS 7.7 per share. On the report date, the Company holds all the shares purchased as aforesaid, and as long as they are held by the Company, they constitute "dormant shares" as defined in the Companies Law, 1999. In addition, on the report date, a buyback plan adopted by the Board of Directors on November 17, 2011, is still in force, under which the Company was authorized to purchase, from time to time, via trading on the stock exchange, or directly from unrelated parties, shares of the Company at an amount that shall not exceed NIS 2 million (including expenses related to the purchase and consultants' and service providers' fees in connection with the purchase). This plan is effective until March 31, 2012. Under this plan, no shares have been purchased until the date of publication of this annual report. On March 29, 2012, the Board of Directors of the Company resolved to adopt a new buy-back plan. for further details, see the immediate report, dated March 29, 2012, Reference No. 2012-01-086538, included herein by way of reference.

On December 28, 2010, the Board of Directors of the Company approved the submission of a prospectus to the Tel Aviv Stock Exchange Ltd (hereinafter – "**the TASE**"), as part of an application to receive approval for the listing of securities thereon, which will be offered pursuant to the prospectus. On February 22, 2011, the Company published a Shelf Prospectus (reference no: 2011-01-058260), which was amended on March 17, 2011 (reference no: 2011-01-084435) (the Shelf Prospectus and its amendment shall hereinafter be jointly referred to as: "**the Shelf Prospectus**"). In accordance with the provisions of section 2.1.1.2 of the Shelf Prospectus, on March 22, 2011, the Company published a Shelf Offering Report (reference no: 2011-01-088428) (hereinafter – "**the Shelf Offering Report**"), under which the Company



offered to issue and list for trading on the TASE, Debentures (Series 3), at such quantities and on such term as set forth in the Shelf Offering Report. Following a tender offer held on March 22, 2011, the Company issued 56,442 debenture units (Series 3) to investors, each unit comprising NIS 1,000 p.v. debentures (Series 3). The total consideration (gross) in respect of the debentures (Series 3), amounted to NIS 56,442,000.

### **Resolutions of a special shareholder meeting**

On March 27, 2011, the Audit Committee and Board of Directors resolved, and a special meeting of shareholders of the Company held on May 12, 2011, resolved to approve an amendment to the employment agreements of Mr. Haim Shani (CEO, Chairman of the Board of Directors and controlling shareholder of the Company) and Mrs. Bareket Shani (Mr. Shani's wife, director and VP of Human Resources at the Company). For details on the amendment to Mr. and Mrs. Shani's employment agreement, see section 4.6.2 above.

In the general meeting of Company shareholders, dated September 22, 2011 the following resolutions were made:

- a. To amend the Company's Articles of Association, as specified in the version attached as **Appendix A** to the Transaction Report published by the Company on July 24, 2011 (reference no: 2011-01-220248) (hereinafter – **"the Transaction Report"**), including the requisite amendments following Amendment 16 to the Companies Law, as well as updates in the Belgian statute.
- b. To appoint Mr. Haim Shani as director (category C) in the Company for an additional term, until the date of the annual general meeting of the Company in 2014.
- c. To appoint Mrs. Bareket Shani as director (category C) in the Company for an additional term, until the date of the annual general meeting of the Company in 2014.
- d. To appoint Mr. Yoel Sela as external director in the Company for an additional term of three years.
- e. To appoint Ms. Edna Ramot as director (category A) in the Company, until the date of the annual general meeting of the Company in 2013.
- f. To re-approve the employment agreements of Mr. Haim Shani CEO, Chairman of the Board of Directors and controlling shareholder of the Company and Mrs. Bareket Shani, Mr. Shani's wife, who serves as director and VP of Human Resources at the Company, in accordance with Section 275(a1) of the Companies Law.
- g. To amend the period of validity of the employment agreements of Mr. Haim Shani CEO, Chairman of the Board of Directors and controlling shareholder of the Company and Mrs. Bareket Shani, director and VP of Human Resources at the Company, such that these agreements are renewed for 3-year periods each, subject to receiving all the statutory approvals.

#### **4.16 The Company's Resolutions (Reg. 29 A)**

Below are details of the Company's resolutions with regard to the approval of acts pursuant to Section 255 and 254(a) of the Companies Law, extraordinary transactions pursuant to Section 271(1) and exemption, insurance and undertaking to indemnify officers, in effect as at the report date:

- 4.16.1 Indemnification: The Company's Board of Directors resolved, on March 18, 2004 (and the resolution was approved by the General Meeting of Company Shareholders of April 13, 2004) to undertake towards officers of the Company that the Company would

indemnify them, in advance, in the cases set forth hereunder, in an amount not exceeding 25% of the Company's equity, as recorded in its financial statements as of the date of the indemnification, for all the officers. This amount will be added to the amount of all insurance benefits in respect of the types of determining events, which the Company will receive from time to time under any officers' liability insurance. The determining events, at the report date, as updated following amendment of the indemnification letter issued to officers of the Company, including controlling shareholders therein, which was approved by the Audit Committee and Board of Directors on July 12, 2011, and later by the General Meeting of Company Shareholders on September 22, 2011, are as follows:

1. Acts in connection with investments (including investments that were not actually implemented) made by the Company, a subsidiary or a related company (within the meaning of these terms in the Securities Law) in various corporations, whether prior to or after effecting the investment, including the engagement in the transaction, the execution of the transaction, the follow-up and supervision of the investment after it was made, and any act performed by an officer in connection therewith.
2. The issuance of securities (including an offering of securities that was not carried out), including, but without derogating from the generality of the foregoing, the offering of the securities to the public pursuant to a prospectus, a private placement, or the offering of securities in any other manner.
3. A transaction as defined in Section 1 of the Companies Law, including the receipt of credit, the sale or purchase of assets or liabilities, including securities or the grant or receipt of a right in any of them, and any act entailed, whether directly or indirectly, in such a transaction.
4. A report or notice filed pursuant to the Companies Law or the Securities Law or any other law applicable to the Company, including regulations enacted pursuant thereto, or pursuant to laws and regulations addressing similar subjects outside of Israel, or pursuant to rules or directives which are customarily applied on the Stock Exchange or any trading market in or outside of Israel, including non-submission of such a report or notice.
5. Acts in connection with the terms of employment of employees, including the handling of pension funds, provident funds, insurance and savings funds, options and other benefits to employees, of any kind or nature.
6. Any act causing bodily injury, disease, death, or damage to property including loss of use thereof.
7. Any act resulting in failure to effect appropriate insurance arrangements.
8. Any restructuring or reorganization of the Company or any decision in such regard, including, without derogating from the generality of the foregoing, a merger, spin-off, change in the capital of the Company, subsidiaries or related companies, the dissolution or sale thereof, the allotment of any kind of security of the Company, a subsidiary or a related company, or the performance of a

distribution (as defined in the Corporate Act) or a purchase offer by or in connection with any of the above.

9. Any utterance or statement, including the expression of an opinion or position, that was made in good faith by the officer in the course of and by virtue of his office, including in the course of General Meetings or meetings of the Board of Directors of the Company, a subsidiary or a related company, or any of the committees of such Board of Directors.
10. Civil or criminal actions relating to the current and ordinary course of the Company's business, and also to extraordinary transactions of the Company.
11. Actions that were filed against an officer in connection with the dissolution or receivership of the Company, a subsidiary or a related company.
12. Derivative actions or class actions in connection with the Company, a subsidiary or a related company.
13. Acts in connection with merger, spin-off, reorganization and similar proceedings.
14. Acts or decisions in connection with the preparation or approval of financial statements, business plans or forecasts in connection with the Company, a subsidiary or a related company.
15. Acts in connection with documents relating to the matters enumerated above, or in connection with acts or decisions relating to the matters enumerated above, or in connection with representations and undertakings given in relation to the matters enumerated above, including such representations and undertakings given to third parties or to the Company, a subsidiary or a related company, or to any party on its behalf (including to its consultants, such as accountants, attorneys, etc.).
16. Any act or omission committed by the officer in the past, in his capacity as an officer of the Company, in respect of which he may be lawfully indemnified.

With regard to the events enumerated above:

**"Securities Law"** - the Securities Law, 1968

**"Companies Law"** - the Companies Law, 1999

**"Securities"** – as defined in section 1 of the Companies Law

The letters of indemnification granted include advance commitment by the Company to indemnify Company officers for any liability or expense in conjunction with the aforementioned events in this section, incurred by the officer due to any act made or to be made by them by virtue of their office with the Company and/or with another company, as set forth below:

- (1) Financial liability to be imposed upon the officer to benefit another person by court verdict, including a verdict handed down by compromise or by arbitration and ratified by a court of law;

- (2) Reasonable litigation expenses, including attorney fees, incurred by the officer subsequent to investigation or proceeding conducted against him by an authorized entity to conduct such investigation or proceedings, and which has ended with no indictment against him (as defined in the Corporate Act) and with no financial liability imposed on him in lieu of criminal proceedings (as defined in the Corporate Act), or which has ended with no indictment against him but with financial liability imposed on him in lieu of criminal proceedings in a felony not requiring proof of criminal intent;  
In this section, "proceedings ended with no indictment in a matter subject to criminal investigation" and "financial liability imposed on him in lieu of criminal proceedings" - as defined in section 260(a)(1a) of the Companies Law, 1999.
- (3) Reasonable litigation expenses, including attorney fees, incurred by the officer or imposed on him by a court of law, in a proceedings filed against him by the company or by the other company or on its behalf or by another person or by criminal indictment of which he is found not guilty or by criminal indictment of which he is found guilty of a felony not requiring proof of criminal intent.
- (4) A financial sanction imposed on an officer in respect of payment to those harmed by a breach, as stated in Section 52.54(a)(1)(a) of the Securities Law. An administrative procedure shall have the following meaning: a procedure pursuant to Chapter H3 (Imposition of a Financial Sanction by the Securities Authority), pursuant to Chapter H4 (Imposition of Administrative Means of Enforcement by the Administrative Enforcement Committee) or Chapter I1 (Settlement to Refrain from Legal Proceedings or Termination of Proceedings, Stipulated by Conditions) of the Securities Law, as amended from time to time.
- (5) Expensed spent by the officer in connection with an administrative procedure (as the term is defined in section (4) above), which was conducted with respect to the officer, including reasonable litigation expenses, as well as legal fees.

The Company's obligations pursuant to the letters of indemnification shall prevail for officers and/or their estate, even after termination of their office with the Company and/or with another company, provided that that acts for which indemnification is given were carried out during their term in office with the Company and/or with another company, regardless of the discovery date of the event for which they are eligible for indemnification pursuant to the indemnification letter.

The letters of indemnification also include a provision which exempts the officers of any liability for damage resulting from breach of their duty of care vis-à-vis the Company, except for their liability to the Company due to breach of their duty of care partitioned, provided that such breach was not made intentionally or recklessly, except if it was made with negligence only.

Should the total amount of indemnification payable by the Company at any time exceed the maximum indemnification amount, the maximum indemnification amount shall be divided among the Company officers eligible for such indemnification with respect to claims made against the Company pursuant to the letters of indemnification which are outstanding prior to said date, such that actual indemnification paid to each of these officers shall be pro-rata to the indemnification amount payable to each officer as percentage of the indemnification amount payable to all officers on cumulative basis, at that time, with respect to said requirements. The letter of indemnification also includes procedural provisions with regard to dates, payment methods, handling the defense of officers etc.

