Unitronics (1989) (R"G) Ltd

Periodic and Annual Report for 2013

On January 22, 2014 the Knesset's Finance Committee approved the small companies reporting reliefs in the framework of the Amendment of Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter – "the Regulations" and "the Amendment to the Regulations", respectively). Pursuant to the Notice to Corporations issued by the Corporate Division of the Israel Securities Authority dated January 27, 2014, the Company hereby announces that it meets the definitions of "Small Company" as stipulated in the Amendment to the Regulations and that on March 9, 2014, the Company's Board of Directors adopted the reliefs specified in the Amendment to the Regulations: (1) Annulment of the obligation to publish a report on the internal audit and an auditors' report in respect of the internal audit; (2) Raising the materiality threshold with respect to the attachment of valuations to 20%; (3) Raising the threshold for attaching statements of material consolidated companies to the interim reports to 40%; and (4) Exemption from implementation of the provisions of the Second Schedule of the Regulations (Details on Exposure to Market Risks and Methods of Managing Such Risks).

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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 expected or 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 (Reg. 8A)

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 and automatic parking 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 mechanized distribution centers. Also, the Company engages, through wholly owned subsidiaries, in the design, development, marketing, production, construction and maintenance of mechanized systems for automated parking solutions.

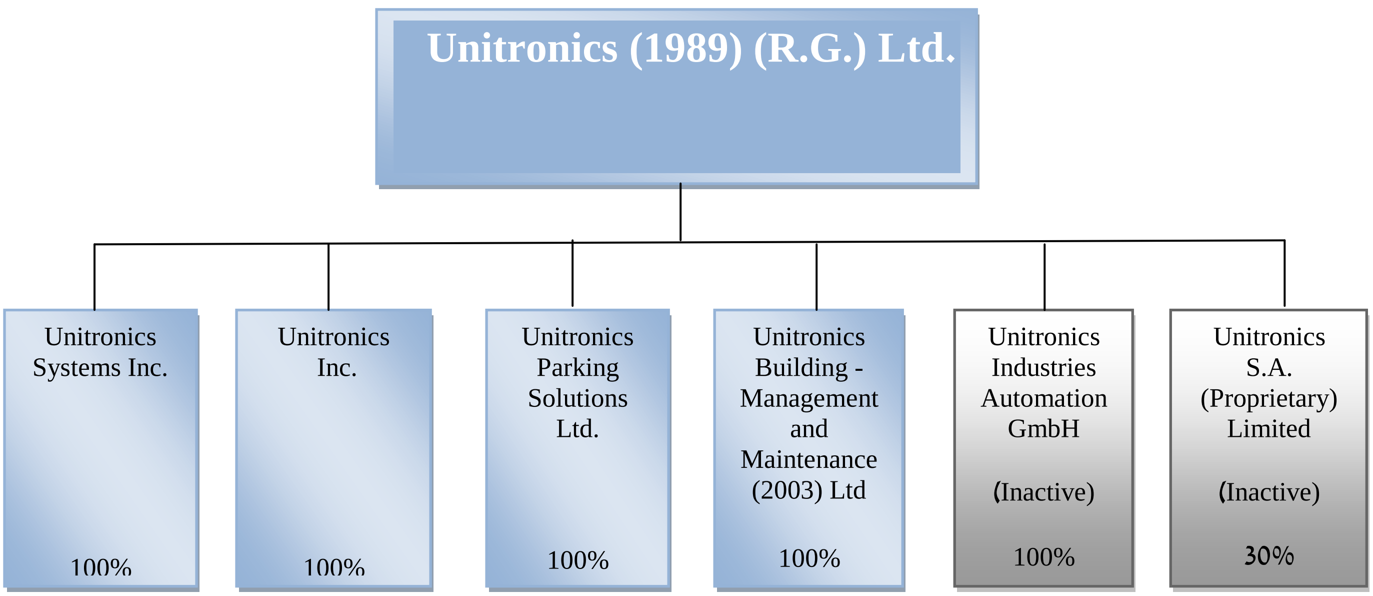
The Company was incorporated in August 1989 as a private company according to the Israeli Companies Ordinance (New Version), 5743-1983 (hereinafter: the **“Companies Ordinance**). In July 1999 the Company became a public company as defined in the Companies Ordinance. In September 1999 the Company first 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 and other securities of the Company were listed for trading also on the Tel Aviv Stock Exchange (hereinafter: the **“Stock Exchange”**).

The Company operates mainly from an office and industry building situated in Airport City near the David Ben Gurion Airport (for further details see Section 1.13 of this Report).

1.2 Subsidiaries and holding structure diagram

The Company has four wholly-owned active subsidiaries: Unitronics Inc., which is incorporated in the United States (Delaware) (hereinafter: "**Unitronics Inc.**") and engages primarily in coordinating and running 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 1.22.1 below); Unitronics Parking Solutions Ltd. (hereinafter- "**Unitronics Parking Solutions**"), which coordinates the Company's automated parking solutions business in Israel; and Unitronics Systems Inc., which is incorporated in the United States (Delaware) (hereinafter: "**Unitronics Systems Inc.**") and engages primarily in the Company's business operations in the field of parking systems and/or solutions in the US and in North America.

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



1.3 Operating segments

The Company has three major operating segments as detailed below. 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 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, automated parking lots 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 rendering serviceable of existing systems, and maintenance services for these systems provided through framework arrangements or on a service call basis. The services of the Systems Department are provided to customers mainly in Israel.

Parking solutions segment: Through wholly owned subsidiaries, the Company is engaged in the development, design, marketing, production, construction and maintenance of automated parking systems, including the construction of new systems and/or the upgrading and rendering serviceable of existing systems, and provision of maintenance services for these systems through framework arrangements or on a service call basis.

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 with the Company's shares by an interested party in the Company:

1.4.1 Company buybacks - Between August 2005 and December 2012, and given the low share prices at that time on the Tel Aviv Stock Exchange (TASE) and in the stock exchange in Belgium and as a vote of confidence in the Company and its performance, the Company has, from time to time, been buying back ordinary shares of the Company, in accordance with buyback plans adopted by the Board of Directors, within the framework of trading on the stock exchanges in Tel-Aviv and Belgium. During the reported period, the Company did not execute buybacks. For additional details, see Note 17 in Chapter C of this Periodic Report.

1.4.2 For details on Debentures (Series 4) issued during the reported period, see section 1.20.8.

1.5 Dividend Distribution

The Company has neither distributed nor declared the distribution of dividends since it was established.

Subsequent to the balance sheet date, on February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of publication of this periodic report, as follows:

The Company shall distribute to its shareholders from the net profit attributable to the Company's shareholders, based on the Company's annual audited consolidated financial statements, not including earnings deriving from asset revaluation (hereinafter: "**the profit**"), a dividend at the rate of 33% of the profit in respect of each calendar year, exceeding a total of NIS 3,000,000 (three million new shekels). The terms of dividend distribution, including the number of payments and their dates, shall be determined by the Company's Board of Directors for each distribution individually.

Implementation of the said dividend distribution policy is subject to: (a) the provisions of any law, including the Company's compliance with distribution tests prescribed in section 302(a) of the Companies Law, 5759-1999 ("Companies Law") on the date of each distribution; (b) the Company's obligations to the holders of the Company's debentures, including financial covenants the Company assumed and/or will assume (for further details regarding the Company's obligations toward the holders of Company debentures (Series 3 and 4) see sections 1.20.6 and 1.20.8 below); (c) existing and anticipated Company obligations towards third parties that are not its shareholders or holders of the Company's debentures; (d) the Company's financing needs, investment plans and business plans, so that such a distribution will not render it unable to carry out its plans and meet its planned needs, as shall be from time to time(e)he Company's operations, cash flow and cash balance at its disposal; (f) other business considerations as shall be reviewed from time to time by the Company's Board of Directors, at its sole discretion.

The Company's Board of Directors reserves the right to review said policy from time to time, at its sole discretion, and to decide on another designation for the Company's earnings.

Notwithstanding the foregoing, the Company shall be allowed to distribute a dividend that deviates from the aforesaid policy, be it by a larger or smaller distribution than stated above or by refraining from distributing a dividend or by changing the distribution date and/or the amount distributed. It is clarified that, the above instructions in no way detract from the Company's authority to execute buybacks of the Company's shares, subject to the provisions of any law. To the extent they are executed, such buybacks shall constitute part of the amount of the "distribution" the subject of the said policy, to all intents and purposes.

The balance of distributable earnings as of December 31, 2013 and as of the publication date of this report stands a NIS 672,000.

Part II – Other Information

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

	For the year ended December 31		
	2013	**2012**	**2011**
	NIS thousand		
Revenues:			
Products	95,449	96,375	89,213
Systems	55,096	44,684	52,104
Parking solutions	5,195	644	-
Other	439	403	385
Total Revenues*	156,179	142,126	141,702
Sector costs			
Products – fixed**	18,024	16,023	12,383
Products – variable***	49,089	50,794	48,990
Systems – fixed**	9,913	17,326	14,642
Systems – variable***	40,181	34,294	36,358
Parking solutions – fixed**	6,350	1,705	-
Parking solutions – variable***	3,561	-	-
Other– fixed ***	0	0	0
Other– variable***	414	398	446
Total ****	127,532	120,540	112,819
Sector results			
Products	28,336	29,558	27,840
Systems	5,002	(6,936)	1,104
Parking solutions	(4,716)	(1,040)	-
Other	25	4	(61)
Total	28,647	21,586	28,883
Unattributable expenses	(19,205)	(16,802)	(15,183)
Profit from ordinary operations*	9,442	4,784	13,700

* Consistent with the 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, the distribution index of which is determined by the number of employees in the segment

For details on the assets used by the segments, see Note 25 in the financial statements.

For an explanation regarding the developments in each of the aforementioned data, see section 2.2 in Chapter B of this Periodic Report.

1.7 General environment and impact of external factors on Company's 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), automated parking lots, etc. The Company believes that the need for automation is attributable, among 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 needs, 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 general information on areas of activity presented in this report below, the Company relies, *inter alia*, on several market studies. These sources include, among others, surveys and articles by Frost & Sullivan (http://ww.frost.com), by IMS Research (http://imsresearch.com/), by ARC Advisory Group (summaries accessible to the public at http://www.imsreasearch.com), and by the International Parking Institute (hereinafter: "IPI") (http://www.parking.org). Hereinafter, wherever this report relies on the above market studies, this fact will be explicitly stated.

The Company's activity includes, as explained above, the activities of the Products Department, the Systems Department and the Parking Solutions Department. The Company’s management estimates that these three areas of activity are affected by the growing 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 impact on the various industries – on the other hand.

Additional trends in the global automation market as reflected in the abovementioned 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 1.23 below. For a discussion of information concerning the general environment and external factors relevant to each operating segment separately, 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 three business segments: the Products Segment, the Systems Segment and the Parking Solutions Segment. Although the Company operates in each segment separately with regard to policy, decision making, budgets, resources and other inputs, there is synergy between these fields within the Company, as well as an ongoing 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 three segments share the use of multiple infrastructures, as detailed in Part IV below.

1.9 Products Segment

1.9.1 Structure of the operating 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, regulations and constraints applicable to the operating 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 in nature intended for the field of electronics and some more specific to the field of control and automation. In this context the relevant standards are mainly EN 61131-2: 2007 that deals with PLC requirements (concerning electromagnetic compatibility and safety aspects), and American and Canadian safety standards (such as the UL/cUL 508 standard and ISA-12.12.01 – Hazardous Locations).

In addition, in recent years the Company has witnessed a growing trend on the part of authorities in both Israel and abroad to legislate regulations designed to protect the environment.

For details regarding compliance of the Company's products with these standards and the Company's assessments in this regard, see sections 1.9.22 and 1.9.23 of this report.

1.9.3 Changes in the scope of operations and profitability of the segment

According to the Frost & Sullivan Report from January 2014, the global PLCs market was estimated at $10.4 billion in 2013 and is expected to reach $14.6 billion by 2018 (an average growth rate of 7.1% per year). According to the Frost & Sullivan Report from April 2011, the global PLCs market was estimated at $8.3 billion in 2010 and is expected to grow to $14 billion by 2017 (an average growth rate of 8.6% per year). Similar figures regarding the annual growth rate appear also in the IMS Report from

August 2010 hereinafter: "**IMS Report**"), which estimated an average growth rate of 8% per year. According to this report, the global PLC market was estimated at $6.3 billion in 2009, at $6.9 billion in 2010, and is expected to reach $9.3 billion by 2014.

Most sources similarly identify several trends:

(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 Relays;
- Micro PLCs also known as Compact PLCs;
- Small PLCs and medium PLCs together also known as Modular PLCs;
- Large PLCs also known as High-End Modular PLCs.

As stated in section 1.9.9 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 cited 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 and for different types of customers. 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 Frost & Sullivan Report from April 2011 (see above) estimated that among key industries, the food and beverage industries accounts for approximately 17.5% of the global industrial PLC market, the motor vehicle industry accounts for 15.2% and the chemical industries accounts for roughly 11.3%. According to this report, the growing industries of solar energy, wind-generated energy and other sources of renewable energy, are expected to boost sales of industrial PLCs to these sectors. The report also anticipates a growth in sales of industrial PLCs to the motor vehicle industry, the water and wastewater treatment industry, the chemical industry and the food and beverage industry.

(c) Geographic breakdown: A study of the geographical distribution of sales of PLCs around the world in recent years according to the IMS Report 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 the Pacific countries and 10% in Japan. On the other hand, the Frost & Sullivan Report shows that in 2010, about 39.4% of global sales of PLCs took place in Asia and Pacific countries, 24.2% in Europe, the Middle East and Africa, and 23.1% in North 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 forecasts of higher growth rates in these regions.

As described above, except for 2009, in which, according to the Frost & Sullivan Report, the market slumped 14.8%, the PLC market has displayed steady growth till now, and the various market surveys presented above, indicate forecasts for continued growth in this market and its expansion into additional areas, accompanied by tough competition, which is also expected to grow and expand into different areas. ARC, in its surveys over the years, has also anticipated that the PLCs market will expand beyond the traditional industry clients (factories and car manufacturers) to providers of overall automation solutions that combine the production lines and the data collection systems in the field, to the organizational data and management systems. Pursuant to this, the Company identifies a trend towards increased utilization of decentralized systems based on smaller PLCs – the focus of the Company's activities. 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[1]), resulting from a decline in market prices of PLCs.

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

The PLC 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, and between PLCs and smartphones and tablets – 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), incorporation of convenient and user-friendly interfaces (such as different-sized color and touch screens) in the body of the PLC, and built-in communications capabilities as detailed in sections 1.9.9.1 and 1.9.11 below.

1.9.5 Critical success factors in the operating 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 addressing market demand and trends; functional reliability of the products; competitive prices reflecting appropriate cost-benefit ratios; high standard of service and support, promoting image and customer

[1] 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.

loyalty; and an extensive distribution infrastructure capable of providing an international response.

1.9.6 Main entry and exit barriers in the operating segment and changes therein

The Company estimates that the primary entry barriers to the PLC 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.

1.9.7 Substitutes for the products of the operating segment 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, in order to adapt it to 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.

1.9.8 The structure of competition in the operating segment and changes therein

For details regarding the structure of competition in the products segment, see section 1.9.14 below.

1.9.9 Products and services

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

1.9.9.1 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 PLCs (number and type of connectable devices) define their dimensions as nano PLCs, also known as Smart Relays; micro PLCs also known as

Compact PLCs; small PLCs and medium PLCs, both together 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, to the organization’s planning and control levels (including raw materials inventory planning, finished products etc.) to the senior management or even people outside the organization. Below are certain major characteristics, which distinguish among PLCs in the above categories:

Traditional classification	**Nano PLCs**	**Micro PLCs**	**Small PLCs**	**Medium PLCs**
Alternative classification	**Smart Relays**	**Compact PLCs**		**Modular PLCs**
Major relative advantages	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 stronger 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-connected automation components
Major industrial applications	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, metals, mining, paper, plastic, conveyance systems, packaging and other industries.		

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

(a) <u>Alphanumeric PLCs: nano/micro PLCs of the M90/M91 series:</u> 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 150 input/output points via an external expansion unit (see sub-section (f) below).

(b) Alphanumeric PLCs: nano PLCs of the Jazz®/Jazz®2 series: A series of small PLCs including palm-sized products with an interface containing programmable keys and a mini LCD screen and a small number of integral non-expandable input/output points. This series aims to provide a substitute for "smart relays" via a complete PLC at low cost, and also to expand the Company's customer base by allowing accessibility to new prospective customers.

(c) Graphic PLCs: nano/micro PLCs and small PLCs of the Vision™ series: A series of products with a graphic display and advanced communications capabilities, marketed at relatively low prices compared to those of similar products. This series includes the Vision230™, Vision260™, Vision120™ and Vision 130™ 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.

(d) Graphic small PLCs with a touch screen: PLCs of the Vision280™, Vision530™ and Vision290™ series: A series of products with a larger illuminated LCD screen permitting graphic display and operation via a touch screen. The operator interface is especially user-friendly (and also contains, in the Vision280™ model, a 27-key programmable and customizable keyboard), with integral input/output points expandable up to 316 points using an external expansion unit (see sub-section (g) below).

(e) Graphic small PLCs with a color touch screen: PLCs of the Vision570™, Vision350™, Vision1040™ and Vision1210™ series: A series of products with a larger illuminated color LCD screen allowing graphic display and operation via a touch screen. The operator interface is especially user-friendly with integral input/output points expandable up to 1,000 points using an external expansion unit (see sub-section (f) below).

(f) Graphic modular PLCs with a color touch screen: PLCs of the UniStream™, series: A new series of products first launched in 2013. These products are based on a modular infrastructure which allows for great flexibility in customizing the configuration to the customer's needs, through selection of the desired screen size out of several possible sizes and selection of the type and quantity of built-in input/output points on the product. All the products in the series are based on advanced technologies, possess computation power and advanced data processing, and come with a color LCD screen allowing graphic display and operation by touch-screen. The operator interface is especially user-friendly with integral input/output points expandable up to 2,000 points using an external expansion unit (see sub-section (g) below). The display capabilities and other features of the product, such as remote control via smartphones and tablets, a wide range of communication capabilities, and built-in microphones are consistent with market trends.

(g) 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, as well as units (named I/O Expansion Modules) that connect only electrically to the PLC, enabling, via the use of an industrial communications network, the addition of hundreds (up to 2,000 in the UniStream™ product series) 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 quantities of PLCs.

(h) Accessories: The Company provides complementary accessories for the above PLC 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 help reduce the costs involved in purchasing the array of components required for the application.

1.9.9.2 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 1.9.9.1 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 from the M90/M91 and Jazz®2/Jazz® series, the Company's VisiLogic® software serves PLCs from the Vision™ series, and the Company's UniLogic™ software serves PLCs from the UniStream™ 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 supposed to control. These software programs enable access to programming tools, including self-design or import of graphic icons, text messages, menus in various formats, 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 associated documentation data.

1.9.9.3 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 PLC market. These products replace and are intended to continue replacing the Company's older products and are also intended to open new opportunities and markets for the Company.

1.9.9.4 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 use of the products and/or troubleshooting. Calls to the support team usually originate from the Company's distributors (see section 1.9.12.2 below), from direct end users and from indirect end users (who purchased the Company's products from distributors in Israel or abroad). These calls 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 their actual sale (pre-sale services), at the Company's discretion on a case-by-case basis. The Company does not make provisions in respect of a warranty due to immateriality (absence of calls and/or calls involving insignificant amounts).

1.9.10 Revenue breakdown and profitability of products and services

The contribution to the Company's profitability by the different series of the Company's major products shows no material difference between that of one series and another. The changes in the profitability of the Company's Products segment in the years 2011, 2012 and 2013, stem largely from changes in the main selling and raw materialscurrencies' exchange rates against the shekel throughout these years, from different (although not materially different) profit margins of several transactions, coupled with changes in manpower inputs during these periods.

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

	For the year ended December 31		
	2013	**2012**	**2011**
	In NIS thousand		
Revenue from products (*) (amount and percentage of total revenue)	(61%) 95,449	(68%) 96,375	(63%) 89,213
Gross profit (amount and margin)	(44%) 42,407	(47%) 44,905	(44%) 39,224

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

1.9.11 New products

During the reported period, the Company finished developing, among other things, the first products in the new series of PLCs and the programming environment adapted to them (for details, see section 1.9.9 – Products and services). This new line of products is designed to offer command and control solutions for larger systems, or solutions requiring more complex control capabilities of the systems the Company's other products are meant to control.

In addition, during the reported period, the Company has been engaged, and intends to continue engaging, inter alia, in activities for the development of additional series of controllers and/or new control products, which are meant to enable the Company to provide to its customers products and capabilities which are not within the existing product range of the Company, and using technologies that allow more advanced performance[2]. These products, which are in various stages of development (some of them in the initial stages and others in more advanced stages, about to be launched on the market) are planned to include additional products that will allow for the expansion of the product line to include larger and/or more advanced products.

These development efforts require the allocation of significant resources, primarily in the area of human capital, as well as the study and assimilation of new platforms and technologies. For information on the Company's development expenditures, see section 1.9.17 below.

Customers

[2] The information regarding the development of products with dimensions that are not within the Company's existing product range is forward-looking information. The main data serving 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 firsthand contacts with the markets, technological feasibility, the Company's assessments regarding the costs of the research and development that would be required to finance the execution of the developments, and also the tough competition existing in the industry, as specified in this Report. The main factors which could cause this information not to materialize are the rates of investment that would be required in these operations, which could significantly overrun the Company's budgets in these subjects, limitations in the ability to commercialize these technologies at competitive market prices, or at all, the absence of the development of markets and a consumer culture suited to using the technologies developed, and the superior financial and technological means available to a considerable part of the Company's rivals, and all of the foregoing in addition to the general risks as set forth in section 1.23 of this Report.

1.9.11.1 The direct customers of the Products Department are mainly distributors bound to the Company by distribution agreements (see section 1.9.12 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 for customization, installation, warranty, and the like.

1.9.11.2 Major Customer: During the reporting periods, the Company did not have a major customer in the Products segment.

1.9.11.3 The Company regularly reviews the terms of credit it provides to customers and the effects of extending credit to customers. If necessary, the Company makes specific provisions for debts whose collection is doubtful.

1.9.12 Marketing and distribution

The Company’s products and services are marketed and sold through the Company’s internal marketing network and via Unitronics Inc., as well as through a chain of distributors comprising 165 distributors (of which 105 are in the United States) in about fifty countries (including Israel) across Europe, Asia, South and Central America, North America and Africa.

1.9.12.1 The Company’s internal marketing setup: 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. Inquiries 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.

1.9.12.2 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, Romania (2 non-exclusive distributors), Slovenia, Spain, Sweden, Switzerland, Turkey, Serbia, Macedonia, Bosnia-Herzegovina, Slovakia, Malta and Ireland; Asia and the Pacific (Australia, China, India, Vietnam, New Zealand, Taiwan, Thailand, Singapore, Hong Kong, Malaysia, and the Philippines); Africa (South Africa (including Namibia, Swaziland, Lesotho), Zambia, Mozambique, Botswana, Zimbabwe, Angola and Nigeria); South and Central America (Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Honduras, Bolivia, Ecuador (2 non-exclusive distributors) and Peru), and North America (United States and Canada 2 non-exclusive distributors)).

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 setting up systems), for limited periods (usually one year), renewable subject to meeting specific minimum sales or at the Company’s discretion in the event the distributor fails to meet said 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 from some requires collateral such as a bank guarantee or letters of credit (except in 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 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 suggests a recommended selling price to the distributors, but does not require them to charge these prices.

1.9.12.3 The Company's distributors may not return products. Under the products' warranty, non-functioning products during the warranty period are either repaired or replaced. It should be noted that in actuality, an immaterial quantity of products is replaced (for details on revenue recognition in the Products segment, see Note 2(r)(1) to the financial statements).

1.9.12.4 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 customer 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) issuing publications in the professional literature of the industrial PLC sector worldwide.

1.9.13 Order backlog

As of December 31, 2013, the Company had an order backlog of NIS 10,618,000 for the Products Department and as of February 27, 2014, the Company had an order backlog of NIS 9,296,000 for the Products Department, as detailed below.

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

Period of recognition in the expected income	Product order backlog as of 27.2.2014 (closest possible date to date of this report) NIS thousands	Product order backlog as of December 31, 2013 NIS thousands	Product order backlog as of December 31, 2012 NIS thousands
For Q1 2013	---	---	4,974
For Q2 2013	---	---	669
For Q3 2013	---	---	241
For Q4 2013	---	---	1,947
For 2014 onward	---	---	309
For Q1 2014	2,754	4,723	---
For Q2 2014	2,140	2,019	---
For Q3 2014	336	589	---
For Q4 2014	3,092	3,228	---
For 2015 onward	974	59	---
Total	9,296	10,618	8,140

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 backlog mix, 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. As already mentioned, the nature of the activity in this market is primarily based on inventory and off-the-shelf purchases.

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 basic assumptions, which led to the said estimates, could significantly change the Company’s estimation with regard to backlog revenue recognition, compared to the data shown above.

1.9.14 Competition

To the best of the Company's knowledge and based primarily on the IMS Report and the Frost & Sullivan Report, which cite several dozens of companies designated as "key competitors," one can define three categories of major competitors in the global market of industrial PLCs:

A. Market leaders, usually multinationals globally active in multiple fields, including in the PLC sector. Included in this group are: Mitsubishi Electric Automation Inc., Rockwell Automation / Allen Bradley Company Inc., Siemens AG, Omron Corp., Schneider Electric and GE Intelligent Platforms.

B. Large multinationals dealing primarily in PLCs. Companies included in this group: 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 regions or dealing in special niche products. This group includes such companies as: Honeywell Safety Management Systems, Kim Controls, Horner Electric APG, and PILZ. In the Company's estimation, its activity in the products segment falls into this category. The Company knows of no other Israeli companies in this category.

The Company knows of no statistical knowledge that can serve as a basis regarding the consumption and/or sales of PLCs in Israel, and thus is unable to assess the size of the local market, its own share in the local market and/or its own share relative to other PLC manufacturers / distributors in Israel. As regards its share in the global market, the Company assesses, based on widely accepted international market studies in the industry, including the IMS, ARC and Frost & Sullivan reports, that, its share in the global PLC market stands at below one percent.

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 prospective customers will regard the Company's products as worthier 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 this section above, 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 respond 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.

1.9.15 Production capacity

The Company manufactures its products primarily through subcontractors by the turnkey method, which includes 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**"). In addition, the Company itself assembles, using its staff and its facilities in Airport City, a certain portion of the components of the electrical circuits, and for some of the products, it performs the final assembly of the product, its electrical testing, calibration and packaging. The use of subcontractors to carry out the production is also intended to maintain the possibilities for 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 in this section below). As for production operations within the Company, as of the date of this report most of the production capacity is being utilized, but the Company is able to increase its production capacity for these activities as needed, given the possibility of assigning these tasks to unskilled manpower, which is, therefore, relatively available and requires only a short training period.

The Company is a party to two non-exclusive agreements with production contractors (hereinafter – “**Production Contractor A**” and “**Production Contractor B**”), each agreement signed with a separate production contractor, which is a third party unrelated to the Company or to interested parties therein. (For the sake of convenience only, Production Contractor A and Production Contractor B shall jointly be referred to in this section as: “**the Production Contractor**” or “**the Production Contractors**,” and the agreement with Production Contractor A and the agreement with Production Contractor B shall jointly be referred to in this section as: “**the Agreement**” or “**the Agreements**”). Under the Agreement, the Production Contractor serves as a subcontractor for the production and supply of the Company's products and/or electronic assemblies by the turnkey method. According to the Agreement, the Production Contractor performs most of 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 under its supervision, according to itemized purchase orders, which are based on continually updated seasonal projections that are transferred to the Production Contractor. As part of its obligations, the Production Contractor provides a 24-month warranty for its work, secures its liabilities under the Agreement, and the intellectual properties associated with the products are retained by the Company. Payment for the products is based on fixed amounts depending on the volume of orders, and is paid at terms of net 30 EOM days. The Company may terminate the agreement, for any reason whatsoever, by giving a 90-day prior written notice to the Production Contractor. Pursuant to the Agreements with the Production Contractors, the Company sells raw materials to the Production Contractors for the purpose of manufacturing for the Company. For details see Note 18 of the financial statements, in Chapter C below.

The Company's payments to Production Contractor A accounted for 20% and 13%, in 2012 and 2013, respectively, of the Company's total spending on raw materials and subcontractors during those years. The Company's payments to Production Contractor B accounted for 14% and 23%, in 2012 and 2013, respectively, of the Company's total spending on raw materials and subcontractors in those years.

The Company is not dependent on specific subcontractors for production and therefore can retain various other additional 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 aforesaid is not expected to cause material extra costs to the Company.

1.9.16 Fixed assets, real estate and facilities

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

1.9.17 Research and development

For additional details on products and technologies under development, see section 1.9.11 above. Below are the main details concerning sums expended by the Company during the periods detailed below on R&D activities:

	For the year ended December 31		
	2013	**2012**	**2011**
	NIS thousands		
Payroll and benefits	9,752	10,033	9,263
Subcontractors	1,867	2,871	2,756
Other expenses	2,068	2,372	2,105
Less capitalized expenses that were recognized as an intangible asset	(10,743)	(11,414)	(11,271)
Total	2,944	3,862	2,853

Overall, the Company spent NIS 13,687,000 during the reported year (of which NIS 10,743,000 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 2014, total development expenses in the Products segment will not change materially compared to actual development expenses in this segment in 2013[3].

From 1992 to 2003, 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 programs under the Encouragement of Industrial Research and Development Law, 5744-1984 (hereinafter: the "**R&D Law**"). Subject to the support received for funding the Company's R&D plans (for further details see section 1.9.20 in Chapter A of the periodic report for 2012), the Company must comply with the provisions of the R&D Law, and the regulations and rules by virtue thereof, which include paying 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); receiving approvals regarding changes in holdings and controlling means in the Company; 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. Total grants approved for the Company based on the R&D programs amounted to NIS 2,473,000, in respect of which the Company paid to the Chief Scientist up to December 31, 2013, a total of NIS 340,000 in royalties. Liabilities recognized in the financial statements in respect of grants received from the Chief Scientist, as of December 31, 2013, totaled NIS 160,000, attributable to programs in respect of which, in management's estimation, royalties are likely to be paid. As of the date of this report, the Company has met its obligations to the Chief Scientist.

1.9.18 Intangible assets

As stated, the Company has recognized some expenses relating to the development of its products and technologies (as specified in section 1.9.17 above) as intangible assets. In addition, the Company safeguards its intellectual properties by registering patents, although it 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, such that the protection of its intangible assets and intellectual properties is of lesser importance. For details on intangible assets related to this operating segment, see section 1.14 below.

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[3] 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 R&D 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 2013, the investments required for such activity, which may significantly exceed the Company's budgets for such matters; 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 – all this in addition to the general risks outlined in section 1.23 of this report.

1.9.19 Human Capital

As mentioned above, the activity of Company staff is split into segments, with workers employed and involved in all three operating segments of the Company, but with some of the Company employees focusing more on a specific segment (for details see section 1.15 below).

1.9.20 Raw materials and suppliers

1.9.20.1 The Company's products may incorporate about 30-350 mechanical and electronic components, including electronic circuits and their components, keyboards, display screens, and others. About 95% of the components in most of the products are standard (off-the-shelf) products, manufactured in Israel and abroad. Some 5% 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, touch screens and specific LCD displays. Although these components are of major importance in Company products, they may be ordered from several suppliers/ manufacturers in Israel and overseas, usually without any need for product adaptations, and consequently, there is 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 several 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, backup stocks with a 3-4 month supply are maintained (whether they are purchased directly by the Company or for the Company by a subcontractor as part of the turnkey production arrangement), the purchase quantities for these stocks being financially immaterial.

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 quantities from a financial standpoint, in the years 2011, 2012 and 2013), 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 the Company’s PLCs even if they are 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 arrangements and in a few cases, into minimum stock retention 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.

1.9.20.2 In periods of economic crisis, such as the one that started in the second half of 2008, manufacturers of electronic components around the world adjust and reduce their production capacity to suit demand levels in a time of crisis. As recovery from the crisis sets in or as demand for components grows again, there is a delay in the delivery of components, stemming from the response time of the manufacturers to changes in demand and from a situation in which manufacturers prefer to supply the demand of big customers first, rather than that of medium and small customers (a situation known as "allocation").

The Company regularly surveys the components' state of supply on the market as well as lead times, in order to identify trends in due time. As in similar periods in the past when lead times for electronic components have grown longer, the Company prepares itself by stocking up in advance with components with an increased lead time, by developing alternative acquisition channels, and by updating the suppliers in due time regarding the forecast quantities.

1.9.20.3 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 retention 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 at terms of net 60 EOM (after approval by acceptance control), predefined lead 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 retention 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, subject to certain exceptions, to purchase the minimum stock, for amounts that are financially immaterial to the Company, even if not ordered by the end of the agreement period. Several of these agreements are unlimited in time, and the termination of activity thereunder in respect of particular items is subject to prior notice.

1.9.21 Working Capital

1.9.21.1 Inventory: The Company holds, whether itself or through its production contractors, on an ongoing basis about 70-150 days of components and raw materials inventory to meet forecast 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 regularly made and updated by the Company. However, and as necessary, the Company may deviate from this policy, mainly when preparing for extraordinary events or in response to the behavior of raw materials markets in the world (for example, in cases of concern over 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 software program that concurrently serves the Company's procurement, production, and inventory systems, and this alongside financial management and accounting (ERP – Enterprise Resource Planning). From time to time the Company examines new means of inventory maintenance, with a view to 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.

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

1.9.21.3 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:

	2013		**2012**		**2011**	
	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	12,418	47	11,696	44	10,573	43
Suppliers	4,544	80	3,838	76	4,862	78
Subcontractors	6,926	97	5,121	69	2,319	40

1.9.22 Environmental issues, risks and management thereof

The Company's activity in this area does not involve environmental risks as the term is defined in Section 28 in the First Schedule to the Securities Regulations (Details of the Prospectus and Draft prospectus – Structure and Form), 5729-1969. 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, including arrangements pertaining to the issue of electronic waste in the EU: (a) the WEEE (Waste Electrical and Electronic Equipment) Directive that came into force on August 13, 2005 (and known as WEEE 1), and deals with the treatment of waste deriving from electrical and electronic equipment, and EU/2012/19 (known as WEEE 2), which came into effect on August 13, 2012, whose purpose is to expand the scope of WEEE 1); (b) the RoHS (Restriction of Hazardous Substances) Directive – which came into effect on July 1, 2006 (and is known as RoHS 1), restricts the use of six substances in electrical and electronic equipment marketed in Europe after July 1, 2006, including lead (Pb), mercury (Hg), cadmium (Cd) and others: and EC/2011/65 (known as RoHS 2), which came into force on January 2, 2013, and whose purpose is expanding the scope of RoHS); as well as legislation in accordance with the provisions of Israeli law (Regulation of the Treatment of Packaging Waste Law and the Law for Environmental Protection for the Environmental Treatment of Electronic Equipment).

The WEEE Directives (1 and 2) of the European Parliament obliges member states in the European Union to apply its provisions as framework directives binding on EU citizens, subject to local legislative arrangements in each member state, and subject to a uniform and fixed minimum threshold.

So far the Company has not been required to implement the provisions of the WEEE 1 and 2 Directives. Nevertheless, the provisions of these directives may apply to Company products in the future, and, therefore, the Company is following the implementation of the directives in the various countries through its distributors, making pinpoint adjustments where required, as well as through professional consultation, participation in conferences and updated professional literature. As of the date of this report, the Company has spent immaterial amounts to comply with the provisions of the directives and does not expect to spend material amounts in the upcoming year for the purpose of compliance with these directives[4]. The Company is unaware of any exposure due to the non-implementation of the WEEE Directives (1 and 2) and is unable to quantify this exposure, insofar as it exists.

The Company designs its products in compliance with the aforementioned RoHS 1 Directive of the EU. During 2012, the Company dealt with the implementation of the

[4] 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 the directive's provisions and/or 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.

