# Unitronics (1989) (R"G) Ltd

# Quarterly Report as of September 30, 2011

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**This report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 1968, including forecasts, assessments, estimates, expectations or other information pertaining to future events or issues, the realization of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this report. Although such information is based on data available to the Company as of the date of the report, and reflects the Company's intents and assessments as of such date, the actual occurrences and/or results may differ substantially from those presented in the report or implied therefrom as projected or anticipated, since their realization is subject, inter alia, to uncertainties and other factors beyond the Company's control as set out in this report below.**

## CHAPTER A – PREFACE

### 1. General

Company Name: Unitronics (1989) (R"G) Ltd. (hereinafter: "the **Company**" or "**Unitronics**")

Company No.: 520044199

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### 2. Description of the Company and Its Business Environment

Unitronics engages, through its Products Department, in the design, development, production, marketing and sale of industrial automation products, mainly programmable logic controllers (hereinafter: "**PLCs**"). PLCs are computer-based electronic products (hardware and software), used in the command and control of machines performing automatic tasks, such as production systems and automatic systems for industrial storage, retrieval and logistics. The Company also engages, through its Systems Department, in the design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistics systems, mainly automated warehouses, automated distribution centers and automated parking facilities.

The Company's PLCs are distributed by over one hundred and forty distributors (and a wholly owned US subsidiary) in approximately fifty countries throughout Europe, Asia, America and Africa. The services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

The Company operates from facilities located in "Unitronics Building", an office and industrial building which is leased, in part, by the Company. Unitronics Building is situated at Airport City next to the David Ben-Gurion Airport, and it houses the Company's offices and all its other facilities in Israel.

As of May 2004, the Company's shares are traded on the Tel Aviv Stock Exchange, and as of September 1999 on the Belgian Stock Exchange (first on the EuroNM Belgium Stock Exchange and, starting from the year 2000, on the EuroNext Stock Exchange in Brussels, Belgium).

## 3. Main Events in the Period of the Report and up to Its Publication

Purchase of a Real Estate Asset

On July 7, 2011, the Company signed an agreement with a party that is not connected to it or to the interested parties of the Company, for the purchase of an unbuilt plot of approximately 11,000 square meters, in the industrial zone of Hevel Modi'in - Tirat Yehuda (hereinafter: "**the Asset**") for consideration of NIS 17.37 million plus VAT, as required by law.

To finance the purchase, the Company intends to utilize its equity capital and a credit facility of NIS 13 million which was provided to it by Bank Leumi le'Israel Ltd. ("the **Credit Facility**"). Over the period of the report the Company utilized NIS 5 million of the credit facility. According to the terms of the agreement, the loan will be repaid in quarterly repayments over a period of 12 years, from the date of granting of each part of the loan, plus interest of LIBOR + 3.41%, with the principal repayment starting in July 2013.

The terms of the balance of the credit facility have not yet been finalized, and the Company has been given a number of options and interest tracks to choose from. Pursuant to these terms, the Company shall charge its rights in the Asset in favor of the bank, in order to secure the credit facility.

The Company intends, subject to the adoption of a detailed plan and the performance of detailed planning pursuant to this plan, subject to the business developments of the Company and subject to any approvals required by law, to expand, primarily, the activities of its Systems Division, by setting up a plant/workshop in the Asset, which shall be used for the manufacture of various products and components in respect of which the Company is engaged in the marketing and installation, mainly components for logistics centers, automated warehouses and automated parking solutions, which are sold and marketed by the Company, and also a center providing service and support to the customers of these systems.

According to the Company's assessment, the implementation of all of its plans with regard to the Asset, as set forth above, will require a total investment in the Asset , together with the cost of purchase as stated above, of NIS 45 million[1]. To this end, the Company intends to increase its credit facility. The scope and terms of the increased credit facility have not yet been determined. For details regarding the purchase of the Asset, see the amending immediate report of an incident or matter deviating from the corporation's ordinary business, included here by way of reference, dated July 7, 2011,

[1]The information regarding the Company's assessment of the scope of the investment in the the real estate asset that was purchased is forward-looking information. The main facts and data that served as a basis for this information are fundamental plans of the Company for the establishment of a plant in the Asset, the Company's estimates and assessments regarding the investment required for this project and the Company's assessment of market developments in the fields of logistics systems and parking solutions. The main factors likely to prevent this forecast from materializing are changes in the Company's approved plans to build, changes in building input prices, and other changes that are not in the Company's control (such as changes in the economic environment, market needs, competitors' developments) and lack of budget to finance any expenses required to establish the plant in the Asset at the level required by the Company.