4.16.2 On May 9, 2006 the General Meeting of Company Shareholders approved, further to the approval of the Audit Committee and Board of Directors on March 27, 2006, to amend the provisions of the Company's Articles of Association relating to exemption, insurance and indemnification of officers, in order to bring them into conformity with the provisions of Amendment No. 3 (dated March 17, 2005) of the Companies Law, 1999; and to approve indemnification and exemption and the grant of letters of undertaking to officers serving from time to time in the Company and/or on behalf of the Company in another company, as well as to Mr. Haim Shani and Mrs. Bareket Shani, the controlling shareholder of the Company and his wife, who serve as officers of the Company (for details see immediate report on the results of a meeting, dated May 9, 2006, Reference No. 2006-01-055275, and immediate report on the Results of a Meeting, for Approval of a Transaction with a Controlling Shareholder and/or for Approval of a Private Offering, reference no. 2006-01-055281, hereby included by way of reference).

4.16.3 On September 22, 2011, the General Meeting of Shareholders, following the approval of the Audit Committee and Board of Directors dated July 12, 2011, approved an amendment to the provisions of the Company's Articles of Association regarding, exemption, insurance and indemnity of officers, following the entry into force of the Administrative Enforcement Law and Amendment 16. For additional details on the amendment of the Company's Articles, see section 4.14 above.

4.16.4 Insurance: The Company has a directors and officers liability insurance policy. On January 30, 2012, the Audit Committee and Board of Directors approved the renewal of the policy. For additional details on the policy and its renewal, see section 4.6.8 above.

On September 22, 2011, the General Meeting of Shareholders, following the approval of the Audit Committee and Board of Directors dated July 12, 2011, approved an amendment to and expansion of insurance coverage to incumbent officers and to future Company officers, including officers who are controlling shareholders and/or their relatives. For additional details on the expansion of the insurance coverage, see section 4.6.9 above.

4.16.5 Transaction with an officer: Granting of a special bonus to Mr. Haim Shani, the Company's controlling shareholder, Chairman of the Board of Directors and Company CEO, as compensation for his contribution to the successful performance of the Company in the years leading up to 2004 in general, and in 2004 in particular, and to the Company's return to net profit on that year (for details of the amount of the bonus for the years 2006, 2007, 2009, 2010 and 2011 see sections 1.15.4 and 4.6.2 above).

4.16.6 On April 12, 2007, the Board of Directors approved a private allotment of 210,000 non-negotiable options to a former employee of the Company. The private allotment was a "private offering that is not a substantial private offering or an exceptional private offering," within the meaning of these terms in Regulation 1 of the Securities Regulations (Private Offering of Securities in a Listed Company), 2000. (For details see Immediate Report concerning a Private Offering that is not a Material or Exceptional, dated April 15, 2007, Immediate Report including the Stock Exchange's letter concerning the approval, dated April 29, 2007, and an Amending Report dated June 19, 2007, reference no. 2007-01-431957, amending the periods of exercise of the options that were published in the report from April 15, and a report regarding the expiry of 105,000 options out of the 210,000 options allotted to a former employee, dated

September 5, 2011, reference no: 2011-01-265416, which are hereby included by way of reference).

- 4.16.7 Transaction with an officer: On July 3, 2007 the Annual General Meeting of Company Shareholders approved the resolutions of the Board of Directors from March 25, 2007 concerning Mr. Moshe Baraz, an external director of the Company, with respect to the grant of indemnification under a permit to indemnify, as provided in the Company's Articles of Association, the inclusion of Mr. Baraz in the insurance coverage for directors and officers of the Company, and an approval for granting annual compensation and participation compensation (for details see Amending Report dated March 31, 2007, reference no. 2007-01-354083, to the erroneous immediate report concerning the grant of indemnification to an officer, dated March 31, 2007, and sections 2 and 3 of the Immediate Report concerning the Results of a Meeting, published on July 3, 2007, reference no. 2007-01-313657, hereby included by way of reference).
- 4.16.8 Transaction with an officer: On September 23, 2008, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 1, 2008, concerning Mr. Joel Sela, an external director of the Company, with respect to the grant of indemnification under a permit to indemnify as provided in the Company's Articles of Association, the inclusion of Mr. Sela in the insurance coverage for directors and officers of the Company, and an approval for granting annual compensation and participation compensation (for details, see Immediate Report on the Indemnification of an Officer, dated September 24, 2008, reference no. 2008-01-004735, and Immediate Report on the Results of a Meeting, published on September 24, 2008, reference no. 2008-01-004717, hereby included by way of reference).
- 4.16.9 Transaction with an officer: On September 22, 2011, the General Meeting of Company Shareholders approved the resolutions of the Board of Directors from July 12, 2011, concerning Ms. Edna Ramot, a director of the Company (category A), with respect to the grant of indemnification under a permit to indemnify, as stipulated in the amended Company's Articles, as stated in section 4.16.3 above, the inclusion of Ms. Ramot in the insurance coverage for directors and officers of the Company, and an approval for granting annual compensation and participation compensation (for details, see Immediate Report on the Indemnification of an Officer, dated September 2, 2011, reference no. 2011-01-282483, and Immediate Report on the Results of a Meeting, published on September 22, 2011, reference no. 2011-01-282429, hereby included by way of reference).
- 4.16.10 Transaction with an officer: On February 26, 2011, the Audit Committee and Board of Directors approved the inclusion of Messrs: Amir Anchel, Moshe Naar and Kobi (Yaakov) Wieder, in the insurance coverage of directors and officers of the Company, under the same conditions as other officers are insured. The terms of employment of Messrs: Anchel, Naar and Wieder do not include indemnification.

March 29, 2012

Unitronics (1989) (R"G) Ltd.

By Mr. Haim Shani, CEO and  
Chairman of the Board of Directors

Zvi Livne, Board member

**Chapter E - Annual Report on Effectiveness of Internal Control over  
Financial Reporting and Disclosure**

- a. Annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of Securities Law Regulations (Periodic and Immediate Reports), 1970 ("the regulations")
- b. Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations
- c. Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations



**Below is the annual report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b(a) of the regulations:**

Management, supervised by the Board of Directors of UNITRONICS (1989) (R"G) Ltd. ("the corporation") is responsible to set and maintain proper internal control over financial reporting and disclosure by the corporation.

For this matter, management consists of:

HAIM SHANI, Company CEO

BAREKET SHANI, Deputy CEO

EYAL SABAN, VP

YAIR ITZKOVICH, CFO

Internal control over financial reporting and disclosure consists of existing controls and procedures at the corporation, designed by the general manager and most senior financial officer, or under their supervision, or by those acting in said capacities, under supervision of the corporation's Board of Directors, which are designed to provide reasonable certainty with respect to reliability of financial reporting and preparation of reports pursuant to statutory provisions, and to ensure that information which the corporation is required to disclose in reports issued pursuant to statutory provisions is collected, processed, summarized and reported on schedule and in the format prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the corporation is required to disclose, is collected and submitted to corporate management, including to the general manager and to the most senior financial officer, or to those acting in said capacities, so as to enable decisions to be made at the appropriate time with regard to the required disclosure.

Due to structural limitations, internal control over financial reporting and disclosure is not designed to provide absolute certainty that misrepresentation or omission of information on the reports would be avoided or discovered.

Management, supervised by the Board of Directors, shall review and assess the internal control over financial reporting and disclosure at the corporation and the effectiveness thereof; based on this assessment, the Board of Directors and management of the corporation have reached the conclusion that internal control over financial reporting and disclosure at the corporation as of December 31, 2011, the date of these financial statements, is effective.

**Certification by CEO pursuant to Regulation 9b(d)(1) of the regulations:**

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for 2011 ("the report").
2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
  - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -
  - b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
  - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries there of, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and -
  - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
  - c. Have assessed the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions drawn by the Board of Directors and management with regard to effectiveness of said internal control as of the report date.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 29, 2012

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HAIM SHANI, CEO

**Certification by CFO pursuant to Regulation 9b(d)(2) of the regulations**

I, YAIR ITZKOVICH, certify that:

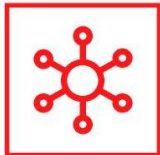
1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for 2011 ("the report").
2. To the best of my knowledge, the report is free of any mis-representation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.
3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.
4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
  - a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -
  - b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;
5. I, on my own or with others at the corporation:
  - a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries thereof, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and -
  - b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
  - c. Have assessed the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions drawn by the Board of Directors and management with regard to effectiveness of said internal control as of the report date.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 29, 2012

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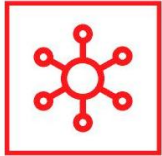
YAIR ITZKOVICH, CFO



**Unitronics (1989) (R"G) Ltd.**

**Fair Value Valuation of  
Embedded Derivatives**

**Valuation Date: 31/12/2011**



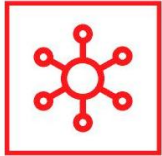
## Limitation Conditions

The document was prepared solely for the management of Unitronics Ltd. (Hereinafter: the "**Management**", "**Unitronics**" or the "**Company**") for the purposes stated herein and should not be relied upon for any other purpose. Unless required by law it shall not be provide to any third party without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the report is disclosed or otherwise made available.

In the course of our analysis, we made use of financial and other information and representations provided to us by the Management or its representatives. We assume such information reliable. The more significant sources of this information are identified in the accompanying report. Our conclusions are dependent on such information being complete and accurate in all material respects; however, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the existing business records of the Company. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Management.

Projections relating to future events are based on assumptions, which may not remain valid for the whole of the relevant period. Particularly, projections are based solely on the information that was available on Valuation Dates, and may differ from projections and/or financial results that were made available later on. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected by the Company.



The valuation is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Therefore, there is no indisputable single value and we normally express our opinion on the value as falling within a likely range. However, as purpose requires the expression of a single value, we have adopted a value at the mid-point of our valuation range.

Whilst we consider our value/range of values to be both reasonable and defensible based on the information available to us, others may place a different value on the business.

Excluding gross negligence and malice, Financial Immunities and its employees or any other party acting on its behalf, shall not be liable for any loss or damage whatsoever that the Company may suffer, directly or indirectly, as a result of Financial Immunities services.

Without derogating from the previously mentioned, in any event whatsoever, Financial Immunities liability shall be limited to the amount of fees payable by the Company to Financial Immunities in respect with providing its services for preparing the Project.

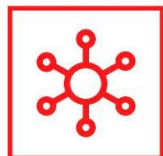
The Company will indemnify Financial Immunities against all claims by third parties that arise out of or in connection with the Project and/or services rendered under this agreement

Finally, the results of our valuation do not constitute a Solvency Opinion or a Fairness Opinion, and should not be relied upon as such. Furthermore, the analysis we perform should not be taken to supplant any procedures that the Company should undertake in connection with the transaction.

Financial Immunities has no personal interest in the Company, and its fees are not contingent on the conclusions of this opinion.

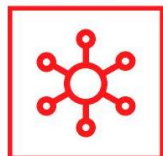
We have not performed in the past a fair value valuation for the Company.

Sincerely,  
Financial Immunities Ltd.



## Contents

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## Fair Value Valuation of Embedded Derivatives

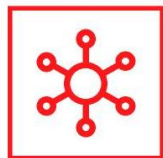
### 1. Background

Unitronics Company focuses on the design, development, manufacture, marketing, sale and support of mass production line automation products and realization of logistic systems automation projects. The Company signed an agreement with a customer. Under the terms of the agreement, the Company undertook to accomplish a project expected to generate to the Company future cash flows denominated in euro. As of this moment, EUR does not represent the functional currency either for Unitronics or for the customer. Company's experience with the analogous projects indicates that there exists a reasonable probability for deviation of payment terms from the originally scheduled ones.