RoHS 2 Directive by identifying the components in existing Company products that were not compliant with this directive and replacing these with compliant components. As of the date of this report, the Company has spent immaterial amounts on taking steps to be in compliance with the provisions of this directive. The Company estimates that, as of the date of this report, the Company's products are generally compliant with the provisions of RoHS 1 and RoHS 2 (in their current version). It also does not expect to spend material amounts in the upcoming year and/or in subsequent periods for the purpose of compliance with the requirements of these directives[5].

The law for regulation of packaging waste treatment sets recycling targets according to the type of material and the year of recycling. The provisions of the law regarding the obligations of manufacturers of packaged products do not apply to a manufacturer in whose case the total weight of the packaging of the packaged products or of the service packaging it sold in a year is less than 1,000 kg. To the best of the Company's knowledge, the total weight of packaging of the packaged products it sells per year does not reach this threshold and therefore, the obligations of manufacturers of packaged products pursuant to this law do not apply to it. The Company has advised the Ministry of Environmental Protection of the aforesaid. It will continue to monitor the total weight of packaging of the packaged products it sells each year to ensure compliance with the law.

The Law for Environmental Treatment of Electrical and Electronic Equipment and Batteries, 5772-2012, sets recycling targets according to the year of recycling for importers and manufacturers of electronic equipment. In accordance with this law, the Company recently entered into a contract with a "recognized implementation body" appointed by the Environmental Protection Ministry, which is responsible for the fulfillment of the obligations of manufacturers and importers, as per the provisions of said law. Moreover, the Company is studying the implications of the new law by inquiring with consultants and keeping up with up-to-date professional material. As of the date of this report, the Company does not expect to spend material amounts in the upcoming year for the purpose of compliance with this law[6].

1.9.23 Standards and Quality Control

[5] The information concerning Company preparations for complying with the RoHS directive is forward-looking information. The principal data which served as a basis for this information are: the engineering steps in the development and implementation of the directive on which the Company is working as of the date of this report, and the need for continued investments in the R&D expenses, especially with regard to compliance with regulatory requirements, for which there is no assurance that they will be available to the Company at all or in the amounts it needs. The principal factors which may prevent this information from materializing are the diverse implementations in the various countries of the relevant regulatory requirements for each product, completion of the engineering steps needed to complete the implementation, changes to the directive's provisions and/or interpretation, and delays in the compliance of the suppliers of components and arrays with these requirements.

[6] The information concerning Company preparations for complying with the provisions of the Law for Environmental Treatment of Electrical and Electronic Equipment and Batteries is forward-looking information. The principal data which served as a basis for this information are: the contract with the "recognized implementation body" and developments known to the Company today pertaining to the implementation of regulations by virtue of said law. The principal factors which may prevent this information from materializing are changes to the law's provisions and/or interpretation, and delays in the implementation of the collection and recycling processes by the "recognized implementation body" as defined in the law.

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 as PLCs, must meet the standards defined in sections 8 and 11 of the EN 61131-2: 2007 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™, UniStream™ and Jazz®/Jazz®2 series with the CE mark, which indicates that the PLCs comply with the requirements of the directive.

Most Company PLCs from the M90/M91, Vision™ and Jazz®/Jazz®2 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 some comply with the requirements of the UL Hazardous Locations ISA 12.12.01 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 external labs for checking the proper functioning of finished products, including mechanical and operational properties, and software components.

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.

In August 2012 the SEC in the United States issued regulations regarding "conflict minerals," aimed primarily at curbing the violation of human rights, and which require public companies listed on American stock exchanges to report the use of certain metals originating in conflict areas. These regulations are not directly applicable to the Company, but only to public companies listed on American stock exchanges. However, the Company believes that among its customers are companies for which these regulations are binding, and therefore the Company is following developments in this matter and studying the aspects and ramifications of these regulations, inter alia, by consulting with advisers, attending conferences and studying up-to-date professional material. In addition, the Company turned to most of the suppliers and manufacturers in the chain of supply, in order to obtain declarations stating their compliance with these regulations. As of the date of this report, the Company estimates that it will not spend material amounts on compliance with the provisions of these directives over the next year[7].

1.9.24 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, among others, the fields of nano and micro PLCs, PLCs incorporating a control panel (including use of color displays, which is 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, among 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 developments, 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 collaborations 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, inter alia, on analyses of marketing attributes

[7] The information concerning Company preparations for compliance with the "conflict minerals" regulations is forward-looking information. The principal data which served as a basis for this information are: the developments known to the Company today regarding the implementation of the regulations, the technical steps required for their implementation, and the Company's cooperation with its suppliers and manufacturers in this matter. The principal factors which may prevent this information from materializing are: changes in the provisions and/or interpretation of the regulations, and delays in compliance of the component and assembly vendors with these regulations.

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 the financial, 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.

1.9.25 Development forecast for the coming year

During 2010-2012 there was a steady 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. In 2013, there was a slight drop in revenues from the products segment compared to 2012, stemming primarily from an even higher decrease in the rates of the main selling currencies against the shekel. To continue the growth trend in its operations in the products sector, the Company will be required to invest great amounts in R&D and 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. However, 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 expected in the products segment in 2014, see section 1.9.17 above.

1.9.26 Financial information on geographical regions

Company products are sold mainly in Europe, America and Israel. Below are proportionate data on the Company's revenues from Products Department sales in major geographical regions for the indicated periods, in relation to the Company's revenues from the Products Department alone, and in relation to the Company's total revenues:

	For the year ended December 31					
	2013		**2012**		**2011**	
	In percent					
	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues	Share of Products Department revenues	Share of total Company revenues
Europe	48%	29%	48%	32%	51%	32%
America	40%	24%	40%	28%	37%	24%
Israel	5%	3%	6%	4%	6%	4%
Rest of the world	7%	5%	6%	4%	6%	4%

For additional data regarding Company operations by geographical regions, 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), 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 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, wind resistance, lifting devices, electrical installations, safety standards and transport standards. For further details, see section 1.10.18 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 Western 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 April 2012 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 $8 billion in 2006, with expectations that it will grow to $12 billion by 2016 (an annual growth rate of 12.5%). Another report by this company from July 2012, on the subject of warehouse management systems, cites a growth rate of more than 10% in 2011 in the sales of WMS (Warehouse Management Systems). This report estimates the total sales of WMS at upwards of $1.4 billion in 2012, with the market forecast to grow to $1.8 billion by 2016 (an annual growth rate of 7.1%).

The logistics systems market in Israel is highly competitive. The Company competes for each project against several companies from Israel and international companies that are leaders in their field. The market in Israel is relatively small, and there are many competitors contending for the few projects executed 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, are expected, in the Company's opinion, to increase the number of projects carried out in Israel in this area, including the number of projects to be implemented by the Company[8]. However, the Company estimates that due to the fierce competition in this sector, the profitability in this market may decrease in the future.[9]

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8 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 automated parking 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 with its rivals, and the other risk factors enumerated in section 1.23 below.

9 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 1.10.12 below concerning competition in this sector and the competitors operating 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

At the same time, the Company's installations base in Israel, which the Company estimates to be wide as compared to its competitors, could assist the Company in providing more efficient service and technical support, and advance its prospects of being chosen to implement 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, like the Products 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

For details regarding the structure of competition in the Systems segment, see section 1.10.12 below.

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 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 in the Systems segment are the commitments of companies operating in this sector 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 in the area of design and construction of such systems; the range of solutions on offer that meet 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 build-up a 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 rather is focused on

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as the development and increasing sophistication of sub-markets in the logistics systems sector, with manufacturers increasing their proficiency and focusing on their own unique niche areas.

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 UniStock™, designed 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 inventories, orders, issues and distribution, and also the operation and synchronization of the movements of automated conveyance systems and the handling of terminals (software which is referred to in the industry as Material Flow Control – MFC).

These software packages, which operate in the MS Windows environment and which were developed using the DotNet technologies, client–server architecture and/or 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. These software programs may be installed and applied as is, just like any other application software, without requiring any changes to the software in order to adapt it to any unique needs, however, they may also be customized to meet defined and special needs of each 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; (d) Material handling systems, designed to perform missions such as sorting, gathering, palleting, etc; (e) High-speed automated gathering systems for small items; (f) 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 usually provided to customers in Israel (see section 1.10.9 below). The Company generally provides these services as a chief 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 service calls (where contracting for the provision of maintenance services is separate, and thus the consideration for these services is not part of the consideration for the installation of the systems themselves). The Systems Department also markets the Company's management software - the UniStock™ (WMS) software programs, which are marketed under user licenses, mainly within the framework of projects for the construction of systems as described in this section.

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 and logistics centers 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. One of the significant characteristics of this activity is the relatively large financial scope of a limited number of orders for what is characterized as one-off services. This creates a high exposure to volatility of sales volumes and profitability in the Systems sector (in line with changes in the pace of progress), and in general, to the influence of a relatively small number of projects slated to be implemented at any given time.

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 harm the Company's revenues and profits from the Systems sector and in general.

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 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, depending primarily on 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 on the particular technical and functional requirements of each specific transaction, as well as on the results of 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:

	For the year ended December 31		
	2013	**2012**	**2011**
	NIS thousand		
Systems (scope and percentage of general revenues)	(35%) 55,096	(31%) 44,684	(37%) 52,104
Gross profit (loss) (amount and margin)	(11%) 5,097	(-11%) (4,850)	(8%) 3,982

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, government companies or local authorities), that need an automatic warehouse, automatic dispatch systems and/or automatic logistics centers, and which contract with the Company for acquiring a single system. 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 handed over for commercial use. 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 third parties). 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 contracting with the Company is the chief 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, Maadanot, IEC, Coca Cola Israel, Leiman Schlissel, Home Center, Frenkel CD, Shalem Packaging Products, Pelephone Communications Ltd, Scoop Metals Ltd, Colmobile Ltd, the Israeli Air Force, the Israel Aircraft Industry, Kalil, Clalit Health Services, a Defense Ministry facility, Intel and others.

The services of the Systems Department are provided pursuant to customer-tailored agreements, and generally include a list of defined and detailed tasks, technical and functional specifications which the system 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 9 million. Within this framework the Company is obligated, under letters of undertaking concerning the issue of bank guarantees to: (a) repay any amount demanded from 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 plus 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 assemblies (or for longer periods subject to the inclusion of the warranty price in the cost of the system), 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 have a material adverse impact on 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					
	2013		**2012**		**2011**	
	% 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 A	14.5	5.1	19.7	6.2	53.9	19.8
Major customer B	12.6	4.4	47.2	14.8	8.7	3.2
Major customer C	42	14.8	11.5	3.6	-	-
Total sales to major customers	69.1	24.3	66.9	21	53.9	19.8

Agreements with major customers: Below are the major terms and conditions of agreements between the Company and major customers, 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) Major Agreement A: Pursuant to an agreement signed on May 6, 2009 between the Company and Solomon Levin and Alshtein Ltd (above and below - **"Major Customer A"**), 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 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 and/or to interested parties therein), an amount considered material to the Company and which has an impact on the Company's revenues and profits, which is included here by way of reference, from May 12, 2009, reference number 107643-01-2009). On December 17, 2009, the Company signed an additional with the above major customer, for the construction of an automated gathering system, which is to form an integral part of the automated warehouse described above, with an estimated value of €1.8 million (for further details, see Immediate Report on an Event or Matter Outside the Ordinary Course of Corporate Business, included herewith by way of reference, from December 17. 2009, reference number 323901-01-2009). The payments in this project are made in accordance with the progress of milestones in the project's execution. The project, the major part of which is already in partial commercial use by the customer, is expected to be completed during 2014, a revised schedule stemming, inter alia, from changes to the timetables of the project milestones.

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.

To secure the fulfillment of its liabilities under the Project (including the gathering system), the Company has undertaken to provide bank guarantees and to an agreed compensation in certain cases, at progressive rates. In addition, the Company secured 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, with the percentage of completion determined based on completion of engineering stages in the Project.

(b) Major Agreement B: Pursuant to an agreement signed on February 3, 2011 between the Company and the Israel Electric Corporation Ltd (above and below - **"Major Customer B"**), the Company undertook to design, supply, set up and install an automated logistics system for the distribution center in Acre (hereinafter in this section – "**the Project**"). The Project was estimated at NIS 33 million, an amount which is considered material to the Company and has an impact on the Company's revenues and profits. The payments in this project were made in accordance with the progress of milestones in the execution of the Project. The Project was completed in the course of 2013.

(c) Major Agreement C: Pursuant to an agreement signed on May 13, 2012 between the Company and an unrelated third party customer (above and below - "**Major Customer C**"), the Company undertook to design, supply, set up and install an automated logistics system in Israel (hereinafter in this section – "**the Project**"). As of the date of this report, the Project is estimated at NIS 52 million, an amount considered material to the Company and having an impact on the Company's revenues and profits. The payments in this project are made in accordance with the progress of milestones in the execution of the Project. The Project is scheduled to be completed in the course of 2015.

To secure the fulfillment of its liabilities under the Project, the Company has undertaken to provide bank guarantees and to an agreed compensation in certain cases, at progressive rates.

The Company recognizes revenues from this project in its financial statements based on the percentage of completion method, with the percentage of completion determined based on the completion of engineering stages in the Project (for details see Immediate Report Concerning an Event or Matter Outside the Ordinary Course of Company Business, included herewith by way of reference, dated May 13, 2012, reference no. 2012-01-123351).

1.10.10 Marketing and distribution

In the Systems segment, in-house marketing and sales teams operate in Israel, comprising a number of employees handling relations with prospective 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 necessary (for details of the Company's distributor network, see section 1.9.12.2 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, with the services rendered over a period of 9-18 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 27.2.2014(closest possible date to date of this report)**	**Agreements to supply Systems Department services as of December 31, 2013**	**Agreements to deliver Systems Department services as of December 31, 2012**
	NIS thousand		
For Q1 2013	---	---	5,604
For Q2 2013	---	---	9,898
For Q3 2013	---	---	14,659
For Q4 2013	---	---	735
For 2014 onward	---	---	24,507
For Q1 2014	9,842	9,787	---
For Q2 2014	7,252	6,605	---
For Q3 2014	3,854	2,638	---
For Q4 2014	5,183	3,574	---
For 2015 onward	2,000	2,000	---
Total	28,131	24,604	55,403

Differences in reported order backlogs between 2012 and 2013 stem from the receipt of orders for the execution of new projects in the ordinary course of the Company's business, on the one hand – mainly an order from an Israeli customer for the construction of a logistics system, received in 2012 (for details, see immediate report dated May 13, 2012, Reference No. 2012-01-123351, included herewith by reference), as well as from changes in milestone schedules of current projects, on the other hand.

The change in amounts from one quarter to another is due, apart from growth in orders, to the fact that the execution of different parts of projects was shifted from one quarter to another (mostly due to customer noncompliance 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 the current data shown above.

1.10.12 Competition

The construction of automated logistics systems involves the integration of different disciplines including, among 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 in Israel, the Company competes with several Israeli and multinational companies that offer services of design, installation, upgrading and maintenance of industrial systems, mainly automated warehouses and logistics systems, including companies such as Dematic, Knapp, 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.

The Company cannot, at the present time, make any assessment regarding the size of the local market and its share therein, nor does it have any statistical data on which to base itself in this matter. At the same time, the Company's customer base in the field of installations in Israel, which the Company estimates as broader relative to its competitors, includes customers in a wide range of sectors. 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 respond ahead of the company to changing market needs, and can even offer 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.

There is no certainty that existing or potential markets or 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 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 in-house staff that includes a fixed kernel of skilled employees with experience in this type of project, with the Company hiring and training new employees as necessary, in accordance with agreements for the construction and/or maintenance of systems which are signed from time to time.

The sale processes of projects in the systems segment take months and sometimes even years. Even after signing the agreement to set up the system, the initial stages are characterized by planning involving 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. As of the date of this report, the Company uses a large part of this production capacity in relation to existing agreements for the construction of systems during 2012-2014.

1.10.14 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, real estate and facilities for its activities in the three segments (for details see Section 1.13 below).

1.10.15 Human capital

The activity of the Company's staff is divided into segments, as explained above, with all employees engaged and involved in the three operating segments, but focusing primarily on matters concerning their own specific segment (for details see Section 1.15 below).

1.10.16 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 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.

Furthermore, the Company generally links the currency and date of payment to its subcontractor, 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.

1.10.17 Working capital

1.10.17.1 Inventory and inventory of works in progress: The Company does not maintain significant inventories in the systems segment. During the performance of a project, an inventory of works in progress is recorded, which reflects the rate of progress of the project relative to actual expenses.

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

1.10.17.3 Credit lines: Customers of the Company's Systems Department usually are given credit of net 60 EOM for each payment. Below are data on average amounts of supplier credit as well as subcontractor and customer credit:

	2013		2012		2011	
	Average amount of credit in NIS thousands	Average number of credit days	Average amount of credit in NIS thousands	Average number of credit days	Average amount of credit in NIS thousands	Average number of credit days
Customers	9,074	60	8,503	69	6,542	46
Suppliers	487	24	500	32	907	54
Subcontractors	7,322	127	8,866	118	5,815	100

1.10.18 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 control systems comply with the requirements of ISO 9001, 2008 edition. Certain components of the systems constructed by the Systems Department are designed in accordance with various applicable 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 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 failure to comply with the provisions of said standards 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 as described above.

1.10.19 Business objectives and strategy

The Company aims to position itself as a leader in the field of automated logistics systems mainly in Israel and to expand its activity in this area abroad. Measurements for evaluating success in achieving these objectives include, *inter alia*, the number of installations (systems built with the Company’s participation) each year, the 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 achieve these objectives, the Company plans to improve the management and control software for its 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 certainty regarding the Company’s ability to actually improve existing products and to develop new products in the systems segment, and this depends, among others, on analysis of market needs and consumer preferences as expressed in the Company's firsthand contacts with the markets, technological feasibility, costs of potential developments, as well as the strong competition in the sector, as described in this annual report.

In addition, the Company plans to continue developing and bolstering the marketing infrastructure of the systems segment mainly in Israel. There is no certainty that the Company will actually be able to develop and bolster the its marketing setup in the systems segment, 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 in this annual report. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and the US, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty that the conditions for such opportunities will materialize and/or whether such opportunities will even present themselves to the Company.

1.10.20 Forecast for developments in the coming 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.

1.10.21 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 annual financial statements in Chapter C of this periodic report.

	For the year ended December 31					
	2013		**2012**		**2011**	
	In percent					
	Share of Systems Department revenues	Share of total Company revenues	Share of Systems Department revenues	Share of total Company revenues	Share of Systems Department revenues	Share of total Company revenues
Israel	95%	33%	98%	30%	94%	35%
America	5%	2%	2%	1%	6%	2%

1.10.22 Environmental protection, environmental risks and management thereof

On the whole, the Company’s activity in this segment does not involve environmental risks as the term is defined in Regulation 28 of the First Schedule to the Securities Regulations (Details of 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 protection, in accordance with the directives 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 removal 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 segment in general, and 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 focuses on 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 of interest in the field 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 space with the engine turned off), an additional factor that impacts on this operating segment and its growth.

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

In the field of parking solutions there are at present specific Israeli standards which are based on international standards. In addition, activity in this field is subject to general guidelines and standards in different parts of the world, relating to additional areas that are included and/or relevant to the systems segment. For further details see Section 1.11.20 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 85 million vehicles were manufactured in 2013 alone (an increase over 2012), and forecasts put the number of vehicles manufactured worldwide by 2018 at more than 100 million vehicles per year. According to estimates, there are more than 650 million vehicles on the road today (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 US alone stood at 25 to 30 billion dollars in 2013. Estimates of the number of commercial parking spaces available in the US alone 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 2013 (http://www.parking.org/media/emerging-trends-in-parking.aspx), the trends that have the biggest impact on the parking industry include: the rise in the integration of technologies and automation to improve efficiency and scale back the operating costs of parking systems, green and sustainable parking solutions; a growing transition toward innovative technologies to improve access, service and security; increasing interest in automated parking systems; and instruction programs offered to entrepreneurs, architects and traffic consultants in various frameworks by international organizations.

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 field, 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, the introduction of new products and technologies, mechanical innovations enabling more efficient conveyance systems, developments in control and automation technology, as mentioned above, as well as developments in motion technology and in materials technology. The Company works on the development, design and 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 operating segment and changes therein

For details concerning the Competition In the parking solutions market see section 1.11.12 below.

1.11.6 Entry and exit barriers and critical success factors in the operating 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 (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 packages 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.

In addition, the Company is exploring the possibility of developing a generic product line on the basis of installed systems, which will offer a range of shelf products providing automated parking solutions without the need for adjustments. This is part of the Company’s efforts to adjust to the growing demand in the automated parking solutions market.

1.11.7.2 <u>Trends and changes</u>

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 (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, based on the trends described above, 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 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 within several months and end in the course of 2014. 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).

On December 28, 2012, Unitronics Systems Inc. signed an agreement in which it undertook to plan, supply and install an automated parking system in Hoboken, New Jersey. The project is estimated at a total of $3.8 million (about NIS 14,250,000), an amount which is not considered significant for the Company. The project is scheduled to be completed in the first half of 2015. For further details, see the Company's immediate report on events or matters outside the ordinary course of its business, included herewith by way of reference, from December 30, 2012 (Reference No. 2012-01-323205).

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, were presented within the systems segment. Following the establishment, in the third quarter of 2011, of the subsidiary Unitronics Parking Solutions, which is to coordinate operations in this sector, the Company began presenting its income in this segment separately from the systems segment. The contribution to the Company's profitability from this segment, varies from transaction to transaction according to the technical and functional requirements of each particular transaction and the results of negotiations with the Customer in each case. Below are details of the Company's consolidated revenues and gross profit in the parking solutions segment for the specified periods:

	Year Ended December 31		
	2013	2012	2011
	NIS Thousands		
Parking solutions (amount and percent from total income)	5,195 (3%)	664 (1%)	-
Gross profit (amount and percent)	205 (4%)	581 (88%)	-

1.11.9 Customers

The direct customers in the parking solutions segment 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 segment 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 (US and Canada) and in Israel, but are also offered to customers in other parts of the world.

The parking facilities that have been and presently are being built by the Company in this field (see section 1.11.7.2 above) 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, a parking lot in a residential complex in Tel Aviv and a parking lot in an integrated residential complex in Hoboken, New Jersey.

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 the planning, production, construction and operation of the automated parking system, 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. Under these agreements, the Company is generally required to furnish bank guarantees to secure performance of its obligations. At the reporting date , the Company provided bank guarantees as detailed above totaling sum of NIS 14.5 million. According to this framework, the Company is committed , according to undertaking letter concerning the issuing of bank guarantees : (a) to repay any amount of money required from the bank and / or paid by the bank in respect of the guarantees or in connection with it , and to repay the bank the full amount plus interest at a maximum rate and bank fees , (b) to compensate and / or indemnify the Bank in any case legal proceedings or claims filed against Bank, resulting damages to the bank, expenses or losses relating or referring to guarantees directly and / or indirectly , (c) waived any claims against the Bank in connection with the fulfillment of guarantees .

The Company typically provides a 12-month warranty for major components of 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.

Principal 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 2011, 2012 and 2013.

1.11.10 Marketing and distribution

In the parking solutions segment, the Company operates in Israel (within Unitronics Parking Solutions) and in the US (within Unitronics Systems Inc. and its 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 segment 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 in the setup of these facilities:

Period of recognition of anticipated income	Agreements for implementation of parking solution services as of February 27, 2014 (closest possible date to this reporting date) in NIS thousands	Agreements for implementation of parking solution services as of December 31, 2013 in NIS thousands	Agreements for implementation of parking solution services as of December 31, 2012 in NIS thousands
Q1 2013	---	---	911
Q2 2013	---	---	1,431
Q3 2013	---	---	4,595
Q4 2013	---	---	4,775
2014 onward	---	---	16,303
Q1 2014	3,620	4,482	---
Q2 2014	3,989	3,884	---
Q3 2014	3,595	3,595	---
Q4 2014	5,485	3,548	---
2015 onward	13,191	5,369	---
Total	29,880	20,878	28,015

Differences in the reported order backlog between 2012 and 2013 arise from the rate of receipt of new orders for the construction of parking systems during the ordinary course of the Company’s business and from changes in the milestones of current projects on order.

1.11.12 Competition

The Company cannot, at the present time, make any assessment regarding the size of the local and global markets and its share therein, nor does it have any statistical data on which to base itself in this matter. 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 respond ahead of the company to changing market needs, and can even offer 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 main competitors include companies from the Automation Group, LTV, Wohr, Westfalia and others. The Company competes and plans to continue competing with its rivals, primarily on the basis of the 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). Nevertheless, there is no certainty that the markets or existing or prospective customers will regard the Company's services as more worthwhile than those of its competitors. Likewise, there is no certainty that its competitors will not offer products and services that make the Company's services less competitive.

1.11.13 Production capacity

Production capacity in the field of parking solutions is essentially the Company's ability to manufacture components for parking systems and to implement projects in this area on the scope and within the times ordered. This capacity is based on in-house teams of the Company, whose number was increased with the establishment of Unitronics Parking Solutions. These teams engage primarily in the design, 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 mechanical assembly production processes, and also allows for growth and flexibility, given the high production capacity of the existing subcontractors and the possibility of bringing in more subcontractors as needed (subject to a learning and assimilation curve as detailed below). For further details on subcontractors, see Section 1.11.18 below.

Project selling processes in the field of parking solutions take months, and sometimes even years. Even after signing an agreement for the construction of a system, the initial stages are characterized by planning involving the Company's engineers, which usually allows the Company enough time to prepare for the execution stages in which additional manpower and the use of subcontractors is required.

1.11.14 Fixed assets, real estate and facilities

Since December 2011 the Company has been renting a building in the Yavne industrial zone in which it concentrates its parking-solution operations. The leased area in Yavne contains computerized system equipment, automated parking system components, vehicles, laboratory equipment, and office furniture and equipment serving these operations. For details see Section 1.13.4 below. Apart from this, the Company also uses for purposes of this operating segment the fixed assets, real estate and facilities serving the other operating segments (for details see Section 1.13 below).

1.11.15 Research and Development

The Company started to engage in this field just several years ago, as part of its activity in the systems segment. With the establishment of Unitronics Parking Solutions in the third quarter of 2011, the Company began recognizing development expenses separately for this segment. Below are details of amounts spent by the Company on development activities during the periods specified below:

	Year Ended December 31		
	2013	2012	2011
	NIS Thousands		
Payroll and related expenses	3,646	1,868	425
Subcontractors	2,519	1,798	178
Other expenses	1,393	611	60
Net of capitalized expenses recognized as an intangible asset	(4,796)	(2,563)	(531)
Total	2,762	1,714	132

Overall, the Company spent NIS 7,558,000 during the reporting year (of which NIS 4,796,000 were recognized as intangible assets) for the development of products and technologies as detailed in Section 1.11.7 above.

The Company foresees continued development activity in this segment, involving the development of components (modules, transport elements, software and control elements), at similar levels.[10]

1.11.16 Intangible assets

As stated, the Company recognized a part of the product and technology development expenses (as detailed in Section 1.11.15 above) as intangible assets. In addition, the Company protects its intellectual property through the registration of patents. For details on intangible assets connected with the operating segment, see Section 1.14 below).

1.11.17 Human Capital

The Company's activity in the parking solutions segment is carried on mainly through Unitronics Parking Solutions, to which the Company provides a range of services in this area, and by Unitronics Systems Inc. As noted above, the Company's operations

[10]The information regarding total anticipated development expenses in the Parking Solutions segment is forward-looking information. This information is drawn primarily from the Company's development plans based, among others, 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 expressed in the Company's firsthand contacts with the markets, technological feasibility, the Company's assessments of development costs needed to fund development work, as well as Company estimates of anticipated revenues in this segment. Major factors that could prevent this information from materializing are actual revenues generated by the sales of Unitronics Parking Solutions in 2014, the amount of the required investments in this activity, which could considerably overrun Company budgets in these matters, limitations on the ability to commercialize these technologies at competitive market prices or at all, 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 of this report.

are divided into three segments, with all employees engaged and involved in the three operating segments, but focusing primarily on matters concerning their own specific segment (for details see Section 1.15 below).

1.11.18 Suppliers and Subcontractors

The Company is a party to several nonexclusive agreements with a number of subcontractors for the manufacture of mechanical assemblies, for amounts which are insignificant for the Company. The Company is not bound by 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 particular 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 with respect to the Company's needs and/or use of unique production components customized to the Company's needs. The Company's assessment is that replacing a subcontractor would not result in a significant increase in costs.

1.11.19 Working Capital

1.11.19.1 Inventory: The Company does not keep on hand large amounts of inventory for this operating segment. Nevertheless, at times an inventory of works in progress is recorded on a specific basis, stemming from expenses due to works in progress in this segment (such as transport components manufactured for an ordered system) and generally reflecting progress in project implementation, with data in respect thereof correct on a specific basis as of the reporting date only.

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

1.11.19.3 Credit lines: Customers in the parking solutions segment typically receive credit of up to a month for each payment. Below are data on average amounts of supplier credit as well as subcontractor and customer credit:

	2013		**2012**		**2011**	
	Average amount of credit in NIS thousands	Average number of credit days	Average amount of credit in NIS thousands	Average number of credit days	Average amount of credit in NIS thousands	Average number of credit days
Customers	920	65	26	14	-	-
Suppliers and subcontractors	1,266	73	555	68	-	-

1.11.20 Standards and Quality Control

In the parking solutions segment there is an Israeli standard, IS5437, which is based on the European standard EN14010. In addition, the parking solutions segment is subject to general directives and standards in different parts of the world, in areas such as construction (standards relating to earthquakes, safety at construction and work sites, local directives, licensing and permits, etc.), mechanical and electrical facilities (standards relating to safety, lift facilities, electrical facilities, conveyance facilities, etc) and transportation (safety standards, local directives, licensing and permits, etc.). The compliance of the Company’s systems with the requirements of these standards is checked by professional inspectors, independent of the Company, who test each system individually, as part of the process for completing the system for delivery to the customer. Apart from the foregoing, the Company is not aware of additional standards in this area.

Compliance 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 failure to comply with such 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 industry both in Israel and abroad, through the export of its capabilities and technologies. Measurements 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 interacts, and the overall contribution of the parking solutions segment to the Company's profitability.

To realize these goals, the Company is continually upgrading its automated parking systems, the mechanical transport components and the management and control software, 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 interacts. 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 preferences, as expressed in the Company's firsthand contacts 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 in the parking solutions segment – at first, primarily in North America and Israel. There is no certainty that the Company will actually be able to develop and bolster its international marketing setup in this segment, 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 in this annual report. At the same time, the Company plans to continue studying from time to time business opportunities in Israel and the world, with a view to expanding its operations financially, technologically and marketing-wise. There is no certainty that the conditions for such opportunities will materialize 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 that 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, with the aim of increasing awareness of the advantages of these parking solutions.

In order to leverage and boost the Company's sales in the parking solutions segment, the Company plans to continue directing additional resources to 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 segment, mainly in North America and Israel.[11]

[11] The Company's actual ability to succeed in developing and bolstering its marketing setup in the parking solutions segment is forward-looking information. This information is drawn primarily from analyses of marketing characteristics and attributes of the markets for the Company's services in this segment, conducted periodically by the Company, and on the lengthy, complex selling process of these services, as explained in this report. The principal factors that could prevent this information from materializing are the strong 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.

1.11.23 Financial Information regarding Geographical Regions

Operations in the parking solutions segment focus mainly on North America and Israel, but are conducted in other places around the world as well. For further details concerning the Company's activity by geographical regions, see note 25 to the financial reports, chapter c to this periodic report.

	Year Ended December 31					
	2013		**2012**		**2011**	
	Percent					
	Percent of parking solution segment in sales revenues	Percent from total Company revenues	Percent of parking solution segment in sales revenues	Percent from total Company revenues	Percent of parking solution segment in sales revenues	Percent from total Company revenues
Israel	26%	1%	0%	0%	0%	0%
North America	74%	2%	100%	1%	0%	0%

1.11.24 Environmental Protection, Environmental Risks and Management Thereof

On the whole, the Company's activity in this segment does not involve environmental risks, as this term is defined in Section 28 of the First Schedule to the Securities Regulations (Details of Prospectus and Draft Prospectus – Structure and Format), 1969.

As of the report publication date and in view of the foregoing, the Company is of the opinion that its activity in the parking solutions segment does not expose it to environmental risks that have or could have a significant impact on it.

1.12 Other Activities

The Company has an additional activity, not included in the aforementioned main operating segments, which involves insignificant revenues and investments. This activity is primarily maintenance and servicing by its subsidiary Unitronics Management, in connection with the use of Unitronics Building (for details of the subsidiary's operations, see Section 1.22.1 below). Below are data on the Company's revenues from the activity of Unitronics Management for the indicated periods:

	For the year ended December 31		
	2013	**2012**	**2011**
	NIS Thousands		
Revenues from Unitronics Management operations	439	403	385

Part IV – Matters Related to the Company’s Operations

1.13 Fixed assets, land, facilities, insurance and liens

The major part of fixed assets used by the Company is as set out 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 sq.m, and 841 sq.m attached yard area (hereinafter: "**the Company's rights**"), of a building known as "**Unitronics Building**." The Company's rights in Unitronics Building are also known as part of Block 8632, Lot 27 (after initial parcellation of the plot marked "3" according to 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 rights in Unitronics Building**"). The Company also acquired rights to an additional lot of 1,000 sq.m adjacent to Unitronics Building, serving as a parking lot for the Company's employees and visitors (hereinafter: "**the parking lot**"). The Company's rights in Unitronics Building and the adjacent parking lot vested under an agreement dated July 23, 2000 with Airport City Ltd. (hereinafter: "**ACL**"), whereby the Company acquired a capitalized lease right (91%) in the Company's floors for 49 years, with an option to extend the lease 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 Register at the Land Registration Bureau.

The Company's rights in Unitronics Building serve as collateral to secure the financing for the acquisition of its rights in this property, as set forth below in Section 1.17 of this report. The balance of the amortized cost of the Company's floors as of December 31, 2013 amounted to NIS 16,108,000. For its current operations, the Company uses the entire space on the Company 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 sq.m leased to the Company (as set forth below in Section 1.13.2). The rights in the private floors were acquired about one month prior to the acquisition of the Company's rights in the Company floors, under a separate agreement, unrelated to the Company or to the agreement whereby the Company acquired its rights in the Company floors, at a price per square meter using the same pricing basis as used by the Company to acquire its rights.

1.13.2 Unitronics Building – lease from the controlling shareholder: In addition to the Company floors, which are used in their entirety by the Company, the Company also leases from a company owned by its controlling shareholder space on the private floors, based on its variable needs from time to time, at the same terms under which space is leased on the private floors to third parties, which also reflect lease terms prevailing at Airport City in general. Recently these terms were approved by the Audit Committee, the Board of Directors and the general meeting of shareholders for the period ended August 1, 2015, subject to the company's right to end the lease at any time with prior notice of three months, according to the Audit Committee of the

Company decision. These lease terms includes leasing 1,106 sq.m of office space at Unitronics Building, as well as 30 parking spaces. Under the terms of the lease agreement, the rent is set at NIS 65 per sq.m per month, linked to the CPI, but no less than the CPI known on the lease signing date (plus management fees payable to ACL at NIS 5 per sq.m per month, and management fees at NIS 9.5 per sq.m per month payable to Unitronics Management, which provides management and maintenance services for Unitronics Building). The rent for the parking spaces is NIS 250 per each parking space (in all NIS 7,500 per month for 30 parking spaces). Total cost of the lease for the Company under the lease agreement is NIS 72,000 per month, linked to the CPI (excluding parking spaces and management fees), but no less than the CPI known on the lease signing date. For further details on the approval of the lease agreement between the Company and its controlling shareholders, see Section 4.6.2 in Chapter D of this periodic 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 SQ.M, in the Hevel Modiin-Tirat Yehuda industrial zone ("**the property**"), in consideration for NIS 17,370,000 plus statutory 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. On May 9, 2012, the Company's rights in the property were registered with the Israel Land Administration. The property is intended to be used mainly by the Company's parking solutions segment. For further details on the financing of the property's acquisition, see Section 1.17 below.