Ref. No. 2011-01-207288.

Annual Report - trustee of the Series 2 Debentures

On July 20, 2011, Hermetic Trust (1975) Ltd., the trustee for the Company's debenture holders (Series 2), announced that the annual report in respect of the trustee activities carried out by the trustee during the period from October 10, 2009 to July 14, 2011 is available for perusal by the debenture holders (Series 2). For details see the Immediate Report regarding the annual report of the trustee of the debentures (Series 2), included here by way of reference, dated July 20, 2011, Ref. No. 2011-01-218295.

Payment for Debentures (Series 2)

On August 25, 2011, the Company paid the third of five payments of the debenture principal (Series 2), that were allocated by the Company under the 2006 Prospectus.

Following this payment, 10,760,000 debentures (Series 2) remained in circulation. (For details see the Immediate Report regarding the status of the corporation's capital and securities registers, and changes to them, included here by way of reference, dated August 25, 2011, Ref. No. 2011-01-252843.)

Establishment of a wholly owned subsidiary in the field of parking solutions

At the meeting of the Company's Board of Directors of August 2, 2011, it was resolved to focus within a new wholly owned subsidiary of the Company, the Company's field of parking solutions and continue to develop such activity within such framework. The Company intends to implement the resolution and publish the reports required by law. (See the Immediate Report of an incident or matter deviating from the corporation's ordinary business, dated August 2, 2011, included here by way of reference, Ref. No. 2011-01-229365).

Plan for the buyback of the Company shares

On September 18, 2011, the Board of Directors of the Company decided to adopt a plan for the buyback of the Company's shares, ("the **Old Plan**") pursuant to which the Board authorized the Company to purchase, from time to time, in the framework of trading on the Tel Aviv Stock Exchange or the Euronext Stock Exchange in Belgium, or directly from unrelated parties, shares of the Company for a total sum not exceeding NIS 2 million (including expenses related to the buyback, including the fees of consultants and service providers in connection with the buyback and therefore, the anticipated cost of the plan stood at up to NIS 2 million). (For details see Immediate Report of an incident or matter deviating from the corporation's ordinary business, included here by way of reference, dated September 18, 2011, Ref. No. 2011-01-277599). No shares were purchased under this plan up to the date of publication of this report.

On November 17, 2011, the Board of Directors adopted a new plan for the buyback of the Company's shares ("the **New Plan**"), which replaced and canceled the Old Plan detailed above (this is, as stated above, after, under the Old Plan, no shares were purchased prior to it being superseded). In the framework of the New Plan, the Board of Directors authorized the Company to purchase, from time to time, in the framework of trade on the Tel Aviv Stock Exchange or the Euronext Stock Exchange in Belgium, or directly from unrelated parties, shares for a total sum not exceeding NIS 2 million (including expenses related to exercising the purchase, including the fees of consultants and service providers in connection with the purchase, and therefore the anticipated cost of the plan stands at up to NIS 2 million). The planned period for carrying out the New Plan is by March 31, 2012. (For details, see the Immediate Report of an incident or matter deviating from the corporation's ordinary business, dated November 17, 2011, Ref. No 2011-01-330585 ).

As of the date of publication of this report, the Company holds a total of 1,593,897 shares (of 11,678,504 existing ordinary shares in the Company's issued share capital). As long as these shares remain under the ownership of the Company, the shares are "dormant shares" as this term is defined in the Companies Law, 1999. For details regarding previous buyback plans adopted by the Company, see Immediate Reports of an incident or matter deviating from the corporation's ordinary business, which are hereby included by way of reference: Report dated December 7, 2009, Ref. No. 2009-01-312105; Report dated March 4, 2010, Ref. No. 2010-01-404196; Report dated May 23, 2010, Ref. No. 2010-01-489135; Report dated November 11, 2010, Ref. No. 2010-01-676662; Report dated March 27, 2011, Ref. No. 2011-01-094101; Report dated September 18, 2011, Ref. No. 2011-01-277599; Report dated November 17, 2011, Ref. No 2011-01-330585 .