The table bellow presents the expected payments as reported by the Company:

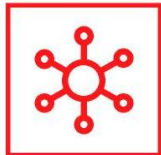
| Transaction No. | Date of order signing                        | Inflow in EUR |
|-----------------|----------------------------------------------|---------------|
| SO9024592       | 06/05/2009                                   | € 10,591,854  |
| SO9024593       | 06/05/2009,07/12/2009                        | € 4,497,003   |
| SO9026013       | 29/09/2009,11/12/2009,15/01/2010, 24/03/2010 | € 1,440,190   |
| SO9027063       | 23/12/2009                                   | € 177,000     |
| SO10027583      | 04/02/2010                                   | € 137,458     |
| SO9026912       | 17/12/2009,13/01/2010                        | € 1,821,520   |
| SO10028957      | 31/05/2010                                   | € 45,325      |
| SO10029075      | 10/06/2010                                   | € 100,880     |
| SO10028772      | 16/05/2010                                   | € 1,726,001   |
| SO10029601      | 28/07/2010                                   | € 1,158,700   |
| SO10029738      | 12/08/2010                                   | € 179,575     |
| SO10030086      | 19/09/2010                                   | € 139,421     |
| SO10030459      | 24/10/2010                                   | € 48,000      |
| SO10030873      | 28/11/2010                                   | € 77,649      |
| SO10030874      | 28/11/2010                                   | € 234,260     |
| SO10031217      | 22/12/2010                                   | € 21,814      |
| SO10031195      | 21/12/2010                                   | € 28,093      |
| SO10030475      | 25/10/2010                                   | € 74,817      |
| SO10031025      | 07/12/2010                                   | € 41,453      |
| SO10030653      | 08/11/2010                                   | € 33,000      |
| SO11033018      | 16/03/2011                                   | € 24,179      |
| SO11033017      | 16/03/2011                                   | € 32,626      |
| Total           |                                              | € 22,630,818  |





The following table reports the expected inflows in ILS as of the date of agreement signing and the valuation date (31/12/2011):

| Transaction No. | Cumulative Actual Amount in EUR as of 31/12/2011 | Total Cumulative Actual Amount in ILS as of 31/12/2011 | 2009                         |                            | 2010                         |                            | 2011                         |                            |
|-----------------|--------------------------------------------------|--------------------------------------------------------|------------------------------|----------------------------|------------------------------|----------------------------|------------------------------|----------------------------|
|                 |                                                  |                                                        | 2009 Year                    |                            | Previous Year                |                            | Current Year                 |                            |
|                 |                                                  |                                                        | Total Expected Amount in ILS | Total Actual Amount in ILS | Total Expected Amount in ILS | Total Actual Amount in ILS | Total Expected Amount in ILS | Total Actual Amount in ILS |
| SO9024592       | € 9,003,076                                      | ₪46,147,171                                            | ₪14,577,321                  | ₪14,746,628                | ₪29,747,772                  | ₪26,656,597                | ₪5,237,501                   | ₪4,743,947                 |
| SO9024593       | € 4,497,003                                      | ₪22,980,597                                            | ₪6,918,719                   | ₪6,875,196                 | ₪11,682,369                  | ₪10,517,110                | ₪6,191,981                   | ₪5,588,291                 |
| SO9026013       | € 1,296,171                                      | ₪6,631,183                                             | ₪1,384,069                   | ₪1,395,250                 | ₪5,671,166                   | ₪5,235,933                 | ₪0                           | ₪0                         |
| SO9027063       | € 177,000                                        | ₪906,618                                               | ₪0                           | ₪0                         | ₪719,572                     | ₪683,235                   | ₪239,650                     | ₪223,383                   |
| SO10027583      | € 123,737                                        | ₪621,075                                               | ₪0                           | ₪0                         | ₪582,058                     | ₪566,248                   | ₪56,001                      | ₪54,827                    |
| SO9026912       | € 1,409,140                                      | ₪7,200,670                                             | ₪0                           | ₪0                         | ₪7,077,563                   | ₪6,657,687                 | ₪585,143                     | ₪542,983                   |
| SO10028957      | € 36,260                                         | ₪174,423                                               | ₪0                           | ₪0                         | ₪86,233                      | ₪84,613                    | ₪86,335                      | ₪89,811                    |
| SO10029075      | € 85,748                                         | ₪428,740                                               | ₪0                           | ₪0                         | ₪280,603                     | ₪302,640                   | ₪116,978                     | ₪126,100                   |
| SO10028772      | € 1,553,401                                      | ₪7,698,512                                             | ₪0                           | ₪0                         | ₪4,938,815                   | ₪5,139,187                 | ₪2,389,284                   | ₪2,559,325                 |
| SO10029601      | € 1,158,700                                      | ₪5,829,432                                             | ₪0                           | ₪0                         | ₪2,004,760                   | ₪2,011,463                 | ₪3,728,806                   | ₪3,817,969                 |
| SO10029738      | € 163,642                                        | ₪821,962                                               | ₪0                           | ₪0                         | ₪773,057                     | ₪796,804                   | ₪24,723                      | ₪25,158                    |
| SO10030086      | € 139,421                                        | ₪684,614                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪679,862                     | ₪684,614                   |
| SO10030459      | € 48,000                                         | ₪240,000                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪242,487                     | ₪240,000                   |
| SO10030873      | € 73,767                                         | ₪358,539                                               | ₪0                           | ₪0                         | ₪189,002                     | ₪182,273                   | ₪170,136                     | ₪176,266                   |
| SO10030874      | € 222,547                                        | ₪1,081,679                                             | ₪0                           | ₪0                         | ₪570,203                     | ₪549,902                   | ₪513,285                     | ₪531,777                   |
| SO10031217      | € 0                                              | ₪0                                                     | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪0                           | ₪0                         |
| SO10031195      | € 28,093                                         | ₪133,000                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪132,855                     | ₪133,000                   |
| SO10030475      | € 67,335                                         | ₪331,341                                               | ₪0                           | ₪0                         | ₪244,980                     | ₪237,162                   | ₪94,170                      | ₪94,179                    |
| SO10031025      | € 37,308                                         | ₪180,540                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪180,269                     | ₪180,540                   |
| SO10030653      | € 33,000                                         | ₪167,134                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪165,701                     | ₪167,134                   |
| SO11033018      | € 24,179                                         | ₪120,000                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪119,895                     | ₪120,000                   |
| SO11033017      | € 32,626                                         | ₪161,923                                               | ₪0                           | ₪0                         | ₪0                           | ₪0                         | ₪161,772                     | ₪161,923                   |
|                 | € 20,210,153                                     | ₪102,899,154                                           | ₪22,880,108                  | ₪23,017,074                | ₪64,568,155                  | ₪59,620,853                | ₪21,116,833                  | ₪20,261,227                |



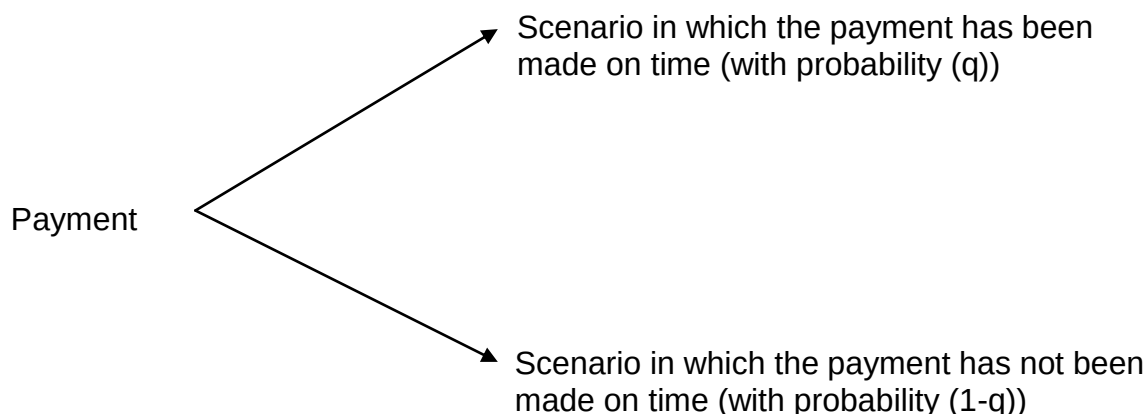
## 2. Methodology

An embedded derivative is a derivative that embedded in buy or sales contracts of products or services. In accounting literature, those contracts are also known as "Host Contracts". In Israel, embedded derivatives are often a part of transactions denominated in a currency, which is not the functional currency of a reporting company and/or of transaction counterpart's company (for example, foreign currency derivatives in such transactions as purchases from suppliers, sales to customers, or real estate rent contracts).

According to IAS 39 – "Financial Instruments: Recognition and Management", embedded derivatives have to be separated from host contracts, and treated as separate derivative financial instruments. In particular, embedded derivatives have to be evaluated with respect to their fair value estimated against corresponding profits and losses.

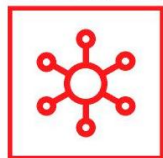
## 3. Calculation Model

We derive our calculation model from the decision making model. Since the exact date of payment is unknown and there is a probability for a delay, we chose to use the decision tree algorithm.

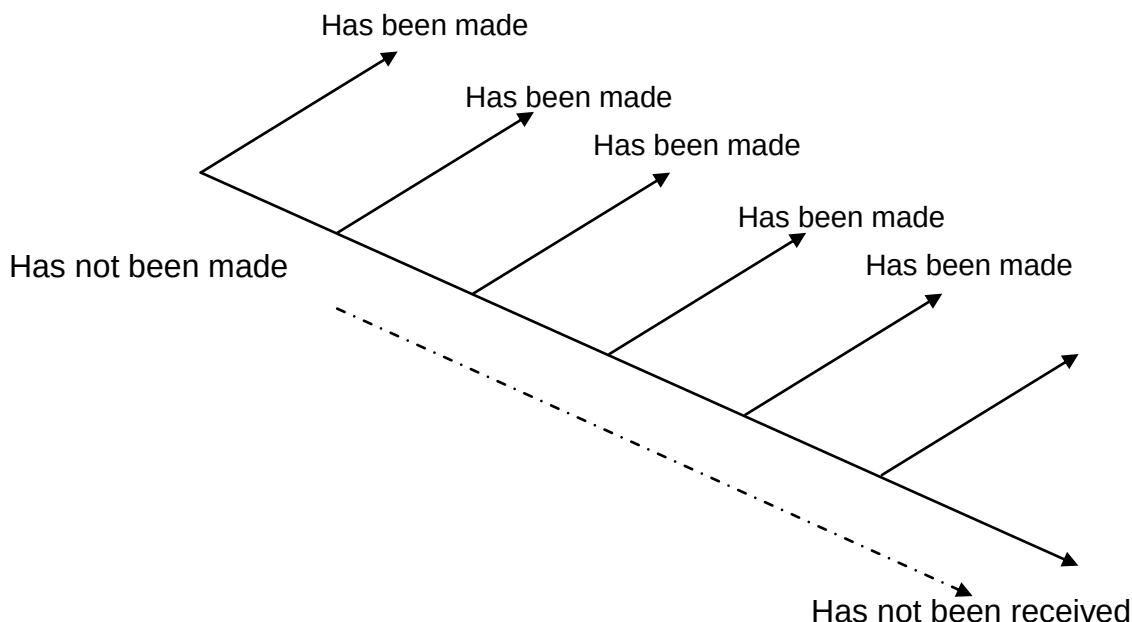


In accordance with the data obtained from the Company, the probability to each of the scenarios to occur is assumed equal (i. e. 50% probability for each of the scenarios).