Subsequent to the balance sheet date, on February 20, 2014, the Company entered into an agreement with a third party unrelated to the Company or to interested parties therein (hereinafter: "**the sale agreement**") for the sale of the Company's rights in the aforesaid property in consideration for NIS 18,500,000 plus statutory VAT, subject to the Board of Directors' approval of the agreement, which was obtained on February 23, 2014 (for further details, see amending immediate report on an event or matter outside the ordinary course of the Company's business, Reference No. 2014-01-044935, included herewith by reference).

1.13.4 The Company rents from a third party unrelated to the Company and/or to interested parties therein (hereinafter in this section – "**the lessor**") a building in the Yavne industrial zone with a total area of 2,100 sq.m (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 concentrates its operations in the parking solutions segment. The Company has an option to extend the lease agreement 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 sq.m from the leased property during the period of option 2, and insofar as it exercises its rights, the rent will be proportionately reduced. As of the report date, the Company exercised option 1. The leased property is presently used for the parking solutions business, which is consolidated under the subsidiary Unitronics Parking Solutions Ltd.

1.13.5 Under an oral agreement with a lessee unrelated to the Company or to its controlling shareholder, on August 8, 2010 the Company rented a warehouse with an area of 500 sq.m for a period of six months. The Company has six options to extend the lease for 12 months each time, and it has exercised these options at the end of each period. The Company pays the lessor rent in an insignificant amount of NIS 105,000 per year. This warehouse is used by the Company for storage of components related to the products segment.

1.13.6 Unitronics Inc.: The subsidiary Unitronics Inc. leases from a third party unrelated to the Company and/or to interested parties therein office space in Quincy, near Boston, MA with a total area of 2,363 square feet (219 sq.m), leased until September 2016 at annual rent of $58,000.

1.13.7 Unitronics Systems Inc.: The subsidiary Unitronics Systems Inc. leases from a third party unrelated to the Company and/or to interested parties therein office space in Fort Lee, NJ with a total area of 1,400 square feet (130 sq.m), leased until October 31, 2015 at annual rent of US$37,000.

1.13.8 Computer systems: The Company owns computers and peripheral equipment used in its current operations for different applications needed for 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 the volume of operations.

The Company has an automated warehouse operating at its facilities in Unitronics Building at Airport City.

The Company has installed an ERP (Enterprise Resource Planning) system used concurrently by the purchasing, production and inventory departments of the Company as well as financial management and accounting, customer relations 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 connection with the 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 pursuant to which it regularly receives release updates and version upgrades. In other areas, the Company has licenses to use various software and software tools installed on its computers at terms and conditions generally accepted in the industry.

1.13.9 Insurance

The Company and its subsidiaries in Israel (except for the subsidiaries in the US – see Section 1.13.9.5 below) are insured under an insurance policy which, in the Company's opinion, provides it with adequate insurance coverage, as follows:

1.13.9.1 Property Insurance

The Company carries extended fire insurance, providing insurance coverage against accepted fire insurance risks, including earthquake and other natural disasters, burglary as well as an extension for "Money All Risks" insurance cover.

1.13.9.2 Consequential damage insurance

The Company carries consequential damage insurance, which defines fixed expenses and net income, plus miscellaneous expenses and an indemnity period of 9 months.

1.13.9.3 Third party insurance

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

1.13.9.4 Officers Liability Insurance

For details, See section 4.5.8 in Chapter D of this periodic report.

1.13.9.5 Insurance of subsidiaries in the US

The US subsidiaries (Unitronics Inc. and Unitronics Systems Inc.) carry separate insurance coverage from the Company. This insurance includes, among others, office contents insurance for $300,000, general liability insurance for a limit of liability of $1,000,000 per event and $2,000,000 in all, and employer liability and employee compensation insurance for NIS 1,000,000 in respect of accidental bodily injury, $1,000,000 per employee in respect of bodily injury caused by illness and $1,000,000 in all in respect of bodily injury caused by illness, total limit of liability up to $1,000,000.

1.13.9.6 Other miscellaneous insurance

The Company also carries other miscellaneous insurance, including contractor insurance, employer liability insurance, employee fidelity insurance, combined product liability and professional liability insurance, import/export shipment insurance, mechanical breakdown insurance, electronic equipment insurance, terrorism insurance and goods-in-transit insurance.

1.13.9.7 In management's opinion, the Company is not underinsured and its insurance conditions are consistent with those of companies of similar type and size.

1.13.10 **Charges**

For details on charges see section 1.17 of this report.

1.13.11 **Geographical regions**

For details on Company operations by geographical regions, see Section 1.9.26 for the products segment, Section 1.10.21 for the systems segment and Section 1.11.23 for the parking solutions segment. For data on Company operations and noncurrent assets related to overall Company operations by geographical regions, see Note 25 to the financial statements in Chapter C of this periodic report

1.14 Intangible assets

1.14.1. General: The Company claims copyright and rights to use technologies, know-how and trade secrets (for patents and trademarks, see below).

The Company protects its trade secrets and intellectual property mainly by means of nondisclosure agreements with employees, consultants and some customers, as well as through applications to register patents, designs and trademarks. There is no certainty that these means can provide adequate protection, and they may not protect the Company against competing developments carried out independently by third parties.

1.14.2 Patents and patent applications

The Company has a registered patent in the US on certain aspects of its WilCo™ technology, as well as two registered patents in the US on certain control and management features of automated parking systems.

In recent years the Company has also filed various patent applications in respect of certain technological features developed by it in connection with the Company's operations, involving both automated parking systems and control products. These applications were filed in the US. As of the date of this report, no patents were granted pursuant to these applications.

The Company estimates that actual registration of a patent could take from three to five years. At the same time, there is no certainty that patents applied for by the Company will be recognized as innovations or granted within the aforementioned timeframe.

The Company also owns several design patents registered in the US, Israel and with the European Patent Office, on 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 US.

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 on various names, logos and designs used for the Company's different product ranges. From time to time, the Company files additional applications with the USPTO and with the Patent Registrar in Israel for the registration of various trademarks; there is no certainty that these applications will be granted.

1.14.4. Internet domain names

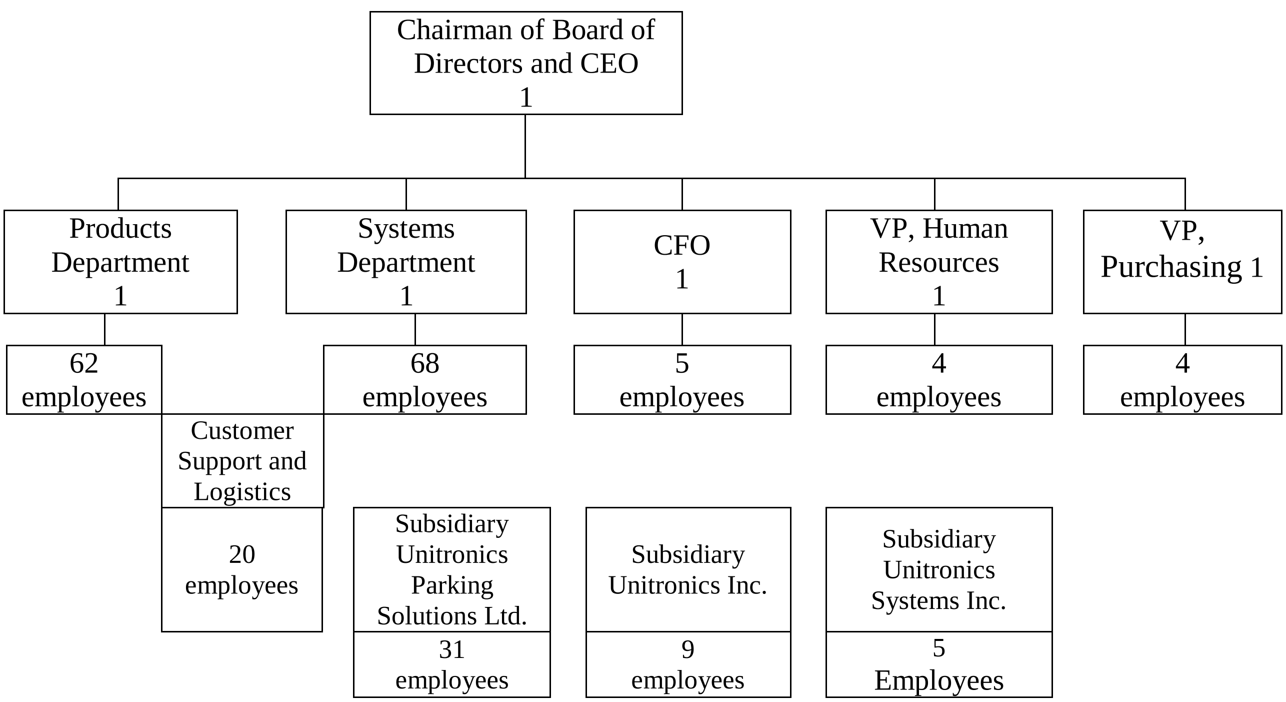
The Company has acquired rights to use domain names (including domain names with various country TLDs) in which it presents information about the Company, its products and related matters. The Company uses these names as addresses for websites used for communicating with existing and potential customers.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

1.14.5 For details on the Company's investments in its intellectual property, see Note 9 to the financial statements in Chapter C of this periodic report.

1.15 Human resources

1.15.1 Organizational structure: The Company's controlling shareholder, Mr. Haim Shani, serves as Company Chairman and CEO (for details on the approval given for the CEO to serve as Chairman of the Board of Directors, see Section 4.15.2 and the Corporate Governance Questionnaire attached as an appendix to Chapter D of this periodic report). Several senior professional executives report to the CEO, as per the chart below, in charge of professional operations, 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 professional executive or executive team, reporting to the CEO, as well as through its active subsidiaries.

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: As of the publication date of this report, the Company and its subsidiaries have a staff of 214 employees, as set out in the diagram above.

The breakdown of employees of the Company and its subsidiaries in Israel by occupation on the relevant dates was as follows:

	Staff headcount			
Occupation	**Close to the report date**	**December 31, 2013**	**December 31, 2012**	**December 31, 2011**
Sales and Marketing	18	16	16	15
Research and development	50	60	67	51
Administration	17	18	20	16
Manufacturing, logistics and quality assurance	52	51	55	42
Integration and support	63	60	54	57
Total	**200**	**205**	**212**	**181**

The breakdown of employees of the Company and its subsidiaries in Israel by profession on the relevant dates was as follows:

	Staff headcount			
Profession	**Close to the report date**	**December 31, 2013**	**December 31, 2012**	**December 31, 2011**
Clerks - administrative	11	11	12	8
Professional technicians	18	19	18	14
Programmers (academic)	37	40	55	49
Engineers	41	42	44	33
Technicians, warehouse staff and mechanical assembly staff	22	24	26	23
Academic (general)	27	26	17	20
Practical engineers	44	43	40	34
Total	**200**	**205**	**212**	**181**

As of December 31, 2013, the subsidiary Unitronics Inc. had a staff of 9 employees, Unitronics Systems Inc. had a staff of 5 employees, the subsidiary Unitronics Parking Solutions had a staff of 28 employees and the subsidiary Unitronics Management had no staff. As of December 31, 2012, the subsidiary Unitronics Inc. had a staff of 9 employees, Unitronics Systems Inc. had a staff of 4 employees, the subsidiary Unitronics Parking Solution had a staff of 33 employees and the subsidiary Unitronics Management had no staff. As of December 31, 2011, the subsidiary Unitronics Inc. had a staff of 12 employees, and the subsidiary Unitronics Management had no staff.

In 2013, there were no significant changes in the Company's staff in the different segments, as setout above.

1.15.3 Terms of employment: Most Company employees are employed under written, personal employment contracts which include customary undertakings with regard to nondisclosure, noncompetition and safeguarding of Company intellectual property. The Company's liabilities for employee termination benefits are partially covered by contributions to senior-employee insurance policies and pension funds. An appropriate provision was made in the Company's financial statements for the balance of liabilities for employee termination benefits not covered by such contributions.

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 applying to that agreement.

The Company is under no obligation to grant stock options to any of its employees; in practice, stock options are granted by the Board of Directors, based on recommendations made by management, subject to the Company's compensation policy.

1.15.4 Officers and senior management

Senior officers are employed by the Company under personal employment agreement or under management and/or consulting agreements, and their terms of employment are subject to the Company's compensation policy. The terms of employment of officers who have employer-employee relations with the Company include, among others, a monthly salary, contributions to a pension fund and/or senior-employee insurance policy, contributions to a study fund, entitlement to annual vacation and convalescence pay, reimbursement of expenses and company car. In addition, Company employees sign a nondisclosure and noncompetition undertaking. Said employment agreements (except for those of Mr. Haim Shani and Mrs. Bareket Shani) are for an unlimited period, with each party entitled to terminate the agreement by prior notice. Senior officers of the Company are also insured under a directors and officers professional liability insurance policy.

During the reporting period, the Company adopted a Company officers' compensation policy pursuant to Amendment No. 20 to the Companies Law. For details see Section 4.5.2 in Chapter D of this periodic report.

For details on the terms of employment of the Company's senior officers, see Section 4.5 in Chapter D of this periodic report.

1.15.5 The Company’s investment in training and practice

The Company provides in-house training for staff of the different departments, primarily in the field of work safety. This training is given by the Company's Chief Safety Officer at the Company's facilities, as part of his job duties and within the cost of his salary. As part of its international marketing operations and support for its distributors, the Company also holds conferences and provides professional training for distributors and regional sales staff.

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:

Credit type	**As of December 31, 2013**			**As of December 31, 2012**		
	Credit amount, NIS thousands	**Interest rate**	**Effective interest rate**	**Credit amount, NIS thousands**	**Interest rate**	**Effective interest rate**
Short-term bank credit (USD)	1,515(*)	LIBOR + 2.02%	LIBOR + 2.02%	2,036(*)	LIBOR + 2.02%	LIBOR + 2.02%
Long-term bank credit (EUR)	9,071 (**)(***)	LIBOR + 3.41%-1.93%	LIBOR + 3.41%-1.93%	13,413 (**)(***)	LIBOR + 3.41%-1.93%	LIBOR + 3.41%-1.93%
Unlinked lease financing	79	9.9%	9.9%	204	9.9%	9.9%
Debentures (Series 2) (CPI-linked)	-	CPI + 6.1%	CPI + 9.57%	6,146	CPI + 6.1%	CPI + 9.57%
Convertible debentures (Series 3) (CPI-linked)	46,459	CPI + 5.65%	CPI + 7.12%	56,666	CPI + 5.65%	CPI + 7.12%
Convertible debentures (Series 4) (CPI-linked)	52,656	CPI + 5.4%	CPI + 6.25%	-	-	-

(*)(**)The above table lists "long-term bank credit (USD)" in the amount of NIS 1,515,000, and "long-term bank credit (EUR)" in the amount of NIS 1,765,000. The two loans were provided to the Company by Bank Leumi Le-Israel Ltd. (hereinafter: "**Bank Leumi**") on December 29, 2005 (a loan for EUR 1,015,000 and a loan for USD 1,200,000), in connection with lease rights in Unitronics Building (for further details see Section 1.13.1 above). On May 1, 2008, the Company signed a deed of pledge and assignment of contractual rights by lien in favor of Bank Leumi, to secure the loans from the bank. Consequently, on May 1, 2008, two first pledges were created on the contractual lease rights under the lease agreements signed between the Israel Lands Administration and the Company, which were registered on June 16, 2008. Under the terms of the loans, the loans are repayable over 12 years from the date of provision of each loan, with the addition of interest at LIBOR + 2.02%. The balance of the debt to Bank Leumi as of December 31, 2013 in respect of the new credit facility is NIS 3,280,000.

(***) In addition, the above table includes “long-term bank credit (EUR)" in the amount of NIS 4,583,000 used to finance a portion of the cost of acquisition of capitalized lease rights in a real estate property with an area of 11,000 sq.m in the Hevel Modiin-Tirat Yehuda industrial zone (hereinafter – "**the property**"). To secure repayment of this credit, a lien was registered with the Companies Registrar on the Company's rights in the property. Subsequent to the balance sheet date, the Company entered into an agreement for the sale of the property (for further details see Section 1.13.3 above), pursuant to which the lien in the bank's favor was removed, without the bank demanding the repayment of the credit.

The above table also lists under "unlinked lease financing" credit in the amount of NIS 79,000, which is secured by liens on vehicles.

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

As of December 31, 2013, the Company has current credit facilities (excluding credit for financing the acquisition of the Company's rights in the Company floors and in capitalized lease rights in a real estate property, as described above), totaling NIS 26.7 million –primarily in connection with the provision of bank guarantees to secure the Company's obligations under agreements in the systems segment and in the parking solutions segment, as described above. As of the date of this report, current credit facilities were utilized for a total of NIS 26.3 million. Since December 31, 2013, the Company has not taken credit in significant amounts. Although as of the date of this report the Company is not aware of any limitation, there is no certainty that these credit facilities will be renewed or that the Company will be granted alternative credit facilities under similar terms or at all. Furthermore, credit instruments between the Company and some Israeli banks stipulate that the bank's consent is required in case of certain changes in the composition of the Company's shareholders.

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

Under the 2011 Shelf Offering Report and the 2013 Shelf Offering Report, as defined in Section 1.20 below, the Company has undertaken, *inter alia*, to comply with financial covenants, to create a charge on deposits in the amount of the periodic interest as determined in each of the trust deeds, and not to create additional charges on its assets beyond those existing on the date of signature of the trust deed for debentures (Series 3) and the trust deed for debentures (Series 4) (hereinafter, jointly: "**the deed**"), in favor of any third party, without the prior written consent of the trustee, except for charges on real estate and/or equipment acquired by the Company after the date of signature of the deed, the charging of which shall only serve to secure repayment of the financing provided for the acquisition of the charged asset (for further details see sections 1.20.6 and 1.20.8 above).

As of December 31, 2013 and the reporting date, the Company is in compliance with all the restrictions imposed on it in connection with credit facilities granted by third parties.

1.18 Taxation

For details on the tax laws applying to the Company and its subsidiaries, see Note 24 to the Company's financial statements, which are included in Chapter C of the annual report.

1.19 Restrictions on and supervision of Company activities

1.19.1 Business license: Company operations at Unitronics Building in Airport City require a business license under the Business Licensing Law, 1968. In June 2004 the Company received from the Business Licensing Department of the Hevel Modiin Regional Council a business license, unlimited in time, for its plant at Airport City.

As of the publication date of this report, the Company does not have a business license for its activity in the property in Yavne as described in Section 1.13.4, and the Company is taking steps to obtain a business license in accordance with the law in connection with this activity. For details on the risks involved in engaging in an activity 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 Standards: For details, see sections 1.9.23, 1.10.18, and 1.11.20 above.

1.20 Material agreements and cooperation agreements

1.20.1 The agreements listed in sections 1.9.12, 1.10.9, and 1.11.7.2 above are material agreements of the Company. In addition, the agreements detailed in this section are material agreements of the Company.

1.20.2 Market making – Since February 6, 2006, the Company enters from time to time into agreements for the receipt of market-making services on the Tel Aviv Stock Exchange and on the EuroNext Stock Exchange in Brussels, pursuant to the approval of the Audit Committee and the Board of Directors and in accordance with the Tel Aviv Stock Exchange Regulations. On May 1, 2013, the Company decided to discontinue the receipt of market-making services for the Company's shares on the Tel Aviv Stock Exchange. An appropriate notice was delivered to the Company's market maker. In accordance with the agreement with it, the Company's market maker continued market-making activities with the Company's shares on the Tel Aviv Stock Exchange until June 15, 2013 (for further details see immediate report on an event or matter outside the ordinary course of the Company's business, dated May 1, 2013, Reference No. 2013-01-050824, included herewith by reference. On June 11, 2013, the Company entered into a market-making agreement with IBI Stock Exchange Services and Investments Ltd. ("IBI") with respect to the Company's shares listed on the Tel Aviv Stock Exchange. The market-making agreement is for a period of one year from the date of receipt of the Stock Exchange's approval for market-making in securities of the Company by IBI, and it will be extended each year automatically for an additional year (for further details see immediate report on an event or matter outside the ordinary course of the Company's business, dated June 11, 2013, Reference No. 2013-01-061794, included herewith by reference). On June 12, 2013, Stock Exchange approval was received as stated.

1.20.3 <u>2006 Prospectus</u> – In the 2006 Prospectus the public was offered units comprising NIS 34 million par value of debentures (Series 2) and 600,000 warrants (Series 2) exercisable into ordinary shares. These shares and securities were allotted on August 25, 2006 and listed on the Tel Aviv Stock Exchange. The net proceeds from these securities, less issue expenses, amounted to NIS 30 million. On August 15, 2006, the Company entered into an agreement with Hermetic Trust (1975) Ltd. (hereinafter in this section: "**the trustee**") to serve as trustee for the debentures (Series 2) offered under the 2006 Prospectus. The trust deed includes provisions as to the trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the trustee, replacement of the trustee and expiry of the trustee's office. On August 25, 2013 the Company paid the fifth and final installment of principal of debentures (Series 2). Following this payment, all the Company's obligations in respect of debentures (Series 2) were met (for details see immediate report on the Company's equity and securities registers and changes therein, included herewith by reference, dated August 25, 2013, Reference No. 2013-01-125076).

1.20.4 <u>2011 Shelf Prospectus</u>: On February 23, 2011, the Company issued a shelf prospectus which was amended on March 17, 2011, on January 20, 2013 and on March 4, 2013 (Reference Nos. 2011-01-58260, 2011-01-084435, 2013-01-018303 and 2013-01-053031, respectively, included herewith by reference) (hereinafter: "**the 2011 Shelf Offering**"), pursuant to which shelf offering report dated March 22, 2011 (hereinafter: "**the 2011 Shelf Offering**") and shelf offering report dated January 24, 2013 (hereinafter: "**the 2013 Shelf Offering**") were issued. The 2011 Shelf Prospectus lapsed during the reporting period, and no further securities of the Company may be offered to the public pursuant thereto.

1.20.5 <u>Trust agreement (2011 Shelf Prospectus):</u> On February 22, 2011, the Company entered into a trust agreement (in this section: "**the deed**") with Reznik, Paz, Nevo Trusts Ltd (in this section: "**the trustee**"), to serve as trustee for the holders of debenture (Series 3 to 7 and Series 8 to 12) that would be offered, if at all, under shelf offering reports pursuant to the Shelf Prospectus, provided that on the date of offering of the debentures by the Company, the Company and the trustee would examine the possibility of the trustee serving as trustee for the offered series of debentures and determine the existence or absence of a conflict of interest among the holders of the relevant series, *inter alia* in accordance 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 the trustee, 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.

1.20.6 2011 Shelf Prospectus – On March 22, 2011, the Company issued, pursuant to the 2011 Shelf Prospectus, an offering report offering the public up to NIS 56,250,000 par value of debentures (Series 3) of the Company, and subject to the Company's right to offer additional amounts of debentures (Series 3), as set forth in Sections 3.3 and 3.4 of the offering report, NIS 56,442,000 par value of debentures (Series 3) were allotted in actuality (hereinafter: "the offering report 2011"). The gross proceeds from the debentures (Series 3) allotted under the offering report 2011 amounted to NIS 56,442,000. On March 24, 2013, the Company paid the first installment out of five of the principal of debentures (Series 3). Following this payment, 45,153,600 par value of debentures (Series 3) remained outstanding.

In the framework of the Shelf Prospectus and the offering report 2011, the Company assumed the following undertakings:

- Dividend distribution – The Company undertook not to distribute dividends amounting to more than 50% of the annual net profit attributable to the Company's shareholders according to its last audited consolidated financial statements published before the date of the Company's resolution to distribute a dividend, unless the Company received the prior consent of the debenture holders, given in a special resolution at a meeting of the debenture holders called in accordance with the provisions of the Second Addendum to the trust deed of debentures (Series 3). This restriction shall not apply to any buyback of Company shares by the Company or its subsidiaries. For further details on the above restrictions, see Section 11.1 of the offering report 2011.

- Net financial debt/net CAP ratio – The Company undertook that from the time the debentures (Series 3) are listed for trading, and as long as the debentures are outstanding, the ratio between the Company's solo net financial debt and net CAP according to its audited or reviewed (as the case may be) solo financial statements, with reference to the Company's financial statements as of June 30 and December 31, may not exceed 80%. If the Company fails to comply with this undertaking during the interest period (as defined in Section 4 of the First Addendum to the trust deed of debentures (Series 3) – terms written overleaf), the interest rate payable by the Company to the holders of debentures (Series 3) on the relevant interest payment date in the period in which the Company was not in compliance with its said undertaking, shall be increased by only 0.5% per year above the interest rate set in the tender. For further details on the above restriction, see Section 11.2 of the offering report 2011.

- Equity restriction – The Company's equity according to its solo financial statements, with reference to the Company's solo financial statements as of June 30 and December 31, may not fall below NIS 20,000,000 during two consecutive quarters. If the Company fails to comply with this undertaking during the interest period (as defined in Section 4 of the First Addendum to the trust deed of debentures (Series 3) – terms written overleaf), the interest rate payable by the

Company to the holders of debentures (Series 3) on the relevant interest payment date in the period in which the Company was not in compliance with its said undertaking, shall be increased by only 0.5% per year above the interest rate set in the tender. For further details on the above restriction, see Section 11.3 of the offering report 2011.

- Company's undertaking not to create charges – The Company undertook that as long as an unpaid balance remains (unpaid balance according to the offering report means principal, interest and linkage differences on outstanding debentures (Series 3)), the Company shall not create additional charges on its assets beyond those existing on the date of signature of the trust deed of debentures (Series 3), in favor of any third party, without the trustee's prior written consent, except for charges on real estate and/or equipment acquired by the Company after the date of signature of the trust deed of debentures (Series 3), which may be charged solely to secure the financing provided for the acquisition of the charged asset, which the Company shall be entitled to create, without any limitation, in favor of any person or corporation. For further details on the above restriction, see Section 11.5 of the offering report. Out of the proceeds from the issue, the issue coordinator is to deposit in a bank account, to be opened for this purpose by and in the name of the trustee and charged in the trustee's favor, no later than 14 days after the issue, an amount equivalent to the annual interest payment on the debentures (i.e.: two (2) semiannual interest payments), to secure the current interest payment on the principal of debentures (Series 3). For details on the above restriction, see Section 11.6.1 of the offering report 2011.

- The Company undertook, as long as debentures (Series 3) remain outstanding, not to issue additional debenture series with an average duration shorter than that of debentures (Series 3), that are secured by senior charges to those provided as security for the Company's obligations to the holders of debentures (Series 3), insofar as there are any such. For further details on the above restriction, see Section 2.4 of the offering report 2011.

As of the report publication date, the Company is in compliance with its above undertakings.

Beginning on the date of listing of debentures (Series 3) and subject to any law, the Company shall be entitled (but not obligated), at its sole discretion, to make full or partial early redemption thereof, subject to certain conditions and restrictions as set forth in the Shelf Prospectus and in the offering report 2011.

For details on the use of the proceeds from the issue, see Section 4.1.1 in Chapter D of this periodic report.

Upon the occurrence of certain events, and under certain conditions, the trustee for debentures (Series 3) shall have cause for declaring the debentures immediately due and payable. These events include, in brief: fixed and final liquidation order issued by the court against the Company; stay of proceedings order issued against the Company; attachment imposed on the Company's assets, execution action carried out against the Company's assets, appointment of a temporary or permanent receiver over the

Company's assets, where each of the above was not lifted and/or cancelled within 60 days; expunction or liquidation of the Company for any reason; sale of a substantial part of the Company's assets; if Mr. Haim Shani ceases to be the Company's controlling shareholder, directly or indirectly, without receiving the approval of the holders of debentures (Series 3) for the transfer of control; fundamental breach of the terms of the debentures (Series 3) and the relevant trust deed, that was not cured within 30 days from when the trustee notified the Company of the breach. For details on all the causes available to the trustee for declaring the debentures (Series 3) immediately due and payable, see Section 18.1 of the offering report 2011.

1.20.7 Trust agreement (2011 Shelf Prospectus): On March 22, 2011, the Company entered into a trust agreement with Reznik, Paz, Nevo Trusts Ltd (in this section: "**the trustee**"), to serve as trustee for the holders of debenture (Series 3) offered under the Shelf Prospectus and the offering report. The trust deed includes provisions as to the trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the trustee, replacement of the trustee and expiry of the trustee's office.

1.20.8 2013 Shelf Prospectus – On January 24, 2013, the Company issued, pursuant to the 2011 Shelf Prospectus, a shelf offering report ("**the 2013 Offering Report**") offering the public up to NIS 53,125,000 par value of debentures (Series 4) of the Company, at 100% of their nominal value, linked (principal and interest) to the consumer price index of December 2012 (which was published on January 15, 2013). The debentures are repayable (principal) in six (6) unequal annual installments, on January 31 of each of the year 2015 through 2020, as follows: (a) first installment at 12.5% of the principal due on January 31, 2015; (b) second installment at 12.5% of the principal, due on January 31, 2016; (c) third installment at 12.5% of the principal, due on January 31, 2017; (d) fourth installment at 20.5% of the principal, due on January 31, 2018; (e) fifth installment at 21% of the principal, due on January 31, 2019; (f) sixth installment at 21% of the principal, due on January 31, 2020. The interest borne by the debentures (Series 4) in respect of the unpaid balance thereof shall be paid in semiannual installments, in equal amounts, starting from July 31, 2013. The total nominal value of debentures (Series 4) which the Company may offer at any time, including debentures (Series 4) offered under the above offering report, may not exceed NIS 100 million par value of debentures (Series 4). For the complete text of the offering report, see report dated January 24, 2013, Reference No. 2013-01-021699, included herewith by reference.

The gross proceeds from the debentures (Series 4) allotted under the offering report amounted to NIS 53,125,000 (a total of 53,125 units of debentures (Series 4) were allotted, and the annual interest borne by the debentures (Series 4), as determined in the tender, is 5.4%. (For details on the results of the issue, see immediate report on results of issue pursuant to a shelf offering report, included herewith by reference, dated January 28, 2013, Reference No. 2013-01-023331). Trading in debentures (Series 4) began on the Tel Aviv Stock Exchange on January 30, 2013.

In the framework of the 2013 Shelf Prospectus, the Company assumed the following undertakings:

- Dividend distribution – The Company undertook, throughout the period in which debentures (Series 4) are outstanding, not to distribute dividends amounting to more than 30% of the annual (calendar) net profit accumulated in that period, attributable to the Company's shareholders according to its last audited consolidated financial statements published before the date of the Company's resolution to distribute a dividend, unless the Company received the prior consent of the holders of debenture (Series 4), given in a special resolution at a meeting of the debenture holders called in accordance with the provisions of the Second Addendum to the trust deed of debentures (Series 4). For further details on the above restrictions, see Section 11.1 of the 2013 offering report.

- Net financial debt/net CAP ratio – The Company undertook that from the time the debentures (Series 4) are listed for trading, and as long as the debentures are outstanding, the ratio between the Company's solo net financial debt and net CAP according to its audited or reviewed (as the case may be) solo financial statements, with reference to the Company's financial statements as of June 30 and December 31, may not exceed 80%. If the Company fails to comply with this undertaking on any examination date, the interest rate payable by the Company to the holders of debentures (Series 4) on the payment date immediately following the breach shall be increased by only 0.5% per year above the interest rate set in the tender, for the duration of the period of breach. If the Company fails to comply with this undertaking at a time subsequent to the previous examination date, the interest rate payable by the Company to the holders of debentures (Series 4) shall be increased by an additional 0.5% per year above the previous interest rate, starting from the date of the additional breach and up to the end of the period of breach. If a breach as aforesaid is discovered on two consecutive examination dates, such that said ratio is equal to 85% or more, then said breach shall be cause for declaring the unpaid balance of debentures (Series 4) immediately due and payable. For further details on the above restriction, see Section 11.2 of the 2013 Offering Report.

- Net financial debt/EBITDA ratio – The Company undertook that from the time the debentures (Series 4) are listed for trading, and as long as the debentures are outstanding, the ratio between the Company's net financial debt and EBITDA according to its audited or reviewed (as the case may be) consolidated financial statements, with reference to the Company's financial statements as of June 30 and December 31, may not exceed 10. If the Company fails to comply with this undertaking on any examination date, the interest rate payable by the Company to the holders of debentures (Series 4) on the payment date immediately following the breach shall be increased by only 0.5% per year above the interest rate set in the tender, for the duration of the period of breach. If the Company fails to comply with this undertaking at a time subsequent to the previous examination date, the interest rate payable by the Company to the holders of debentures (Series 4) shall be increased by an additional 0.5% per year above the previous interest rate, starting from the date of the additional breach and up to the end of the period of breach. If a breach as aforesaid is discovered on two consecutive examination dates, such that said ratio is equal to 12 or more, then said breach shall be cause for declaring the unpaid balance of debentures (Series 4) immediately due and payable. For further details on the above restriction, see Section 11.2 of the 2013 Offering Report.

- Equity restriction – The Company's equity according to its solo financial statements, with reference to the Company's audited or reviewed (as the case may be) solo financial statements as of June 30 and December 31, may not fall below NIS 20,000,000. If the Company fails to comply with this undertaking during any examination period, the interest rate payable by the Company to the holders of debentures (Series 4) on the interest payment date immediately following the publication of the latest financial statements from which the breach is apparent, shall be increased by only 0.5% per year above the interest rate set in the tender, for the duration of the period of breach. If the Company fails to comply with this undertaking at a time subsequent to the previous examination date, the interest rate payable by the Company to the holders of debentures (Series 4) shall be increased by an additional 0.5% per year above the previous interest rate, starting from the date of the additional breach and up to the end of the period of breach. If a breach as aforesaid is discovered on two consecutive examination dates, such that the equity falls below NIS 15,000,000, then said breach shall be cause for declaring the unpaid balance of debentures (Series 4) immediately due and payable. For further details on the above restriction, see Section 11.4 of the 2013 Offering Report.

- Company's undertaking not to create charges – The Company undertook not to impose a general floating charge on all of its property, and to act so that any subsidiary of the Company (existing on the date of signature of the trust deed, and any additional subsidiary formed or acquired up to the date of full repayment of debentures (Series 4), should there be any) does not create a charge as aforesaid. For details on the above restriction, see Section 11.5 of the 2013 Offering Report.

As of the report publication date, the Company is in compliance with its above undertakings.

Beginning on the date of listing of debentures (Series 4) and subject to any law, the Company shall be entitled (but not obligated), at its sole discretion, to make full or partial early redemption thereof, subject to certain conditions and restrictions as set forth in the amended Shelf Prospectus and in the 2013 Offering Report.

For details on the use of the proceeds from the issue, see S ection 4.1.2 in Chapter D of this periodic report.

Upon the occurrence of certain events, and under certain conditions, the trustee for debentures (Series 4) shall have cause for declaring the debentures immediately due and payable. These events include, in brief: a significant worsening in the Company's business and a real concern that the Company will be unable to make timely payment on the debentures; attachment imposed on the Company's assets, execution action carried out against the Company's assets, appointment of a temporary or permanent liquidator or receiver over the Company's assets, where each of the above was not lifted and/or cancelled within 45 days; sale of a substantial part of the Company's assets; if Mr. Haim Shani ceases to be the Company's controlling shareholder, directly or indirectly, without receiving the approval of the holders of debentures (Series 4) for the transfer of control; fundamental breach of the terms of the debentures (Series 4) and the relevant trust deed, that was not cured within 14 days from when the trustee notified the Company of the breach; breach of any of the financial covenants stipulated in Section 14 of the 2013 Offering Report, regarding which it is stated explicitly that the breach thereof is cause for immediate payment. For details on all the causes available to the trustee for declaring the debentures (Series 4) immediately due and payable, see Section 18.1 of the 2013 Offering Report.