Amendments to the Company's Articles

Following the Administrative Enforcement Act, Amendment No. 16 to the Companies Law and certain updates in the requirements of the Belgian law, the General Meeting of Shareholders of the Company resolved, on September 22, 2011, to approve an amendment to the Articles of Association of the Company, as follows: (1) in the chapter dealing with indemnity and insurance for officers, in such a manner so as to allow insurance and indemnity of officers in connection with the payment to parties injured by a breach who are permitted under the insurance and indemnity, and the expenses of administrative enforcement proceedings, pursuant to Chapter H3 (the imposition of a financial sanction by the Authority), Chapter H4 (the imposition of administrative enforcement means by the Administrative Enforcement Committee), and Chapter I1 (Arrangement to Prevent the Taking of Proceedings or the Cessation of Proceedings, which are Contingent upon Conditions) of the Securities Law, including reasonable litigation expenses, and including attorneys' fees, and including by way of indemnity in advance, and payment to the party injured by the breach, as stated in section 52 (54) (a)(1)(a) of the Securities Law; (2) amendments in light of the taking of effect of Amendment No. 16 of the Companies Law with regard to the expiration of the term of a director on the date of the giving of notice of the imposition of means of enforcement as stated in section 232(a) of the Companies Law and in connection with indemnity against the background of a financial sanction; and (3) an amendment in the section concerning the reporting obligations to the Securities Authority in Belgium, so as to adjust them to the updated requirements of the Belgian law with regard to the entity to whom it is necessary to make a report of changes in the holdings of certain shareholders, because the shares of the Company are also traded on the Euronext Stock Exchange in Belgium.
(For further details, see the Immediate Report regarding the results of the general meeting dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282429, and the Immediate Report regarding the results of a general meeting for the approval of a transaction with a controlling shareholder and/or for the approval of a private offering and/or the approval of the service of a joint Chairman-CEO and/or the appointment of an external director, included here by way of reference, Ref. No. 2011-01-286377).

The Company would like to point out, once again, as stated in the Company's Prospectuses published in the years 2004, 2006 and 2011, that in accordance with the requirements of the Belgian authorities in the course of the offering of shares of the

Company to the public and the listing thereof for trading on the Belgian Stock Exchange, a provision has been included in the Company's Articles pursuant to which any entity (whether such entity is a shareholder or not) which is purchasing or selling shares of the Company shall give notice to the Company and to the relevant Belgian authorities with regard to the number of shares which the said entity owns, if the proportion of the voting rights in its possession out of the total voting rights at the Company is higher than 5%, 10%, 15% or 20%, and so on and so forth, at intervals of 5%.

Re-approval and amendment of employment agreements with the controlling shareholder and his wife

Pursuant to Article 275(a1) of the Companies Law, on September 22, 2011, the employment agreements of Mr Haim Shani (Controlling shareholder, CEO and Chairman of the Board of Directors) and of Mrs Bareket Shani (the wife of Mr Shani, who also serves as member of the Board of Directors and Vice President of Human Resources in the Company) were submitted for re-approval and re-approved by the general meeting of shareholders of the Company, such that the same terms shall continue to apply. In accordance with the employment agreements, Mr Haim Shani serves as CEO of the Company, in charge of the management of the Company’s business, while Mrs Shani serves as Vice President, in charge of the management of human resources at the Company, both working in full-time positions.

In light of the requirement to re-approve the employment agreements of the controlling shareholder and his wife every three years, the clauses in Mr and Mrs Shani’s employment agreements regarding the automatic extension for periods of 5 years became redundant, and therefore an amendment to the employment agreements was submitted for approval and approved by the general meeting of the Company’s shareholders, such that they will be valid until September 2014, and thereafter will be renewed for a period of 3 years, subject to the receipt of the approvals required by law.

(For further details, see the Immediate Report regarding the results of the general meeting dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282429, and the Immediate Report regarding the results of a general meeting for the approval of a transaction with a controlling shareholder and/or for the approval of a private offering and/or the approval of the service of a joint Chairman-CEO and/or the appointment of an external director, included here by way of reference, Ref. No. 2011-01-286377).