The following figure illustrates possible implementation of the introduced above model. More specifically, the figure shows that if payment is made at

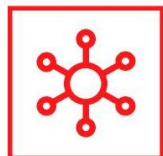


the originally scheduled date, then no delay will be considered. In contrast, if the payment has not been made on time, we will move to the next point (of the model) – possible payment date next to the initially scheduled one - and then reexamine whether or not the payment is made.



## 4. ILS Cash Flow Calculations

A. Applying decision tree algorithm, we first compute forward rate, which afterward used for calculations of ILS payment equivalent as of the agreement inception date. The forward rate calculations based on the assumption that probability of not receiving payment in time is equal to 50%. Based on its experience with similar projects, the Company estimates possible delay in payment as of up to three months (with respect to the payment terms set forth in the project's schedule). To examine the probability of delay in the payment, we test a number of possible scenarios with different delay lengths (two weeks, month, and so on up to three months, increasing the lag period in 15 days each time). In order to estimate the forward rates, we used the forward rates as of agreement inception dates for each of the future scenario terms (06/05/2009, 29/09/2009, 07/12/2009, 11/12/2009, 17/12/2009, 23/12/2009, 13/01/2010, 15/01/2010, 04/02/2010, 24/03/2010, 16/05/2010, 31/05/2010, 10/06/2010, 28/07/2010, 12/08/2010, 19/09/2010, 24/10/2010, 25/10/2010, 08/11/2010, 28/11/2010, 07/12/2010, 21/12/2010, 22/12/2010, 16/03/2011).



For example: for the payment expected on 31/05/2010 there is a probability of 50% to be made on this date (in accordance with the future rate determined for the corresponding date), and a probability of 50% to be made during the next three months following after the initially scheduled date (according to the Company).

**B.** After we estimated the constant ILS inflow for each payment date, we estimate the forward rate for 31/12/2011 (the valuation date). We compute the forward rate for the valuation date in a similar way we do for the agreement inception date. Since such market parameters as interest rate, exchange rate, and others changed over the period between the agreement inception date and the valuation date, values of forward rates for those two dates are not the same.

**C.** The following table reports payments in ILS for a corresponding agreement inception date:

| Transaction | Date of order signing                        | Inflow in ILS |
|-------------|----------------------------------------------|---------------|
| SO9024592   | 06/05/2009                                   | ₪58,252,053   |
| SO9024593   | 06/05/2009,07/12/2009                        | ₪24,793,069   |
| SO9026013   | 29/09/2009,11/12/2009,15/01/2010, 24/03/2010 | ₪7,842,275    |
| SO9027063   | 23/12/2009                                   | ₪959,222      |
| SO10027583  | 04/02/2010                                   | ₪709,800      |
| SO9026912   | 17/12/2009,13/01/2010                        | ₪9,903,249    |
| SO10028957  | 31/05/2010                                   | ₪216,440      |
| SO10029075  | 10/06/2010                                   | ₪468,896      |
| SO10028772  | 16/05/2010                                   | ₪8,163,072    |
| SO10029601  | 28/07/2010                                   | ₪5,733,566    |
| SO10029738  | 12/08/2010                                   | ₪876,083      |
| SO10030086  | 19/09/2010                                   | ₪679,862      |
| SO10030459  | 24/10/2010                                   | ₪242,487      |
| SO10030873  | 28/11/2010                                   | ₪378,140      |
| SO10030874  | 28/11/2010                                   | ₪1,140,814    |
| SO10031217  | 22/12/2010                                   | ₪103,370      |
| SO10031195  | 21/12/2010                                   | ₪132,855      |
| SO10030475  | 25/10/2010                                   | ₪377,088      |
| SO10031025  | 07/12/2010                                   | ₪200,460      |
| SO10030653  | 08/11/2010                                   | ₪165,701      |
| SO11033018  | 16/03/2011                                   | ₪119,895      |
| SO11033017  | 16/03/2011                                   | ₪161,772      |
| Total       |                                              | ₪121,620,168  |



D. The following tables summarize the data used for the forward rate and ILS payment calculations for corresponding agreement inception date.

Date: 06/05/2009.

|                            | 1 Day   | 1 Week  | 1 Month | 2 Month  | 3 Month  | 6 Month | 9 Month      | 1 Year  | 18 Month | 2 Year  | 3 Year | 4 Year  | 5 Year  |
|----------------------------|---------|---------|---------|----------|----------|---------|--------------|---------|----------|---------|--------|---------|---------|
| Forward Points:            | 0.00015 | 0.00007 | 0.00006 | -0.00035 | -0.00043 | 0.00262 | 0.00763      | 0.01511 | 0.04709  | 0.09596 | 0.1828 | 0.27091 | 0.35537 |
| EUR Depo Rate:             | 0.375   | 0.68    | 0.85    | 1.13     | 1.39     | 1.59    | 1.51         | 1.65    | 1.803    | 1.956   | 2.315  | 2.606   | 2.846   |
| ILS Depo Rate:             | 0.711   | 0.755   | 0.874   | 1.108    | 1.379    | 1.707   | 1.716        | 1.951   | 2.406    | 2.866   | 3.468  | 3.882   | 4.18    |
| <b>06/05/2009</b>          |         |         |         |          |          |         |              |         |          |         |        |         |         |
| (Original) Date of Payment |         |         |         |          |          |         | Forward Rate |         |          |         |        |         |         |
| 15/01/2010                 |         |         |         |          |          |         | 5.5147       |         |          |         |        |         |         |
| 01/03/2010                 |         |         |         |          |          |         | 5.5181       |         |          |         |        |         |         |
| 01/04/2010                 |         |         |         |          |          |         | 5.5212       |         |          |         |        |         |         |
| 01/05/2010                 |         |         |         |          |          |         | 5.5245       |         |          |         |        |         |         |
| 01/07/2010                 |         |         |         |          |          |         | 5.5340       |         |          |         |        |         |         |
| 01/08/2010                 |         |         |         |          |          |         | 5.5551       |         |          |         |        |         |         |
| 01/10/2010                 |         |         |         |          |          |         | 5.5515       |         |          |         |        |         |         |
| 01/11/2010                 |         |         |         |          |          |         | 5.5583       |         |          |         |        |         |         |
| 01/12/2010                 |         |         |         |          |          |         | 5.5654       |         |          |         |        |         |         |
| 23/12/2010                 |         |         |         |          |          |         | 5.5711       |         |          |         |        |         |         |
| 23/03/2011                 |         |         |         |          |          |         | 5.5953       |         |          |         |        |         |         |

Date: 29/09/2009.

|                            | 1 Day    | 1 Week   | 1 Month  | 2 Month  | 3 Month  | 6 Month  | 9 Month      | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|----------|----------|----------|----------|----------|----------|--------------|---------|----------|---------|---------|---------|---------|
| Forward Points:            | -0.00005 | -0.00033 | -0.00221 | -0.00254 | -0.00383 | -0.00459 | -0.00208     | 0.00372 | 0.03468  | 0.08638 | 0.17453 | 0.27354 | 0.37392 |
| EUR Depo Rate:             | 0.28     | 0.29     | 0.31     | 0.57     | 0.78     | 1.07     | 1.03         | 1.15    | 1.406    | 1.666   | 2.157   | 2.431   | 2.697   |
| ILS Depo Rate:             | -0.038   | -0.015   | -0.146   | 0.30     | 0.523    | 0.916    | 0.993        | 1.235   | 1.852    | 2.484   | 3.257   | 3.718   | 4.097   |
| <b>29/09/2009</b>          |          |          |          |          |          |          |              |         |          |         |         |         |         |
| (Original) Date of Payment |          |          |          |          |          |          | Forward Rate |         |          |         |         |         |         |
| 31/01/2010                 |          |          |          |          |          |          | 5.4864       |         |          |         |         |         |         |
| 31/07/2010                 |          |          |          |          |          |          | 5.4894       |         |          |         |         |         |         |
| 31/12/2011                 |          |          |          |          |          |          | 5.5246       |         |          |         |         |         |         |

Date: 07/12/2009.

|                            | 1 Day   | 1 Week  | 1 Month  | 2 Month  | 3 Month  | 6 Month  | 9 Month      | 1 Year   | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year |
|----------------------------|---------|---------|----------|----------|----------|----------|--------------|----------|----------|---------|---------|---------|--------|
| Forward Points:            | 0.00002 | 0.00011 | -0.00035 | -0.00212 | -0.00323 | -0.00524 | -0.00802     | -0.01053 | -0.00391 | 0.01073 | 0.06152 | 0.12813 | 0.2075 |
| EUR Depo Rate:             | 0.32    | 0.25    | 0.42     | 0.45     | 0.60     | 0.92     | 1.10         | 1.19     | 1.482    | 1.777   | 2.226   | 2.445   | 2.683  |
| ILS Depo Rate:             | 0.424   | 0.351   | 0.357    | 0.234    | 0.375    | 0.745    | 0.927        | 1.017    | 1.456    | 1.899   | 2.628   | 3.057   | 3.467  |
| <b>07/12/2009</b>          |         |         |          |          |          |          |              |          |          |         |         |         |        |
| (Original) Date of Payment |         |         |          |          |          |          | Forward Rate |          |          |         |         |         |        |
| 01/03/2010                 |         |         |          |          |          |          | 5.6343       |          |          |         |         |         |        |
| 01/04/2010                 |         |         |          |          |          |          | 5.6325       |          |          |         |         |         |        |
| 01/05/2010                 |         |         |          |          |          |          | 5.6313       |          |          |         |         |         |        |
| 01/07/2010                 |         |         |          |          |          |          | 5.6286       |          |          |         |         |         |        |
| 01/08/2010                 |         |         |          |          |          |          | 5.6271       |          |          |         |         |         |        |
| 01/10/2010                 |         |         |          |          |          |          | 5.6244       |          |          |         |         |         |        |



Date: 11/12/2009.

|                            | 1 Day    | 1 Week   | 1 Month | 2 Month  | 3 Month  | 6 Month  | 9 Month  | 1 Year       | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|----------|----------|---------|----------|----------|----------|----------|--------------|----------|---------|---------|---------|---------|
| Forward Points:            | -0.00001 | -0.00005 | -0.0012 | -0.00176 | -0.00256 | -0.00334 | -0.00492 | -0.00642     | 0.01018  | 0.04028 | 0.11647 | 0.21267 | 0.31777 |
| EUR Depo Rate:             | 0.33     | 0.29     | 0.40    | 0.56     | 0.79     | 1.06     | 1.10     | 1.28         | 1.511    | 1.744   | 2.136   | 2.425   | 2.674   |
| ILS Depo Rate:             | 0.27     | 0.245    | 0.149   | 0.383    | 0.613    | 0.953    | 0.995    | 1.18         | 1.657    | 2.139   | 2.879   | 3.431   | 3.869   |
| 11/12/2009                 |          |          |         |          |          |          |          |              |          |         |         |         |         |
| (Original) Date of Payment |          |          |         |          |          |          |          | Forward Rate |          |         |         |         |         |
| 31/03/2010                 |          |          |         |          |          |          |          | 5.5551       |          |         |         |         |         |
| 31/07/2010                 |          |          |         |          |          |          |          | 5.5511       |          |         |         |         |         |
| 31/12/2011                 |          |          |         |          |          |          |          | 5.5564       |          |         |         |         |         |

Date: 17/12/2009.