1.20.9 Trust deed for debentures (Series 4): On January 17, 2013, the Company entered into an agreement with Mishmeret Trust Services Ltd. (in this section: "**the trustee**") to serve as trustee for the debentures (Series 4) offered under the Shelf Prospectus and the offering report. The trust deed includes provisions as to the trustee's powers with respect to waiver, settlement, changes to the trust deed, declaration of the debentures immediately due and payable, calling of meetings of the debenture holders as well as proceedings at meetings of the debenture holders, voting at such meetings, indemnification of the trustee, replacement of the trustee and expiry of the trustee's office.

1.20.10 Sale of real estate property in the Hevel Modiin-Tirat Yehuda industrial zone: Subsequent to the balance sheet date, on February 20, 2014, the Company entered into an agreement with a third party unrelated to the Company or interested parties therein (hereinafter: "**the sale agreement**") for the sale of its rights in a real estate property comprising an unbuilt plot with an area of 11,000 sq.m in the Hevel Modiin-Tirat Yehuda industrial zone. For further details see Section 1.13.3 above.

1.21 Legal Proceedings

As of the reporting date, the Company is not a party to material legal proceedings against it, and no such legal proceedings were conducted during the reporting period.

1.22 Subsidiaries

1.22.1. Unitronics Building Management & Maintenance (2003) Ltd.

1.22.1.1 General Description

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

1.22.1.2 Since March 2004, Unitronics Management is engaged primarily in the provision of maintenance, servicing and similar services in connection with the use of Unitronics Building (part of which is leased by the Company, while part is leased by interested parties in the Company, as detailed in Section 1.13 of this report).

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 the Company, making use of the Company's assets, while all the tenants of the building pay for the services of Unitronics

Management on the basis of an index of charges that is identically applicable to all of them and requires payment pro rata to the area in use by each tenant. For details on the nature of the services provided by Unitronics Management and the payments collected by it (which are in amounts that are insignificant for the Company), Section 1.12 of this periodic report

1.22.1.3 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.

1.22.1.4 Cost of Unitronics Management shares to the Company and their carrying amount in its books

As of the date of this report, the cost to the Company of shares of Unitronics Management held by the Company is NIS 1,000.

1.22.1.5 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 in favor of Unitronics Management, with the exception of current debts in the ordinary course of business, in insignificant amounts.

1.22.1.6 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.

1.22.1.7 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, other than reimbursement of expenses in insignificant amounts.

1.22.1.8 Directors and senior officers in Unitronics Management

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

No General Manager has been appointed to 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.

1.22.1.9 Profit/(loss) of Unitronics Management

For information regarding profit (loss) of Unitronics Management, see the table in Section 1.22.4.8 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. is primarily engaged in the Company's marketing and distribution activities in the United States, and operates a network of 105 distributors spread throughout most of the states of the United States. The offices of Unitronics Inc. are located in the vicinity of Boston, Massachusetts, where most of the activities of the products segment are carried out in the US. Unitronics Inc. has a staff of nine employees engaging primarily in coordination and support for the marketing activities of the Company's distributors in the US relating to the products segment.

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 are held by it.

1.22.2.3 Cost to the Company of Unitronics Inc. shares and their carrying amount 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 Capital notes, credit, guarantees, investments in the Company

The equity deficiency of Unitronics Inc. as of December 31, 2013 amounts to NIS 9,455,000. The balance of the current debt of Unitronics Inc. to the Company as of December 31, 2013 amounts to NIS 6,592,000. In addition, the Company issued to Unitronics Inc. capital notes for a total of NIS 12 million, unlinked and with no interest, as set forth in Note E(3) to the special report pursuant to Regulation 9C in Chapter C of this periodic report.

1.22.2.5 Holders of more than 25% of the 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. has not paid 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.

Mr. Haim Shani serves as a director and as Chairman of the Board of Unitronics Inc., and Mrs. Bareket Shani, Mr. Shani's wife, serves as Vice president and Company's secretary of Unitronics Inc. For details on the distribution of Mr. Shani's remuneration between the Company and Unitronics Inc., see Section 4.5.3 in Chapter D of this report.

1.22.3 **Unitronics Parking Solutions**

1.22.3.1. General description

Unitronics Parking Solutions is engaged in the development, design, marketing, production, construction and maintenance of automated parking systems, including construction of new systems and/or upgrading and servicing of existing systems, as well as maintenance services for these systems on the basis of framework agreements or pursuant to service calls. 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 116,220 were allotted to the Company in consideration for the transfer of an IP development asset of the Company to Unitronics Parking Solutions, pursuant to an agreement dated March 29, 2012 for the consolidation of the parking solutions business under the subsidiary.

1.22.3.3 Cost to the Company of Unitronics Parking Solution shares and their carrying amount 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 Capital notes, credit, guarantees, investments in the Company

As of date of this report, the balance of the debt of Unitronics Parking Solutions to the Company stands at NIS 18.5 million, NIS 15 million out of it is for long term. On December 31, 2013, the Company gave Unitronics Parking Solutions an undertaking not to call in the balance of the long term debt before January 1, 2015. Furthermore, the Company issued guarantees in favor of a Customer in order to guaranty Unitronics Parking Solutions undertakings, under an agreement for the installation of an automatic parking system in the sum of NIS 1.3 Million as of the date of this report. , in insignificant amounts.

1.22.3.5 Holders of more than 25% of the 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 has not paid and has 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

Mr. Haim Shani serves as sole director of Unitronics Parking Solutions.

1.22.4 **Unitronics Systems Inc.**

1.22.4.1. General description

Unitronics Systems Inc. was incorporated in March 19, 2012, as a wholly owned subsidiary of the Company, and it is active since July 10, 2012.

Unitronics Systems Inc. is engaged primarily in coordinating the Company's activity in the field of parking solutions and/or the activity of the Company's Systems Department in the US and North America. The offices of Unitronics Systems Inc. are located in Fort Lee, New Jersey. Unitronics Systems Inc. has a staff of five employees who are engaged mainly in marketing and sales, including preliminary engineering activity and support in the field of parking solutions and systems in North America and the US.

1.22.4.2 Registered and issued capital, the Company’s share

As of the date of this report, the registered share capital of Unitronics Systems Inc. is $1, divided into 1,000 shares of $0.001 par value, all of which were issued to the Company and are held by it.

1.22.4.3 Cost to the Company of Unitronics Systems Inc. shares and their carrying price in its books

As of the date of this report, the cost to the Company of the shares of Unitronics Systems Inc. held by the Company is $1.

1.22.4.4 Capital notes, credit, guarantees, investments in the Company

The equity deficiency of Unitronics Systems Inc. as of December 31, 2013 amounts to NIS 1,763,000. The balance of the current debt of Unitronics Systems Inc. to the Company as of December 31, 2013 amounts to NIS 329,000. Furthermore, the Company issued guarantees in favor of a Customer in order to guaranty Unitronics Systems Inc. undertakings, under an agreement for the installation of an automatic parking system in the sum of NIS 13.2 Million as of the date of this report

1.22.4.5 Holders of more than 25% of share capital

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

1.22.4.6 Management fees, interest, dividend and other payments – Unitronics Systems Inc.

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

1.22.4.7 Directors and senior officers in Unitronics Systems Inc.

Mr. Haim Shani serves as a director and as Chairman of the Board of Directors of Unitronics Systems Inc., Mrs. Bareket Shani, Mr. Shani's wife, serves as President and Company Secretary, while Mr. Yair Goldberg is CEO of Unitronics Systems Inc.

1.22.4.8 **Profit (loss) before and after tax, dividend, management fees and interest income from the subsidiaries.**

	Year Ended 31.12.2013				**Year Ended 31.12.2012**				**Year Ended 31.12.2011**	
	Unitronics Systems Inc.	Unitronics Parking Solutions	Unitronics Manage-ment	Unitronics Inc.	Unitronics Systems Inc.	Unitronics Parking Solutions	Unitronics Manage-ment	Unitronics Inc.	Unitronics Manage-ment	Unitronics Inc.
	NIS Thousands									
Profit (loss) before tax	(1,612)	(5,806)	25	(1,144)	(237)	(2,872)	3	(1,844)	(64)	290
Profit (loss) after tax	(1,612)	(5,806)	119	(1,144)	(237)	(2,872)	3	(1,844)	(64)	290
Dividend	-	-	-	-	-	-	-	-	-	-
Management fees	-	580	-	-	-	556	-	-	-	-
Interest Income	-	455	-	-	-	110	-	-	-	-

The Company is not entitled to any dividend, interest or management fees in respect of the reporting year, other than the data brought in the above table.

1.22.4.9 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. Unitronics Industrie and Unitronics S.A. were established in 1995 and 1997, respectively, mainly for purposes of the Company's marketing activities in those countries. The companies have been inactive for several years (the German subsidiary since 1997 and the South African subsidiary since 2000), and have no assets, no employees and no obligations.

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
Macro risks	*Exposure to market risks*: The Company is exposed to fluctuations in interest rates, in exchange rates, in the consumer price index and in the prices of securities in which a substantial part of the cash balances is invested. For details see Note 27 in Chapter C of this periodic report	Medium
	Exposure to strikes in Israeli ports: Strikes in Israel's seaports and/or airports could delay the import of raw materials used by the Company (including logistics system components) and/or the export abroad of Company products, thereby disrupting the supply times to which the Company is committed, which is liable to cause the Company expenses and/or harm its reputation.	Low
Sector-related risks	*Competition*: The Company is exposed to competition by companies whose resources and reputation surpass those of the Company as set forth in Section 1.9.14 (in relation to the products segment), Section 1.10.12 (in relation to the systems segment) and Section 1.11.12 (in relation to the parking solutions segment), as set forth above.	High
	Standards: The Company is exposed to risks arising from the failure of its products or services to comply with certain standard requirements as set forth in Sections 1.9.23, 1.10.18, and 1.11.20 above.	Medium
	Raw materials: The Company is exposed to risks arising from temporary shortages in electronic components worldwide and limited allocations of components by component manufacturers, in cases of excess demand, as set forth in Section 1.9.20 above.	Medium
	Project costs estimates: in the systems and in parking solutions segments the Company determines the amount of the consideration, inter alia, as a derivative of the expected costs plus a margin that it expects to receive and facilitating the receipt of an order. However, the Company is exposed to errors in the estimates of the calculation of project costs, among other things, from changes and improvements in development, procurement and production, which could impair the profitability of the company, and even cause loss and effect to the Company's financial results, as detailed in Sections 1.10.8, 1.11.8 and -1.11.7.2	Medium
	Penetration of the parking solutions market: The Company is	Low

	exposed to risks arising from its activity in the field of automated parking solutions and the pace of implementation of the proposed solutions by global customers, as set forth in Sections 1.11.6 and 1.11.7.2 above.	
	Standards in the products segment: The Company is exposed to risks arising from the possibility that its products or services will fail to comply with standard requirements, as set forth in Sections 1.9.22 and 1.9.23 above.	Low
	Development of new technologies and/or products: The Company is exposed to the risks involved in the development of new products and/or technologies, of which the success of their development or marketing is doubtful as set forth in Sections 1.9.4 and 1.9.17 (in relation to the products segment), 1.11.4 and 1.11.15 (in relation to the parking solutions segment) above.	Low
Risks specific to the Company	*One-off projects*: 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 segment, as set forth in Section 1.10.9 above.	Medium
	Dependence on the Israeli market: The Company's activity in the systems segment is dependent on the Israeli market, which tends more than overseas markets to be affected by macro risks and the sector-related risks described above, and in which the demand for projects is lower than in parallel global markets.	Medium
	Rate of receipt of new projects: The Company is exposed to risks arising from volatility in the rate of receipt of new projects, which characterizes the systems segment and the parking solutions segments, as set forth in Sections 1.10.11 and 1.11.11.	Medium
	Dependence on founder and controlling shareholder: The Company has significant dependence on the continuing services of Mr. Haim Shani as set forth in Section 4.5.3 in this report.	Medium
	Leverage: The Company has commitments for the repayment of loans, *inter alia* in respect of the issuance of debentures (Series 3) pursuant to the Shelf Prospectus and Offering Report, in respect of the issuance of debentures (Series 4) pursuant to the Amended Shelf Prospectus and the 2013 Offering Report, including undertakings to comply with financial covenants, and in respect of loans as set forth in Section 1.17above. The Board of Directors determined in its resolution that the Company has a sound cash flow and is able to meet its commitments, including repayment of the loans and the debentures (Series 3 and Series 4). Nevertheless, if the Company's assessments regarding its financial soundness prove erroneous, and if the Company's investments using these loans do not succeed, there is a possibility, though unlikely, that the Company will be unable to meet the repayment terms of the above loans. Likewise, there is no certainty that the use of the loans (*inter alia* for the purpose of developing the Company's business) will generate the desired results, which would make it difficult for the Company, despite	Medium

	its financial soundness, to comply with the loan repayment terms in the future. The balance of the Company's liabilities for repayment of external loans as of December 31, 2013 totals NIS 109.7 million, as set forth in Section 1.17 above.	
	Unregistered intellectual property: The Company has certain items of intellectual property that are not registered (although the Company also has registered intellectual property). The Company is exposed to risks arising from the non-registration of those items of intellectual property in respect of which applications were filed and are pending (for details see Section 1.14 above)	Low
	Low share prices and trading volumes: The Company's shares are traded on 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.	Low
	Absence of arbitrage on the Stock Exchange in Israel and in Belgium: Even though the Company's shares are traded on the EuroNext Stock Exchange in Belgium and on the Tel Aviv Stock Exchange, it is not possible at this stage to conduct dual trading in the Company's shares on both these Stock Exchanges in real time. Under these circumstances, from time to time, differences are created in the prices of the shares on these Stock Exchanges. There is no certainty that these differences will narrow. Investors in the Company's securities, and also, under certain circumstances, the Company, could incur losses due to these differences.	Low
	Absence of a business license: The Company does not have a permit to manage a business in the property it leases in the Yavne industrial zone, as set forth in Section 1.13.4, contrary to the provisions of the Business Licensing 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, including, *inter alia*, incarceration and/or fines as well as 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 pleased to submit the Board of Directors Report on the State of Affairs of the Company for the year ended December 31, 2013 ("the reporting period"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulations").

2.1 Summarized Description of the Corporation and Its Business Environment

The Company is engaged in three areas of activity, as detailed in Section 1.1 in Chapter A of this periodic report and in Note 25 to the financial statements: Products (for details see Section 1.9 in Chapter A of this periodic report, System (for details see Section 1.10 in Chapter A of this periodic report), and Parking Solutions (for details see Section 1.11 in Chapter A of this periodic report).

2.2 Analysis of Financial Position

2.2.1 Balance Sheet

2.2.1.1 Assets

Total assets on the Company's consolidated balance sheet as of December 31, 2013 increased to NIS 206,153,000 from NIS 185,548,000 as of December 31, 2012.

Cash and cash equivalents and marketable securities as of December 31, 2013 and as of December 31, 2012 amounted together to NIS 64,667,000 and NIS 49,699,000, respectively. Most of the increase stems from cash flow provided by financing activities, less cash flow used for investing activities, as explained in Section 2.3 below.

Trade receivables and income receivable as of December 31, 2013 increased to NIS 16,819,000 from NIS 14,702,000 as of December 31, 2012. Most of the increase stems from growth in trade receivables and income receivable in the Products segment and in the Systems segment.

Inventory as of December 31, 2013 decreased to NIS 18,456,000 from NIS 22,297,000 as of December 31, 2012. Most of the decrease stems from regular adjustment of inventory levels in the Products segment.

Inventory of work in progress as of December 31, 2013 decreased to NIS 15,313,000 from NIS 18,011,000 as of December 31, 2012. Most of the decrease stems from lower inventory of work in progress in the Systems segment, reflecting progress in the execution of projects solely as of the reporting date.

Intangible assets as of December 31, 2013 increased to NIS 44,423,000 from NIS 34,046,000 as of December 31, 2012. Most of the increase in this item stems from recognition of development assets of the Company out of total development costs which met the criteria for recognition as an intangible asset, less current amortization.

No significant changes occurred in the rest of the asset items compared to December 31, 2012.

Liabilities

Current maturities of long-term liabilities decreased in the aggregate to NIS 15,210,000 as of December 31, 2013, compared to NIS 22,378,000 as of December 31, 2012. Most of the decrease is due to payment of the fifth and final principal installment on debentures (Series 2).

Trade payables decreased to NIS 15,452,000 as of December 31, 2013, compared to NIS 30,753,000 as of December 31, 2012. The decrease in this item is mostly due to a decrease in the balance of trade payables in the Products segment and in the Systems segment.

Accounts payable and accruals increased to NIS 31,889,000 as of December 31, 2013, compared to NIS 28,280,000 as of December 31, 2012. Most of the increase stems from an increase in customer advance payments in the Products segment and in expenses payable.

Noncurrent liabilities as of December 31, 2013 and as of December 31, 2012 amounted to NIS 98,553,000 and NIS 58,728,000, respectively. Most of the increase stems from the issuance of debentures (Series 4) of the Company in January 2013 for a total of NIS 53,125,000 par value, less payment of the first principal installment out of five on debentures (Series 3) in March 2013.

The Company’s working capital as of December 31, 2013 and as of December 31, 2012 amounted to NIS 57,140,000 and NIS 27,992,000, respectively. Most of the increase stems from an increase in cash and cash equivalents and marketable securities, a decrease in current maturities of long-term liabilities plus a decrease in trade payables, as explained above in this section.

There was no significant change in the Company’s shareholders equity, which amounted as of December 31, 2013 and as of December 31, 2012 to NIS 43,763,000 and NIS 43,900,000, respectively.

2.2.2 Analysis of Financial Position by Operating Segments

As set forth above, the Company's main commercial operations are carried on by three business divisions: the Products Division, the Systems Division and the Parking Solutions Division. Beginning in 2011 and 2012, business activity in the Parking Solutions segment, which until then was reported within the Systems segment, has been consolidated under wholly owned subsidiaries. The volume of activity in this segment in corresponding periods stood at insignificant amounts. As of January 1, 2013 the Company presents activity in the Parking Solutions segment separately.

2.2.2.1 The Products segment

Total assets used by the Products segment as of December 31, 2013 amounted to NIS 32,817,000, compared to NIS 35,174,000 as of December 31, 2012. The change is primarily due to a decrease in inventory used by the Products segment less an increase in trade receivables in this segment, as explained above.

Total liabilities in the Products segment as of December 31, 2013 decreased to NIS 12,666,000, compared to NIS 16,739,000 as of December 31, 2012. The decrease in this item is primarily due to a 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, 2013 amounted to NIS 17,352,000, compared to NIS 20,575,000 as of December 31, 2012. The change is primarily due to a decrease in inventory of works in progress less an increase in trade receivables and income receivable, as explained above.

Total liabilities in the Systems segment as of December 31, 2013 amounted to NIS 22,149,000, compared to NIS 35,816,000 as of December 31, 2012. The decrease in this item is primarily due to a decrease in trade payables and in accounts payable and accruals in the Systems segment, as explained above.

2.2.2.3 The Parking Solutions segment

Total assets used by the Parking Solutions segment as of December 31, 2013 amounted to NIS 4,080,000, compared to NIS 2,205,000 as of December 31, 2012. The change is primarily due to an increase in inventory of works in progress in this segment.

Total liabilities in the Parking Solutions segment as of December 31, 2013 amounted to NIS 7,674,000, compared to NIS 3,582,000 as of December 31, 2012. The increase in this item is primarily due to an increase in prepaid income in this segment.

2.2.2.4 Assets and liabilities not attributable to a specific operating segment

Total assets not attributable to a specific operating segment increased as of December 31, 2013 to NIS 151,850,000 from NIS 127,548,000 as of December 31, 2012. The increase stems from a rise in cash and cash equivalents plus a rise in intangible assets, as explained above.

Total liabilities not attributable to a specific operating segment amounted as of December 31, 2013 to NIS 119,774,000, compared to NIS 85,384,000as of December 31, 2012. The decrease in this item is primarily due to the issuance of debentures (Series 4) less payment of the first principal installment out of five on debentures (Series 3) and payment of the fifth principal installment out of five on debentures (Series 2), as explained above.

2.2.3 Operating Results

2.2.3.1 Below is a summary of the quarterly income statements for 2013 (Reg. 10A)

	NIS in Thousands				
	1-3/2013	4-6/2013	7-9/2013	10-12/2013	1-12/2013
Revenues	32,393	40,093	39,558	44,135	156,179
Cost of revenues	24,610	28,922	27,649	32,547	112,728
Gross profit	7,783	11,171	11,909	12,588	43,451
Development expenses, net	2,254	1,103	1,143	1,206	5,706
Selling & marketing expenses	3,881	4,193	4,275	4,707	17,056
Administrative & general expenses	2,701	2,850	2,533	3,156	11,240
Other expenses	7	-	-	-	7
Profit (loss) from ordinary operations	(1,060)	3,025	3,958	3,519	9,442
Financing expenses, net	(2,968)	(1,612)	(2,043)	(1,209)	(7,832)
Profit (loss) before income taxes	(4,028)	1,413	1,915	2,310	1,610
Income taxes	-	-	-	(1,444)	(1,444)
Profit (loss) for the period	(4,028)	1,413	1,915	866	166

2.2.3.2 Revenues

Revenues in the year ended December 31, 2013 amounted to NIS 156,179,000, compared to NIS 142,126,000 in the year ended December 31, 2012 and compared to NIS 141,702,000 in 2011. The year-over-year increase in 2013 is primarily due to revenues from the Systems segment and the Parking Solutions segment, as set forth below.

Revenues in the Products segment in the year ended December 31, 2013 amounted to NIS 95,449,000, a slight decrease of 1% compared to revenues of NIS 96,375,000 in the same period ended December 31, 2012. Revenues in 2012 represent an 8% increase over revenues of NIS 89,213,000 in the same period ended December 31, 2011. The Company believes that the year-over-year decrease in revenues from products in 2013 stems mainly from a decrease in rates of the main selling currencies against the shekel compared to the same period, at a rate surpassing the rate of decrease in revenues in the Products segment. The Company believes that the year-over-year increase in revenues from products in 2012 stems mainly from higher sales of products.

Revenues in the Systems segment in the year ended December 31, 2013 amounted to NIS 55,096,000, a 23% increase compared to revenues of NIS 44,684,000 in the same period ended December 31, 2012. Revenues in 2012 represent a 14.2% decrease from revenues of NIS 52,104,000 in the same period ended December 31, 2011. The year-over-year changes in revenues in the Systems segment in 2013 and 2012 stem from fluctuations in the actual rate of progress in the construction of several logistics systems by the Systems Division, primarily the design and construction of logistics systems for customers in Israel under agreements dated May 6, 2009, February 3, 2011 and May 13, 2012 (for further details see Chapter A, Section 1.10.9 of this periodic report), and from the rate of receipt of orders from customers for the construction of systems during the reporting period, explained, among others, by the relative volatility characterizing this area of activity (for details see Chapter A Section 1.10.7.2 in this periodic report).

Revenues in the Parking Solutions segment in the year ended December 31, 2013 amounted to NIS 5,195,000, compared to revenues of NIS 664,000 in the same period ended December 31, 2012. In 2011 there were no revenues in the Parking Solutions segment. The year-over-year changes in revenues in the Parking Solutions segment in 2013 and 2012 stem primarily from the start of business operations by the Company in this segment as well as fluctuations in the actual rate of progress in the design and construction of automatic parking systems.

Revenues from the Products segment in the year ended December 31, 2013 accounted for 61% of total revenues for the year, revenues from the Systems segment in the same period accounted for 35% of total revenues, and revenues from the Parking Solutions segment accounted for 3% of total revenues in that period. Revenues from the Products segment in the year ended December 31, 2012 accounted for 68% of total revenues for that year, while revenues from the Systems segment in the same period accounted for 31% of total revenues and revenues from the Parking Solutions segment accounted for less than 1% of total revenues in that period. Revenues from the Products segment in the year ended December 31, 2011 represented 63% of total revenues for that year, while revenues from the Systems segment in the same period represented 37% of total revenues. In 2011 there were no revenues from the Parking Solutions segment.

2.2.3.3 <u>Cost of revenues and gross profit</u>

Gross profit in the year ended December 31, 2013 totaled NIS 43,451,000 (28% of revenues for the period). Gross profit in the year ended December 31, 2012 totaled NIS 36,804,000 (26% of revenues for the period). Gross profit in the year ended December 31, 2011 totaled NIS 38,983,000 (28% of revenues for the period).

The changes in gross profit margins in the years 2011 to 2013 are primarily due to the change in the mix of revenues from the different operating segments in each of the years (the gross profit margins in the Systems segment are lower than in the Products segment and accordingly, when the revenue mix from the Systems segment increases, the weighted gross profit margin decreases and vice versa), as well as fluctuations in the gross profit margins in the Company's operating segments (see analysis of the business results by operating segments in Section 2.2.4 below).

2.2.3.4 Net development expenses

Net development expenses for the year ended December 31, 2013 amounted to NIS 5,706,000. Net development expenses for the year ended December 31, 2012 amounted to NIS 5,576,000, compared to NIS 2,991,000 for the year ended December 31, 2011. In the reporting 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, 2013 the Company recognized an intangible asset in respect of development costs in the amount of NIS 15,541,000, compared to NIS 13,977,000 and NIS 12,175,000 in 2012 and 2011, respectively. Development expenses in the reporting period reflect continuing development of technologies to support the Company's activities, while adjusting the size of the development staff in order to support its business plans in the different segments. For further details regarding the Company's assessments to the volume of development for the upcoming quartes, see sections 1.19.17 and 1.11.15 in this periodic report.

2.2.3.5 Selling and marketing expenses

Selling and marketing expenses in the year ended December 31, 2013 remained substantially unchanged, amounting to NIS 17,056,000 (11% of revenues). Selling and marketing expenses in the year ended December 31, 2012 amounted to NIS 17,616,000 (12% of revenues). Selling and marketing expenses in the year ended December 31, 2011 amounted to NIS 14,091,000 (10% of revenues). Selling and marketing expenses remained substantially unchanged in 2013 compared to 2012. Selling and marketing expenses grew in 2012 compared to 2011, mainly due to an increase in selling and marketing expenses in the Products segment. The Company believes that this item may grow in the coming quarters in line with changes in its operations, in support of its business plans[1].

2.2.3.6 Administrative and general expenses

Administrative and general expenses in the year ended December 31, 2013 amounted to NIS 11,240,000 (7% of revenues). Administrative and general expenses in the year ended December 31, 2012 amounted to NIS 8,828,000 (6% of revenues). Administrative and general expenses in the year ended December 31, 2011 amounted to NIS 8,201,000 (6% of revenues). The year-over-year growth in administrative and general expenses in 2013 is primarily due to one-time compensation awarded in the same period to the Company in the framework of the termination of a legal proceeding, as well as fixed expenses required

[1] 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 information 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).

for continuing operations and support in the Parking Solutions segment, as explained below.

2.2.3.7 Profit from ordinary operations

Profit from ordinary operations in the year ended December 31, 2013 amounted to NIS 9,442,000, an increase compared to profit from ordinary operations of NIS 4,784,000 in the year ended December 31, 2012, and a decrease compared to profit from ordinary operations of NIS 13,700,000 in the year ended December 31, 2011. The year-over-year increase in profit from ordinary operations in 2013 is primarily due to an increase in gross profit, as explained below. The year-over-year decrease in profit from ordinary operations in 2012 is primarily due to higher selling and marketing expenses and development expenses, as explained above, as well as a decrease in gross profit, as explained below.

2.2.3.8 Financing income and expenses

Net financing expenses in the year ended December 31, 2013 amounted to NIS 7,832,000, compared to NIS 3,498,000 in the year ended December 31, 2012 and compared to NIS 5,767,000 in the year ended December 31, 2011. The change in financing expenses in 2013 compared to the same periods is primarily due to recognition of revaluations and exchange rate differences in respect of embedded derivatives (expenses of NIS 1,298,000 in 2013 compared to expenses of NIS 298,000 in 2012 and compared to income of NIS 1,929,000 in 2011), which were caused by changing trends in those periods in the EUR/NIS exchange rate (the Company has sales contracts denominated in currencies other than its functional currency, which in the Systems segment include embedded derivatives in foreign currency); recognition of revaluations and interest on marketable securities resulting from fluctuations in their market prices; changes in the costs of credit in respect of debentures, resulting mainly from the volume of debentures in the different reporting periods and changes in the costs of long-term bank credit due to changing trends in said periods in the EUR exchange rate relative to the NIS and relative to the volume of long-term bank credit in the reporting periods.

2.2.3.9 Income taxes

Income taxes in the year ended December 31, 2013 amounted to NIS 1,444,000, compared to a tax benefit of NIS 114,000 in the year ended December 31, 2012. In 2011 no income taxes were recognized. The year-over-year change in income taxes in 2013 stems mainly from tax losses of the Group's companies in the year against which no deferred tax benefits were recognized, as well as changes in the tax rates applying to the Company in accordance with the economic plan for 2013-2014 (the Budget Law) (for further details see Note 24 to the financial statements).

2.2.3.10 Net profit

In the year ended December 31, 2013 the Company posted a net profit of NIS 166,000 (1% of revenues), compared to a profit of NIS 1,400,000 (1% of revenues) in the year ended December 31, 2012 and NIS 8 million (6% of revenues) in the year ended December 31, 2011. The Company believes that the changes in the net profit reported in said years stem primarily from the changes in profit from ordinary operations less net financing expenses and income taxes, as explained above.

2.2.4 Analysis of Business Results by Operating Segments

As stated above, as of the report date the Company operates in three business domains: Products, Systems and Parking Solutions, each of which is presented as a separate operating segment. Details of the results of the different segments are set forth below.

2.2.4.1 The Products segment

Results of the Products segment in the year ended December 31, 2013 amounted to a profit of NIS 28,336,000, compared to a profit of NIS 29,558,000 in the year ended December 31, 2012 and compared to a profit of NIS 27,840,000 in the year ended December 31, 2011. The year-over-year moderate decrease in the results of the segment in the year ended December 31, 2013 stems from a decrease in the gross profit margin, due, in the Company's estimation, to a decrease in rates of the main selling currencies against the shekel compared to the same period less a decrease in selling and marketing expenses attributable to the segment. The year-over-year increase in the results of the segment in the year ended December 31, 2012 stems, in the Company's estimation, mainly from an increase in revenues in this segment along with a moderate increase in the gross profit margin, less an increase in selling and marketing expenses attributable to the segment.

2.2.4.2 The Systems segment

Results of the Systems segment in the year ended December 31, 2013 amounted to a profit of NIS 5,002,000, compared to a loss of NIS 6,936,000 in the year ended December 31, 2012 and compared to a profit of NIS 1,104,000 in the year ended December 31, 2011. The Company believes that the increase in profit in this segment in 2013 stems from a higher mix of revenues from the construction of systems with high gross profit margins than in the same period, as well as a decrease in fixed expenses in the segment and a decrease in marketing and selling expenses attributable to the segment. The decrease in profit in this segment in 2012 stems from a year-over-year decrease in revenues in the segment, as explained above, as well as a relatively high mix of revenues from the construction of systems with low gross profit margins, and fixed expenses required for continuing operations and support in the segment.

2.2.4.3 The Parking Solutions segment

Results of the Parking Solutions segment in the year ended December 31, 2013 amounted to a loss of NIS 4,716,000, compared to a loss of NIS 1,040,000 in the year ended December 31, 2012. In 2011 there were no segment results in the Parking Solutions segment. The Company believes that the change in results in this segment in 2013 stems mainly from an increase in fixed expenses required for operations in the segment in accordance with the Company's plans.

2.3 Liquidity and Financing Sources

As of December 31, 2013, 2012 and 2011, the balance of cash, cash equivalents and marketable securities totaled NIS 64,667,000, NIS 49,699,000 and NIS 52,696,000, respectively. The increase stems primarily from cash flow provided by financing activities less cash flow used for investing activities. The decrease in 2012 is primarily due to cash flow used for investing and financing activities less a positive cash flow from operating activities.

Cash flow from operating activities in the year ended December 31, 2013 amounted to a positive cash flow of NIS 3,332,000. The positive cash flow for this period is mainly a result of a positive cash flow in respect of the profit for the year net of noncash expenses less a negative cash flow in respect of net changes in asset and liability items (mainly a decrease in trade payables and an increase in trade receivables and income receivable less a decrease in inventory and inventory of works in progress and in accounts payable and accruals). Cash flow from operating activities in the year ended December 31, 2012 amounted to a positive cash flow of NIS 22,314,000. The positive cash flow for this period is mainly a result of a positive cash flow in respect of the profit for the year net of noncash expenses plus a positive cash flow in respect of net changes in asset and liability items (mainly an increase in trade payables and in accounts payable and accruals less an increase in inventory and inventory of work in progress). Cash flow from operating activities in the year ended December 31, 2011 amounted to a positive cash flow of NIS 5,899,000. The positive cash flow for this period is mainly a result of a positive cash flow in respect of the profit for the year net of noncash expenses less a negative cash flow in respect of net changes in asset and liability items.

Cash flow used for investing activities in the years ended December 31, 2013, 2012 and 2011 amounted to NIS 12,579,000, NIS 8,574,000 and NIS 54,828,000, respectively. Cash flow used for investing activities derives mainly from recognition of investments in development assets, as explained above (see also Sections 1.9.17 and 1.11.15 in Chapter A of this periodic report), along with changes in marketable securities, included under this item in the balance of cash and cash equivalents, as well as investments in fixed assets in 2011.

Cash flow used for financing activities in the year ended December 31, 2013 amounted to NIS 29,002,000. The positive cash flow derives mainly from changes in the volumes of outstanding debentures (issuance of debentures (Series 4) less payments of debentures (Series 2 and 3)), as explained above. Negative cash flow used for financing activities in the year ended December 31, 2012 amounted to NIS 11,051,000, attributable primarily to payment of the fourth installment out of five on debentures (Series 2) and repayment of long-term bank loans. Cash flow provided by financing activities in the year ended December 31, 2011 amounted to NIS 47,857,000, attributable primarily to issuance of debentures (Series 3).

As of December 31, 2013 the Company had credit facilities available for operating activities totaling NIS 26.7 million, of which NIS 26.3 million were utilized. As of December 31, 2012 the Company had credit facilities available for operating activities totaling NIS 22.4 million, of which NIS 22 million were utilized. The credit facilities as of said dates were primarily used to provide guarantees to secure the Company's obligationsand the Company's subsidiaries in projects carried out in the Systems segment and in the Parking Solutions segment.

2.4 Exposure to Market Risks and Management Thereof

The Company is a small corporation, as this term is defined in the Securities Regulations (Periodic and Immediate Reports) (Amendment), 2014 ("**the Amendment Regulations**"). At its meeting on March 9, 2014, the Board of Directors decided to fully adopt the relaxations for small corporations listed in the Amendment Regulations. Accordingly, the Company is not required to make disclosure under Regulation 10(b)(7) of the Regulations. For further details see Immediate Reports dated March 9, 2014, Reference No. 2014-01-009177 and March 12, 2014, Reference No. 2014-01-012534, and Note 27 to the financial statements.

2.5 Projected Cash Flow

The Board of Directors determined, after reviewing the 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 none of the warning signs is applicable, that the Company is not experiencing liquidity difficulties and that it is able to meet its obligations, including full repayment of obligations in respect of debentures (Series 3 and 4). The Board of Directors performs such a review every quarter, along with the approval of the quarterly financial statements published by the Company.

2.6 Report on Liabilities by Maturity Dates (Reg. 9D)

For details on the Company's liabilities by maturity dates, as of December 31, 2013, see report dated March 27, 2014, published by the Company simultaneously with the publication of this report.

2.7 Corporate Governance Aspects

2.7.1 Details on the Company's Internal Auditor

(a) The Company's internal auditor is CPA Eyal Horowitz (jurist) 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 Horowitz complies with the provisions of Section 146(b) of the Companies Law and the provisions of Section 8 of the Internal Audit Law, 1992 ("**the Internal Audit Law**"). 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 auditing as a CPA and as an internal auditor of public companies since 1991. The internal auditor was appointed after the Audit Committee and the Board of Directors reviewed his experience and track record in internal auditing of other public companies, considering, among others, the type and size of 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 – with affiliated entities.