Amendment to insurance coverage and letters of indemnity to directors and officers of the Company

Pursuant to the Law of Administrative Enforcement, on September 22, 2011 an amendment was approved by the general meeting of the Company’s shareholders to the insurance coverage for the officers of the Company, including the officers who are controlling shareholders and/or their relatives, including Mr Shani, the Chairman of the Board of Directors, CEO and controlling shareholder of the Company, and Mrs Bareket Shani, wife of Mr Haim Shani, who serves as a director and Vice President of Human Resources in the Company, in order to include insurance coverage in accordance with the Law of Administrative Enforcement and Amendment 16 to the Companies Law, as detailed above.

In addition, the same general meeting of the Company's shareholders approved an amendment to the letters of indemnity granted by the Company to all the Company’s officers, including an amendment to the letters of indemnity granted in the past to Mr

Haim Shani, the Chairman of the Board of Directors and CEO of the Company, and to Mrs Bareket Shani, wife of Mr Haim Shani, who serves as a director and Vice President of Human Resources in the Company, in order to allow for indemnity in relation to administrative enforcement, as detailed above. Further to these approvals, amended letters of indemnity with the approved wording were provided to all the directors of the Company.

(For further details, see the Immediate Report regarding the results of the general meeting dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282429, the Immediate Report regarding the provision of indemnification to an officer dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282483, and the Immediate Report regarding the results of a general meeting for the approval of a transaction with a controlling shareholder and/or for the approval of a private offering and/or the approval of the service of a joint Chairman-CEO and/or the appointment of an external director, included here by way of reference, Ref. No. 2011-01-286377).

Appointment of directors

At the annual general meeting of the shareholders of the Company, on September 22, 2011, the following directors were appointed:

- Mr Haim Shani, Chairman of the Board of Directors, CEO and controlling shareholder of the Company, and Mrs Bareket Shani, wife of Mr Haim Shani, who serves as a director and Vice President of Human Resources in the Company, were appointed for an additional term as directors of the Company (Category C), until the date of the annual general meeting of the Company in 2014, in accordance with the Company's Articles. (For further details, see the Immediate Reports regarding the appointment of a director (that is not a corporation) or of an individual who serves on behalf of a corporation that is a director, included here by way of reference, dated September 22, 2011, Ref. No. 2011-01-282456 and Ref. No. 2011-01-453).

- Mr Yoel Sela for an additional term as external director of the Company, for a period of three years, in accordance with the Company's Articles. (For further details, see the Immediate Report regarding the appointment of a director (that is not a corporation) or of an individual who serves on behalf of a corporation that is a director, included here by way of reference, dated September 22, 2011, Ref. No. 2011-01-282474.)
- Ms Edna Ramot was appointed as director of the Company (Category A) until the date of the annual general meeting of the Company in 2013. (For further details, see the Immediate Report regarding the appointment of a director (that is not a corporation) or of an individual who serves on behalf of a corporation that is a director, included here by way of reference, dated September 22, 2011, Ref. No. 2011-01-282462.)

(For further details, see the Immediate Report regarding the results of the general meeting dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282429.)

Granting of indemnification and insurance to a new director of the Company

On September 22, 2011, the annual general meeting of shareholders of the Company also approved the provision of a letter of indemnity to Ms Edna Ramot, in accordance with the terms of the letter of indemnity which apply to the other directors in the Company.

In addition, the same general meeting of shareholders of the Company resolved to approve insurance coverage for Ms Edna Ramot, in accordance with the criteria that were determined in the resolutions of the general meeting, the Board of Directors and the Audit Committee regarding the provision of insurance coverage to directors and officers of the Company, and which apply to the other directors in the Company, amended as aforesaid.
(For further details, see the Immediate Report regarding the results of the general meeting dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282429, and the Immediate Report regarding the provision of indemnification to an officer dated September 22, 2011, included here by way of reference, Ref. No. 2011-01-282483.)

Legal Proceedings

Dispute with Sammy Gharb
In January 2006 the Company filed, through its legal advisors in the U.S., a claim in the U.S. Federal Court against a private individual, Mr Sammy Gharb (hereinafter: “the Defendant” or “Gharb”), who had approached the Company and several distributors of the Company in the U.S. and in Europe claiming that they were infringing a registered patent of his, by marketing the Company's products. In the claim, the Company petitioned the court to declare that the Defendant's registered patent in the U.S. is invalid, that Unitronics' actions do not infringe the Defendant's intellectual property rights, and that the Defendant deliberately interfered in the Company’s contractual relations with its customers and distributors.