|                            | 1 Day | 1 Week   | 1 Month  | 2 Month  | 3 Month  | 6 Month  | 9 Month  | 1 Year       | 18 Month | 2 Year  | 3 Year  | 4 Year | 5 Year  |
|----------------------------|-------|----------|----------|----------|----------|----------|----------|--------------|----------|---------|---------|--------|---------|
| Forward Points:            | 0.00  | -0.00002 | -0.00047 | -0.00085 | -0.00138 | -0.00093 | -0.00193 | -0.00327     | 0.01129  | 0.03691 | 0.10283 | 0.1899 | 0.28592 |
| EUR Depo Rate:             | 0.305 | 0.22     | 0.33     | 0.46     | 0.76     | 0.53     | 1.18     | 1.32         | 1.49     | 1.66    | 2.042   | 2.347  | 2.605   |
| ILS Depo Rate:             | 0.301 | 0.204    | 0.234    | 0.376    | 0.669    | 0.503    | 1.149    | 1.277        | 1.651    | 2.028   | 2.71    | 3.26   | 3.697   |
| 17/12/2009                 |       |          |          |          |          |          |          |              |          |         |         |        |         |
| (Original) Date of Payment |       |          |          |          |          |          |          | Forward Rate |          |         |         |        |         |
| 30/05/2010                 |       |          |          |          |          |          |          | 5.4517       |          |         |         |        |         |
| 30/07/2010                 |       |          |          |          |          |          |          | 5.4499       |          |         |         |        |         |
| 15/08/2010                 |       |          |          |          |          |          |          | 5.4495       |          |         |         |        |         |
| 03/10/2010                 |       |          |          |          |          |          |          | 5.4476       |          |         |         |        |         |
| 19/01/2011                 |       |          |          |          |          |          |          | 5.4484       |          |         |         |        |         |
| 19/04/2011                 |       |          |          |          |          |          |          | 5.4544       |          |         |         |        |         |

Date: 23/12/2009.

|                            | 1 Day   | 1 Week  | 1 Month  | 2 Month  | 3 Month  | 6 Month  | 9 Month  | 1 Year       | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|---------|---------|----------|----------|----------|----------|----------|--------------|----------|---------|---------|---------|---------|
| Forward Points:            | 0.00001 | 0.00007 | -0.00011 | -0.00074 | -0.00116 | -0.00014 | -0.00172 | -0.00429     | 0.02005  | 0.05685 | 0.14635 | 0.24947 | 0.36269 |
| EUR Depo Rate:             | 0.29    | 0.22    | 0.33     | 0.47     | 0.75     | 1.03     | 1.16     | 1.30         | 1.497    | 1.695   | 2.094   | 2.445   | 2.728   |
| ILS Depo Rate:             | 0.367   | 0.29    | 0.311    | 0.393    | 0.677    | 1.039    | 1.134    | 1.238        | 1.767    | 2.248   | 3.029   | 3.631   | 4.098   |
| 23/12/2009                 |         |         |          |          |          |          |          |              |          |         |         |         |         |
| (Original) Date of Payment |         |         |          |          |          |          |          | Forward Rate |          |         |         |         |         |
| 31/03/2010                 |         |         |          |          |          |          |          | 5.4202       |          |         |         |         |         |
| 31/05/2010                 |         |         |          |          |          |          |          | 5.4192       |          |         |         |         |         |

Date: 13/01/2010.

|                            | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year       | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|--------------|----------|---------|---------|---------|--------|
| Forward Points:            | 0.00014 | 0.00024 | 0.00198 | 0.0023  | 0.00329 | 0.0071  | 0.01108 | 0.01546      | 0.03999  | 0.07317 | 0.15718 | 0.26377 | 0.3837 |
| EUR Depo Rate:             | 0.30    | 0.40    | 0.47    | 0.495   | 0.575   | 0.85    | 1.10    | 1.20         | 1.441    | 1.694   | 2.10    | 2.414   | 2.676  |
| ILS Depo Rate:             | 0.544   | 0.638   | 0.90    | 0.768   | 0.833   | 1.131   | 1.395   | 1.507        | 1.969    | 2.411   | 3.121   | 3.69    | 4.149  |
| 13/01/2010                 |         |         |         |         |         |         |         |              |          |         |         |         |        |
| (Original) Date of Payment |         |         |         |         |         |         |         | Forward Rate |          |         |         |         |        |
| 30/05/2010                 |         |         |         |         |         |         |         | 5.3426       |          |         |         |         |        |
| 15/08/2010                 |         |         |         |         |         |         |         | 5.3446       |          |         |         |         |        |
| 19/01/2011                 |         |         |         |         |         |         |         | 5.3544       |          |         |         |         |        |
| 19/04/2011                 |         |         |         |         |         |         |         | 5.3647       |          |         |         |         |        |



Date: 15/01/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|--------|
| Forward Points: | 0.00006 | 0.00047 | 0.00184 | 0.00265 | 0.00316 | 0.00769 | 0.01055 | 0.01271 | 0.03715  | 0.07004 | 0.14992 | 0.25249 | 0.3645 |
| EUR Depo Rate:  | 0.45    | 0.325   | 0.35    | 0.375   | 0.475   | 0.86    | 1.04    | 1.16    | 1.397    | 1.639   | 2.052   | 2.369   | 2.631  |
| ILS Depo Rate:  | 0.838   | 0.79    | 0.764   | 0.689   | 0.718   | 1.165   | 1.323   | 1.419   | 1.891    | 2.331   | 3.03    | 3.598   | 4.041  |

| 15/01/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 30/03/2010                 | 5.3028       |
| 30/07/2010                 | 5.3058       |
| 31/12/2011                 | 5.3182       |

Date: 04/02/2010.

|                 | 1 Day    | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|----------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | -0.00001 | 0.00007 | 0.00276 | 0.00511 | 0.00766 | 0.01558 | 0.02516 | 0.03607 | 0.05308  | 0.06577 | 0.11818 | 0.19141 | 0.27068 |
| EUR Depo Rate:  | 0.29     | 0.305   | 0.395   | 0.445   | 0.485   | 0.825   | 1.10    | 1.19    | 1.388    | 1.589   | 1.958   | 2.27    | 2.505   |
| ILS Depo Rate:  | 0.208    | 0.375   | 1.102   | 1.068   | 1.091   | 1.448   | 1.776   | 1.918   | 2.107    | 2.261   | 2.762   | 3.241   | 3.599   |

| 04/02/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 31/03/2010                 | 5.1562       |
| 31/05/2010                 | 5.1638       |
| 01/06/2010                 | 5.1639       |
| 01/08/2010                 | 5.1672       |
| 01/09/2010                 | 5.1704       |

Date: 24/03/2010.

|                 | 1 Day   | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|--------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00042 | 0.0009 | 0.00181 | 0.00385 | 0.00635 | 0.0138  | 0.02205 | 0.03203 | 0.04968  | 0.06851 | 0.12498 | 0.19499 | 0.26943 |
| EUR Depo Rate:  | 0.28    | 0.235  | 0.365   | 0.405   | 0.455   | 0.82    | 1.03    | 1.18    | 1.319    | 1.459   | 1.818   | 2.133   | 2.413   |
| ILS Depo Rate:  | 0.902   | 0.836  | 0.796   | 0.872   | 0.955   | 1.378   | 1.632   | 1.841   | 2.006    | 2.171   | 2.683   | 3.143   | 3.527   |

| 24/03/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 31/07/2010                 | 5.0034       |
| 30/09/2010                 | 5.0076       |
| 31/12/2011                 | 5.0234       |

Date: 16/05/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00007 | 0.00027 | 0.00107 | 0.00282 | 0.00532 | 0.01496 | 0.02399 | 0.03476 | 0.06839  | 0.11256 | 0.20127 | 0.28795 | 0.37868 |
| EUR Depo Rate:  | 0.285   | 0.305   | 0.38    | 0.48    | 0.63    | 0.97    | 1.09    | 1.11    | 1.172    | 1.234   | 1.533   | 1.86    | 2.167   |
| ILS Depo Rate:  | 0.554   | 0.571   | 0.655   | 0.843   | 1.092   | 1.623   | 1.791   | 1.879   | 2.172    | 2.463   | 2.991   | 3.421   | 3.804   |

| 16/05/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 15/06/2010                 | 4.7106       |
| 15/09/2010                 | 4.7171       |
| 15/10/2010                 | 4.7198       |
| 15/02/2011                 | 4.7311       |
| 03/04/2011                 | 4.7366       |
| 03/07/2011                 | 4.7501       |



Date: 31/05/2010.

|                            | 1 Day    | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month      | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|----------|---------|---------|---------|---------|---------|--------------|---------|----------|---------|---------|---------|---------|
| Forward Points:            | -0.00003 | 0.00029 | 0.00112 | 0.00117 | 0.00501 | 0.00983 | 0.01542      | 0.02346 | 0.05165  | 0.09153 | 0.16863 | 0.25835 | 0.35614 |
| EUR Depo Rate:             | 0.30     | 0.31    | 0.475   | 0.47    | 0.63    | 0.915   | 1.025        | 1.16    | 1.235    | 1.311   | 1.582   | 1.842   | 2.093   |
| ILS Depo Rate:             | 0.068    | 0.63    | 0.767   | 0.623   | 1.056   | 1.34    | 1.474        | 1.673   | 1.98     | 2.292   | 2.783   | 3.217   | 3.60    |
| <b>31/05/2010</b>          |          |         |         |         |         |         |              |         |          |         |         |         |         |
| (Original) Date of Payment |          |         |         |         |         |         | Forward Rate |         |          |         |         |         |         |
| 31/07/2010                 |          |         |         |         |         |         | 4.7540       |         |          |         |         |         |         |
| 30/11/2010                 |          |         |         |         |         |         | 4.7600       |         |          |         |         |         |         |
| 28/02/2011                 |          |         |         |         |         |         | 4.7652       |         |          |         |         |         |         |

Date: 10/06/2010.

|                            | 1 Day    | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month      | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|----------|---------|---------|---------|---------|---------|--------------|---------|----------|---------|---------|---------|---------|
| Forward Points:            | -0.00004 | 0.00018 | 0.00125 | 0.00359 | 0.00468 | 0.01084 | 0.01742      | 0.02537 | 0.05356  | 0.09229 | 0.17258 | 0.25482 | 0.33587 |
| EUR Depo Rate:             | 0.295    | 0.29    | 0.415   | 0.47    | 0.625   | 0.935   | 1.08         | 1.20    | 1.231    | 1.262   | 1.538   | 1.832   | 2.104   |
| ILS Depo Rate:             | -0.014   | 0.497   | 0.747   | 0.922   | 1.031   | 1.413   | 1.598        | 1.767   | 2.02     | 2.274   | 2.794   | 3.216   | 3.56    |
| <b>10/06/2010</b>          |          |         |         |         |         |         |              |         |          |         |         |         |         |
| (Original) Date of Payment |          |         |         |         |         |         | Forward Rate |         |          |         |         |         |         |
| 31/07/2010                 |          |         |         |         |         |         | 4.6344       |         |          |         |         |         |         |
| 31/10/2010                 |          |         |         |         |         |         | 4.6388       |         |          |         |         |         |         |
| 31/12/2010                 |          |         |         |         |         |         | 4.6424       |         |          |         |         |         |         |
| 31/12/2011                 |          |         |         |         |         |         | 4.6487       |         |          |         |         |         |         |

Date: 28/07/2010.