(b) CPA Horowitz is not an employee of the Company and provides internal auditing services to the Company as an external entity through **Backer Tilly Israel**, of 11 Menachem Begin Street, Ramat Gan (Authorized Dealer 557383031), which has an internal auditing department and whose employees are skilled in various disciplines including internal auditing.

(c) The officer in charge of the Company's internal auditor in organizational terms is the Chairman of the Board of Directors, while the Chairman of the Audit Committee is the professional authority and the person who instructs the internal auditor with regard to the subjects for the internal audit.

(d) <u>The annual and/or periodic audit plan and considerations in its preparation</u>: 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 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 Audit Committee and Board of Directors; (3) the size of the Company, its organizational structure and the nature and scope of its business activities; and (4) the risk survey conducted by the Company and 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 order to review data he has discovered by chance during the execution of the annual and periodic work plans. If the internal auditor decides to conduct a comprehensive review of an issue or area not included in the list of issues approved by the Audit Committee for the annual or periodic work plan, he recommends to the Chairman of the Audit Committee to amend the plan, and the latter raises the matter for discussion and approval during Audit Committee meetings.

(e) From time to time, as necessary, the audit plan also addresses the Company’s overseas operations. In the 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 subsidiaries are fully available and accessible to the auditor in Israel.

In addition, from time to time, as necessary, 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 – a subsidiary of the Company (for details see Section 1.22.1 in Chapter A of this periodic report).

(f) During the reporting period, 150 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 activity reviewed by the auditor. The auditor is allowed flexibility in shifting hours from one issue to another. Also, since his work is carried out on a regular and continuous basis, the internal auditor can shift hours from one year to the next to enable suitable in-depth and exhaustive coverage of the reviewed issues at his discretion. Furthermore, the scope of employment of the internal auditor is determined each year together with the approval of the work plan, taking into consideration, among others, the scope of the work plan for the relevant year, its complexity and the sensitivity of the issues reviewed during that year.

Hours	2012	2013
Hours spent on internal audit of the Company with respect to its operations in Israel.	220	150
Hours spent on internal audit of investee companies with respect to their operations in Israel.	0	0
Hours spent on internal audit of the Company and investee companies with respect to their operations overseas.	0	0

To date the planned number of annual hours has not been reduced; nevertheless the auditor shifts hours between issues and from one year to another.

(g) The internal auditor, pursuant to his notice to the Company dated February 17, 2005, performs the internal audit in accordance with generally accepted professional standards, as stated in Section 4(b) of the Internal Audit Law, 1992, which are based on the professional standards for internal auditing of the Israeli Institute of Internal Auditors. 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 and skills, the duration of his employment by the Company, his familiarity with the Company, and the manner in which he prepares and submits the audits and presents their findings 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 Schedule 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 with respect to operations of subsidiaries, are provided to him as stipulated by Section 9 of the Internal Audit Law, and he is allowed free access to such information, including continuous, unmediated access to Company information systems, including financial data.

(j) Below are the dates on 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 by the Audit Committee and/or Board of Directors of the Company.

Issue	2012 reports	2013 reports
Report No 1:		
Date of submission of internal auditor’s report	10/03/2013	20/3/2014
Date of discussion by Audit Committee	14/03/2013	25/3/2014
Date of discussion by Board of Directors	14/03/2013	25/3/2014

(k) The Board of Directors 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 for the fulfillment of the objectives of the internal audit.

(l) The internal auditor’s fee for services rendered in 2013 amounted to NIS 33,000. 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 internal audit work at the Company, the level of detail, accuracy and depth of the audit findings submitted by him to date, as well as the amount of his overall income relative to his fee as the Company’s internal auditor, to the best of the Company's knowledge.

2.7.2 Directors Having Accounting and Financial Skills

For details on directors having accounting and financial skills, see the Corporate Governance Questionnaire attached to this periodic report.

2.7.3 Independent directors

As of the report date, the Company has not incorporated in its Articles of Association the provisions of the Companies Law, 1999, regarding the number of independent directors.

2.7.4 Donations policy

The Company's Articles of Association have no provisions for making charitable donations, and therefore the Company has no policy concerning charitable donations and has not made any such donations in the relevant periods.

2.7.5 Disclosure Regarding Fee of Audit Accountants

The accountants of the Company and its subsidiaries in Israel are Amit, Halfon, CPA, of Ramat Gan, Israel. In 2013, Amit, Halfon were also appointed as the accountants of the subsidiaries Unitronics Inc. and Unitronics Systems Inc., replacing Clarke, Snow & Riley LLP of Quincy, MA, USA, the previous accountants of these subsidiaries. The fee of Amit, Halfon for the services provided to these subsidiaries is determined based on the scope of work required to render the services. The fee of Amit, Halfon, CPA, with respect to Unitronics (1989) (R"G) Ltd. is determined by the Board of Directors under the authority vested in it by the General Meeting of Company shareholders which appointed the accountants.

Below are details of the total remuneration to which the Company's audit accountants are entitled in respect of audit and other services[2]:

CPA	Company to which service was rendered	Nature of service	2013 NIS in thousands	2013 Work hours	2012 NIS in thousands	2012 Work hours
Amit, Halfon, CPA, Ramat Gan, Israel	Unitronics (1989) (R"G) Ltd. and its subsidiaries	Audit services, audit-related services and tax services	320	1,480	215	1,144
Clarke, Snow & Riley LLP, Quincy, MA, USA	Unitronics Inc. and Unitronics Systems Inc.	Audit services, audit-related services and tax services	145	58	239	253
		Consulting services	-	-	144	137

[2] The fee for the Company's subsidiaries in Israel is included in the fee charged by Amit, Halfon, CPA, and its proportion is insignificant.

2.8 Disclosure Requirements in Connection with Financial Reporting

2.8.1 Critical accounting estimates:

For details on the critical accounting estimates used in the financial statements, see Note 2 (Accounting Policy) in Chapter C of this periodic report (Financial Statements).

2.9 Specific Disclosure to Debenture Holders

2.9.1 Corporate debentures (Reg. 10(b)(13))

On August 25, 2013 the Company paid the fifth and final principal installment on debentures (Series 2) (as well as the final installment of interest accumulated on these debentures). Following this payment, all of the Company's obligations in respect of debentures (Series 2) were fully met, and after that date no debentures (Series 2) of the Company remained outstanding.

Below are key data on the Company's outstanding debentures as of the report publication date:

(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	45,153,600
D	Par value in accordance with linkage terms – as of the report date	47,455,000
E	Accumulated interest as of the report date	733,000
F	Liability carrying amount as of the report date	46,459,000
G	Market value	50,346,000
H	Interest type and description	5.65% annual interest
I	Payment dates of the principal balance	Four equal annual installments commencing on March 23, 2014
K	Interest payment dates	On each 23rd of March and September commencing on March 23, 2014 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 or higher (February 2011 CPI; base year: 1993)
L	Are debentures convertible	Not convertible
M	Is corporation entitled to early redemption	Entitled
N	Is payment of obligation guaranteed by 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	Resnik, Paz, Nevo Trusts Ltd. 14 Yad Harutzim St., Tel Aviv 67778 Tel. 03-6389200, Fax 03-6393316 Email: trust@rpn.co.il

(5+6) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained 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.

(8) On April 4, 2011, a pledge on deposit monies in a bank account was registered with the Companies Registrar, in an amount equal to the annual interest on debentures (Series 3), to secure the payment of interest on the debentures. As long as the Company has an outstanding balance of debentures (Series 3), the Company shall not create further pledges on its assets, apart from those that existed on the date of signature of the trust deed signed in connection with debentures (Series 3), in favor of any third party, without the prior written consent of the trustee, except for pledges on real estate and/or equipment acquired by the Company subsequent to the date of signature of said 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 pledges of any type on all or part of its assets, without derogating from the Company's ability to commit to third parties not to create further pledges and without derogating from such undertakings to banks assumed by the Company prior to the date of signature of the debentures (Series 3) trust deed.

(1)	Security	Debentures (Series 4)
A	Issue date	January 2013
B	Total par value upon issuance	53,125,000
C	Par value as of the report date	53,125,000
D	Par value in accordance with linkage terms – as of the report date	54,037,000
E	Accumulated interest as of the report date	1,213,000
F	Liability carrying amount as of the report date	52,656,000
G	Market value	56,631,000
H	Interest type and description	5.4% annual interest
I	Payment dates of the principal balance	Six unequal annual installments payable on January 31st of each of the years 2015 through 2020, at the following rates according to chronological order of years: (a) 12.5% of principal; (b) 12.5% of principal; (c) 12.5% of principal; (d) 20.5% of principal: (e) 21% of principal; (f) 21% of principal.
K	Interest payment dates	On each 31st of January and July commencing on January 31, 2014 through January 31,2020
L	Details of principal and interest linkage	Principal and interest linked to the consumer price index, at a base rate of 219.80 (December 2012 CPI; base year: 1993) without protection
L	Are debentures convertible	Not convertible
M	Is corporation entitled to early redemption	Entitled
N	Is payment of obligation guaranteed by 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	Mishmeret Trust Services Ltd. 48 Menachem Begin St., Tel Aviv 66184 Tel. 03-6374352, Fax 03-6374344 Email: ramis@bdo.co.il

(5+6) As of the end of the reporting year and in the course thereof, the Company was, to the best of its knowledge, in compliance with all the terms, conditions and obligations contained in the deed of trust for debentures (Series 4); 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) On February 12, 2013, a pledge on deposit monies in a bank account was registered with the Companies Registrar, in an amount equal to the semi-annual interest on debentures (Series 4), to secure the payment of interest on the debentures. As long as the Company has an outstanding balance of debentures (Series 4), the Company and any subsidiary (existing on the date of signature of the trust deed and any additional subsidiary formed or acquired up to the date of repayment of all debentures (Series 4), if at all) shall not create any general floating charge on its assets, in favor of any third party, without the prior written consent of a simple majority of the Meeting of the debenture holders. It should be emphasized that the Company and/or any subsidiary shall be entitled to create specific charges of any rank on all or part of their property, including cash and cash equivalents, in favor of financing entities providing financing for the purchase of any asset or equipment against specific charges of any rank, including a floating charge on any specific asset/s, and *inter alia* for the purchase of building construction services, including for the purpose of replacing financing entities that hold specific charges on the date of the offering report with other entities, without need of the consent of the Meeting of holders of debentures (Series 4).

2.10 <u>Compensation of Senior Corporate Officers</u>

The Company sees great importance in the continued, significant contribution of the senior officers listed in the table in Section 4.11 of this periodic report, and believes that the Company's success is directly linked to the compensation paid to them. The Company regards these officers as an important component of its operations.

At a meeting held on March 25, 2014, the Board of Directors of the Company conducted a review and found that the compensation of all the Company's senior officers, detailed pursuant to Regulation 21 in Section 4.5 in Chapter D of this report, conforms to the Company's compensation policy (for further details see Section 4.5.2 in Chapter D of this periodic report). For the purpose of the discussion, the Board members were presented, ahead of the discussion, with relevant data regarding each officer and interested party, as prescribed in Regulation 21. Furthermore, additional information was submitted to the Board members in connection with each of the senior officers, which, in the Board of Directors' opinion, would allow for an adequate review, including the terms of the relevant employment agreements, details of the senior officers' activities during the reporting year, and in general, and comparative data on compensation in companies with similar attributes to those of the Company, which operate in the same area and have the same scope of activity.

The Company management reviewed the activities and contribution of each officer/ interested party during the reporting period towards the achievement of the Company's business objectives and compliance with its work plans, as well as data on the results of the Company's operations from various aspects related to the areas of responsibility of its officers, taking into consideration existing market conditions in the reported year and at the time of the review by the Board of Directors.

At the meeting a discussion was held on the contribution of each officer during the reporting period, to determine if the remuneration paid to said officer is fair and reasonable.

As part of the aforesaid review, the Board of Directors reviewed the employment terms of each officer individually, based on the following criteria:

1. Assessment of the functioning, performance and contribution of each officer, including compliance with the requirements of their office.
2. Scope and complexity of the officer's position and their contribution to the Company's achievements and financial results for the most recent reported year.

Regarding Mr. Haim Shani and Ms. Bareket Shani, the Compensation Committee and the Board of Directors determined that the Company is materially dependent on their continued services.

Regarding Mr. Amit Harari, the Compensation Committee and the Board of Directors determined that in view of his proven skills and achievements in the management of the Products segment, his employment terms are fair and reasonable.

Regarding Mr. Amir Anchel, the Compensation Committee and the Board of Directors determined that in view of his proven experience and familiarity with Company operations, his employment terms are fair and reasonable. On December 4, 2013, Mr. Amir Anchel ceased serving as a senior officer of the Company.

Regarding Mr. Yair Itscovich, the Compensation Committee and the Board of Directors determined that in view of his proven experience and familiarity with Company operations, his employment terms are fair and reasonable.

For further details on the employment agreements of the senior officers, as well as the aforesaid dependence, see Section 4.5 in Chapter D of this periodic report. For further details on the senior officers, including their education and experience, see Section 4.11 below.

2.11 Details on Process of Approval of the Company's Financial Statements

2.11.1 Preparation of the Financial Statements

The Company's financial statements were prepared by the Company's CFO. The statements were reviewed and audited by the Company's auditor, who was given full access to material and information at the Company, including meetings with Company employees and managers, as required by him. Following review/audit by the Company's auditor, the financial statements were submitted to the members of the Financial Statement Review Committee.

For details on the process of approval of the Company's financial statements, see the Corporate Governance Questionnaire attached to this periodic report.

2.11.2 Company Board of Directors

The Company considers the Board of Directors as the entity exercising ultimate control over 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 Company CEO, and director having professional qualifications.
2. Ms. Bareket Shani – Director having professional qualifications, Vice President and Human Resources Manager.
3. Mr. Zvi Livne, CPA – Director with accounting and financial expertise, member of the Audit Committee, member of the Financial Statement Review Committee and member of the Compensation Committee of the Board of Directors.
4. Mr. Joel Sela, CPA – External and independent director with accounting and financial expertise, member of the Audit Committee, member of the Financial Statement Review Committee, and member of the Compensation.
5. Mr. Moshe Baraz, CPA – External and independent director with accounting and financial expertise, member and Chairman of the Audit Committee, member and Chairman of the Financial Statement Review Committee, member and Chairman of the Compensation.
6. Ms. Edna Ramot – Director having professional qualifications.

After the directors reviewed the financial statements, a meeting of the Board of Directors was held for presentation and discussion of the statements. At a meeting on March 27, 2014, the Company management reviewed the main data from 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 financial statements were approved upon a vote of the Board of Directors.

2.12 Share Buyback

For details on share buyback plans of the Company, see Section 1.4.1 in Chapter A of this periodic report. As of the report date, the Company has no buyback plans in effect.

Haim Shani, CEO and Chairman of the Board of Directors	Zvi Livne, Director
March 27, 2014	March 27, 2014

UNITRONICS (1989) (R"G) LTD

Financial Statements
December 31, 2013

Unitronics (1989) (R"G) Ltd

Financial Statements

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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, 2013 and 2012 and the consolidated statements of operations, the comprehensive Income, the changes in equity and the cash flows for each of the three years the last of which ended December 31, 2013. 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 7% of the total consolidated assets as at December 31, 2012, and whose revenues constitute 23% and 18% of the total consolidated revenues for each of the two years the last of which ended December 31, 2012. The financial statements of the subsidiaries 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 subsidiaries, 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, 2013 and 2012, and the results of operations, changes in equity and cash flows of them for each of the three years the last of which ended December 31, 2013, in conformity with International Financial Reporting Standards (IFRS) and any disclosures under Israeli Securities Regulations (Annual Financial Statements), 2010.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat-Gan
March 27, 2014

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Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Financial Position

	Note	December 31, 2013	December 31, 2013	December 31, 2012
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	3	8,039	38,442	19,013
Restricted deposit	16B(2)	867	4,145	3,349
Marketable securities	4	5,484	26,225	30,686
Accounts receivable -				
Trade	5	3,517	16,819	14,702
Other		330	1,577	2,814
Embedded derivatives		-	-	40
Inventory	6	3,860	18,456	22,297
Inventory - work in progress	7	3,202	15,313	18,011
		25,299	120,977	110,912
Non-current assets				
Deferred taxes	24	20	94	-
Long-term deposits		86	412	157
Property and equipment, net	8	8,417	40,247	40,433
Intangible assets, net	9	9,290	44,423	34,046
		17,813	85,176	74,636
		43,112	**206,153**	**185,548**

Haim Shani Chairman of the Board of Directors And Chief Executive Officer	Tzvi Livne Director	Yair Itscovich Chief Financial Officer

Approved: March 27, 2014

(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

	Note	December 31, 2013	December 31, 2013	December 31, 2012
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of long-term loans	10A	700	3,346	4,590
Current maturities of bonds	10B	2,481	11,864	17,788
Accounts payable -				
Trade	11	3,231	15,452	30,753
Other	12	6,669	31,889	28,280
Embedded derivatives	27E	269	1,286	1,509
		13,350	63,837	82,920
Non-current Liabilities				
Loans from the banks and others	13	1,531	7,319	11,063
Bonds	14	18,246	87,251	45,025
Liabilities for benefits to employees, net	15	501	2,398	2,640
Deferred taxes	24	332	1,585	-
		20,610	98,553	58,728
Contingent liabilities, mortgages, guarantees and commitments	16			
Equity	17			
Share capital		74	352	352
Share premium		10,579	50,588	50,588
Capital reserve from translation of foreign operations		(332)	(1,588)	(957)
Company shares held by the company		(1,473)	(7,042)	(7,042)
Reserve from a transaction with a controlling party		22	104	-
Retained earnings		282	1,349	959
		9,152	43,763	43,900
		43,112	**206,153**	**185,548**

(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 December 31,	For the year ended December 31,		
		2013	2013	2012	2011
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues	25	32,660	156,179	142,126	141,702
Cost of revenues	18	23,574	112,728	105,322	102,719
Gross profit		9,086	43,451	36,804	38,983
Development expenses, net	19	1,193	5,706	5,576	2,991
Selling & marketing expenses	20	3,567	17,056	17,616	14,091
General & administrative expenses	21	2,351	11,240	8,828	8,201
Other expenses		1	7	-	-
Operating profit		1,974	9,442	4,784	13,700
Financing incomes	22A	561	2,681	3,583	2,633
Financing expenses	22B	2,198	10,513	7,081	8,400
Profit before tax benefit (Taxes on Income)		337	1,610	1,286	7,933
Tax benefits (Taxes on Income)		(302)	(1,444)	114	-
Net profit for the year		35	166	1,400	7,933
Basic profit per 1 ordinary share NIS 0.02 per value	26	0.004	0.017	0.139	0.786
Diluted profit per 1 ordinary Share NIS 0.02 per value		0.004	0.017	0.139	0.782

(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 December 31,	For the year ended December 31,		
		2013	2013	2012	2011
			(in thousands)		
	Note	Convenience translation into EURO, (unaudited) (1)	NIS		
Net profit for the year		35	166	1,400	7,933
Other comprehensive income (loss) (after tax)					
Items that may not be classified afterwards to profit or loss -					
Actuarial gains (losses)	15	47	224	(495)	(513)
Items that may be reclassified to profit or loss in the future if certain conditions are met -					
Translation of foreign operations		(132)	(631)	(309)	528
Other comprehensive income (loss) for the year		(85)	(407)	(804)	15
Total comprehensive income (loss) for the year		(50)	(241)	596	7,948

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated Statements of Changes in Equity

	Share capital	Share premium	Capital reserve from translation of foreign operations	Company shares held by the company	Reserve from a transaction with a controlling party	Retained earnings (loss)	Total
	NIS, in thousands						
Balance at January 1, 2011	352	50,588	(1,176)	(6,239)	-	(7,366)	36,159
Net profit for the year	-	-	-	-	-	7,933	7,933
Other comprehensive income (loss) for the year	-	-	528	-	-	(513)	15
Total comprehensive income	-	-	528	-	-	7,420	7,948
Purchase of company shares by the company	-	-	-	(404)	-	-	(404)
Balance at December 31, 2011	352	50,588	(648)	(6,643)	-	54	43,703
Net profit for the year	-	-	-	-	-	1,400	1,400
Other comprehensive loss for the year	-	-	(309)	-		(495)	(804)
Total comprehensive income (loss)	-	-	(309)	-	-	905	596
Purchase of company shares by the company	-	-	-	(399)	-	-	(399)
Balance at December 31, 2012	352	50,588	(957)	(7,042)	-	959	43,900
Net profit for the year	-	-	-	-	-	166	166
Other comprehensive income (loss) for the year	-	-	(631)	-	-	244	(407)
Total comprehensive income (loss)	-	-	(631)	-	-	390	(241)
Capital profit from a transaction with a controlling party	-	-	-	-	104	-	104
Balance at December 31, 2013	352	50,588	(1,588)	(7,042)	104	1,349	43,763

	Share capital	Share premium	Capital reserve from translation of foreign operation	Company shares held by the company	Capital reserve from a transaction with a controlling party	Retained earnings (loss)	Total
	Convenience translation into EURO, in thousands (unaudited) (1)						
Balance at January 1, 2013	74	10,579	(200)	(1,473)	-	200	9,180
Net profit for the year	-	-	-	-	-	35	35
Other comprehensive income (loss) for the year	-	-	(132)	-	-	47	(85)
Total comprehensive income (loss)	-	-	(132)	-	-	82	(50)
Capital profit from a transaction with a controlling party	-	-	-	-	22	-	22
Balance at December 31, 2013	74	10,579	(332)	(1,473)	22	282	9,152

(*) 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 December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows - operating activities				
Net Profit for the year	35	166	1,400	7,933
Adjustments necessary to show the cash flows from operations (Appendix A)	662	3,166	20,914	(2,034)
Cash flows provided by operating activities	697	3,332	22,314	5,899
Cash flows - investing activities				
Sale of (investment in) marketable securities, net	1,140	5,453	7,236	(18,504)
Purchase of property and equipment	(313)	(1,499)	(1,396)	(20,454)
Sale of property and equipment	16	77	-	-
Investment in restricted deposit	(304)	(1,454)	-	(3,215)
Repayment of restricted deposit	146	700	-	-
Repayment (Investment) in long-term deposits	4	20	(29)	(37)
Investment in intangible assets	(3,320)	(15,876)	(14,385)	(12,618)
Cash flows provided by investing activities	(2,631)	(12,579)	(8,574)	(54,828)
Cash flows - financing activities				
Receiving long-term loan	-	-	-	4,907
Repayment of long-term loans	(936)	(4,476)	(4,401)	(4,382)
Bond issue	10,772	51,509	-	53,903
Repayment of bonds	(3,771)	(18,031)	(6,251)	(6,167)
Purchase of company shares by the company	-	-	(399)	(404)
Cash flows provided by (used in) financing activities	6,065	29,002	(11,051)	47,857
Translation differences in respect of foreign operations cash balances	(68)	(326)	(143)	83
Change in cash and cash equivalents	4,063	19,429	2,546	(989)
Cash and cash equivalents at beginning of year	3,976	19,013	16,467	17,456
Cash and cash equivalents at end of year	8,039	38,442	19,013	16,467

(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 December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
Income and expenses not involving cash flows:				
Depreciation and amortization	1,751	8,374	7,494	7,046
Loss (profit) from marketable securities, net	(207)	(992)	(1,693)	1,061
Changes in liabilities for benefits to Employees, net	(11)	(53)	(191)	436
Capital loss	1	7	-	-
Deferred taxes	302	1,444	(114)	-
Reevaluation of long-term loans and bonds	287	1,372	860	2,233
Reevaluation of restricted deposit	(9)	(42)	(68)	(66)
Reevaluation of embedded derivatives	(38)	(183)	412	(2,894)
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable - trade	(497)	(2,376)	2,876	(3,200)
Decrease (increase) in accounts receivable - other	213	1,020	(475)	(860)
Decrease (increase) in inventory	674	3,223	(6,656)	13,580
Decrease (increase) in inventory - work in progress	561	2,682	(10,661)	107
Increase (decrease) in accounts payable - trade	(3,200)	(15,301)	16,578	(11,581)
Increase (decrease) in accounts payable - other	835	3,991	12,552	(7,896)
	662	3,166	20,914	(2,034)
Appendix B - Non-cash operations				
Capital benefit arising from a transaction with a controlling party	22	104	-	-
Bonds issue expenses	-	-	-	30
Appendix C - Additional information on cash flows regarding operating activities				
Cash paid during the year for:				
Interest	1,092	5,221	4,600	3,433
Taxes on income	23	108	108	108
Cash received during the year for:				
Interest	268	1,280	1,400	1,444

(1) See Note 1F.

The notes to the financial statements form an integral part thereof.

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. From the fourth quarter of 2012 was concentrated activity in U.S. systems and / or North America subsidiary was established, in part, for this purpose (see 4 below).

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 developing, marketing activities, planning, manufacturing, construction and maintenance of automated parking systems. See also Note 16 C.

4. Unitronics Systems Inc. The company holds 100% of the equity and control of Unitronics System Ltd. Unitronics Systems Ltd was established in May 2012 to coordinate the activities of the system and / or parking solutions segment in the U.S. and / or North America, and began operations in the last quarter of 2012.

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. In addition, the Company designs, develops, manufactures, constructs and maintains mechanized systems for automated parking solutions.

D. Definitions

The company -	Unitronics (1989) (R"G) Ltd
Consolidated companies -	Companies under the company's control (as defined in IFRS 10) which their financial statements consolidated with the company.
The Group -	The company and the consolidated companies.
Interested parties and controlling shareholders -	as defined in Israeli Securities Regulations (Annual Financial Statements), (2010)
Related parties -	As defined in IAS24.

E. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar and the Euro:

As of	**Israeli CPI**	**Exchange rate of one Euro**	**Exchange rate of one U.S. dollar**
	Points (*)	**NIS**	**NIS**
December 31, 2013	223.80	4.7819	3.471
December 31, 2012	219.80	4.9206	3.733
December 31, 2011	216.27	4.9381	3.821
Change during the period	**%**	**%**	**%**
December 31, 2013	1.82	(2.82)	(7.02)
December 31, 2012	1.63	(0.35)	(2.30)
December 31, 2011	2.17	4.23	7.66

(*) The index on an average basis of 1993 = 100.

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, 2013 (EURO 1 = NIS 4.7819).
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).

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

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

Consistent accounting polices

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 comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

The disposal of a subsidiary that does not result in a loss of control is recognized as a change in equity. Upon the disposal of a subsidiary resulting in loss of control, the Company:

- derecognizes the subsidiary's assets (including goodwill) and liabilities of the subsidiary.
- derecognizes the carrying amount of non-controlling interests.
- derecognizes the adjustments arising from translating financial statements carried to equity.
- recognizes the fair value of the consideration received.
- recognizes the fair value of any remaining investment.
- reclassifies the components previously recognized in other comprehensive income on the same basis as would be required if the subsidiary had directly disposed of the related assets or liabilities.
- recognizes any resulting difference (surplus or deficit) as gain or loss.

Note 2 - Significant Accounting Policies (cont'd)

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:

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

Costs of work under a construction contract

Cost of work under a construction contract is recognized according to the percentage of completion in accordance with company's estimation to the total cost of the construction contract. Determining the cost of work under the construction contract involves making assumptions, inter alia regarding the scope, content and working time.

Completion rate for the recognition of income from work under a construction contract

Earned income from a construction contract is recognized according to the percentage of completion as specified in R below. Determining the percentage of completion involves making assumptions, inter alia, for the planning, scope and content of the work.

Deferred taxes

Assets (liabilities) in respect of deferred taxes are recognized in accordance with Section o below. Deferred taxes are calculated, excluding a limited number of exceptions.

Calculation of deferred taxes (liabilities) is based on Assumptions and estimates of for temporary differences between the amounts included in the financial statements and amounts taken into account for tax purposes, and it is based at the tax rate expected to apply at the date of realization.

Embedded derivatives

Value of embedded derivatives, in respect of transactions that its expected future cash flow, which is not denominated 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).

Note 2 - Significant Accounting Policies (cont'd)

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.
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.

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments

1. Financial assets:

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

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

a. Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

The Group assesses the existence of an embedded derivative and whether it is required to be separated from a host contract when the Group first becomes party to the contract. Reassessment of the need to separate an embedded derivative only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derivatives, including embedded derivatives separated from the host contract, are classified as held for trading unless they are designated as effective hedging instruments.

In the event of a financial instrument that contains one or more embedded derivatives, the entire combined instrument is designated as a financial asset at fair value through profit or loss only upon initial recognition.

b. Held-to-maturity investments:

Held-to-maturity investments are investments with fixed payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost less directly attributable transaction costs using the effective interest method, and less any impairment losses.

c. Loans and receivables:

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

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments (cont'd)

1. Financial assets (cont'd)

d. Available-for-sale financial assets:

Available-for-sale financial assets are (non-derivative) financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for interest, exchange rate differences that relate to debt instruments and dividends from an equity instrument, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is transferred to profit or loss.

2. Financial liabilities

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented net of directly attributable transaction costs.

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

a. Financial liabilities at amortized cost:

After initial recognition, loans and other liabilities are measured based on their terms at cost less directly attributable transaction costs using the effective interest method.

b. Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

The Group assesses the existence of an embedded derivative and whether it is required to be separated from a host contract when the Group first becomes party to the contract. Reassessment of the need to separate an embedded derivative only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

A liability may be designated upon initial recognition at fair value through profit or loss, subject to the provisions of IAS 39.

Note 2 - Significant Accounting Policies (cont’d)

E. Financial instruments (cont’d)

3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 of expired.

5. 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.

Note 2 - Significant Accounting Policies (cont'd)

E. Financial instruments - classification and measurement (cont'd)

6. Issue of a parcel (cont'd)

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).

7. 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. Allowance for doubtful accounts:

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

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 shares

Company shares held by the Company are recognized at cost of purchase and presented as a deduction from equity. Any gain or loss arising from a purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

J. Leases

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

1. Operating leases:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

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).

Note 2 - Significant Accounting Policies (cont'd)

K. Fixed assets

Fixed assets are measured at cost, including direct attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants and excluding day-to-day servicing expenses.

A part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately using the component method.

The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

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

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

The 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.

Note 2 - Significant Accounting Policies (cont'd)

L. Intangible assets (cont'd)

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.

Research and development expenses

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if:

a. The technical feasibility of completing the intangible asset so that it will be available for use of sale.
b. Its intention to complete the intangible asset and use of 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 not meat the above conditions, are recognized as expenses when it is 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:

	Years
Software	3
Patents and licenses	5
Development costs	5-7

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.

Note 2 - Significant Accounting Policies (cont'd)

N. Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the Company will comply with the attached conditions.

Government grants received from the Office of the Chief Scientist in Israel ("OCI") are recognized upon receipt as a liability if future economic benefits are expected from the research project that will result in royalty-bearing sales.

A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognized as a reduction of research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognized as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

In each reporting date, the Company evaluates whether there is reasonable assurance that the liability recognized, in whole or in part, will not be repaid (since the Company will not be required to pay royalties) based on the best estimate of future sales, and if so, the appropriate amount of the liability is derecognized against a corresponding reduction in research and development expenses.

O. Taxes on income

Taxes on income in the statement of operations include current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

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

2. Deferred taxes

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

O. Taxes on income (cont'd)

2. Deferred taxes (cont'd)

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future.Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

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

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.

Note 2 - Significant Accounting Policies (cont'd)

P. Share-based payments (cont'd)

Transactions settled with capital instruments (cont'd)

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.

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.

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

Note 2 - Significant Accounting Policies (cont'd)

Q. Liabilities for benefits to employees (cont'd)

2. Benefits after employment (cont'd)

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).

Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for 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.

The actuarial profits or losses are recorded to the other comprehensive income when it is incurred.

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.

Note 2 - Significant Accounting Policies (cont'd)

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.

V. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

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

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

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

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Note 2 - Significant Accounting Policies (cont'd)

W. Disclosure of new IFRS during the period prior to their implementation

1. Amendments to IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities":

   The IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

   The amendments to IAS 32 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

   The Company believes that the amendments to IAS 32 are not expected to have a material impact on the financial statements.

2. Amendments to IAS 36, "Impairment of Assets":

   In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

   The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

   The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

3. IFRS 9, "Financial Instruments":

   1. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

      According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

      - The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

      - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

      Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Note 2 - Significant Accounting Policies (cont'd)

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

3. IFRS 9, "Financial Instruments": (cont'd)

a. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value. When an entity changes its business model for managing financial assets, it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

Financial assets that are equity instruments should be measured in subsequent periods at fair value and the changes recognized in profit or loss or in other comprehensive income (loss), in accordance with the election by the Company on an instrument-by-instrument basis (amounts recognized in other comprehensive income cannot be subsequently reclassified to profit or loss). If equity instruments are held for trading, they should be measured at fair value through profit or loss.

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted. Upon initial application, IFRS 9 should be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in IFRS 9.

Note 2 - Significant Accounting Policies (cont'd)

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

3. IFRS 9, "Financial Instruments": (cont'd)

b. Amendments regarding derecognition and financial liabilities (Phase 2) were published. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, 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.

Pursuant to the amendments, the amount of the adjustment to the liability's fair value that is attributable to changes in credit risk should be presented in other comprehensive income. All other fair value adjustments should be presented in profit or loss. If presenting the fair value adjustment of the liability arising from changes in credit risk in other comprehensive income creates an accounting mismatch in profit or loss, then that adjustment should also be presented in profit or loss rather than in other comprehensive income.

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

c. In November 2013, the IASB issued Phase 3 of IFRS 9 ("Phase 3 of IFRS 9") as part of the complete version of IFRS 9. Phase 3 of IFRS 9 includes the new hedge accounting requirements and related amendments to IFRS 9, IFRS 7 and IAS 39.

Below are the significant principles of hedge accounting under IFRS 9 (2013):

- Hedge accounting can be applied to the risk components of financial hedged items and non-financial hedged items provided that risk component is separately identifiable and can be reliably measured.

- The hedge effectiveness test is to be made only on a qualitative basis and the quantitative effectiveness test of the 80%-125% range is eliminated. The test focuses on achieving the hedge objectives and the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on that relationship.

- Adjustments of interaction between hedging instrument and hedged item can be made also after inception of the hedge if changes in hedging are required as part of risk management objective. In such case, no re-designation of the hedge is required.

- The time value of an option, the forward element of a forward and foreign currency basis spread can be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging transaction. This means that, instead of affecting profit or loss like a trading instrument (speculative) these amounts are carried as transaction costs in other comprehensive income and amortized to profit or loss over the hedge period.

The IASB did not set a mandatory effective date for Phase 3 of IFRS 9. Entities may apply Phase 3 of IFRS 9 early provided that they also adopt the other provisions of IFRS 9.
As part of the amendments included in Phase 3 of IFRS 9, the provisions of Phase 2 regarding measurement of liabilities at fair value and presenting fair value changes in own credit risk in other comprehensive income can be applied before applying any other requirements in IFRS 9.

The Company believes that IFRS 9 (including all its phases) is not expected to have a material impact on the financial statements.

Note 2 - Significant Accounting Policies (cont'd)

W. Disclosure of new IFRS during the period prior to their implementation (cont'd)

4. Amendment to IAS 19 regarding the accounting for contributions linked to service:

The IASB issued an amendment to the existing requirements of IAS 19 regarding contributions made by employees or third parties that are linked to service.

According to the amendment, if the amount of the contributions is independent of the number of years of service (such as in cases where contributions are computed as a fixed percentage of employee's salary, the contributions are in fixed amount over the service period, the contributions are determined by the employee's age), contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered instead of attributing them to periods of service.

If contributions depend on the number of years during which service is rendered, these contributions should be attributed to periods of service by applying the same method of attribution in accordance with IAS 19.70 regarding attribution of benefit to periods of service.

The Company believes that IAS 19 is not expected to have a material impact on the financial statements.