On September 25, 2007, the court ruled that Unitronics had not violated the Defendant's patent that was the subject of the claim. The Defendant’s appeals in connection with this claim were rejected.

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

On October 28, 2010, Gharb filed an application with the District Court which was classified as a “complaint” against Hoboken City Hall in the State of New Jersey, and which mentioned the Company, the subsidiary, Unitronics Inc. and others. Although this claim is vague, it seems that Gharb is claiming infringement of the patent which had already expired.
Given that by July 7, 2011, the complaint had not been submitted by Gharb to Unitronics, to the subsidiary or to other defendants, the complaint has been struck out due to a lack of submission.

However, since Gharb’s patent expired on April 22, 2007, his claim for damages will be limited to infringements allegedly committed in the period between October 2004 and April 2007 (based on a limitation period of 6 years).

Dispute with Robotic Parking
During 2006 Hoboken City Hall in New Jersey (hereinafter – "**Hoboken City Hall**") hired the Company's services for the repair and maintenance and rendering operational of an automated parking lot in the city (hereinafter – "**the Parking Lot**"), which was built and operated by Robotic Parking Systems Inc, (hereinafter – "**Robotic**"). During the performance of the work by the Company, Robotic filed a claim against Hoboken City Hall and against the Company, inter alia, for violating patent and intellectual property rights and causing breach of contract.

The dispute between the Company and Robotic was settled, principally by the mutual withdrawal of existing and/or future claims and actions in connection with the dispute that is the object of the aforementioned proceedings, without payment of any damages whatsoever. The settlement agreement was signed by the parties on July 17, 2007 and was granted the status of a verdict by the US court on July 20, 2007.

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

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

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

On June 24, 2011, Robotic filed an application for the reopening of the hearing in its lawsuit against Hoboken City Hall, in order to enforce the aforesaid settlement agreement. On August 15, 2011, Robotic reported to the court that the settlement arrangement was implemented, and in light of this, on September 13, 2011, the court removed the petition to reopen the hearing.

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

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

The rulings in the above appeals have been postponed pending the completion of arbitration proceedings between the parties under the court's supervision, which were held on December 20, 2010. As part of negotiations for a compromise, which were held on December 20, 2010, in connection with the above proceedings and other proceedings as set forth below regarding Robotics and Hoboken, the parties were unable to reach agreements. On December 22, 2010 the Company submitted a status report with the Appeals Court, in which it requested an oral hearing in the appeal. A date for a hearing has not yet been scheduled.

This matter was also discussed in the arbitration process detailed above, and in light of the agreement between Robotic and Hoboken City Hall, the parties agreed to strike out the appeal, subject to a settlement agreement, and to the approval of the court of the striking out of the appeals.

<u>Dispute with Hoboken City Hall in New Jersey</u>
According to the terms of the agreements between the Company and Hoboken City Hall, with regard to the parking lot, Hoboken City Hall undertook, inter alia, to indemnify Unitronics in respect to any damage incurred thereby in consequence of Robotic's lawsuits (see above). On April 22, 2010, the Company brought a lawsuit in the state of New Jersey, USA, against Hoboken City Hall in the state of New Jersey, in respect of breach of an agreement, on the grounds that the Company was not paid legal expenses and other expenses in connection with the legal proceedings between the Company and Robotic, as detailed above. On April 27, 2010 the Statement of Claim was submitted to Hoboken City Hall, and an application to waive summonses was filed.

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

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

On November 18, 2010 the Company petitioned for an order for discovery of documents by Robotic, which are connected with Hoboken City Hall. The court rejected the Company's request, that it had submitted to the Court of Appeals and the appeal was rejected on June 21, 2011.

On June 3, 2011, the Company came to a settlement agreement with Hoboken City Hall. This agreement is conditional on the striking out of Robotic's lawsuit against Hoboken City Hall as aforesaid. As a result, on June 6, 2011 the court struck out the Company's lawsuit against Hoboken City Hall and allowed the parties to reopen the case if the agreement is not completed within 60 days. As stated above, Robotic's lawsuit against Hoboken City Hall was struck out on September 13, 2011.
On August 17, 2011, Hoboken reported to the Company that it is not able to fulfill the settlement agreement before January 2012. Therefore, the Company proposed an amended settlement arrangement. On November 16, 2011, the amended settlement arrangement was executed by the parties. According to such agreement <u>Hoboken City Hall shall compensate the Company at the total amount of 290 thousands USD, no later</u>

than January 20th, 2011. This amount shall constitute the final payment for all the parties' claims of this conflict.