|                            | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month      | 1 Year  | 18 Month | 2 Year | 3 Year  | 4 Year  | 5 Year  |
|----------------------------|---------|---------|---------|---------|---------|---------|--------------|---------|----------|--------|---------|---------|---------|
| Forward Points:            | 0.00043 | 0.00092 | 0.00342 | 0.00546 | 0.00597 | 0.01119 | 0.01528      | 0.01915 | 0.03185  | 0.0463 | 0.08169 | 0.14202 | 0.19368 |
| EUR Depo Rate:             | 0.465   | 0.435   | 0.55    | 0.67    | 0.775   | 1.015   | 1.26         | 1.495   | 1.467    | 1.44   | 1.679   | 1.928   | 2.171   |
| ILS Depo Rate:             | 1.54    | 1.408   | 1.372   | 1.34    | 1.271   | 1.478   | 1.694        | 1.91    | 1.922    | 1.934  | 2.259   | 2.679   | 2.989   |
| <b>28/07/2010</b>          |         |         |         |         |         |         |              |         |          |        |         |         |         |
| (Original) Date of Payment |         |         |         |         |         |         | Forward Rate |         |          |        |         |         |         |
| 31/01/2011                 |         |         |         |         |         |         | 4.9512       |         |          |        |         |         |         |
| 28/02/2011                 |         |         |         |         |         |         | 4.9524       |         |          |        |         |         |         |
| 30/04/2011                 |         |         |         |         |         |         | 4.9545       |         |          |        |         |         |         |
| 31/07/2011                 |         |         |         |         |         |         | 4.9586       |         |          |        |         |         |         |

Date: 12/08/2010.

|                            | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month      | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year |
|----------------------------|---------|---------|---------|---------|---------|---------|--------------|---------|----------|---------|---------|---------|--------|
| Forward Points:            | 0.00012 | 0.00064 | 0.00238 | 0.00419 | 0.00537 | 0.01119 | 0.01736      | 0.02459 | 0.05063  | 0.08208 | 0.14672 | 0.21328 | 0.2902 |
| EUR Depo Rate:             | 0.36    | 0.585   | 0.455   | 0.525   | 0.935   | 1.07    | 1.13         | 1.42    | 1.35     | 1.28    | 1.515   | 1.687   | 1.907  |
| ILS Depo Rate:             | 1.276   | 1.274   | 1.036   | 1.031   | 1.387   | 1.543   | 1.626        | 1.952   | 2.068    | 2.147   | 2.544   | 2.804   | 3.119  |
| <b>12/08/2010</b>          |         |         |         |         |         |         |              |         |          |         |         |         |        |
| (Original) Date of Payment |         |         |         |         |         |         | Forward Rate |         |          |         |         |         |        |
| 31/08/2010                 |         |         |         |         |         |         | 4.8701       |         |          |         |         |         |        |
| 31/10/2010                 |         |         |         |         |         |         | 4.8726       |         |          |         |         |         |        |
| 31/01/2011                 |         |         |         |         |         |         | 4.8772       |         |          |         |         |         |        |
| 30/04/2011                 |         |         |         |         |         |         | 4.8827       |         |          |         |         |         |        |





Date: 19/09/2010.

|                 | 1 Day  | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|--------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.0001 | 0.00084 | 0.00226 | 0.00406 | 0.0058  | 0.0101  | 0.00932 | 0.01782 | 0.03683  | 0.06299 | 0.11568 | 0.18465 | 0.26553 |
| EUR Depo Rate:  | 0.405  | 0.375   | 0.52    | 0.61    | 0.83    | 1.15    | 1.17    | 1.41    | 1.462    | 1.515   | 1.621   | 1.827   | 2.03    |
| ILS Depo Rate:  | 1.197  | 1.167   | 1.093   | 1.112   | 1.322   | 1.586   | 1.446   | 1.802   | 1.996    | 2.193   | 2.444   | 2.807   | 3.152   |

19/09/2010

| (Original) Date of Payment | Forward Rate |
|----------------------------|--------------|
| 30/11/2010                 | 4.8737       |
| 31/01/2011                 | 4.8759       |

Date: 24/10/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month  | 3 Month  | 6 Month  | 9 Month  | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|----------|----------|----------|----------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00004 | 0.00031 | 0.00021 | -0.00035 | -0.00118 | -0.00126 | -0.00069 | 0.00099 | 0.01501  | 0.03789 | 0.07913 | 0.13638 | 0.21277 |
| EUR Depo Rate:  | 0.405   | 0.725   | 0.775   | 0.815    | 0.94     | 1.18     | 1.36     | 1.51    | 1.567    | 1.623   | 1.736   | 1.92    | 2.11    |
| ILS Depo Rate:  | 0.691   | 1.015   | 0.834   | 0.786    | 0.86     | 1.146    | 1.361    | 1.551   | 1.789    | 2.024   | 2.286   | 2.625   | 2.983   |

24/10/2010

| (Original) Date of Payment | Forward Rate |
|----------------------------|--------------|
| 31/12/2010                 | 5.0516       |

Date: 25/10/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month  | 6 Month  | 9 Month  | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|---------|----------|----------|----------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00006 | 0.00045 | 0.00001 | -0.0007 | -0.00118 | -0.00131 | -0.00113 | 0.00052 | 0.01432  | 0.03754 | 0.07736 | 0.13887 | 0.22117 |
| EUR Depo Rate:  | 0.405   | 0.615   | 0.785   | 0.825   | 0.955    | 1.15     | 1.35     | 1.5     | 1.569    | 1.638   | 1.775   | 1.914   | 2.106   |
| ILS Depo Rate:  | 0.873   | 1.086   | 0.798   | 0.753   | 0.875    | 1.113    | 1.338    | 1.532   | 1.783    | 2.037   | 2.317   | 2.635   | 3.016   |

25/10/2010

| (Original) Date of Payment | Forward Rate |
|----------------------------|--------------|
| 30/01/2011                 | 5.0369       |
| 28/02/2011                 | 5.0367       |
| 30/04/2011                 | 5.0362       |
| 03/07/2011                 | 5.0361       |

Date: 08/11/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00011 | 0.00039 | 0.00058 | 0.0002  | 0.00031 | 0.00027 | 0.0035  | 0.00762 | 0.01938  | 0.03703 | 0.06912 | 0.11845 | 0.19014 |
| EUR Depo Rate:  | 0.405   | 0.89    | 0.755   | 1.055   | 1.06    | 1.25    | 1.25    | 1.44    | 1.525    | 1.612   | 1.781   | 1.903   | 2.062   |
| ILS Depo Rate:  | 0.814   | 1.306   | 0.906   | 1.093   | 1.099   | 1.278   | 1.361   | 1.613   | 1.805    | 2.003   | 2.265   | 2.519   | 2.845   |

08/11/2010

| (Original) Date of Payment | Forward Rate |
|----------------------------|--------------|
| 31/01/2011                 | 5.0215       |
| 28/02/2011                 | 5.0212       |
| 30/04/2011                 | 5.0211       |
| 31/07/2011                 | 5.0234       |

Date: 28/11/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00011 | 0.00086 | 0.00159 | 0.00209 | 0.00262 | 0.00616 | 0.01313 | 0.02288 | 0.03885  | 0.05814 | 0.09598 | 0.13954 | 0.20649 |
| EUR Depo Rate:  | 0.405   | 0.45    | 0.705   | 0.95    | 1.05    | 1.24    | 1.34    | 1.46    | 1.552    | 1.646   | 1.831   | 2.087   | 2.347   |
| ILS Depo Rate:  | 1.217   | 1.263   | 1.112   | 1.216   | 1.283   | 1.512   | 1.723   | 1.957   | 2.114    | 2.273   | 2.522   | 2.841   | 3.234   |

28/11/2010

| (Original) Date of Payment | Forward Rate |
|----------------------------|--------------|
| 31/12/2011                 | 4.8713       |



Date: 07/12/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.00005 | 0.00009 | 0.00022 | 0.00052 | 0.001   | 0.00397 | 0.0092  | 0.01651 | 0.03661  | 0.06422 | 0.11282 | 0.20423 | 0.25323 |
| EUR Depo Rate:  | 0.405   | 0.625   | 0.82    | 0.85    | 0.98    | 1.24    | 1.38    | 1.52    | 1.602    | 1.682   | 1.843   | 2.153   | 2.444   |
| ILS Depo Rate:  | 0.8     | 0.728   | 0.884   | 0.926   | 1.078   | 1.424   | 1.657   | 1.891   | 2.138    | 2.382   | 2.661   | 3.254   | 3.538   |

| 07/12/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 07/12/2010                 | 4.8273       |
| 15/01/2011                 | 4.8327       |
| 30/01/2011                 | 4.8327       |
| 15/02/2011                 | 4.8329       |
| 30/04/2011                 | 4.8344       |
| 30/07/2011                 | 4.8385       |

Date: 21/12/2010.

|                 | 1 Day   | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|--------|
| Forward Points: | 0.00012 | 0.00089 | 0.00205 | 0.00273 | 0.0029  | 0.00672 | 0.01243 | 0.01943 | 0.03575  | 0.05609 | 0.10248 | 0.17019 | 0.2499 |
| EUR Depo Rate:  | 0.405   | 0.7     | 0.78    | 0.9     | 1.02    | 1.235   | 1.38    | 1.37    | 1.53     | 1.688   | 2.004   | 2.304   | 2.557  |
| ILS Depo Rate:  | 1.336   | 1.694   | 1.287   | 1.255   | 1.284   | 1.54    | 1.755   | 1.808   | 2.062    | 2.314   | 2.766   | 3.248   | 3.659  |

| 21/12/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 28/02/2011                 | 4.7300       |

Date: 22/12/2010.

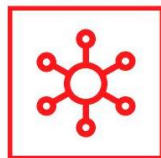
|                 | 1 Day  | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|--------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.0003 | 0.00076 | 0.00217 | 0.00279 | 0.00328 | 0.00758 | 0.01416 | 0.02214 | 0.04081  | 0.06484 | 0.11755 | 0.19416 | 0.27851 |
| EUR Depo Rate:  | 0.405  | 0.435   | 0.535   | 0.695   | 0.865   | 1.155   | 1.18    | 1.32    | 1.48     | 1.641   | 1.965   | 2.245   | 2.504   |
| ILS Depo Rate:  | 1.198  | 1.288   | 1.085   | 1.055   | 1.16    | 1.496   | 1.598   | 1.811   | 2.085    | 2.361   | 2.834   | 3.314   | 3.725   |

| 22/12/2010                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 28/02/11                   | 4.7108       |

Date: 16/03/2011.

|                 | 1 Day  | 1 Week  | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year  | 18 Month | 2 Year  | 3 Year  | 4 Year  | 5 Year  |
|-----------------|--------|---------|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| Forward Points: | 0.0008 | 0.00109 | 0.00333 | 0.0061  | 0.00646 | 0.0104  | 0.0104  | 0.00796 | 0.02421  | 0.04812 | 0.10976 | 0.19695 | 0.31323 |
| EUR Depo Rate:  | 0.405  | 0.695   | 0.87    | 0.92    | 1.08    | 1.42    | 1.695   | 1.845   | 1.962    | 2.076   | 2.308   | 2.546   | 2.757   |
| ILS Depo Rate:  | 1.876  | 1.848   | 1.625   | 1.669   | 1.602   | 1.856   | 1.999   | 2.033   | 2.319    | 2.598   | 3.089   | 3.584   | 4.06    |

| 16/03/2011                 |              |
|----------------------------|--------------|
| (Original) Date of Payment | Forward Rate |
| 30/04/11                   | 4.9590       |