Note 3 - Cash and cash equivalents

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israeli currency	1,986	9,497	8,489
Foreign currency	6,053	28,945	10,524
	8,039	38,442	19,013

Note 4 - Marketable securities

Marketable securities measured at fair value through the statement of operations

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Stocks	529	2,531	2,823
Bonds:			
Linked to Israeli CPI	2,984	14,270	14,560
Linked to USD	-	-	94
Unlinked	1,971	9,424	13,209
	5,484	26,225	30,686

Note 5 - Accounts receivable - trade

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Related to work in progress in connection with long-term contracts (*):			
Open accounts	754	3,607	1,242
Income receivable	9	41	1,375
	763	3,648	2,617
Others:			
Open accounts	2,749	13,145	11,911
Post-dated checks receivable	19	91	244
	2,768	13,236	12,155
	3,531	16,884	14,772
Provision for doubtful debts	(14)	(65)	(70)
	3,517	16,819	14,702
(*) Costs and recognized profits	12,608	60,291	43,920
Less bills of progress in work	11,960	57,193	41,483
	648	3,098	2,437
V.A.T on open accounts	115	550	180
	763	3,648	2,617

Costumers without provision for doubtful debts:

		Customers with collection delay of			
	Customers without collection delay	Up to 30 days	30 to 60 days	More then 60 days	Total
		NIS (in thousands)			
December 31, 2013	14,759	1,350	270	308	16,687
December 31, 2012	9,356	3,552	94	81	13,083

Note 6 - Inventory

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Raws and packaging	1,408	6,731	8,429
Work in process	745	3,561	6,032
Finished products	1,707	8,164	7,836
	3,860	18,456	22,297

An impairment in value of inventory recorded to the cost of revenues in the reported year aggregated an amount of NIS 357 thousands (in 2012 - NIS 754 thousands).

Note 7 - Inventory - work in progress

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Cost of work performed	14,532	69,492	67,628
Less amounts charged to statements of operations	11,330	54,179	49,617
	3,202	15,313	18,011

Note 8 - Property and equipment, net

	Land and Buildings (*) (**)	Leasehold improvements	Machinery and Equipment	Motor vehicles	Office furniture and Equipment	Total
			NIS (in thousands)			
Cost						
Balance as at January 1, 2012	41,134	1,254	4,620	716	3,167	50,891
Additions	430	80	620	-	266	1,396
Disposals	-	-	(485)	-	(19)	(504)
Translation differences	-	-	-	-	(20)	(20)
Balance as at December 31, 2012	41,564	1,334	4,755	716	3,394	51,763
Additions	1,053	15	361	-	70	1,499
Disposals	-	-	(217)	(186)	(68)	(471)
Translation differences	-	-	-	-	(54)	(54)
Balance as at December 31, 2013	42,617	1,349	4,899	530	3,342	52,737
Accumulated depreciation						
Balance as at January 1, 2012	5,480	268	2,832	233	1,415	10,228
Depreciation during the year	552	132	580	107	246	1,617
Disposals	-	-	(485)	-	(19)	(504)
Translation differences	-	-		-	(11)	(11)
Balance as at December 31, 2012	6,032	400	2,927	340	1,631	11,330
Depreciation during the year	545	135	550	84	246	1,560
Disposals	-	-	(217)	(102)	(48)	(367)
Translation differences	-	-	-	-	(33)	(33)
Balance as at December 31, 2013	6,577	535	3,260	322	1,796	12,490
Net book value as at December 31, 2013	36,040	814	1,639	208	1,546	40,247
Net book value as at December 31, 2012	35,532	934	1,828	376	1,763	40,433

(*) The building is located in Kiriat Sde Hateufa, on land leased from the government (Minhal). The land is leased from August 23, 2000 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.

For subsequent event regarding the sale of the real estate property, see note 28A.

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	Total
			(in thousands)			
Cost						
Balance as at January 1, 2013	8,692	279	994	150	710	10,825
Additions	220	3	75	-	15	313
Disposals	-	-	(45)	(39)	(14)	(98)
Translation differences	-	-	-	-	(11)	(11)
Balance as at December 31, 2013	8,912	282	1,024	111	700	11,029
Accumulated depreciation						
Balance as at January 1, 2013	1,261	84	612	71	341	2,369
Depreciation during the year	114	28	115	18	51	326
Disposals	-	-	(45)	(21)	(10)	(76)
Translation differences	-	-	-	-	(7)	(7)
Balance as at December 31, 2013	1,375	112	682	68	375	2,612
Net book value as at December 31, 2013	7,537	170	343	43	325	8,417

Note 9 - Intangible assets, net

	Patents and Licenses	Software	Development costs	Total
		NIS (in thousands)		
Cost				
Balance as at January 1, 2012	662	1,577	32,563	34,802
Additions - internal created	-	-	13,977	13,977
Additions - bought	-	408	-	408
Disposals	-	(82)	-	(82)
Balance as at December 31, 2012	662	1,903	46,540	49,105
Additions - internal created	-	-	15,540	15,540
Additions - bought	80	256	-	336
Disposals	-	(85)	-	(85)
Balance as at December 31, 2013	742	2,074	62,080	64,896
Accumulated amortization				
Balance as at January 1, 2012	641	1,001	9,326	10,968
amortization during the year	8	328	3,837	4,173
Disposals	-	(82)	-	(82)
Balance as at December 31, 2012	649	1,247	13,163	15,059
amortization during the year	27	378	5,094	5,499
Disposals	-	(85)	-	(85)
Balance as at December 31, 2013	676	1,540	18,257	20,473
Net book value as at December 31, 2013	66	534	43,823	44,423
Net book value as at December 31, 2012	13	656	33,377	34,046

Note 9 - Intangible assets, net (cont'd)

	Convenience translation into Euro, (unaudited)			
	Patents and Licenses	Software	Development costs	Total
	(in thousands)			
Cost				
Balance as at January 1, 2013	138	398	9,733	10,269
Additions - internal created	-	-	3,250	3,250
Additions - bought	17	54	-	71
Disposals	-	(18)	-	(18)
Balance as at December 31, 2013	155	434	12,983	13,572
Accumulated amortization				
Balance as at January 1, 2013	136	261	2,753	3,150
Amortization during the year	6	79	1,065	1,150
Disposals	-	(18)	-	(18)
Balance as at December 31, 2013	142	322	3,818	4,282
Net book value as at December 31, 2013	13	112	9,165	9,290

amortization expenses

Intangible assets amortization is classified to the statement of operations as follows:

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Cost of revenues	1,106	5,288	4,023	4,333
Development expenses, net	18	89	75	67
Selling & marketing expenses	8	36	35	43
General & administrative expenses	18	86	40	58
	1,150	5,499	4,173	4,501

Note 10 - Current maturities of non-current liabilities

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
A. Current maturities of non-current loans:			
Linked to the USD	80	379	407
Linked to the EURO	605	2,894	4,079
Not linked	15	73	104
	700	3,346	4,590
B. Current maturities of bonds:			
Linked to the CPI	2,481	11,864	17,788

Note 11 - Accounts payable - trade

Suppliers	3,124	14,941	26,767
Post-dated checks payable	107	511	3,986
	3,231	15,452	30,753

Note 12 - Accounts payable - other

Employees, payroll and taxes	813	3,888	3,730
Provision for vacation	253	1,212	1,079
Government institutions	132	631	-
Accrued expenses	1,210	5,786	4,807
Prepaid income	3,864	18,472	18,479
Advances from costumers	364	1,741	26
Other	33	159	159
	6,669	31,889	28,280

Note 13 - Loans from banks and others

A. Consisting of the following:

	Annual Interest Rates %	December 31, 2013	December 31, 2013	December 31, 2012
			(in thousands)	
		Convenience translation into EURO, (unaudited)	NIS	
Long-term loans from banks:				
Linked to the USD	Libor+2.02(*)	317	1,515	2,036
Linked to the EURO	Libor+1.93-3.41(**)	1,897	9,071	13,413
Less current maturities		(684)	(3,273)	(4,486)
		1,530	7,313	10,963
Long-term loans from others:				
Motor vehicles lassoers				
- Not linked	9.90	17	79	204
Less current maturities		(16)	(73)	(104)
		1	6	100
		1,531	7,319	11,063

(*) As at December 31, 2012 - 2.27%
(**) As at December 31, 2012 – 3.78%-2.10%

B. Aggregate maturities are as follows:

Second year	396	1,894	3,478
Third year	255	1,218	1,967
Fourth year	255	1,218	1,271
Fifth year	83	398	1,271
Sixth year and thereafter	542	2,591	3,076
	1,531	7,319	11,063

C. Mortgages - see note 16B.

Note 14 - Bonds

1. 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. In 2009 the company acquired by 7,100 thousand. Value debentures (Series 2).The bonds are linked to the Israeli CPI and bear fixed interest of 6.1% per annum. The effective interest - 9.57%. On August 25, 2013 the Company paid the fifth and last payment of bonds (Series 2), and thus fully paid all its liabilities for bonds (Series 2).

2. 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 its financial covenants.

3. On January 24, 2013 the Company published a Shelf Offer Report ("Offer Report") in the framework of which the public was offered NIS 53,125,000 par value of bonds (Series 4) of the Company, which were issued at 100% of their par value; the bonds and are linked (principal interest) to the consumer price index for the month of December 2012 (which was published on January 15, 2013). The bonds will be repayable (principal) in six (6) annual unequal installments, which will be paid on January 31 of each of the years of 2015 – 2020 (inclusive), as detailed in the Offer Report. The bonds (Series 4) will bear interest for the unpaid balance of the bonds (Series 4) which will paid in semi-annual equal installments as from July 31, 2013. The proceeds (gross) from the bonds allotted in accordance with the Shelf Offer Report, aggregate NIS 53,125,000 (in total 53,125 bond units (Series 4) were allotted, the annual rate of interest that the bonds bear was set in the tender at 5.4%. The annual effective interest rate is 6.25%.

   On January 17, 2013, in the framework of the Shelf Offer Report, the Company engaged in a trust deed for the bonds (Series 4) (hereinafter – "the Trust Deed") according to which it undertook, inter alia, to meet financial covenants of a ratio of the financial debt to net CAP which will not exceed 80% and the ratio of financial debt to EBITDA which will not exceed 10, and a condition that shareholders' equity will not be less than NIS 20 million, including setting a mechanism for updating the interest for exceptional periods from the financial covenants agreed, and circumstances which are grounds for immediate repayment, and all as detailed in the Trust Deed.

   An examination whether the Company meets its financial covenants will be made twice a year in every calendar year on the date of publishing the financial statements as at June 30 and December 31, as long as the bonds exist and are in circulation. The first report to be examined will be the financial statements as at June 30, 2013. As of December 31, 2013 the Company meets its financial covenants.

   In addition, the Company undertook to pledge a deposit in an amount of the semi-annual interest on the bonds in favor of the bond holders (Series 4) (See note 16.B.6).

Note 14 - Bonds (cont'd)

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Series 2	-	-	6,275
Less discount, net	-	-	(129)
	-	-	6,146
Less current maturities	-	-	(6,146)
	-	-	-
Series 3	9,924	47,455	58,208
Less discount, net	(208)	(996)	(1,541)
	9,716	46,459	56,667
Less current maturities	(2,481)	(11,864)	(11,642)
	7,235	34,595	45,025
Series 4	11,300	54,037	-
Less discount, net	(289)	(1,381)	-
	11,011	52,656	-
	18,246	87,251	45,025

Aggregate maturities are as follows:

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Series 2			
Current maturities	-	-	6,146
Second year	-	-	-
	-	-	6,146
Series 3			
current maturities	2,481	11,864	11,642
Second year	2,481	11,864	11,642
Third year	2,481	11,864	11,642
four year	2,481	11,863	11,642
Fifth year onwards	-	-	11,640
	9,924	47,455	58,208
Series 4			
Second year	1,413	6,755	-
Third year	1,413	6,755	-
four year	1,413	6,755	-
Fifth year onwards	7,061	33,772	-
	11,300	54,037	-

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

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

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Expenses for defined contribution plans	591	2,824	2,769	1,977

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	138	660	725	990
Interest on obligation, Net	32	153	151	97
	170	813	876	1,087
Actual return on plan assets	81	387	210	161

Note 15 - Liabilities for benefits to employees, net (cont'd)

C. Defined benefits plans (cont'd)

2. Amounts in the balance sheet:

	December 31,	December 31,	
	2013	2013	2012
	Convenience translation into EURO, (unaudited)	(in thousands) NIS	
Liabilities	1,746	8,350	8,591
Assets	(1,245)	(5,952)	(5,951)
Net liability	501	2,398	2,640

3. Changes in the present value of the defined benefit obligations:

Opening defined benefit obligation	1,797	8,591	8,101
Interest cost	70	334	356
Service cost	138	660	725
Benefits paid	(262)	(1,251)	(896)
Actuarial losses, net	3	16	305
Closing defined benefit obligation	1,746	8,350	8,591

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	1,244	5,951	5,569
Interest on assets	38	181	205
Contributions by employer	42	202	232
Benefits paid	(123)	(587)	(60)
Actuarial gain, net	44	205	5
Closing fair value of plan assets	1,245	5,952	5,591

Note 15 - Liabilities for benefits to employees, net (cont'd)

C. Defined benefits plans (cont'd)

	For the year ended December 31,		
	2013	2012	2011
	In thousands NIS		
5. Total influence on the other comprehensive profit (loss)			
Actuarial profits (losses), net	189	(300)	(513)

6. Principal actuarial assumptions for defined benefit plans:

	Rate (%)		
Discount rate (*)	3.9	2.3 - 6.7 (*)	2.9 - 7.8 (*)
Future salary increases	3	3	3

(*) according to the assets type.
From 2013 the interest measuring on assets of the plan is based on the discount rate which is used for measuring liabilities Accordance with IAS 19 (revised).

7. Below are reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant:

	Change in the undertaking for a defined-benefit
	NIS thousands
Sensitivity analyses to change in the rate of annual increase in salaries:	
Increase of 1% (salary increase of 6.5% instead of 5.5%)	405
Decrease of 1% (salary increase of 4.5% instead of 5.5%)	(358)
Sensitivity analyses to change in the rate of capitalization:	
Increase in the rate of capitalization by 1%	(361)
Decrease in the rate of capitalization by 1%	412

Note 16 - Contingent Liabilities, Mortgages, guarantees and commitments

A. Contingent liabilities

1. The Company received Government grants from the Chief Scientist at the Ministry of Industry in research and development programs which the company carried.
   The Company is committed to pay royalties in 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, 2013 amount to NIS 2,133 thousands (EURO 446 thousands). The liability in respect of royalties to the Government at December 31, 2013 amounts to NIS 159 thousands (EURO 33 thousands) relating to projects that the company's management assumes royalties payments.

B. Mortgages and guarantees

1. 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 from august 23, 2000 between the company and the Israeli Lands Administration ("Minhal"). As at December 31, 2013 these loans amount to a total of NIS 3,280 thousands (Euro 686 thousands) (as of December 31, 2012 amounted to NIS 4,306 thousands (Euro 900 thousands)).
   Furthermore, In order to secure the company's liability in respect of financial leasing, the rights to the leased car were lined to the leasing company.
2. 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).

3. As a part of the company agreement from July 2011 to acquire land rights, 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, 2013 the loan amounts to approximately NIS 4,583 thousands (EURO 958 thousands). After the balance sheet date, in the framework of the sale of rights in real estate by the Company, the mortgage in favor of the bank was cancelled, and this without demanding payment of the loan by the bank. For additional details see Note 28A.

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, 2013, the company gave performance guarantees to customers in the total amount of NIS 23.5 million (EURO 4.9 million).

6. In the context of the Company's engagement in a Trust Deed for the bonds (Series 4) it undertook, inter alia, to pledge a deposit in favor of the bondholders for the amount of the semi – annual interest payments of the bonds (Series 4).

C. Commitments

In march 2012, 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.

Note 17 - Share Capital

A. Composition

	Number of shares		
		December 31,	
	December 31, 2012 and 2013	2013	2012
	Authorized	Issued and outstanding	
Ordinary shares of NIS 0.02 par value each	100,000,000	11,674,504	11,676,504

B. Option plan

The Company's share option plan from the year 2003, pursuant to which share options in the Company may have been granted to employees, officers, directors and consultants of the Company or its subsidiaries, expired in November 2013. No options were exercised under the program.

C. Since August 2005 the company purchased, from time to time, shares of the company in both Tel Aviv stock exchange and Euronext. As at December 31, 2012 and 2013, the Company held 1,676,192 shares, representing about 14.35% of the issued share capital of the Company, purchased in an amount of NIS 7,042 thousand. As at December 31, 2013 there is no valid purchase plan of additional ordinary shares of the Company.

D. Dividend Distribution policy

Subsequent to the balance sheet date, on February 23, 2014, the Company's Board of Directors passed a resolution regarding the adoption of a dividend distribution policy as of the date of publication of this periodic report as at December 31, 2013.

The Company shall distribute to its shareholders a dividend at the rate of 33% from the net profit attributable to the Company's shareholders, based on the Company's annual audited consolidated financial statements, not including earnings deriving from asset revaluation (hereinafter: "the profit"), only if of the profit in respect of the calendar year, exceeding of NIS 3,000,000, and in subject, Inter alia, to the provisions of any law,the financial needs of the company, its business plans and the Company's obligations to the holders of the Company's debentures (Series 3 and 4). According to this current financial statement for the year 2013 and subjected to the dividend distribution policy, no distribution is planned.

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) and for debentures (series 4) described in Note 14(2) and 14(3).

Note 18 - Cost of revenues

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Materials consumed and (*) subcontractors	16,812	80,395	72,447	66,274
Payroll and related benefits	3,830	18,315	19,802	17,377
Changes in work in process and finished products	448	2,143	(3,633)	5,452
Depreciation and amortization	1,268	6,062	4,906	5,202
Management and Maintenance costs	86	412	398	446
Other expenses	1,130	5,401	11,402	7,968
	23,574	112,728	105,322	102,719

(*) 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 is not being transferred to the subcontractors, materials costs are decreased from proceeds from sales of raw materials sold to the subcontractors. In 2013 the proceeds from sales of raw materials amounted to about NIS 8.3 million (in 2012 amounted to NIS 12.2 million).

Note 19 - Development expenses, net

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Salaries and related benefits	2,802	13,398	11,901	10,066
Subcontractors	999	4,775	4,670	2,934
Other expenses	643	3,074	2,982	2,166
Less - capitalized expenses	(3,251)	(15,541)	(13,977)	(12,175)
	1,193	5,706	5,576	2,991

Note 20 - Selling and marketing expenses

Salaries and related benefits	1,762	8,425	8,189	6,392
Travel and marketing	59	283	801	477
Exhibits, advertising and other expenses	1,746	8,348	8,626	7,222
	3,567	17,056	17,616	14,091

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Note 21 - General and administrative expenses				
Salaries and related benefits	1,224	5,853	5,676	4,693
Office rent, maintenance and communications	223	1,064	574	500
Depreciation and amortization	76	365	253	260
Professional services	445	2,127	1,328	1,825
Other expenses	383	1,831	997	932
	2,351	11,240	8,828	8,201
Note 22 - Financing income (expenses)				
A. Financing income				
Profit and interest from marketable securities, net	439	2,101	2,986	-
Profit from hedge transactions, net	-	-	35	-
Embedded derivatives	-	-	-	1,929
Increase in value of cash	-	-	-	235
Erosion of long-term loans from banks	33	156	-	-
Others	89	424	562	469
	561	2,681	3,583	2,633
B. Financing expenses				
Financing cost relating to Bonds	1,795	8,584	5,822	5,762
Loss in hedging transaction	-	-	-	175
Loss and interest from marketable securities, net	-	-	-	85
long term debt	-	-	401	1,541
Embedded derivatives	270	1,289	298	-
Others	133	640	560	837
	2,198	10,513	7,081	8,400
C. Classification of finance income (expenses) according to finance instruments				
Financial assets at fair value through the statement of operations	439	2,101	2,986	(85)
Financial liabilities measured at reduced cost	(1,762)	(8,427)	(6,223)	(7,303)
Financial liabilities fair value through the statement of operations	38	183	(412)	2,894

Note 23 - Interested and related parties

1. Transactions with interested and related parties:

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Salaries and related benefits (*)	345	1,649	1,628	1,577
Bonus interested parties	29	138	104	643
Directors' remuneration (**)	55	263	256	214
Rental expenses and management fees	239	1,143	1,169	1,074
(*) Number of recipients	2	2	2	2
(**) Number of recipients	4	4	4	4

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 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.

6. In March 2012 approved the Board of Directors and the Audit Committee a new lease agreement between the Company and a company controlled by the controlling shareholders in conditions which do not differ essentially conditions of the previous agreement in July 2009 and its amendment in March 2011 on rental space totaling 1106 square meters and 30 parking spaces. Agreement is for a period of three years commencing from 1 August 2012. addition, the company requires shareholders controlled.

7. In March 2012 a one-sided one-time waiver of an annual bonus to Mr. Haim Shani, a controlling party and CEO of the Company, for the 2012 year of 7.5% of the profits before tax which aggregated NIS 104 thousand was approved. The waiver was enrolled as capital benefit arising from a transaction with a controlling party.

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. Adjustments for Inflation concerning capital gain and profit from marketable securities continues under this law. 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. The Company currently qualifies as an "Industrial Company" under the Law for the Encouragement of Industry (Taxes), 1969. 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"). In 2011 ended the period of realization of the benefit under the first program without utilizing the tax benefits which.

On October 2000 the company filed an expansion program to the above approved enterprise program. The expansion program was approved on January 2003. The tax benefits derived from the program will be calculated in accordance with the increase in revenues compared to the base year.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 second program year of operation is 2004.

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.

In September 2011, the Company submitted an application to the Investment Center For the second part of the program enterprise status characterized by high technological turnover (hereinafter - "the Application") in accordance with the base turnover procedure such plant. In August 2012 the Investment Center approved the Company's request, according to which the Company may reduce the base turnover by 10% each year from the tax benefits of the second program, subject to compliance with company procedures and obligations as specified in the application.

In addition, in 2011, 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 expected in the reported period utilization of tax benefits under the second and third programs.

D. In December 2012 the Company filed an application to the Bureau of the Chief Scientist of the Ministry of Industry, Commerce and Employment for approval under Section 20a of the Income Tax Ordinance – 1961 for the years 2010 – 2011. In march 2013, such approval was received for each of the years according to which 93% of total development expenses submitted in the framework of the application will be recognized as a current expense in the tax year in which it was spent. The Company's tax reports for the year 2012 included recognition of development expenses under the approval, aforesaid.

Note 24 - Taxes on Income (cont'd)

E. Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire privileged income under its status as a privileged company with a privileged enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates. The tax rates under the Amendment are: 2011 and 2012 - 15% (in development area A - 10%) and in 2013 - 12.5% (in development area A - 7%), on 2015 and thereafter 12% (in development area A - 6%).

The Company has evaluated the effect of the adoption of the Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company believes that it will apply the Amendment effective from the 2016 tax year. The Company's estimate may change in the future until the date it submits its final decision to the tax authorities, as prescribed by the Amendment.

F. The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and 2013.
On December 5, 2011, the "Knesset" (Israeli parliament) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25%, as above, the real capital gain tax rate and the real betterment tax rate were also increased accordingly.
On 30 July 2013 the Knesset approved in second and third call the economic plan to the years 2013-2014("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere).

The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company.
Following the change in tax rates, the liabilities with respect to the deferred taxes increased by NIS 1,187 thousand. Moreover, the Company recognized an increase of NIS 65 thousand in other comprehensive income.

G. The subsidiary, Unitronics Inc and Unitronics Systems 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%.

H. The Company has final tax assessments for all years up to 2009 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

I. The company has business losses forward for tax purposes which amounts approximately NIS 3 million (EURO 627 thousand) and the consolidated loss amount to approximately NIS 23.4 million (EURO 4.8 million) as at December 31, 2013. Respect to those losses the company has recognized at the financial statements a deferred tax assets in the amount of about 580 thousand NIS.

Note 24 - Taxes on Income (cont'd)

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2013	2012	2013	2012	2011
	NIS in thousands				
J. Deferred tax:					
Deferred tax liabilities:					
Property, plant and equipment	467	354	(113)	(354)	-
Intangible assets	3,469	1,664	(1,805)	(1,664)	-
	3,936	2,018	(1,918)	(2,018)	-
Deferred tax assets:					
Carry forward tax losses	580	645	(65)	645	-
Employee benefits	384	317	32	512	-
Other taxes assets (*)	1,481	1,056	507	975	-
	2,445	2,018	474	2,132	-
Deferred tax income (expenses) , net			(1,444)	114	-
Deferred tax liabilities, net	1,491	-			

(*) Advances paid for excess expenses

The deferred taxes are presented at the Statements of financial position as follows:

	2013	2012
Non-current assets	94	-
Non-current liabilities	1,585	-
Deferred tax liabilities, net	1,491	-

K. Income taxes relating to items of other comprehensive income:

	2013	2012	2011
The actuarial loss for the defined benefit plan	35	195	-

L. Taxes on income included in profit or loss:

	2013	2012	2011
Deferred taxes, see Section J above.	(1,444)	114	-

Note 24 - Taxes on Income (cont'd)

M. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Profit before subsidiaries losses and before taxes on income	337	1,610	1,286	7,933
Tax rate	25%	25%	25%	24%
Theoretical tax	84	402	321	1,904
Increase in taxes resulting from non-deductible expenses	10	50	32	70
Losses from previous years for which deferred taxes have been this year and creating other tax assets	(127)	(607)	(680)	-
Temporary differences where deferred taxes were not recognized	367	1,754	1,101	(1,974)
Benefit in privileged tax rate	(279)	(1,336)	(877)	-
Update deferred tax balances for changes beneficiary tax rates	248	1,187	-	-
Other	(1)	(6)	(11)	-
	(302)	(1,444)	(114) -	-

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 recourses. The operating segments were determined based on these reports.

The CEO examines the segment's 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").
-Planning, construction and maintenance of automated parking systems (hereinafter - "Parking solutions segment").

The business activity in the parking solutions segment presented separately since January 1, 2013 onwards, Including the provision of information in relation to this segment in prior periods also, in accordance with the accounting policy described in paragraph A above.

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 December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Products	19,960	95,449	96,375	89,213
System integration projects	11,522	55,096	44,684	52,104
parking solutions	1,086	5,195	664	-
Other	92	439	403	385
Total revenues	32,660	156,179	142,126	141,702

Note 25 - Operative segments (cont'd)

2. Report on operative segments (cont'd)

B. Segment results and adjustment to the profit:

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Products	5,926	28,336	29,558	27,840
System integration projects	1,046	5,002	(6,936)	1,104
parking solutions	(986)	(4,716)	(1,040)	-
Other	5	25	4	(61)
Unallocated corporate expenses	(4,017)	(19,205)	(16,802)	(15,183)
Operating profit	1,974	9,442	4,784	13,700
Unallocated corporate financing expenses, net	(1,637)	(7,832)	(3,498)	(5,767)
Tax benefit (Taxes on Income)	(302)	(1,444)	114	-
Profit for the year	35	166	1,400	7,933

C. Segment assets

	December 31,	December 31,	
	2013	2013	2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Products	6,863	32,817	35,174
System integration projects	3,629	17,352	20,575
parking solutions	853	4,080	2,205
Other	12	54	46
Unallocated corporate assets	31,755	151,850	127,548
Consolidated total assets	43,112	206,153	185,548

Note 25 - Operative segments (cont'd)

2. Report on operative segments (cont'd)

D. Segment liabilities

	December 31,	December 31,	
	2013	2013	2012
	(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS	
Products	2,649	12,666	16,739
System integration projects	4,632	22,149	35,816
parking solutions	1,605	7,674	3,582
Other	27	127	127
Unallocated corporate liabilities	25,047	119,774	85,384
Consolidated total liabilities	33,960	162,390	141,648

E. Capital expenditure

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
	(in thousands)			
	Convenience translation into EURO, (unaudited)	NIS		
Products	31	147	165	186
System integration projects	48	228	325	480
parking solutions	45	213	402	-
Unallocated capital expenditure	3,510	16,787	14,889	32,406
Consolidated total capital expenditure	3,634	17,375	15,781	33,072

F. Depreciation and amortization

Products	182	870	1,278	534
System integration projects	134	640	800	827
parking solutions	30	145	35	-
Unallocated depreciation and amortization	1,405	6,719	5,381	5,685
Total depreciation and amortization	1,751	8,374	7,494	7,046

Note 25 - Operative segments (cont'd)

3. Geographical information

A. Revenues (according to the client's location)

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Israel	12,380	59,201	49,669	54,854
Europe	9,632	46,061	46,196	45,462
America	9,219	44,084	40,751	36,356
Other destinations	1,429	6,833	5,510	5,030
	32,660	156,179	142,126	141,702

B. Non-current assets (according to the assets location)

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Israel	17,753	84,890	74,260
America	60	286	376
Consolidated total non-current assets	17,813	85,176	74,636

C. Principal customers

The revenues include revenues from principal costumers (which each one constitutes in excess of 10% revenues of company) :

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Costumer A (system integration projects segment)	1,672	7,994	8,812	28,104
Costumer B (system integration projects segment)	1,453	6,947	21,298	4,527
Costumer C (system integration projects segment)	4,834	23,118	5,145	-

Note 26 - Profit per share

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Profit for the year				
Basic and Fully diluted	35	166	1,400	7,933
Weighted average share capital (number of shares)				
Basic		10,002,312	10,072,598	10,095,905
Fully diluted		10,002,312	10,072,598	10,142,875

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, 2013	December 31, 2012
	(in thousands) NIS	
Financial assets		
Financial assets earmarked to be measured at fair value through the statement of operations	-	40
Financial assets classified as held for trading	26,225	30,686
Financial assets at fair value through the statement of operations	26,225	30,726
Loans and receivables	17,397	16,004
Financial liabilities		
Financial liabilities measured at reduced cost	134,765	116,145
Financial liabilities at fair value through the statement of operations	1,286	1,509

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.

After the balance sheet date, the Company began to purchase forward contracts in foreign currency in order to to hedge risks associated with foreign exchange rates in respect of cash flows. The forward contracts in Foreign currency are for a period of one month to 12 months and are not qualify for hedge accounting.

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, 2013, of these investments, is NIS 26,225 thousands (2012 - NIS 30,686 thousands).

Note 27 - Financial Instruments (cont'd)

B. Financial Risk factors (cont'd)

2. Credit Risks

As at December 31, 2013 the company had trade account receivables and other account receivables amounting to approximately NIS 17,397 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, 2013:

	Book Value	1th year	2th year	3th year	4th year	5th year and after	Total expected cash flow
				NIS, (in thousands)			
Accounts payable - trade	15,452	15,452	-	-	-	-	15,452
Accounts payable - other	9,533	9,533	-	-	-	-	9,533
Loans from banks and others	10,665	3,621	2,105	1,391	1,355	3,434	11,906
bonds	99,115	17,128	23,029	21,994	20,959	36,523	119,633
	134,765	45,734	25,134	23,385	22,314	39,957	156,524

December 31, 2012:

	Book Value	1th year	2th year	3th year	4th year	5th year and after	Total expected cash flow
				NIS, (in thousands)			
Accounts payable - trade	30,753	30,753	-	-	-	-	30,753
Accounts payable - other	6,926	6,926	-	-	-	-	6,926
Loans from banks and others	15,653	4,980	3,760	2,179	1,443	4,925	17,287
bonds	62,813	21,259	13,944	13,286	12,629	11,971	73,089
	116,145	63,918	17,704	15,465	14,072	16,896	128,055

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 Which there is a substantial difference between the carrying amount to fair value:

	Book value		Fair value	
	December 31,		December 31,	
	2013	2012	2013	2012
	NIS, (in thousands)			
Financial liabilities (1)				
Convertible bonds linked to the Israeli CPI	(99,115)	(62,813)	(106,978)	(66,994)

(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

	Level 1	Level 2	Level 3
	NIS, (in thousands)		
As at December 31, 2013:			
Financial assets at fair value:			
Marketable securities	26,225	-	-
Financial liabilities at fair value			
Embedded derivatives	-	1,286	-

During 2012 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.

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, 2013, is NIS 1,286 thousand (in 2012 - a liability of NIS 1,469 thousand).

F. Sensitivity analyses for changes in market factors

	Sensitivity analyses for changes in the USD interest rate Profit (loss)	
	1% rate increase	1% rate decrease
	NIS (in thousands)	
2013	(15)	15
2012	(20)	20

	Sensitivity analyses for changes in the Euro interest rate Profit (loss)	
	1% rate increase	1% rate decrease
	NIS (in thousands)	
2013	(91)	91
2012	(134)	134

	Sensitivity analyses for changes in the USD exchange rate Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2013	(125)	125
2012	(373)	373

	Sensitivity analyses for changes in the Euro exchange rate Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2013	(259)	259
2012	(919)	919

Note 27 - Financial Instruments (cont'd)

F. Sensitivity analyses for changes in market factors (cont'd)

	Sensitivity analyses for changes in the CPI Profit (loss)	
	5% increase	5% decrease
	NIS (in thousands)	
2013	(4,242)	4,190
2012	(2,422)	1,619

	Sensitivity analyses for changes in the marketable securities market rates	
	5% increase	5% decrease
	NIS (in thousands)	
2013	1,312	(1,312)
2012	1,534	(1,534)

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.

G. Additional information regarding significant investments in financial assets

1. Detail of the significant investments in groups of financial assets in accordance with IAS 39:

	December 31, 2013	December 31, 2012
	(in thousands) NIS	
Financial assets at fair value through the statement of operations:		
Marketable securities	26,225	30,686
Financial assets at reduced cost:		
Loans and receivables	17,397	16,004
	43,622	46,690

2. The expiration date of the predicted essential investment by groups of financial instruments according to IAS 39 is up to a year.

Note 27 - Financial Instruments (cont'd)

G. 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, 2013:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
			NIS, (in thousands)			
Financial assets at fair value through the statement of operations:						
Marketable securities	-	-	14,270	-	11,955	26,225
Financial assets at reduced cost:						
Loans and receivables	5,336	5,180	-	-	6,881	17,397
	5,336	5,180	14,270	-	18,836	43,622

December 31, 2012:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial assets at fair value through the statement of operations:						
Marketable securities	94	-	14,560	-	16,032	30,686
Financial assets at reduced cost:						
Loans and receivables	4,563	5,733	-	-	5,708	16,004
	4,657	5,733	14,560	-	21,740	46,690

H. Linkage conditions of financial liabilities according to groups of financial instruments in accordance with IAS 39:

December 31, 2013:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial liabilities measured at reduced cost	7,842	10,354	99,115	98	17,356	134,765

December 31, 2012:

	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
Financial liabilities measured at reduced cost	12,138	24,113	62,813	5	17,076	116,145

Note 28 - Subsequent events

1. After the balance sheet date, in February 2014, the Company engaged in an agreement with a third-party, which is not a party related to the Company, or to an interested party in it, for the sale of the Company's rights in a real estate property, with an area of 11 thousand sq. m. in the industrial area of Modi'in – Tirat Yehuda, in consideration for NIS 18,550 thousand plus VAT as prescribed by law. In March 2014, in the framework of the process to complete registration of the rights in the real estate property in the name of the buyer, the mortgage registered in favor of a bank for a loan received to partly finance the Company's acquisition of the property was cancelled (for additional details see Note 16b(3)).