Administrative petition against the Company

Following the Company's reports dated February 6, 2011 regarding the winning of a tender for the construction of an automated warehouse (hereinafter – "the **Project**") for a customer in Israel (Ref. No. 2011-01-038982) (hereinafter – "the **Customer**") and the report dated March 30, 2011 regarding the receipt of a signed agreement from the Customer (Ref. No. 2011-01-100404) on June 28, 2011 the Company received an administrative petition against the Customer and against the Company (hereinafter – "the **Petition**").

Pursuant to the Petition, the petitioner requested permission to review all the documents related and referring to the said tender, such that the Customer's decision to declare the Company as a winner in the tender will be subject to scrutiny. In addition, the petitioner asks the court to declare that until the process of review of the tender's documents by him is concluded and he is given an opportunity to investigate the Customer's decision as aforesaid, the tender process has not in fact been completed and the Customer may not enter into agreement with the Company in connection with the Project and/or issue an order to the Company and/or carry out the Customer's decision.

The district court set a date for hearing the appeal, October 24, 2011, however on October 2, 2011 the district court approved a decision for a deliberative arrangement that the parties agreed to, according to which they would conduct a negotiation in an attempt to end the dispute between them outside of the walls of the court, which would render the proceedings redundant.

In addition, the court determined that responses from the Company and the Customer should be submitted (to the extent that this is necessary) by 7 days prior to the date of the hearing that was postponed to November 30, 2011.

In the opinion of the Company, this Petition should not delay the progress of the Project at this stage.

At this stage, the Company is unable to evaluate the chances of this proceeding. However, in the opinion of its legal advisors, the Petition was submitted with considerable delay, which may adversely affect the chances of the petitioner.

## Chapter B – Board of Directors' Report

### 1. Financial Position

Assets

Total assets per the consolidated balance sheet of the Company as of September 30, 2011 increased to NIS 167.341 million compared to NIS 127.031 million as of December 31, 2010. The increase primarily stemmed from a rise in marketable securities and fixed assets, as detailed below.

An increase was recorded in the cash, cash equivalents and marketable securities items, which came to a total of NIS 50.449 million as of September 30, 2011 compared to NIS 36.242 million as of December 31, 2010. Most of the increase stems from a positive cash flow as a result of financing activity that includes the issuance of debentures (Series 3) in March 2011, net of cash flows used for investment activities, as explained in section 3 below.

As of September 30, 2011, cash restricted in use in the amount of NIS 3.262 million was recorded as part of the Company's liabilities in the trust deed for Series 3 debentures. As part of this issue of debentures, the Company pledged a bank account in which there is an amount equal to the annual interest payment in respect of the debentures in favor of the trustee of these debenture holders, in order to guarantee the payment of the current interest on the bond principal.

An increase was recorded in trade and income receivable which amounted to NIS 22.739 million as of September 30, 2011 compared to NIS 14.219 million as of December 31, 2010. This increase primarily stemmed from an increase in trade receivables in the area of systems.

A decrease was recorded in the inventory line, which stood at NIS 19.859 million as of September 30, 2011 compared to NIS 29.898 million as of December 31, 2010. During 2010 there was an increase in this item which was due to a special stocking up of inventories, as a result of a delay in the lead times of components in the electronics industry as well as one-off effects from the outsourcing of production to subcontractors. The Company estimates that some improvement in the availability of components, a decrease in the aforementioned one-off effects and the streamlining of stocking procedures and inventory management, has contributed to the decrease in this item.

Inventory of work in progress remained essentially unchanged, and stood at approximately NIS 7.089 million as of September 30, 2011, compared to approximately NIS 7.461 million as of December 31, 2010. This reflects progress in the execution of projects on the reporting date only.

An increase was recorded in fixed assets, which amounted to NIS 40.712 million as of September 30, 2011, compared to NIS 21.819 million as of December 31, 2010. The increase was due mainly to the purchase of a real estate asset, as explained above (see Chapter A, paragraph 3, above).