E. The following tables present the data used for the forward rate and ILS payment calculations for the valuation date (31/12/2011):

| 31/12/2011       |            |                            |                |              |
|------------------|------------|----------------------------|----------------|--------------|
| Transaction No.  | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO9024592</b> | 06/05/2009 | 23/03/2011                 | 30/05/2012     | 4.9512       |

| 31/12/2011       |            |                            |                |              |
|------------------|------------|----------------------------|----------------|--------------|
| Transaction No.  | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO9026013</b> | 29/09/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 29/09/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 29/09/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 29/09/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 11/12/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 11/12/2009 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 15/01/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 15/01/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026013</b> | 24/03/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10027583</b> | 04/02/2010 | 31/03/2010                 | 30/04/2012     | 4.9475       |
| <b>SO10027583</b> | 04/02/2010 | 01/08/2010                 | 30/04/2012     | 4.9475       |

| 31/12/2011       |            |                            |                |              |
|------------------|------------|----------------------------|----------------|--------------|
| Transaction No.  | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO9026912</b> | 17/12/2009 | 19/01/2011                 | 30/05/2012     | 4.9512       |
| <b>SO9026912</b> | 13/01/2010 | 19/01/2011                 | 30/04/2012     | 4.9475       |
| <b>SO9026912</b> | 17/12/2009 | 19/04/2011                 | 30/06/2012     | 4.9551       |
| <b>SO9026912</b> | 17/12/2009 | 19/04/2011                 | 30/06/2012     | 4.9551       |
| <b>SO9026912</b> | 13/01/2010 | 19/04/2011                 | 30/04/2012     | 4.9475       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10028957</b> | 31/05/2010 | 28/02/2011                 | 30/04/2012     | 4.9475       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10029075</b> | 10/06/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10028772</b> | 16/05/2010 | 03/07/2011                 | 31/07/2012     | 4.9595       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10029738</b> | 12/08/2010 | 30/04/2011                 | 30/04/2012     | 4.9475       |



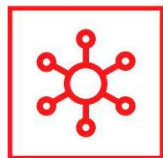
| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10030873</b> | 28/11/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10030874</b> | 28/11/2010 | 31/03/2011                 | 30/05/2012     | 4.9512       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10031217</b> | 22/12/2010 | 28/02/2011                 | 30/04/2012     | 4.9475       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10030475</b> | 25/10/2010 | 03/07/2011                 | 31/07/2012     | 4.9595       |

| 31/12/2011        |            |                            |                |              |
|-------------------|------------|----------------------------|----------------|--------------|
| Transaction No.   | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| <b>SO10031025</b> | 07/12/2010 | 30/07/2011                 | 30/07/2012     | 4.9594       |



## 5. Fair Value Calculations

The fair value for 31/12/2011 computed as the difference between multiples of expected payment and forward rate on agreement inception date, and multiples of expected payment and forward rate on the valuation date. Each of the obtained results (profit/loss), discounted by risk free rate estimated for the corresponding period. This value discounted to 31/12/2011 by risk free rate matching to this period.

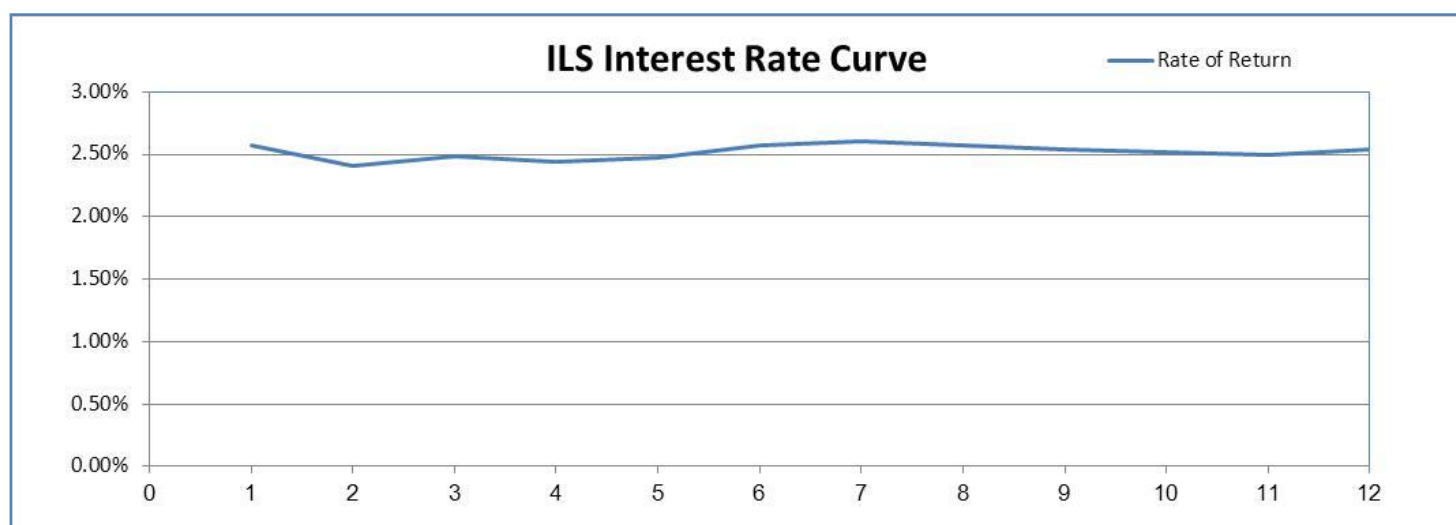
### EUR/ILS Exchange Rate data:

| Contract Inception Date | EUR/ILS Exchange Rate |
|-------------------------|-----------------------|
| 06/05/2009              | 5.5069                |
| 29/09/2009              | 5.4968                |
| 07/12/2009              | 5.6437                |
| 11/12/2009              | 5.5644                |
| 17/12/2009              | 5.4603                |
| 23/12/2009              | 5.4274                |
| 13/01/2010              | 5.3439                |
| 15/01/2010              | 5.305                 |
| 04/02/2010              | 5.1542                |
| 24/03/2010              | 4.9991                |
| 16/05/2010              | 4.7132                |
| 31/05/2010              | 4.7564                |
| 10/06/2010              | 4.6363                |
| 28/07/2010              | 4.9471                |
| 12/08/2010              | 4.8735                |
| 19/09/2010              | 4.8749                |
| 24/10/2010              | 5.0606                |
| 25/10/2010              | 5.0465                |
| 08/11/2010              | 5.0291                |
| 28/11/2010              | 4.8745                |
| 07/12/2010              | 4.8392                |
| 21/12/2010              | 4.7342                |
| 22/12/2010              | 4.7147                |
| 16/03/2011              | 4.9630                |



F. The following table and figure show the risk free rate curve we use to define discount rate in the implemented model.

| 31/12/2011     |       |       |       |       |       |       |       |       |       |       |       |       |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Month          | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10    | 11    | 12    |
| Rate of Return | 2.58% | 2.41% | 2.48% | 2.44% | 2.47% | 2.57% | 2.60% | 2.58% | 2.54% | 2.52% | 2.50% | 2.54% |





## 6. Findings

The table below presents the Fair Value as of 31/12/2011:

| Transaction No. | Transaction Volume in EUR | Expected CF in ILS | Transaction Volume Balance in EUR as of 31/12/2011 | Expected CF in ILS Balance as of 31/12/2011 | CF in ILS Balance as of 31/12/2011 | Fair Value as of 31/12/2011 |
|-----------------|---------------------------|--------------------|----------------------------------------------------|---------------------------------------------|------------------------------------|-----------------------------|
| SO9024592       | € 10,591,854              | ₪58,252,053        | € 1,588,778                                        | ₪8,689,459                                  | ₪7,866,354                         | - ₪814,833                  |
| SO9024593       | € 4,497,003               | ₪24,793,069        | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO9026013       | € 1,440,190               | ₪7,842,275         | € 144,019                                          | ₪787,040                                    | ₪713,066                           | - ₪73,230                   |
| SO9027063       | € 177,000                 | ₪959,222           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO10027583      | € 137,458                 | ₪709,800           | € 13,722                                           | ₪71,741                                     | ₪67,888                            | - ₪3,822                    |
| SO9026912       | € 1,821,520               | ₪9,903,249         | € 412,380                                          | ₪2,240,543                                  | ₪2,042,523                         | - ₪195,778                  |
| SO10028957      | € 45,325                  | ₪216,440           | € 9,065                                            | ₪43,871                                     | ₪44,849                            | ₪970                        |
| SO10029075      | € 100,880                 | ₪468,896           | € 15,132                                           | ₪71,314                                     | ₪74,922                            | ₪3,571                      |
| SO10028772      | € 1,726,001               | ₪8,163,072         | € 172,600                                          | ₪834,974                                    | ₪856,011                           | ₪20,725                     |
| SO10029601      | € 1,158,700               | ₪5,733,566         | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO10029738      | € 179,575                 | ₪876,083           | € 15,933                                           | ₪78,303                                     | ₪78,829                            | ₪522                        |
| SO10030086      | € 139,421                 | ₪679,862           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO10030459      | € 48,000                  | ₪242,487           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO10030873      | € 77,649                  | ₪378,140           | € 3,882                                            | ₪19,002                                     | ₪19,223                            | ₪219                        |
| SO10030874      | € 234,260                 | ₪1,140,814         | € 11,713                                           | ₪57,326                                     | ₪57,993                            | ₪661                        |
| SO10031217      | € 21,814                  | ₪103,370           | € 21,814                                           | ₪103,370                                    | ₪107,926                           | ₪4,519                      |
| SO10031195      | € 28,093                  | ₪132,855           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO10030475      | € 74,817                  | ₪377,088           | € 7,482                                            | ₪37,938                                     | ₪37,107                            | - ₪818                      |
| SO10031025      | € 41,453                  | ₪200,460           | € 4,145                                            | ₪20,191                                     | ₪20,558                            | ₪361                        |
| SO10030653      | € 33,000                  | ₪165,701           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO11033018      | € 24,179                  | ₪119,895           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
| SO11033017      | € 32,626                  | ₪161,772           | € 0                                                | ₪0                                          | ₪0                                 | ₪0                          |
|                 | € 22,630,818              | ₪121,620,168       | € 2,420,665                                        | ₪13,055,073                                 | ₪11,987,249                        | - ₪1,056,934                |

**The fair value is the liability in amount of (-1,056,934) ILS.**

December 15, 2011

Mr. Yair Itscovich

Vice President - Finance

**Unitronics (1989) (R"G) Ltd.**

**Re: Unitronics (1989) (R"G) Ltd.**  
**Actuarial Valuation of Employee Benefits**  
**as at December 31, 2011**

Dear Sir,

The following is a summary of a full actuarial valuation of employee benefits for Unitronics (1989) (R"G) Ltd. (referred to below as "**Unitronics**"), performed in accordance with International Accounting Standard 19. All salary, liability and asset amounts are presented in terms of New Israeli Shekels (NIS).

**1) Data**

**a) Summary of Demographic Data as at 30/11/2011**

|                            |      |
|----------------------------|------|
| Number of Workers          | 167  |
| Average Age                | 37.2 |
| Average Service (in Years) | 3.8  |

**b) Cash Surrender Value of Plan Assets Registered Under the Names of Employees, as at 30/11/2011**

The following is a summary of the cash surrender value of the severance benefits component of insurance policies and pension funds, which are registered under the names of Unitronics employees, and which meet the criteria for "assets held by a long-term employee benefit fund" or for "qualifying insurance policies" (as those terms are defined in IAS 19), not including assets to which paragraph 14 of the Severance Benefits Law applies:



|                                                                                                                             |                  |
|-----------------------------------------------------------------------------------------------------------------------------|------------------|
| Insurance policies that contain both a severance benefit component and a long term savings component within the same policy | 3,790,136        |
| Pension funds                                                                                                               | 546,483          |
| <b>Total</b>                                                                                                                | <b>4,336,620</b> |

**c) Total Plan Assets as at 31/12/2011<sup>1</sup> in Central Severance Benefits Funds<sup>2</sup>**  
**NIS 1,232,865.**

**d) Description and Classification of Severance Benefits**

- i) In the event of involuntary dismissal, death or retirement after at least 11 months of service, there will be paid the higher of:
  - (1) The severance benefit required by law after involuntary dismissal;
  - (2) Plan assets dedicated to the payment of severance benefits for the employee.
  - (3) In the event of voluntary resignation after at least 11 months of service, there will be paid those plan assets that are dedicated to the payment of severance benefits for the employee.
- ii) In regard to IAS 19, Severance Benefits are classified as a Post-employment Benefit.