2. For additional details regarding forward contracts after the balance sheet date see Note 27b(1).

3. Regarding the adoption of a dividend distribution policy after the balance sheet date, see note 17 d.

Unitronics (1989) (R"G) Ltd.
Appendix - List of Subsidiaries

1. General Information

	Holding rate as at December 31, 2013 and 2012		Total investment as at December 31,	
	Shares with voting right	Shares with profit right	2013	2012
			(NIS, thousands)	
Unitronics Inc.	100%	100%	1,118	1,151
Unitronics building management and maintenance (2003) Ltd.	100%	100%	(179)	(298)
Unitronics parking solutions Ltd.	100%	100%	(9,135)	(3,123)
Unitronics Systems Inc.	100%	100%	(1,557)	(230)

2. Loans, capital notes and Guarantees

	Amounts provided by the Company to subsidiaries as at December 31, 2013 and 2012	
	2013	2012
Loans and capital notes		
Unitronics Inc.	12,000	12,000
Unitronics parking solutions Ltd.	15,000	-
Guarantees		
Unitronics Systems Inc.	13,190	-
Unitronics parking solutions Ltd.	1,330	-

UNITRONICS (1989) (R"G) LTD

Financial data from the consolidated financial statements attributed to the company itself

December 31, 2013

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, 2013 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, 2013 and 2012 and for the three years the last of which ended December 31, 2013 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 financial information of an affiliated companies which the assets less liabilities in them amount to NIS 921 thousands as at December 31, 2012, and which the company's share of its loss amount to NIS 2,151 thousands and NIS 1,294 thousands for the years ended at December 31, 2012 and 2011, respectively. The condensed financial information of that companies 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 27, 2014

16 Aba Hillel Silver St. Ramat-Gan 52506 Israel Tel: +972-3-6123939 Fax: +972-3-6125030 e-mail: office@ahcpa.co.il

Unitronics (1989) (R"G) Ltd

Assets and liabilities included in the consolidated financial statements attributed to the company

	Additional information	December 31, 2013	December 31, 2013	December 31, 2012
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current assets				
Cash and cash equivalents	B	6,745	32,256	15,019
Restricted deposit		867	4,145	3,349
Marketable securities	C	5,484	26,225	30,686
Accounts receivable -				
Trade	C	2,718	12,999	11,411
Other	C	133	636	2,173
Accounts receivable - other -				
Subsidiaries	F(3)(b)	2,227	10,651	13,665
Embedded derivatives		-	-	40
Inventory		3,475	16,618	20,081
Inventory - work in progress		2,609	12,470	16,780
		24,258	116,000	113,204
Non-current assets				
Long-term deposits		86	412	157
Property and equipment, net		8,306	39,717	39,831
Long-term receivables -				
Subsidiaries	F(3)(c)	3,137	15,000	-
Intangible assets, net		7,622	36,448	30,758
		19,151	91,577	70,746
		43,409	**207,577**	**183,950**

Haim Shani	Tzvi Livne	Yair Itscovich
Chairman of the Board of Directors And Chief Executive Officer	Director	Chief Financial Officer

Approved: March 27, 2014

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Assets and liabilities included in the consolidated financial statements attributed to the company

	Additional information	December 31, 2013	December 31, 2013	December 31, 2012
			(in thousands)	
		Convenience translation into EURO, (unaudited) (1)	NIS	
Current liabilities				
Current maturities of non-current loans		700	3,346	4,590
Current maturities of bonds		2,481	11,864	17,788
Accounts payable -				
Trade		2,790	13,343	29,116
Other	D1	5,368	25,669	25,819
Embedded derivatives		269	1,286	1,509
		11,608	55,508	78,822
Non-current liabilities				
Liabilities less assets associated with subsidiaries	F	2,039	9,753	2,500
Loans from the banks and others		1,531	7,319	11,063
Bonds		18,246	87,251	45,025
Liabilities for benefits to employees, net		501	2,398	2,640
Deferred taxes	E5	332	1,585	-
		22,649	108,306	61,228
Equity				
Share capital		74	352	352
Share premium		10,579	50,588	50,588
Capital reserve from translation of foreign operation		(332)	(1,588)	(957)
Company shares held by the company		(1,473)	(7,042)	(7,042)
reserve from a transaction with a controlling party		22	104	-
Retained earnings		282	1,349	959
		9,152	43,763	43,900
		43,409	**207,577**	**183,950**

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Revenues and expenses included in the consolidated financial statements attributed to the company

	Additional information	For the year ended December 31, 2013	For the year ended December 31, 2013	2012	2011
		(in thousands)			
		Convenience translation into EURO, (unaudited) (1)	NIS		
Revenues		24,849	118,825	109,408	116,182
Revenues from subsidiaries	F1	4,943	23,639	25,586	18,248
Total revenues		29,792	142,464	134,994	134,430
Cost of revenues		22,360	106,924	104,814	101,143
Gross profit		7,432	35,540	30,180	33,287
Development expenses, net		616	2,944	3,862	2,857
Selling & marketing expenses		1,572	7,519	9,181	8,045
General & administrative expenses		1,737	8,305	6,531	6,610
General & administrative expenses to subsidiaries	F1	168	801	723	618
Other income (expenses)		(1)	(7)	-	11
Operating profit		3,338	15,964	9,883	15,168
Financing incomes		656	3,136	3,583	2,633
Financing expenses		2,253	10,774	7,160	8,154
Profit after financing, net		1,741	8,326	6,306	9,647
The Company's share of subsidiaries losses		(1,385)	(6,622)	(5,020)	(1,714)
Profit before tax benefit (Taxes on Income)		356	1,704	1,286	7,933
Tax benefit (Taxes on Income)	E7	(321)	(1,538)	114	-
Profit for the year attributed to the company's shareholders		35	166	1,400	7,933

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Comprehensive income included in the consolidated financial statements attributed to the company

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Net profit for the year	35	166	1,400	7,933
Other comprehensive income (loss) (after tax)				
Items that will not be classified afterwards to profit or loss -				
Actuarial gains (losses)	47	224	(495)	(513)
Items that will be reclassified to profit or loss in the future if certain conditions are met -				
Translation of foreign operation	(132)	(631)	(309)	528
Other comprehensive income (loss) for the year attributed to the company's shareholders	(85)	(407)	(804)	15
Total comprehensive profit (loss) for the year attributed to the company's shareholders	(50)	(241)	596	7,948

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Cash Flows included in the consolidated financial statements attributed to the company

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Cash flows - operating activities				
Profit for the year attributed to the company's shareholders	35	166	1,400	7,933
Adjustments necessary to show the cash flows from operations (Appendix A)	1,591	7,610	24,878	(502)
Cash flows provided by operating activities of the company	1,626	7,776	26,278	7,431
Cash flows used in operating activities from transactions with subsidiaries	(2,506)	(11,986)	(8,840)	(3,388)
Cash flows provided by (used in) operating activities	(880)	(4,210)	17,438	4,043
Cash flows - investing activities				
Sale of (investment in) marketable securities, net	1,140	5,453	7,236	(18,504)
Purchase of property and equipment	(297)	(1,422)	(1,066)	(20,314)
Sale of property and equipment	16	77	-	-
Investment in restricted deposit	(304)	(1,454)	-	(3,215)
Repayment in restricted deposit	146	700	-	-
Repayment (investment) in long-term deposits	4	20	(29)	(37)
Investment in intangible assets	(2,285)	(10,929)	(11,720)	(12,087)
Cash flows used in investing activities	(1,580)	(7,555)	(5,579)	(54,157)
Cash flows - financing activities				
Receiving of long-term loans	-	-	-	4,907
Repayment of long-term loans	(936)	(4,476)	(4,401)	(4,382)
Bonds issue	10,772	51,509	-	53,903
Repayment of bonds	(3,771)	(18,031)	(6,251)	(6,167)
Purchase of company shares by the company	-	-	(399)	(404)
Cash flows provided by (used in) financing activities	6,065	29,002	(11,051)	47,857
Change in cash and cash equivalents	3,605	17,237	808	(2,257)
Cash and cash equivalents at beginning of year	3,140	15,019	14,211	16,468
Cash and cash equivalents at end of year	6,745	32,256	15,019	14,211

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

Unitronics (1989) (R"G) Ltd

Cash Flows included in the consolidated financial statements attributed to the company

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited) (1)	NIS		
Appendix A - Adjustments necessary to show the cash flows from operations				
Income and expenses not involving cash flows:				
The Company's share of subsidiaries losses	1,385	6,622	5,020	1,714
Depreciation and amortization	1,670	7,987	7,399	6,989
Loss (profit) from marketable securities, net	(207)	(992)	(1,693)	1,061
Changes in liabilities for benefits to employees, net	(11)	(53)	(191)	436
Capital loss (gain)	1	7	-	(11)
Deferred taxes	321	1,538	(114)	-
Reevaluation of long-term loans and bonds	287	1,372	860	2,233
Reevaluation of restricted deposit	(9)	(42)	(68)	(66)
Reevaluation of embedded derivatives	(38)	(183)	412	(2,894)
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable - trade	(332)	(1,588)	2,878	(2,806)
Decrease (increase) in accounts receivable - other	281	1,343	(149)	(722)
Decrease (increase) in inventory	650	3,106	(5,720)	13,183
Decrease (increase) in inventory - work in progress	901	4,310	(9,537)	218
Increase (decrease) in accounts payable - trade	(3299)	(15,773)	15,236	(11,810)
Increase (decrease) in accounts payable - other	(9)	(44)	10,545	(8,027)
	1,591	7,610	24,878	(502)

Appendix B - Non-cash transactions				
Providing long-term financing to a subsidiary	3,137	15,000	-	-
Capital benefit arising from a transaction with a controlling party	22	104	-	-
Transfer of intangible assets against capital issue in a subsidiary	-	-	-	117
Bonds issue expenses	-	-	-	30
Capital note to subsidiary	-	-	2,000	1,000

(1) See Note A.

The additional information to the financial information forms an integral part thereof.

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, 2013 (EURO 1 = NIS 4.7819).

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 itself as a parent company (excluding amounts in respect of subsidiaries)

	Foreign currency			Israeli currency		
	US Dollar	Euro	Linked to other basis	Linked to the Israeli CPI	Not linked	Total
	NIS, (in thousands)					
December 31, 2013:						
Cash and cash equivalents	8,682	14,584	-	-	8,990	32,256
December 31, 2012:						
Cash and cash equivalents	314	6,585	-	-	8,120	15,019

C. Disclosure of financial assets attributed to the company itself 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:

	December 31, 2013	December 31, 2012
	(in thousands) NIS	
Financial assets at fair value through the statement of operations - Marketable securities	26,225	30,686
Financial assets at reduced cost:		
Loans and receivables	13,029	12,531
	39,254	43,217

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.

C. Disclosure of financial assets attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries) (cont'd)

3. Linkage conditions of financial assets classified to groups of financial instruments in accordance with IAS 39 attributed to the parent company:

	In foreign currency or linked to					
	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
			NIS, (in thousands)			
December 31, 2013:						
Financial assets at fair value through the statement of operations:						
Marketable securities	-	-	14,270	-	11,955	26,225
Financial assets at reduced cost:						
Loans and receivables	1,530	5,180	-	-	6,319	13,029
	1,530	5,180	14,270	-	18,274	39,254
December 31, 2012:						
Financial assets at fair value through the statement of operations:						
Marketable securities	94	-	14,560	-	16,032	30,686
Financial assets at reduced cost:						
Loans and receivables	1,318	5,733	-	-	5,480	12,531
	1,412	5,733	14,560	-	21,512	43,217

Additional information

D. Disclosure of financial liabilities attributed to the company itself as a parent company (excluding amounts in respect of subsidiaries)

1. Account payable - other - attributed to the parent company

	December 31, 2013	December 31, 2013	December 31, 2012
		(in thousands)	
	Convenience translation into EURO, (unaudited)	NIS	
Employees, payroll and taxes	698	3,337	3,382
Government institutions	132	631	-
Accrued expenses	813	3,890	2,833
	1,643	7,858	6,215

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 maturity dates of the financial liabilities in undiscounted amounts (including interest payments):

	Book value	1th year	2th year	3th year	4th year	5th year and after	Total
				NIS, (in thousands)			
December 31, 2013:							
Accounts payable - trade	13,343	13,343	-	-	-	-	13,343
Accounts payable - other	7,858	7,858	-	-	-	-	7,858
Loans from banks and others	10,665	3,621	2,105	1,391	1,355	3,434	11,906
bonds	99,115	17,128	23,029	21,994	20,959	36,523	119,633
	130,981	41,950	25,134	23,385	22,314	39,957	152,740
December 31, 2012:							
Accounts payable - trade	29,116	29,116	-	-	-	-	29,116
Accounts payable - other	6,215	6,215	-	-	-	-	6,215
Loans from banks and others	15,653	4,980	3,760	2,179	1,443	4,925	17,287
bonds	62,813	21,259	13,944	13,286	12,629	11,971	73,089
	113,797	61,570	17,704	15,465	14,072	16,896	125,707

D. Disclosure of financial liabilities attributed to the company itself 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 attributed to the parent company:

	In foreign currency or linked to					
	US Dollar	Euro	Linked to the Israeli CPI	Linked to other basis	Not linked	Total
	NIS, (in thousands)					
December 31, 2013:						
Financial liabilities measured at reduced cost	6,190	10,354	99,115	98	15,224	130,981
December 31, 2012:						
Financial liabilities measured at reduced cost	11,738	24,113	62,813	16	15,117	113,797

E. Disclosure of taxes on income attributed to the company

1. Tax laws applicable to the company

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 shall be given in respect of properties purchased before December 31, 2007.

B. The Company currently qualifies as an "Industrial Company" under the Law for the Encouragement of Industry (Taxes), 1969. 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 and patents acquired from third parties.

E. Disclosure of taxes on income attributed to the company itself (cont'd)

1. Tax laws applicable to the company (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"). The first program year of operation is 2000. In 2011 ended the period of realization of the benefit under the first program without utilizing the tax benefits.

On October 2000 the company filed an expansion program to the above approved enterprise program. The expansion program was approved on January 2003. The tax benefits derived from the program will be calculated in accordance with the increase in revenues compared to the base year.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 second program year of operation is 2004.

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.

In September 2011, the Company submitted an application to the Investment Center For the second part of the program enterprise status characterized by high technological turnover (hereinafter - "the Application") in accordance with the base turnover procedure such plant. In August 2012 approved the Company's request, and that the Company may reduce the base turnover by 10% each year from the tax benefits of a second program, subject to compliance with company procedures and obligations specified application

In addition, on 2011, 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 expected in the reported period utilization of tax benefits under the second and the third program.

D. In December 2012 the Company filed an application to the Bureau of the Chief Scientist of the Ministry of Industry, Commerce and Employment for approval under Section 20a of the Income Tax Ordinance – 1961 for the years 2010 – 2011. On March, 2013, such approval was received for each of the years according to which 93% of total development expenses submitted in the framework of the application. The Company's tax reports for the year 2012 included recognition of development expenses under the approval, aforesaid.

E. Disclosure of taxes on income attributed to the company itself (cont'd)

1. Tax laws applicable to the company (cont'd)

E. Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The Amendment became effective as of January 1, 2011. According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire privileged income under its status as a privileged company with a privileged enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates. The tax rates under the Amendment are: 2011 and 2012 - 15% (in development area A - 10%) and in 2013 - 12.5% (in development area A - 7%), on 2015 and thereafter (in development area A - 6%).

The Company has evaluated the effect of the adoption of the Amendment on its financial statements, and as of the date of the approval of the financial statements, the Company believes that it will apply the Amendment effective from the 2016 tax year. The Company's estimate may change in the future until the date it submits its final decision to the tax authorities, as prescribed by the Amendment.

2. Tax rates applicable to the company

The Israeli corporate tax rate was 24% in 2011 and 25% in 2012 and 2013.
On December 5, 2011, the "Knesset" (Israeli parliament) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Law") which, among others, cancels effective from 2012, the scheduled reduction in the corporate tax rate. The Law also increases the corporate tax rate to 25% in 2012. In view of this increase in the corporate tax rate to 25%, as above, the real capital gain tax rate and the real betterment tax rate were also increased accordingly.
On 30 July 2013 the Knesset approved in second and third call the economic plan to the years 2013-2014("the Budget Law"), which consists, among others, of fiscal changes whose main aim is to enhance the collection of taxes in those years. These changes include, among others, increasing the corporate tax rate from 25% to 26.5%, cancelling the reduction in the tax rates applicable to privileged enterprises (9% in development area A and 16% elsewhere).
The deferred tax balances included in the financial statements as of December 31, 2013 are calculated according to the new tax rates that were substantially enacted as of the reporting date and, therefore, comply with the above changes, as applicable to the Company.
Following the change in tax rates, the liabilities with respect the deferred taxes increased by NIS 1,187 thousand. Moreover, the Company recognized an increase of NIS 65 thousand in other comprehensive income.

3. Final tax assessments attributed to the company

The Company has final tax assessments for all years up to 2009 (General Director of Israel Tax authority is authorized to extend the period of limitation for an additional year under certain conditions).

4. Carry forward tax losses attributable to company

The company has business losses and capital loss carried forward for tax purposes which amounts approximately NIS 3 million (EURO 627 thousand) as at December 31, 2013. Respect to those losses the company has recognized at the financial statements a deferred tax assets in the amount of about 486 thousand NIS.

Unitronics (1989) (R"G) Ltd

Additional information

E. Disclosure of taxes on income attributed to the company itself (cont'd)

5. Deferred tax attributed to the company

	Statements of financial position		Statements of income		
	December 31,		Year ended December 31,		
	2013	2012	2013	2012	2011
	NIS in thousands				
Deferred tax liabilities:					
Property, plant and equipment	467	354	(113)	(354)	-
Intangible assets	3,469	1,664	(1,805)	(1,664)	-
	3,936	2,018	(1,918)	(2,018)	-
Deferred tax assets:					
Carry forward tax losses	486	645	(158)	645	-
Employee benefits	384	317	32	512	-
Other taxes assets (*)	1,481	1,056	506	975	-
	2,351	2,018	380	2,132	-
Deferred tax income (expenses), net			(1,538)	114	-
Deferred tax liabilities, net	1,585	-			

(*) Advances paid for excess expenses

Additional information

E. Disclosure of taxes on income attributed to the company itself (cont'd)

6. Income taxes relating to items of other comprehensive income:	Statements of income Year ended December 31, 2013	 2012	 2011
The actuarial loss for the defined benefit plan	35	195	-

7. Taxes on income included in profit or loss:

	2013	2012	2011
Deferred taxes, see Section 5 above.	(1,538)	114	-

8. A reconciliation of the theoretical tax expenses, assuming all income is taxed at the Israeli statutory rate is as follows:

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)		NIS	
Profit before subsidiaries losses and before taxes on income	1,741	8,326	6,306	9,647
Tax rate	25%	25%	25%	24%
Theoretical tax	435	2,082	1,577	2,315
Increase in taxes resulting from non-deductible expenses	10	50	32	70
Losses from previous years for which deferred taxes have been this year and creating other tax assets	(106)	(507)	(680)	-
Temporary differences where deferred taxes were not recognized	14	69	(155)	(2,385)
Benefit in privileged tax rate	(279)	(1,336)	(877)	-
Update deferred tax balances for changes beneficiary tax rates	248	1,187	-	-
Other	(1)	(7)	(11)	-
Income taxes (tax benefit)	321	1,538	(114)	-

Unitronics (1989) (R"G) Ltd

Additional information

F. Capital notes, balances and substantial engagements with subsidiaries

1. Transactions with subsidiaries

	For the year ended December 31,	For the year ended December 31,		
	2013	2013	2012	2011
		(in thousands)		
	Convenience translation into EURO, (unaudited)	NIS		
Revenues	4,943	23,639	25,586	18,248
General & administrative expenses	168	801	723	618
Financing incomes	95	455	110	-

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 sulotions Ltd. (hereinafter - "Parking sulotions") was established in the fourth quarter of 2011 to coordinate the marketing activities, planning, construction and maintenance of automated parking systems.
In October 2011 the Company transferred parking solutions, the decision to centralize activities in parking solutions, assets not essential and an allocation of shares in subsidiaries.
In March 2012 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.

d. The consolidated company Unitronics System Ltd. was established in May 2012 to coordinate the activities of the system and / or parking solutions segment in the U.S. and / or North America, and began operations in the last quarter of 2012.

Unitronics (1989) (R"G) Ltd

Additional information

F. Capital notes, balances and substantial engagements with subsidiaries (cont'd)

3. Capital notes, guarantees and balances

a. On December 31, 2007 the company provided eight capital notes in the amount of NIS 1 million each to the subsidiary 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 the subsidiary Unitronics Inc.On December 31,2012 the company provided additional capital notes in the amount of NIS 2 million each to the subsidiary Unitronics Inc. The balance of capital notes as at December 2012 and 2013 amount to NIS 12 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 the subsidiary Unitronics Inc. as at December 31, 2013 in the amount of approximately NIS 6.5 million (approximately NIS 7.5 million as at December 31, 2012).

b. The ongoing balance of the subsidiaries as at December 31, 2013 amount of approximately NIS 10.6 million (approximately NIS 14 million as at December 31, 2012).

c. On December 31, 2013 the company committed not to repay NIS 15 million, from the ongoing balance to subsidiary Unitronics Parking Systems Ltd. before January 1, 2015.
   In addition there is ongoing balance of the subsidiary Unitronics Parking Solutions Ltd. as at December 31, 2013 in the amount of approximately NIS 3.5 million (approximately NIS 6 million as at December 31, 2012.

d. As at December 31, 2013, the Company provided performance guarantees to customers as part of the agreements of subsidiaries to establishing automated parking systems in amount of NIS 14.5 million.

Chapter D - Additional Details about the Corporation (Reg. 10c - 29a)

4.1 Use of the Proceeds of Securities (Reg. 10C)

4.1.1 2011 Shelf Prospectus and 2011 Shelf Offering Report

According to the 2011 Shelf Prospectus and Offering Report (as defined in sections 1.20.4-1.20.6 above) NIS 56,422,000 par value debentures (series 3) were offered and allocated to the public. The funds (gross) for the debentures (series 3) that were allocated according to the Offering Report 2011 totaled NIS 56,442,000.

The objective of the 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. The offering funds not used by the Company are invested, from time to time, as the Company sees fit, in solid channels, including interest-bearing deposits, foreign currency deposits and investments in securities, as detailed in the 2011 Shelf Prospectus.

4.1.2 2013 Shelf Offering Report

In January 2013, the public was offered and allocated NIS 53,125,000 par value debentures (Series 4) according to the revised 2013 Shelf Prospectus and the Offering Report (as defined in sections 1.20.4 and 1.20.8 above). The proceeds (gross) for the debentures (Series 4) that were allocated according to the 2013 Offering Report totaled NIS 53,125,000.

The objective of the proceeds, as set out in the revised 2013 Shelf Prospectus and the 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. The proceeds from offering, which are not used by the Company, are from time to time invested, as the Company sees fit, in assets such as foreign currency or NIS deposits, banks, government bonds and / or corporate bonds with a high credit rating (at least AA) and government short-term-loans (treasury bills) etc., as specified in the 2013 Shelf Offering Report.

4.1.A. 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 financial statement:

Subsidiary	**Type of Share**	**No. of Shares**	**Total par value**	**Value of Shares in the Financial Statement**
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
Unitronics Systems Inc. (Foreign Company)	Ordinary- US$ 0.001	1,000	US$1	US$1

Subsidiary	Value in the separate financial statement of each company, attached to the Company's financial statements NIS in thousands	Share of Company's holdings in the capital, in voting and in the power to appoint directors in the total issued shares
Unitronics Building Management and Maintenance (2003) Ltd.	(273)	100%
Unitronics Inc. (foreign company)	1,118	100%
Unitronics Parking Solutions Ltd	(9,135)	100%
Unitronics Systems Inc.	(1,557)	100%

4.2 Changes in Investments in Active Subsidiaries and in Related Companies (Reg. 12)

There was no change in the Company's investments in subsidiaries during the period of the Report.

4.3 Revenues of Active Subsidiaries and Related Companies and Revenues from such (Reg. 13)

For 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 –see section 1.22.4.8 in this Periodic Report.

4.4 Trading on the Stock Exchange (Reg. 20)

During the reporting year NIS 53,125,000 par value Debentures (Series 4) of the Company were listed for trading, as specified in section 1.20.8 of Chapter A in this Periodic Report.
During the reported year, trading in securities issued by the Company was not suspended.
As of the date of this report, the Company holds 1,676,192 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 4.9 below).

4.5 Remuneration of interested parties and senior officers (Reg. 21)

4.5.1 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 connection with their position with the corporation itself, are among the following five officers):

Name	Role	Employment	Stake in corporate capital	Salary (NIS thousands)	Bonus	Share-based payment, management fees, consulting fees, interest, rent and other	Total (NIS thousands)
Haim Shani	CEO and Chairman of the Board of Directors	100%	(61.38% (**)	1,186	138	-	1,324
Bareket Shani	Director, Deputy CEO and VP Human Resources,	100%		652			652
Amit Harari	VP and Manager Product Division	100%		560	86	-	646
Amir Anchel[5]	VP and Manager Budgets	100%		584	-	-	584
Yair Itzkovitch	CFO	100%		548	-	-	548
	Other directors			263	-	-	263

** As of December 31, 2013

For explanations of the relationship between remuneration paid to officers and their contribution, see section 2.10 of this report.

4.5.2 Remuneration policy – on December 9, 2013, the annual general meeting of the Company's shareholders approved a remuneration policy for Company officers pursuant to Amendment No. 20 to the Companies Law (to read the approved remuneration policy, see immediate report on the convening of a general meeting dated November 17, 2013, reference no: 2013-01-193608, included herein by way of reference) (hereinafter – "**the Remuneration Policy**"). The terms of office and employment of the officers on the date of approval of the Remuneration Policy and at the date of this Report conform to the Remuneration Policy, except for the terms of entitlement to equity-based compensation of the following two officers: the Company CEO and Chairman of the Board, Mr. Haim Shani, and the Vice President of Human Resources, Ms. Bareket Shani. The Company intends to apply the Remuneration Policy to officers whose terms of service and employment did not conform to the Remuneration Policy. The Company does not intend to apply the Remuneration Policy to senior officers who are not officers of the Company.

4.5.3 Mr. Haim Shani and Ms. 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 Ms. Bareket Shani (Mr. Shani's wife, who also serves as a member of the Board of Directors) (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 Ms. Shani as Deputy CEO and Head of Human Resources, both holding full time jobs.

Pursuant to the employment agreements, as approved on March 27, 2011 by the Company Audit Committee and Board of Directors, and later on May 12, 2011 by the General Meeting of Company Shareholders (for more details see report dated May 12, 2011, Reference No. 2011-01-146499 which is hereby included by way of reference), 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

[5] On December 4, 2013, Mr. Amir Anchel terminated his employment with the Company. For additional details see immediate report dated November 6, 2013, reference no: 2013-01-184296.

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 Ms. Bareket Shani was US$15,000 and US$7,500, unlinked, respectively. As approved on July 12, 2011 by the Company Audit Committee and the Board of Directors, and subsequently on September 22, 2011 by the General Meeting of Company Shareholders, the employment agreements of Mr. Haim Shani and Ms. Bareket Shani were amended to make them valid until September 22, 2014, and thereafter to be renewed for a period of 3 years, subject to the receipt of all required approvals by law (for further details see report dated September 22, 2011, reference No. 2011-01-282438 and revised report dated September 27, 2011, reference No. 2011-01-286377, which is hereby included by way of reference).

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 Ms. 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 Ms. Shani, each, subject to all the statutory approvals, including the Stock Exchange's consent to list for trading the shares to which these options relate and the approval of the General Meeting of Company shareholders pursuant to Section 275 of the Companies Law; As stated in section 4.5.2 above, the Company intends to limit this benefits so that it conforms to the Company's Remuneration Policy; (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 Agreement**"), 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 Agreement. The Framework Agreement 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 Ms. 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 21, 2013, the Audit Committee and the Company’s Board of Directors approved a unilateral and one-time waiver by Mr. Shani, CEO, controlling shareholder and chairman of the Board of Directors, of the annual bonus in respect of 2012 at the rate of 7.5% of the pre-tax profit, totaling NIS 104 thousands. Such waiver shall not undermine Mr. Shani’s future right to receive other bonus payments in accordance with the terms of the Framework Agreement, (for details see Immediate Report on Irregular Transaction with a Controlling Shareholder that does not Require the Approval of the General Meeting, dated March 21, 2013, reference no: 2013-01-015316, which is hereby included by way of reference).

On March 25 and 27, 2014 the Company’s Remuneration Committee and Board of Directors, respectively, approved the payment of bonus of NIS 138 thousand to Mr. Haim Shani for 2013, pursuant to the aforementioned terms of the Framework Agreement and in accordance with the Company’s Remuneration.

The reasons given by the Remuneration Committee and the Board of Directors for approving this decision are set out below:

The bonus is in line with the Company’s Remuneration Policy.

The Company has material dependence on the continued services of Mr. Haim Shani and Ms. Bareket Shani.

The loss of Mr. Shani or Ms. Shani’s services may have a material negative impact on the Company's financial results.

The material dependence on the continued services of Mr. Haim Shani and Ms. Bareket Shani is due, *inter alia*, to the following reasons:

(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 industry, and the Company's favorable image and good name 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 day-to-say activities 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 wages they have been receiving from the Company over the years, compared to similar officers in companies of a similar size.

4.5.4 Mr. Amit Harari - In October 2010, an employment agreement (hereafter in this section, "The Agreement") was signed between the Company and Mr. Amit Harari. The agreement was for an unspecified period and it was stipulated that any party thereto may terminate it at any time by giving 30 days prior notice in writing.

Mr. Harari's gross salary, pursuant to the agreement as amended from time to time, is calculated based on NIS 33,083 per month. It was further stipulated in the Agreement that effective January 01, 2012 Mr. Harari is entitled to an annual bonus for meeting quantitative and qualitative targets in an amount not to exceed NIS 375 thousand, subject to the Company's Remuneration Policy. The agreement also stipulates that Mr. Harari is entitled to the following fringe benefits: pension insurance, education fund and the use of a company car. In addition, under the agreement Mr. Harari is also entitled to social benefits (vacation days, sick days and convalescence pay). Mr. Harari serves as the Company's Manager Products Division.

4.5.5 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, per month of work. It was further stipulated in the Agreement that Mr. Anchel is entitled to the following fringe benefits: social contributions to executive insurance, a pension fund, a study fund and the use of a company car. In addition, under the agreement Mr. Anchel was entitled to social benefits (vacation days, sick days and convalescence pay). Mr. Anchel held the position of VP and Head of Budgets in the Company. On December 4, 2013 Mr. Anchel ceased his employment with the Company. For additional details see immediate report dated November 6, 2013 on a Senior Officers that Ceased to Hold Office, reference no: 2013-01-184296, included herein by way of reference.

4.5.6 Mr. Yair Itzkovitch – On August 24, 2000, an employment agreement (hereinafter in this section: the "**Agreement**") was signed between the Company and Mr. Yair Itzkovitch, the Company's CFO. 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. Itzkovitch'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. Itzkovitch is entitled to the following fringe benefits: social contributions to executive insurance, a pension fund, a study fund and the use of a company car. The agreement further entitles Mr. Itzkovitch to social benefits (vacation days, sick days and convalescence pay).

4.5.7 According to the 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.

In accordance with the Company's Remuneration Policy, the compensation and expense reimbursement of directors that are not officers of the Company are identical to the compensation and expense reimbursement paid to external directors of the Company. All the directors of the Company (except for those serving as officers of the Company) are entitled to annual compensation and participation fees 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.

4.5.8 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 Agreement**").

Further to the adoption of the Remuneration Policy and pursuant to the terms thereof, on March 25, 2014, 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, 2013 and June 30, 2014 on the same terms as those of the Framework Agreement 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, 2014 to June 30, 2015, (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 March 25, 2014, Reference no: 2014-01-023721, which is hereby included by way of reference).

4.5.9 For details on payments made during the period of the Report to interested parties employed by the Company (including related payments), see section 4.5 above.

4.5a Control of the Corporation (Reg. 21a)

The controlling shareholder of the Corporation is Mr. Haim Shani. For more details about Mr. Shani, see section 4.9 below.

4.6 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 2013 or at a later date and until the date of this Periodic 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:

4.6.1 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).

In accordance with a resolution of the Audit Committee and Board of Directors from May 2003, Unitronics Management also provides maintenance services to other offices of the Unitronics Building, which are not used by the Company and are leased by a company wholly owned by Mr. Haim Shani and Ms. Bareket Shani,provided that: (a) Unitornics Management provides equal services to all the tenants of the Unitronics Building, which are equal to the services provided by other management companies in the vicinity of the Unitronics Building; and (b) the effect of providing such services on the profitability, assets or liabilities of Unitronics remains immaterial. According to the resolution of the Company's Board of Directors, any deviation of the above resolutions requires the Board's approval and any other approval mandated by law. There is no written contract between the Company and Unitronics Management, and Mr. and Ms. Shani, with regard to the management services. In practice, Mr. and Ms. Shani require the tenants leasing the private floors (including the Company - see section 4.6.2 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 1,035, NIS 1,127 and NIS 1,240 thousand for the years 2011, 2012 and 2013, respectively; of which NIS 619,000, NIS 724,000 and NIS 802,000, respectively, were paid by the Company, and NIS 416,000, NIS 403,000 and NIS 438,000, respectively, by third parties.

4.6.2 The Company leases space in the 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 Ms. Bareket Shani, his wife, who serves as a director and Head of Human Resources in the Company (hereinafter - the "**Lessor**"). For details see section 1.13.2 to Chapter A of this Periodic Report as well as Immediate Report of a Transaction between a Company and the Controlling Shareholders, hereby included by way of reference, dated June 14, 2012, reference no: 2012-01-086748.

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 the size of the leased space. 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 products segment and in the systems segment, in the same building in which the Company currently operates, and without any relocation costs and/or costs that resulted from the fact that the Company's operations in these areas were split between 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).

Examinations that were conducted by the Company and presented to the Audit Committee and the Board of Directors of the Company, show 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, were leased on the relevant dates 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 in the normal course of business, and that it does not harm the Company's interests. On June 14, 2012, the transaction was approved by the general meeting of Company shareholders (for additional details see Immediate Report on Results of a Meeting to Approve a Transaction with a Controlling Shareholder and/or to Approve a Private Offer, dated June 14, 2012, which is included herein by way of reference, reference no: 2012-01-156780).

<u>Transactions Enumerated in Section 270 (4) of the Companies Law</u>

4.6.3 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 known as a staggered board of directors.

Amid 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 as long as the Company's Articles are not 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 known as a staggered board of directors.

(b) If, in the future, there is no controlling shareholder of the Company, or if the controlling shareholder of the Company holds 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.

The Committee's notice to the ISA further stated 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.

Negligible Transactions

4.6.4 On 30 August 2012 the Company Board of Directors adopted the Audit Committee’s recommended a negligible transactions procedure (hereinafter the "Procedure"), as defined in regulation 41(A)(6) of the Securities Regulations (Annual Financial Statements), 2010.

According to the procedure, a transaction will be considered a negligible transaction when all of the following conditions are met:

(A) The transaction is not a negligible transaction as defined in the Companies Law, 1999;
(B) The transaction is not classified by the company as an event required to be reported in accordance with Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970;

(C) The amount of the transaction is less than NIS 20,000 and the total amount of that transaction together with all the transactions with the same stakeholder during the preceding 12 months is less than NIS 60,000 (these amounts are adjusted to the rate of increase in the Consumer Price Index relative to the index published on July 15, 2012). The amounts of the transaction for this purpose will be the amounts to which the stakeholders are entitled or owed and not the subject transaction amounts and agreements as a whole;

(D) The lack of qualitative considerations arising from the circumstances of this matter, such as if the transaction is perceived as a significant event by the Board of Directors and has the ability to influence management decisions or if, as part of the transaction, the stakeholders are expected to receive benefits which it is important to report immediately.

Interested-party transactions are classified as negligible transactions by the Chief Financial Officer of the Company in accordance with the above criteria and its approval is subject to the provisions of the law.

The procedure provides additional guidance regarding negligible transactions, as detailed in an Event or Case Report that deviate from normal corporation transactions dated August 30, 2012, reference number 2012-01-225675, which is hereby included by way of reference.

During the period of the Report no negligible transaction, as defined above, were carried out with a controlling shareholder or where the controlling shareholder has a personal interest therein, and the Company is not a party to such negligible transactions.

4.7 Holdings of interested parties and senior officers (Reg. 24)

For details regarding shares and other securities of the Company, subsidiary and related company of the Company held by any interested party in the Company as of the report publication date, see Immediate Report on the Holdings of Interested Parties and Senior Officers dated January 9, 2013 (reference number 2013-01-092992), which is hereby included by way of reference.

4.8 Registered Capital, Issued Capital and Convertible Securities (Reg. 24A)

4.8.1 Registered and Issued Capital

For details regarding registered and issued capital see Note 17 in the Financial Statements (Section 3 of this Periodic Report).