Intangible assets amounted to NIS 21.643 million as of September 30, 2011 compared to NIS 15.717 million as of December 31, 2010. The increase is mainly attributable to the recording of Company development assets in respect of which the development costs satisfy the conditions for recognition as an intangible asset, offset by current amortization. For details regarding capitalized development expenses, see paragraph 2 below.

Liabilities

Total current maturities of long-term liabilities remained essentially unchanged, totaling NIS 10.666 million as of September 30, 2011, compared to NIS 10.234 million as of December 31, 2010.

A decrease was recorded in trade payables, which amounted to NIS 13.770 million as of September 30, 2011, compared to NIS 25.755 million as of December 31, 2010. This item decreased primarily due to a decline in trade balances in the products segment, in parallel with a decrease in inventory, as detailed above.

Liabilities in respect of embedded derivatives (net), amounted to NIS 825,000 as of September 30, 2011, compared to NIS 3.951 million as of December 31, 2010. The decrease is largely due to the Euro's appreciation against the shekel in the reported period and a decrease in the unpaid balance of installments in respect of sales contracts stated in currencies that are not the Company's functional currency. These contracts include embedded derivatives in foreign currency.

There was a decrease in accounts payable and accruals which amounted to NIS 19.684 million as of September 30, 2011, compared to NIS 23.648 million as of December 31, 2010. This decrease was due to a decrease in an element of the advances from customers item.

The non-current liabilities as of September 30, 2011 totaled NIS 79.529 million compared to NIS 27.284 million as of December 31, 2010. Most of the increase stems from the issuance of debentures (Series 3) in the amount of NIS 56.442 million par value, as stated above, net of issuance expenses in the amount of NIS 2.569 million.

The Company's working capital increased to NIS 59.587 million as of September 30, 2011, compared to approximately NIS 25.503 million as of December 31, 2010. Most of the increase stems from an increase in the marketable securities and a decrease in trade payables, offset by a decrease in inventory as detailed above.

The Company's shareholders' equity increased to NIS 42.766 million as of September 30, 2011, compared to NIS 36.159 million as of December 31, 2010. The increase was chiefly due to the net income for the period as detailed below.

## 2. Operating Results

Revenues

Company revenues in the first nine months of 2011 came to NIS 108.394 million compared to NIS 110.445 million in the corresponding period of 2010 (a decrease of 2%). The decrease from the start of the year is due mainly to a decrease in revenues from the systems segment, offset by an increase in revenues from the product segment, as detailed below. Company revenues in the quarter ended September 30, 2011, amounted to NIS 33.094 million, compared to NIS 37.979 million in the corresponding quarter in 2010 (13% decrease). The decrease in this quarter is due mainly to a decrease in revenues from the systems segment, as detailed below.

Company revenues from the products segment in the quarter ended September 30, 2011, did not change significantly, amounting to NIS 21.673 million, compared to NIS 21.885 million in the corresponding quarter in 2010. Revenues from the products segment in the first nine months of 2011 came to NIS 66.372 million, an increase of 19% compared to NIS 55.746 million in the first nine months of 2010. The growth in revenues from the products segment stems, in the Company's estimation, from an accelerated pace of sales of the products, beyond the levels recorded in the years before the economic crisis, which began at the end of 2008 (for details see section 1.9.27 of the Company's Periodic Report for 2010).

Revenues from the systems segment in the quarter ended September 30, 2011, amounted to NIS 11.295 million, a 29% decrease from the corresponding quarter of 2010. Revenues from the systems segment in the first nine months of 2011 came to NIS 41.717 million, a decrease of 23% compared to NIS 54.385 million in the corresponding period of 2010. The decrease in revenues from the systems segment stems from changes in the actual rate of progress in the construction of several logistic systems by the Company's systems department, and mainly the planning and construction of a logistics system for a customer in Israel, and from the rate of receipt of orders from customers for the construction of systems in the reported period, which is explained partly by the relative volatility characteristic of this segment (for details see Sections 1.10.7.2 and 1.10.9 B of the Company's annual periodic report for 2010).

Revenues from the products segment in the quarter ended September 30, 2011 constituted 65% of total Company revenues in this quarter, whereas revenues from the systems segment in the same period accounted for 34% of total revenues. In the corresponding quarter of 2010, revenues from the products segment constituted 58% of total Company revenues in that quarter, whereas revenues from the systems segment constituted 42% of total revenues. Overall for the year 2010, revenues from products accounted for 51% of total revenues, while revenues from systems accounted for 49% of total revenues (less than 1% stems from other revenues).