**e) Description and Classification of Salary in Lieu of Notice Period**

- i) In the event of involuntary dismissal, death or retirement before one year of service, the employee shall receive a payment equal to one-half of his monthly salary.
- ii) In the event of involuntary dismissal, death or retirement after one year of service, the employee shall receive a payment equal to one monthly salary.
- iii) In the event of voluntary resignation it is customary that the employee continues to be employed during his notice period.
- iv) In regard to IAS 19, Salary in Lieu of Notice Period is classified as a Post-employment Benefit.

<sup>1</sup> The account balance as at 30/6/2011 stood at **1,197,259** NIS, according to data received from Unitronics. This amount was projected forward to 31/12/2011.

<sup>2</sup> In which employees do not have individual account balances.

## **2) Method of Calculation**

### **a) Calculation of the Defined Benefit Obligation**

The Projected Unit Credit Method, as required by International Accounting Standard 19, is implemented as follows. A cash flow projection of benefit payments is created for each individual employee, in accordance with the summary plan description in sub-paragraphs (1)(d) and (1)(e) above. In the projection, employee salaries increase from year to year in accordance with the salary increase assumption described in paragraph 3 below, until each possible future date of withdrawal (voluntary resignation or involuntary dismissal), death or retirement. (Although employee service also increases in the projection, the amount of accrued employee benefits is unaffected). The likelihood of withdrawal, death or retirement occurring at each such future date is derived from the assumed withdrawal rates, mortality rates and retirement ages, described in paragraph 3 below. The cash flow projection is discounted with interest to 30/11/2011 by means of the assumed interest discount rates described in sub-paragraph (3)(a) below. As was explained in paragraph (1)(d) above, under certain circumstances, an employee whose service is terminated will receive the value of the severance component of an insurance policy or long-term employee benefit fund. For the calculation of the Defined Benefit Obligation, the value of such a severance component is determined in a manner that is consistent with the method described in subparagraph (b) below.

### **b) Calculation of the Fair Value of Assets**

#### **i) Insurance Policies**

In consideration of a paper published in 2008 by the Israel Institute for Accounting Standards on the subject of Assets of a Defined Benefit Plan, and in consideration of various announcements on the same subject that were published subsequently by the Israel Institute for Accounting Standards and various accounting firms, the fair value of plan assets as at 30/11/2011 was set equal to the value that would be received upon the immediate discharge of all Unitronics employees.

#### **ii) "New" Pension Funds**

"New" Pension Funds established after the year 1994, earn a rate of return on 30% of their assets, which is both guaranteed by government and higher than

the rates of return available on other risk-free investments. The fair value of plan assets as at 30/11/2011 was adjusted upwards accordingly.

iii) **"Old" Pension Funds**

"Old" Pension funds were closed to new members in 1994. For each employee who is a member of such a fund, a cash flow projection was performed of the cash surrender value of the severance benefit component of the fund. For the cash flow projection, an assumed real rate of return of 2.0% was assumed. (2.0% is an approximation of the actual real rate of return that is specified by formulae in the plan documents of the pension fund.) Future contributions to the pension fund were not included. The cash flow projection was discounted with interest to 30/11/2011, using the discount rate described in paragraph 3(a) below.

c) **Projections to December 31, 2011**

The Defined Benefit Obligation and Fair Value of Assets registered in the names of individual employees at 30/11/2011, were projected forward to 31/12/2011, by means of estimated benefit accruals, employer contributions, investment income and decrements.

**3) Demographic and Financial Assumptions**

a) **Risk-Free Interest Discount Rates**

Based on the yields to maturity as at 30/11/2011 on traded Government of Israel Bonds, as provided by Fair Spread Ltd.

The equivalent, single average interest discount rate, is **4.7%** per annum.

b) **Future Increases in Salary**

As specified by Unitronics.

c) **Rates of Inflation**

i) Based on the spread as at 30/11/2011, between the yields to maturity on non-CPI-indexed Government of Israel Bonds and the yields to maturity on CPI-indexed Government of Israel Bonds. Both yield curves were provided by Fair Spread Ltd.

ii) The equivalent, single average inflation rate, is **2.3%** per annum.

d) **Expected Rates of Return on Plan Assets**

i) Expected rates of return were determined, for each type of long term savings

vehicle separately, as the average annual rate of return over the five year period that ended at the beginning of the year 2011.

- ii) For insurance policies containing both a severance benefits component and a long term savings component, that were issued before 2004, the expected rate of return was based on anticipated future rates of inflation as at the beginning of the year 2011.

|                                                                                                                                                  | Expected<br>Rate of<br>Return |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Long Term Savings Vehicle                                                                                                                        |                               |
| Insurance policies that contain both a severance benefits component and a long term savings component, that were issued before 2004 <sup>3</sup> | 2.9%                          |
| "Old" Pension Funds                                                                                                                              | 4.9%                          |
| "New" Pension Funds                                                                                                                              | 7.8%                          |
| Central Severance Benefits Fund                                                                                                                  | 6.0%                          |

**e) Withdrawal rates**

As specified by Unitronics, and similar to previous actuarial valuations.

**f) Retirement Age**

Male employees are assumed to retire at age **67**, and female employees are assumed to retire between the ages of **62-64**, in accordance with the Retirement Age Law.

**g) Mortality Rates**

Table **P1**, as published in 2007 by the Commissioner of Capital Markets Insurance and Savings in the Ministry of Finance (in pension circular 2007-3-6).

<sup>3</sup> Based on anticipated future rates of inflation as at the beginning of year 2011

**4. Defined Benefit Liabilities**

**Severance Benefits:**

|                                                                       |                  |
|-----------------------------------------------------------------------|------------------|
| • Defined Benefit Obligation                                          | 6,982,492        |
| • Less: Fair Value of Plan Assets Registered Under Names of Employees | (4,336,229)      |
| • Less: Fair Value of Central Severance Benefits Funds                | (1,232,865)      |
| • Defined Benefit Liability                                           | <b>1,413,397</b> |

**Salary in Lieu of Notice Period**

**1,118,977**

**Total Defined Benefit Liabilities to be Recognized in Balance Sheet**

**2,532,374**

**5. Periodic Benefit Expense (as per paragraph 61 of IAS 19)**

|                                                                          |                  |
|--------------------------------------------------------------------------|------------------|
| Current Service Cost                                                     | 989,902          |
| Interest Cost                                                            | 310,856          |
| Less: Expected Return on Plan Assets Registered Under Names of Employees | (141,484)        |
| Less: Expected Return on Central Severance Benefits Funds                | (72,351)         |
| Actuarial Loss (Gain)                                                    | 512,574          |
| <b>Total Periodic Benefit Expense</b>                                    | <b>1,599,498</b> |

**6. Components of the Change in Defined Benefit Liabilities**

|                                                                           |                |
|---------------------------------------------------------------------------|----------------|
| Periodic Benefit Expense from Paragraph 5 Above                           | 1,599,498      |
| Benefits Paid From Plan Assets Registered Under Names of Employees        | -              |
| Benefits Paid From Central Severance Benefits Funds                       | -              |
| Less: Total Benefits Paid, Including Benefits Paid Directly by Unitronics | (407,472)      |
| Less: Estimated Employer Contributions                                    | (242,720)      |
| <b>Total</b>                                                              | <b>949,305</b> |

**7. Total Change in Defined Benefit Liabilities, by Reference to Opening and Closing Balances Only**

|                                              |                |
|----------------------------------------------|----------------|
| Defined Benefit Liabilities as at 31.12.2010 | 1,583,069      |
| Defined Benefit Liabilities as at 31.12.2011 | 2,532,374      |
| <b>Total Change</b>                          | <b>949,305</b> |

**8. Reconciliation of Defined Benefit Obligations for the Year 2011**

**8.1 Severance Benefits and Salary in Lieu of Notice Period, Combined**

|                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| Defined Benefit Obligation as at 31.12.2010                       | 6,748,076        |
| Current Service Cost                                              | 989,902          |
| Interest Cost                                                     | 310,856          |
| Less: Benefits Paid                                               | (407,472)        |
| Actuarial Loss/(Gain):                                            |                  |
| • Changes in Assumptions                                          | 260,282          |
| • Salary Increases and Investment Returns: Actual versus Expected | 307,730          |
| • Miscellaneous Other                                             | (107,905)        |
| • Total                                                           | 460,107          |
| Defined Benefit Obligation as at 31.12.2011                       | <b>8,101,468</b> |

## 8.2 Severance Benefits

|                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| Defined Benefit Obligation as at 31.12.2010                       | 5,969,025        |
| Current Service Cost                                              | 641,548          |
| Interest Cost                                                     | 277,242          |
| Less: Benefits Paid                                               | (264,710)        |
| Actuarial Loss/(Gain):                                            |                  |
| • Changes in Assumptions                                          | 207,566          |
| • Salary Increases and Investment Returns: Actual versus Expected | 256,911          |
| • Miscellaneous Other                                             | (105,090)        |
| • Total                                                           | 359,387          |
| Defined Benefit Obligation as at 31.12.2011                       | <b>6,982,492</b> |

## 8.3 Salary in Lieu of Notice Period

|                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| Defined Benefit Obligation as at 31.12.2010                       | 779,051          |
| Current Service Cost                                              | 348,354          |
| Interest Cost                                                     | 33,614           |
| Less: Benefits Paid                                               | (142,672)        |
| Actuarial Loss/(Gain):                                            |                  |
| • Changes in Assumptions                                          | 52,716           |
| • Salary Increases and Investment Returns: Actual versus Expected | 50,819           |
| • Miscellaneous Other                                             | (2,815)          |
| • Total                                                           | 100,720          |
| Defined Benefit Obligation as at 31.12.2011                       | <b>1,118,977</b> |

## 9 Reconciliation of Fair Value of Plan Assets

### 9.1 Plan Assets Registered Under Names of Employees

|                                                                    |                  |
|--------------------------------------------------------------------|------------------|
| Fair Value as at 31.12.2010                                        | 3,957,146        |
| Expected Return on Plan Assets                                     | 141,484          |
| Actuarial Gain/(Loss)                                              | (5,120)          |
| Estimated Employer Contributions                                   | 242,720          |
| Benefits Paid From Plan Assets Registered Under Names of Employees | -                |
| Fair Value as at 31.12.2011                                        | <b>4,336,229</b> |

### 9.2 Central Severance Benefits Funds

|                                  |                  |
|----------------------------------|------------------|
| Fair Value as at 31.12.2010      | 1,207,861        |
| Expected Return on Plan Assets   | 72,351           |
| Actuarial Gain/(Loss)            | (47,347)         |
| Estimated Employer Contributions | -                |
| Benefits Paid From Funds         | -                |
| Fair Value as at 31.12.2011      | <b>1,232,865</b> |

### 9.3 Actual Return and Rate of Return on Plan Assets for the Year 2011

|                |         |
|----------------|---------|
| Return         | 161,367 |
| Rate of Return | 3.1%    |

### 10) Non-Dependence

Except for valuations of employee benefits performed by me as the chief actuary of A. Shekel Actuarial Services Ltd. ("the company"), neither the company nor myself have any professional, business or personal connections with representatives of Unitronics.

I would be pleased to provide any additional information that you might require.

Sincerely,



Alan Fefferman, F.S.A., F.I.L.A.A.

Copy:

Mr. Eliyahu Berglas