4.8.2 Convertible Securities - Stock Option Plans

In November 2013 the Company's stock option plan from November 2003 (hereinafter – "the 2003 Plan") expired, including the 498,000 options that were allotted to the Trustee for the purpose of granting them to offerees, which had not been designated on the date of award. Until the date of expiry of the 2003 Plan, options for the purchase of 712,000 ordinary shares of the Company had been awarded, and had expired, unexercised, by the date of this Periodic Report, in accordance with the terms thereof.

4.9. Registry of Shareholders of the Corporation (Reg. 24b)

For details on the registry of shareholders of the Company as of the date of publication of this Report, see the immediate report dated August 25, 2013 (Reference No. 2013-01-125076), which is hereby included by way of reference.

4.9a Registered address (Reg. 25a)

Registered Company Office: Unitronics Building, Ha-Arava Street, Airport City, PO BOX 300, Ben Gurion Airport, 70100.
Email: info@Unitronics.com.
Telephone number: 03-9778888
Fax number: 03-9778877

4.10 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 independent or 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) No; (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 Chairman of the Board of Unitronics Inc., Board member and Chairman of the Board of Unitronics Systems Inc.; (8) August 20, 1989; (9) High school; serves as a director in CardioSense Ltd., Corpus Colossum Ltd., Netrix Ltd.; (10) Yes, the husband of Ms. Bareket Shani, a director and officer of the Company (see details here in below); (11) No.

b. (1) Bareket Shani; (1a) 058136631; (2) June 30, 1963; (3) 20 Bazelet Street, Shoham; (4) Israeli; (5) No; (6) No; has professional qualifications; (7) Yes, Deputy CEO and Human Resources Manager, a Board member of Unitronics Building Management and Maintenance (2003) Ltd., Vice president and Company Secretary of Unitronics Inc., President and Company Secretary of Unitronics Systems Inc.; (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.

c. (1) Zvi Livne; (1a) 010025658; (2) July 22, 1947; (3) 20 Yohanan Ha-Sandlar Street, Haifa; (4) Israeli; (5) The Audit Committee, The Financial Statements Review Committee and the Remuneration Committee; (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, Ziv, Schiffer & Co., CPAs; a board member of P.M.L – Particles Monitoring Technologies, Ltd., Akberta Nano Monitoring Systems Ltd. (10) No; (11) Yes.

d. (1) Moshe Baraz; (1a) 058263476; (2) August 2, 1963; (3) 73 Adulam Street, Shoham; (4) Israeli; (5) The Audit Committee, the Financial Statement Review Committee and the Remuneration Committee; (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;

e. (1) Joel Sela; (1a) 0515621552; (2) April 21, 1953; (3) 66 Nurit St., Shoham; (4) Israeli; (5) The Audit Committee, the Financial Statements Review Committee and the Remuneration Committee; (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. Years of experience as CFO and CEO of companies in diverse areas; (10) No; (11) Yes;

f. (1) Edna Ramot; (1a) 50499128; (2) January 26, 1951; (3) 2 Harduf St., Ramat Efal 52960; (4) Israeli; (5) No; (6) No; has professional qualifications; (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 coaching and business consultation; (10) No; (11) No.

4.11 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 4.5 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) his education and business experience in the past five years, specifying the professions or areas of education, institution and the academic title or professional diploma he holds.

a (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.

b. (1) Amit Harari; (1a) 033591843; (2) November 25, 1976; (2a) October 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;

(1) Eyal Horowitz; (1a) 058876574; (2) May 7, 1964; (2a) June 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.

c. (1) Miri Ben-David, (1 a) 035980479; (2) August 9, 1979; (2 a) November 22, 2012; (3) Controller; (4) No; (5) Academic, BA in Economics and Accounting, Bar-Ilan University, CPA certificate holder.

d. (1) Hilit Bar Sorya (1a) 033104258; (2) August 23, 1976; (2a) November 22, 2012; (3) Company's In-House Legal Counsel, independent signatory; (4) No; (5) Academic, BA LL.B in Law - College of Management, MBA - Heriot - Watt University, Edinburgh, Scotland, Member of the Israeli Bar since 2002.

e. (1) Daniel Rafael Niget (1a) 13105820; (2) August 23, 1976; (2) December 13, 1964; (2a) November 22, 2012; (3) VP and Head of Purchasing; (4) No; (5) Academic, B.Sc. in Industrial and Management Engineering, Ben-Gurion University.

4.12 Number of authorized Signatories as determined by the corporation (Reg. 26b)

In accordance with the Board of Directors' resolution dated November 22, 2012, 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 four independent signatories in the Company: the controlling shareholder of the Company, Mr. Haim Shani, his wife Ms. Bareket Shani, Mr. Yair Itzkovich and Ms. Hilit Bar Sorya. For the details mentioned in Regulation 26a of the Securities Regulations (Periodic and Immediate Reports), 1970, regarding Mr. Shani, Ms. Shani, Mr. Itzkovich and Ms. Bar Sorya see sections 4.10 and 4.11 above.

(For details, see Immediate Report on an Event or Matter Deviating from the Ordinary Course of the Corporation's business, dated December 22, 2012, reference No. 2012-01-287259 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)

In report year no changes were made in the memorandum or articles of association of the Company.

4.15 Recommendations and Resolutions of the Directors and Resolutions of Extraordinary General Meeting (Reg. 29)

4.15.1 **Directors' recommendations to the General Meeting and resolutions that do not require the approval of the General Meeting:** None.

4.15.2 **Resolutions of a special shareholders meeting dated December 9, 2013:**

On December 9, 2013 the general meeting of Company shareholders made the following resolutions: (a) to approve a remuneration policy for Company officers (for additional details, see section 4.5.2 above); (b) to authorize Mr. Haim Shani to serve as Chairman of the Board of the Company, in addition to being CEO of the Company, for an additional three-year period commencing on December 9, 2013; (c) to re-appoint Ms. Edna Ramot for an additional term of office as director of the Company (category A) until the Company's annual general meeting for 2016, in accordance with the Company's Articles of Association.

For details see Immediate Report on Results of a Meeting to Approve a Transaction with a Controlling Shareholder and/or Approve a Private Offer and/or Approve a Double Term of Office Chairman-CEO and/or Appoint an External Director, included herein by way of reference, dated December 9, 2013, reference no: 2013-01-092953.

4.16 The Company's Resolutions (Reg. 29 A)

Below are details regarding provisions of exemption, insurance and undertaking to indemnify officers, in effect as at the date of this Periodic Report, which are subject to the Remuneration Policy recently adopted by the Company (for details, see section 4.5.2 above):

4.16.1 The Company's Articles of Association permits the exemption, indemnification, and insurance of officers, to the maximum extent permitted by the Companies Law.

4.16.2 Indemnification and exemption: 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 specific cases (hereinafter – "**the Determining Events**"), 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 list of determining events, was updated at a later date following amendment of the indemnification and exemption 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.

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: (a) the indemnification of officers in the Company from time to time, and/or in another company (except for officers that are controlling shareholders of the Company) (hereinafter – "**Letter of** Indemnification") and a Letter of Indemnification to these officers; and (b) the indemnification of Messrs. Haim Shani and Bareket Shani, the controlling shareholders of the Company and his wife, in accordance with the provisions of the Letter of Indemnification and to issue a Letter of Indemnification to Mr. Haim Shani and Ms. Bareket Shani.

Further to the aforesaid resolutions, on May 18, 2006, the Company granted such letters of indemnification to officers of the Company, including to Messrs. Haim Shani and Bareket Shani, the controlling shareholders of the Company and his wife. On March 25, 2007, the Company granted another Letter of Indemnification to Mr. Moshe Braz, who began to serve as external director of the Company on December 8, 2006. On December 3, 2008, the Company granted another Letter of Indemnification to Mr. Joel Sela, who began to serve as external director of the Company on September 23, 2008. On September 22, 2011, the Company granted another Letter of Indemnification to Ms. Edna Ramot further to her appointment as director of the Company.

On September 22, 2011, the General Meeting of Shareholders, following the approval of the Audit Committee and Board of Directors on 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 effective validity of the Administrative Enforcement Law and Amendment 16. (For additional details on the resolution of the General Meeting from September 22, 2011, see Immediate Report on a Transaction between a Company and its Controlling Shareholder, 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 Amendment to 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, included herein by way of reference).

For details on officers of the Company who, as of the date of this Periodic Report, are entitled to indemnification, see Immediate Report on Granting Indemnification to Officers, dated September 22, 2011, reference no: 2011-01-282483.

4.16.3 For details on the insurance of officers, see sections 4.5.7 – 4.5.8 above.

March 27, 2014

____
Unitronics (1989) (R"G) Ltd.

By Mr. Haim Shani, CEO and
Chairman of the Board of Directors

Zvi Livne, Board member

INDEPENDENCE OF THE BOARD OF DIRECTORS

				Correct	Incorrect	Normative Framework
1.		Throughout the reporting year two or more outside directors served in the corporation. *A response of "correct" may be given on this question if the period of time during which two outside directors did not serve does not exceed 90 days, as provided in Section 363A.(b)(10) of the Companies Law. However, whatever the response (correct/Incorrect), the period (in days) during which two or more outside directors did not serve in the reporting year (including also a term of office that was approved retroactively must be indicated, separating between the different outside directors):* Director A: Yoel Sela Director B: Moshe Baraz Number of external directors serving in the corporation as of the date of publication of this questionnaire: 2		√		**Mandatory Provision** Section 239 of the Companies Law
2.		a.	Number of independent directors serving in the corporation as at the date of publication of this questionnaire: 2	____	____	The Companies Law – Section 1 of the First Schedule (Recommended Corporate Governance Provisions), and Regulation 10(b)(9)(a) and 48(b)(9)(a) of the Reports Regulations
		b.	at the date of publication of this questionnaire- - In a corporation with a controlling shareholder or holding a control block (in this section – "**Controlling Shareholder**") – at least one-third of the board members are independent. - In a corporation with no controlling shareholder – a majority of the board members are independent.	√		
		c.	The corporation's articles determine the minimum ratio[1]/number of serving independent directors. . If your response is "correct" Indicate the ratio/number of independent directors determined in the articles: ______		X	

[1] In this questionnaire, "ratio" is a certain number of all the directors. Therefore, for example, in a corporation in which the ratio of independent directors is determined as one-third, 1/3 will be entered.

		The corporation complies with the provision of the articles in the reporting year (regarding the service of independent directors): ☐ Yes ☐ No *(Mark an X in the appropriate box)*			
3.		During the reporting year an examination was conducted of the external directors (and the independent directors) and it was found that they had complied in the reporting year with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a connection of the external (and independent) directors serving in the corporation and that they satisfy the conditions for service as an external (or independent) director. If your response is "Correct" – indicate the party who conducted the said examination: Deputy CEO and a Director	√		Sections 240(b), 241 245(a) and 246 of the Companies Law.
4.		All the directors who served in the corporation in the course of the reporting year are <u>not</u> subordinate[2] to the General Manager, directly or indirectly (other than a director that is a representative of the employees, if the corporation has an employee representative body). If your response is "Incorrect" (i.e. the director is subordinate to the said General Manager) – indicate the number of directors who did <u>not</u> satisfy this restriction: 1.		X	The Companies Law – Section 3 of the First Schedule (Recommended Corporate Governance Provisions)
5.		Prior to the start of every meeting the Company asked all of the directors participating in the discussion and/or vote to disclose any personal interest and/or conflict of interest they have relating to the subject on the meeting's agenda, as the case may be[3]. In addition, indicate whether the directors that informed of a personal interest and/or conflict of interests, participated in the discussion and/or vote as aforesaid (except for a discussion and/or vote wherein most of thedirectors had a personal interested as stated in Section 278(b) of the Companies Law): ☐ Yes. The number of such directors who participated in the discussion and/or vote (*Add lines according to the number of discussions/votes in the reporting year)* X No	√		Sections 255, 269 and 278 of the Companies Law

[2] The service of a director in an investee corporation will not be considered "subordinate" for the purpose of this question.

[3] In the first year of application, a corporation is permitted not to respond to this question.

6.		During the reporting year, the Board of Directors did not refuse to provide professional consulting services at the corporation's expense, at the request of a director pursuant to Section 266(a) of the Companies Law, in so far as it was requested to do so. If your response is "Incorrect" (i.e. the Board of Directors did so refuse) – detail the reasons for the director's request and the reasons for the Board of Directors refusing the request, or alternatively, refer to the immediate report in which the relevant disclosure was made: ______ X *Not applicable (the Board of Directors was not so requested).*			Section 266(a) of the Companies Law
7.		A controlling shareholder (including his relative and/or anyone acting on his behalf), who is not a director or other senior officer in the corporation, was not present at meetings of the Board of Directors that were held in the reporting year. If your response is "Incorrect" (i.e. the controlling shareholder and/or his relative and/or anyone acting on his behalf who is not a board member and/or senior officer in the corporation was present at meetings of the Board of Directors as stated) – indicate the following details regarding the presence of the additional person at such meetings of the Board of Directors: Identity: ______ Position: ______ Details of the connection to the controlling shareholder (if the person present was not the controlling shareholder himself): ______ Was it for the purpose of presenting a particular subject: ☐ Yes ☐ No *(Mark an X in the appropriate box)* Rate of presence at meetings of the Board of Directors held in the reporting year: ______ ☐ Irrelevant. The company does not have a controlling shareholder.	√		Section 106 of the Companies Law

DIRECTORS' COMPETENCE AND QUALIFICATIONS						
			Correct	**Incorrect**	**Normative Framework**
8.		The corporation's articles do <u>not</u> include a directive that restricts the possibility to immediately terminate the term of office of all the directors in the corporation who are not external officers (for the purposes of this section – a majority resolution **is not** considered a restriction). If your response is "Incorrect" indicate as follows: A. The period of time determined in the articles for the tenure of a director: 3 years. B. The majority stipulated in the Articles for the termination of the term of office of directors: (1) 75% of the holders of ordinary shares of the Company who are present and voting on this matter; or (2) 75% of the members of the board in office at that time. C. A quorum in the general meeting as prescribed by the Articles for the purpose of terminating the term of office of directors: as in any general meeting of Company shareholders, a quorum in this meeting shall be established upon the presence of at least two shareholders of the Company, who are present in the meeting or represented by a proxy, and who hold at least 30% of the voting rights in the Company as of the designated date. D. The majority required for changing these provisions in the Articles: 75% of the holders of ordinary shares of the Company that are present and voting in this matter.		X	Sections 85 and 222 of the Companies Law, section 46(b) of the Securities Law
9.		All the directors who served in the corporation during the course of the reporting year declared, prior to the date of convening of the general meeting in which their appointment was on the agenda, that they have the required qualifications (listing them) and the ability to devote the appropriate time for the performance of their roles, that the restrictions prescribed in sections 226 and 227 of the Companies Law do not apply thereto and that the provisions of paragraphs (1) and(2) of the definition of "Independent Director" in Section 1 of the Companies Law also applies thereto If your response is "Incorrect" – indicate the names of the directors who do <u>not</u> fulfill the above: ______	√		**Mandatory Provision** Sections 224A. and 224B. of the Companies Law

10.			The corporation has a training program for new directors in the field of the corporation's business and in the area of the law applying to the corporation and the directors, as well as a continuance program for training serving directors, that is adapted, *inter alia*, to the position held by the director in the corporation. If your response is "Correct" – indicate whether the program was operated in the reporting year: ☐ Yes ☐ No *(Mark an X in the appropriate box)*		X	Companies Law - Section 4(a) of the First Schedule (Recommended Corporate Governance Provisions)
11.			The Chairman of the Board of Directors (or another person appointed by the Board of Directors) is responsible for the implementation of the corporate governance provisions applying to the corporation, and he acted to update the directors on subjects connected with corporate governance during the reporting year. If the Board of Directors appointed another person in this capacity (instead of the Chairman of the Board of Directors), indicate his name and position: ______	√		The Companies Law - Section 4(b) of the First Schedule (Recommended Corporate Governance Provisions) of the Companies Law
12.		a.	The corporation has set a minimum number of board members on the Board of Directors who are required to have accounting and financial expertise. If your response is "Correct," indicate the determined minimum number: 1	√		**Mandatory Provision** Section 92(a)(12) of the Companies Law
		b.	Throughout the reporting year, apart from the external director with accounting and financial expertise, additional directors with accounting and financial expertise served in the corporation, as per the number determined by the Board of Directors. *A response of "Correct" may be given on this question if the period of time during which additional directors with accounting and financial expertise did not serve does not exceed 60 days. However, whatever the response (Correct/Incorrect), the period of time (in days) during which such directors did not serve in the corporation must be indicated:* ______	√		**Mandatory Provision** Section 219(d) of the Companies Law
		c.	The number of directors who served in the corporation in the course of the reporting year: With accounting and financial qualifications: 3 With professional competence: 3 *In the event of changes in the number of such directors in the reporting year, the lowest number of directors of each type who served in the reporting year (except during a period of 60 days after the occurrence of the change) will be provided.*	_____	_____	Sections 92(a)(12), 219(d), 240(a1) of the Companies Law, Regulation 10(b)(9)(a) and 48(c)(9) of the Reports Regulation.

13.		a.	Upon the appointment of an external director in the reporting year, the provision of Section 239(d) of the Companies Law regarding gender diversity in the composition of the Board of Directors was satisfied. X *Not applicable (no outside director was appointed in the reporting year).*			**Mandatory Provision** Section 239(d) of the Companies Law
		b.	Throughout the reporting year the Board of Directors was composed of members of both genders. If your response is "Incorrect" – indicate the period of time (in days) during which the above was not fulfilled: ______ *A response of "Correct" may be given for this question if the period of time during which directors of both genders did not serve does not exceed 60 days. However, whatever the response (Correct/Incorrect), the period of time (in days) during which directors of both genders did not serve in the corporation must be indicated: ______*	√		The Companies Law - Section 2 of the First Schedule (Recommended Corporate Governance Provisions)
		c.	The number of directors of each gender serving on the corporation's Board of Directors as of the date of publication of this questionnaire: Men: 4 Women: 2	_____	_____	
				_____	_____	

BOARD OF DIRECTOR MEETINGS (AND CONVENING OF A GENERAL MEETING)						
				Correct	**Incorrect**	**Normative Framework**
14.		a.	Number of meetings of the Board of Directors held in each quarter of the reporting year: First quarter (year 2013_): 7 Second quarter: 5 Third quarter: 8 Fourth quarter: 9	_____	_____	Sections 97, 98 and 224A of the Companies Law
		b.	Next to the name of each of the directors who served in the corporation during the reporting year indicate the director's attendance record at meetings of the Board of Directors (in this subsection - including meetings of committees of the Board of Directors of which he is a member, and as noted	_____	_____	

hereinafter) that were held in the course of the reporting year (referring to his period of service):

(Add lines according to the number of directors)

Director name	Attendance record at meetings of the Board of Directors	Attendance record at meetings of the Audit Committee (for directors who are members of this committee)	Attendance record at meetings of the Financial Statements Review Committee (for directors who are members of this committee)	Attendance record at meetings of additional committees of the Board of Directors of which he is a member (indicate the name of the committee) Attendance record at meetings of the Remuneration Committee (for directors who are members of this committee)
Haim Shani	100%	------	------	-------
Bareket Shani	100%	------	-------	------
Moshe Baraz	100%	100%	100%	100%
Yoel Sela	93%	100%	100%	80%
Zvi Livne	87%	100%	75%	100%

			Edna Ramot	100%	------	------	------			

15.		During the reporting year, the Board of Directors held at least one meeting on the management of the corporation's business by the General Manager and the officers subordinate to him, without their presence, after they were given the opportunity to state their position.		X	Companies Law - Section 5 of the First Schedule (Recommended Corporate Governance Provisions)
16.		During the reporting year an annual meeting was convened (no later than fifteen months after the last annual meeting)	√		**Mandatory Provision** Section 60 of the Companies Law

SEPARATION BETWEEN THE FUNCTIONS OF GENERAL MANAGER AND CHAIRMAN OF THE BOARD OF DIRECTORS					
			Correct	**Incorrect**	**Normative Framework**
17.		Throughout the reporting year a Chairman of the Board of Directors served in the corporation. *A response of "Correct" may be given on this question if the period of time during which a Chairman of the Board of Directors did not serve in the corporation does not exceed 60 days, as provided in Section 363A.(2) of the Companies Law. However, whatever the response (Correct/Incorrect), the period of time (in days) during which a Chairman of the Board of Directors did not serve in the corporation must be indicated: ______*	√		**Mandatory Provision** Section 94(a) of the Companies Law

18.		A General Manager served in the corporation throughout the reporting year. *A response of "Correct" may be given on this question if the period of time during which a general manager did not serve in the corporation does not exceed 90 days, as provided in Section 363A.(6) of the Companies Law. However, whatever the response (correct/Incorrect), the period of time (in days) during which a general manager did not serve in the corporation must be indicated: ______*	√		**Mandatory Provision** Section 119 of the Companies Law
19.		In a corporation in which the Chairman of the Board of Directors also serves as and/or exercises the powers of General Manager, the dual office was approved in accordance with Section 121(c) of the Companies Law. If your response is "Correct" – refer to the immediate report on the general meeting that approved the dual office and/or the exercise of powers as stated: Report dated December 9, 2010 (reference no: 2010-01-713490) Report dated December 9, 2013 (reference no: 2013-01-09253) ☐ *Not applicable (if no such dual office exists in the corporation).*	√		**Mandatory Provision** Sections 95 and 121 of the Companies Law
20.		The General Manager is <u>not</u> a relative of the Chairman of the Board of Directors. If your response is "Incorrect" (i.e. the General Manager is a relative of the Chairman of the Board of Directors) –		X	Sections 95 and 121 of the Companies Law
		a. Indicate the family relationship between the parties: ______	_____	_____	
		b. The tenure of the General Manager was approved in accordance with Section 121(c) of the Companies Law. X Yes ☐ No *(Indicate an X in the appropriate box)*	_____	_____	
21.		The controlling shareholder or his relative does <u>not</u> serve as General Manager or as a senior officer in the corporation (except as a director). ☐ *Not applicable (there is no controlling shareholder in the corporation).*		X	Section 106 of the Companies Law

AUDIT COMMITTEE						
				Correct	**Incorrect**	**Normative Framework**
22.		All the external directors were members of the Audit Committee during the course of the reporting year.		√		**Mandatory Provision** Section 115 of the Companies Law
23.		The Chairman of the Audit Committee is an external director.		√		**Mandatory Provision** Section 115 of the Companies Law
24..		The following <u>did not serve</u> on the Audit Committee during the reporting year:		_____	_____	**Mandatory Provision** Section 115 of the Companies Law
		a.	The controlling shareholder or his relative. ☐ *Not applicable (there is no controlling shareholder in the corporation).*	√		
		b.	The Chairman of the Board of Directors.	√		
		c.	A director who is employed by the corporation or by the controlling shareholder in the corporation or by a corporation under his control.	√		
		d.	A director who provides services to the corporation or to the controlling shareholder in the corporation or to a corporation under his control on a regular basis.	√		
		e.	A director whose principal livelihood derives from the controlling shareholder. ☐ *Not applicable (there is no controlling shareholder in the corporation).*	√		
25.		Anyone not entitled to be a member of the audit committee, including the controlling shareholder or his relative, was not present at meetings of the Audit Committee during the reporting year, except in accordance with the provisions of section 115(E) of the Companies Law.		√		**Mandatory Provision** Section 115(E)of the Companies Law

26.		There was a majority of members of the committee in the quorum for discussing and passing resolutions at all meetings of the Audit Committee that were held in the reporting year , with the majority of those present being independent directors and at least one being an external director. If your response is "Incorrect" – indicate the meetings in which such requirement was not met: ______	√		**Mandatory Provision** Section 116A. of the Companies Law
27.		During the reporting year, the audit committee held at least one meeting with the attendance of the internal auditor and the auditing accountant, as relevant, and without the attendance of officers of the Company that are not committee members, regarding deficiencies in the business management of the corporation.	√		**Mandatory Provision** Section 117(1) of the Companies Law The Companies Law – Section 6 of the First Schedule (Recommended Corporate Governance Provisions)
28.		In each meeting of the audit committee that was attended by anyone not entitled to be a committee member, this was sanctioned by the chairman of the committee and/or at the request of the committee (with respect to the legal counsel and company secretary who is not a controlling shareholder or related thereto)	√		**Mandatory Provision** Section 115(E) of the Companies Law
29.		During the reporting year arrangements established by the audit committee were in place with regard to the treatment of complaints made by company employees in connection with deficiencies in the management of its business and with regard to the protection provided to employees that made such complaints.		X	**Mandatory Provision** Section 117(6) of the Companies Law

FUNCTIONS OF THE COMMITTEE FOR REVIEW OF THE FINANCIAL STATEMENTS (HEREINAFTER – THE COMMITTEE) IN ITS WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS					
			Correct	**Incorrect**	**Normative Framework**
30.	a.	The committee's recommendations regarding the financial statements submitted in the reporting year were presented to the Board of Directors a reasonable time before the discussion by the Board of Directors and it reported any deficiency or problem that were discovered during the review.	√		**Mandatory Provision** Regulation 2(3) of the Financial Statements Approval Regulations, and Financial Statements Approval Process
	b.	Indicate the period of time (in days) determined by the Board of Directors as a reasonable time for submitting recommendations in advance of the meeting of the Board of Directors at which the periodic	_____	_____	

		or quarterly reports are to be approved: 2			Disclosure Directive
	c.	The number of days that elapsed between the date of submission of the recommendations to the Board of Directors and the date of approval of the financial statements: First quarter report (year 2013): 2 Second quarter report: 2 Third quarter report: 2 Fourth quarter report: 2	_____	_____	
31.	The corporation's auditor was invited to all the meetings of the committee and the Board of Directors, and the internal auditor was notified of such meetings, at which the corporation's financial statements for the periods included in the reporting year were discussed.		√		**Mandatory Provision** Section 168 of the Companies Law and Regulation 2(2) of the Financial Statements Approval Regulations

32.	Throughout the reporting year the committee complied with all of the conditions set out below:		_____	_____	**Mandatory Provision** Regulation 3 of the Financial Statements Approval Regulations
	a.	The number of its members was not less than three (at the time of discussion at the committee and the approval of the financial statements as stated).	√		
	b.	It complied with all the conditions prescribed in Section 115(b) and (c) of the Companies Law (regarding the tenure of members of the Audit Committee).	√		
	c.	The Chairman of the committee is an external director.	√		
	d.	All its members are directors and a majority of its members are independent directors.	√		
	e.	All its members are able to read and understand financial statements, and at least one of the independent directors possesses accounting and financial expertise.	√		
	f.	The members of the committee submitted a declaration prior to their appointment.	√		
	g.	The quorum of the committee for meeting and for passing resolutions had a majority of members, provided that the majority of those present were independent directors including at least one external director.	√		
	If your response is "Incorrect" regarding one or more of the subparagraphs of this question, specify which of the above conditions was not complied with: ______		_____	_____	

INDEPENDENT AUDITOR				
		Correct	**Incorrect**	**Normative Framework**
33.	The Audit Committee (and/or the Financial Statements Review Committee) was satisfied that the scope of the independent auditor's work in respect of auditing services in the reporting year, and his fee relative to the number of auditing hours in the reporting year, are suitable for the performance of proper auditing work.	√		Section 117(5) of the Companies Law
34.	Prior to the appointment of the auditor, the audit committee (and/or the financial statements review committee) submitted its recommendations to the relevant organ, in connection with the scope of its work and the fees of the auditor. ☐ *Not applicable (during the reporting year no auditor was appointed)* If the reply was “Correct” - Indicate whether the relevant organ in the corporation acted in accordance with and/or the financial statements review committee. ☐ Yes ☐ No *(if the answer is "no," describe in the concluding remarks to this questionnaire how the relevant organ (and its name) satisfied itself in connection with the scope of work and fees of the auditor).* *(Mark an X in the appropriate box)*		X	Section 117(5) of the Companies Law
35.	During the reporting year, the Audit Committee (and/or the Financial Statements Review Committee) verified that there were no restrictions on the independent auditor’s work.	√		The Securities Law and its regulations (regarding "duly audited financial statements")
36.	During the reporting year, the Audit Committee (and/or the Financial Statements Review Committee) discussed the audit findings and their implications with the independent auditor.	√		Regulation 2 of the Financial Statements Approval Regulations The Companies Law - Section 6 of the First Schedule (Recommended Corporate Governance Provisions)

				of the Companies Law
37.	The Audit Committee (and/or the Financial Statements Review Committee) was satisfied, prior to the appointment of the auditor, that the internal auditor was qualified to perform audits in the corporation given the nature and complexity of the corporation's activities. ☐ *Not applicable (during the reporting year no auditor was appointed)*	√		The Securities Law and its regulations (regarding "duly audited financial statements")
38.	Specify the number of years in which the handling partner in the independent auditor's office has been serving in his position (as the independent auditor of the corporation): Over 10 years	——	——	The Securities Law and its regulations (regarding "duly audited financial statements")
39.	During the reporting year, the independent auditor participated in all the meetings of the Financial Statements Review Committee to which he was invited.	√		Section 168(b) of the Companies Law, Regulation 2 of the Financial Statements Approval Regulations

INTERESTED-PARTY TRANSACTIONS

		Correct	Incorrect	Normative Framework
40.	The corporation adopted a procedure dealing with interested-party transactions, which was approved by the Audit Committee in order to ensure that such transactions are duly approved by law.		X	Sections 117, 253, 255, 278-270 of the Companies Law
41.	The controlling shareholder or his relative (including companies controlled by them) is <u>not</u> employed by the corporation and does <u>not</u> provide it with management services. If your response is "Incorrect" (i.e. the controlling shareholder or his relative is employed by or provides			Section 270(4) of the Companies Law

	management services to the corporation), indicate – - the persons employed by the corporation from among the controlling shareholder and/or his relative (including companies controlled by them): 2 - Have the employment agreements and/or management services been approved by the organs designated by the law? X Yes ☐ No *(Mark an X in the appropriate box)* ☐ *Inapplicable (the corporation does not have a controlling shareholder)*		X	
42.	To the best of the corporation's knowledge, the controlling shareholder does <u>not</u> have any additional businesses in the corporation's areas of activity (one area or more). If your response is "Incorrect" – indicate whether an arrangement was established between the corporation and its controlling shareholder that delimits their activities ☐ Yes ☐ No *(Mark an X in the appropriate box)* ☐ *Inapplicable (the corporation does not have a controlling shareholder)*	√		Section 254 of the Companies Law, Section 36 of the Securities Law (important details to the reasonable investor)

Chairman of the Board: ______________________

Chairman of the Audit Committee: ______________________

Chairman of the Committee for Review of the Financial Statements: ______________________

Date of Signature: ______________________

Chapter E - Statements by the CEO and CFO of the Corporation for 2013

a. **Statement by CEO pursuant to Regulation 9b(d)(1) of the regulations**
b. **Statement by CFO pursuant to Regulation 9b(d)(2) of the regulations**

<u>Statement by the CEO pursuant to Regulation 9b(d)(1) of the regulations:</u>

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2013 ("**the Reports**").

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 reports.

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, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 27, 2014

____
HAIM SHANI, CEO

<u>Statement by the CFO pursuant to Regulation 9b(d)(2) of the regulations</u>

I, YAIR ITZKOVICH, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("**the corporation**") for 2013 ("**the report**s").

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, the Board of Directors and Audit Committee and Financial Statements Review Committee of the corporation's Board of Directors, any fraud, whether material or not, involving the CEO or any direct report of the CEO, or involving any other employees that have a significant role in the financial reporting and in disclosure and control over financial reporting.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

March 27, 2014

____

YAIR ITZKOVICH, CFO

PRESS RELEASE

Airport City, Israel,

March 27, 2014

UNITRONICS (1989) (R"G) LTD.

*****Regulated Information*****

*****For Immediate Release*****

Corporation's Liabilities Status Report by Dates of Payment

Airport City, Israel - March 27, 2014 - Unitronics published the attached Immediate Report pursuant to the requirements of Israeli law, in connection with the requirement to report the Corporation's liabilities status by dates of payment.

About Unitronics

Unitronics (1989) (R"G) Ltd. is an Israeli company that designs, develops, produces and markets Programmable Logic Controllers (PLCs), the computer 'brains' that enable control of automated production lines, storage systems and machines. Unitronics' products include controllers designed to enable bi-directional man-machine interaction through simple user-friendly interface (including integrated graphic operator interface), as well as products embedded with Internet and Intranet capabilities, intended for remote diagnostics and communications on the Internet and Ethernet/LAN levels, and GSM enabled PLC's designed to allow remote control and m-commerce solutions. Unitronics' international distribution network composes of approximately 140 distributors and sales representatives spanning Europe, America, Israel and the Far East, as well as most of the states of the USA, whose efforts are coordinated and supported through Unitronics' wholly owned US subsidiary, Unitronics, Inc.

This press release contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

Unitronics (1989) (R"G) Ltd.
(the "Company")

Re: **An Immediate Report Concerning Corporation's Liabilities Status by Dates of Payment**

Pursuant to section 36A of the Israeli Securities Law, 1968.

Reporting period: December 31th, for the year: 2013.
Detailed Corporation's liabilities status by dates of payment is as follows:

A. Debentures issued by the reporting Corporation to the public and held by the public, excluding such Debentures held by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	NIS Index Unlinked	Euro	USD	---	---	---	Other	Gross Interest Payment (Without Tax Deduction)
First Year	11,864								5,264
Second Year	18,618								4,411
Third Year	18,618								3,376
Fourth Year	18,618								2,341
Fifth Year and So On	33,773								2,750
Total	101,491								18,142

B. Private debentures and non banking-credit, excluding debentures or credit which was given by the Corporation's parent company, its controlling shareholder, companies controlled by same or companies which are controlled by the Corporation – based on data from the Corporation's separate financial reports ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year		73							5
Second Year		6							-
Third Year		-							-
Fourth Year		-							-
Fifth Year and So On		-							-
Total		**79**							**5**

C. Bank credit – from Israeli banks ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year			2,894	379					275
Second Year			1,509	379					211
Third Year			840	379					172
Fourth Year			840	379					136
Fifth Year and So On			2,989	-					445
Total			**9,072**	**1,516**					**1,239**

D. Bank credit – from banks abroad ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

E. Summary table of tables A-D, Total credit- banking, non-banking and debentures ("Solo" report) (in NIS thousands)

Fund Payments									
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year	11,864	73	2,894	379					5,544
Second Year	18,618	6	1,509	379					4,622
Third Year	18,618	-	840	379					3,548
Fourth Year	18,618	-	840	379					2,477
Fifth Year and So On	33,773	-	2,989	-					3,195
Total	**101,491**	**79**	**9,072**	**1,516**					**19,386**

F. External balance credit exposure ("Solo" report) (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

G. External balance credit exposure of all consolidated companies, excluding companies which are reporting companies and excluding the reporting Corporation's data included in table F above (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

H. Total credit balance, banks, non banks and debentures of all consolidated companies, excluding companies which are reporting companies and excluding the reporting Corporation's data included in tables A-D above (in NIS thousands)

	Fund Payments								
	NIS Index Linked	**NIS Index Unlinked**	**Euro**	**USD**	**---**	**---**	**---**	**Other**	**Gross Interest Payment (Without Tax Deduction)**
First Year									
Second Year									
Third Year									
Fourth Year									
Fifth Year and So On									
Total									

1. Total credit balance provided to the reporting Corporation by its parent company or controlling shareholder and balance of debentures issued by the reporting Corporation and held by its parent company or controlling shareholder: 0.
2. Total credit balance provided to the reporting Corporation by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation, and balance of debentures issued by the reporting Corporation and held by companies controlled by its parent company or controlling shareholder which are not controlled by the reporting Corporation: 0.
3. Total credit balance provided to the reporting Corporation by consolidated companies and balance of debentures issued by the reporting Corporation and held by the consolidated companies: 0.

I. (1) Cash and cash equivalents, marketable securities and short term deposits ("Solo" report) (in NIS thousands):58,481
(2) Cash and cash equivalents, marketable securities and short term deposits of all consolidated companies (in NIS thousands):64,253
(*) Restricted cash is excluded.

Respectfully,

Unitronics (1989) (R"G) Ltd.