Cost of Revenues and Gross Profit

Total gross profit in the quarter ended September 30, 2011 totaled NIS 9.552 million (about 29% of the revenues for the period), compared to NIS 10.897 million in the corresponding quarter of 2010 (about 29% of the revenues for the period). Total gross profit in the first nine months of 2011 came to NIS 29.687 million (27% of revenues for the period), compared with NIS 31.805 million in the first nine months of 2010 (29% of revenues for the period).

Gross profit margins in the systems segment are lower than profit margins in the products segment. For details regarding changes in the gross profit margins of the Company's operating segments, see the analysis of business results by operating segment, below.

Development Costs, Net

Net development costs in the quarter ended September 30, 2011, amounted to NIS 691,000, compared to NIS 811,000 in the corresponding quarter of 2010. Development costs in the first nine months of 2011 came to NIS 1.909 million compared to NIS 2.367 million in the corresponding period of 2010. In the reported period an intangible asset in respect of development costs which satisfied the criteria for recognition as an intangible asset was recognized in the amount of NIS 8.631 million, compared to NIS 3.296 million in the corresponding quarter. Development costs, which were recognized as an intangible asset in the reporting quarter, and which grew compared to the corresponding period, reflect a continuation and even an increase in development activities of technologies that are required to support the Company's continued operations. During the reporting period, the Company adjusted its development workforce to meet changes in its operations, as detailed in this report, aimed at addressing its business plans. The

Company estimates that its gross development costs in the products segment will continue to grow as detailed in Chapter B (section 2.2.4) of the Periodic Report for 2010[2].

Selling and Marketing Expenses

Selling and marketing expenses in the quarter ended September 30, 2011 came to NIS 3.701 million (about 11% of revenues), compared to NIS 3.006 million (about 8% of revenues) in the corresponding quarter of 2010. Selling and marketing expenses in the first nine months of 2011 came to NIS 10.349 million (10% of revenues) compared to NIS 7.990 million (7% of revenues) in the corresponding period of 2010.

Selling and marketing expenses increased in the reported period, mainly as a result of marketing expenses in the products segment. In the Company's estimation, this item is likely to increase in the coming quarters, in line with changes in its operations and in order to address its business plans[3].

General and Administrative Expenses

General and administrative expenses decreased in the quarter ended September 30, 2011, amounting to NIS 1.882 million, compared to NIS 2.616 million in the corresponding quarter of 2010. There was an increase in general and administrative expenses in the first nine months of 2011 which came to NIS 6.022 million compared to NIS 5.688 million in the corresponding period of 2010. The moderate growth in this item stems from an adjustment of the expenses needed for the support and management of the increased activities of the Company.

Operating Profit

A decrease in operating profit was recorded for the quarter ended September 30, 2011, which amounted to NIS 3.278 million, compared to operating profit of NIS 4.464 million in the corresponding quarter in 2010.

A decrease in operating profit was recorded for the first nine months of 2011, which amounted to NIS 11.407 million, compared to operating profit of NIS 15.760 million in the corresponding quarter in 2010.

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[2] Information regarding the projected development expenses as a percentage of total revenues from the products segment is forward-looking information. The main data that constitute the basis for this information are the Company's development plans as set forth in Chapter A (section 1.9.12) of the Periodic Report for 2010, the stages of development at the reporting date, and the need for continued substantial investments in research and development to carry out the Company's plans, including staff recruitment. The main factors likely to prevent this forecast from materializing are changes in the Company's development plans arising from reasons beyond its control (such as market needs and consumer preferences, competitors' developments, prices of raw materials and services required by the Company), lack of budget to finance any expenses required for continued development in general or to the extent required by the Company, and possible technological difficulties in connection with the completion of the development stages under these plans.

[3] The information with regard to the anticipated increase in selling and marketing expenses item is forward-looking information. The principal data that served as a basis for this information includes forecasts for the performance of marketing activities by the Company, including manpower recruitment, planned visits to trade shows, training for distributors and advertising expenses. The principal factors that might cause this information not to materialize are changes in the Company's marketing plans for reasons that are outside its control (such as changes at the Company's distributors, changes in the Company's principal markets and/or markets in which the Company is not active, and marketing activities on the part of competitors).

The decrease in operating profit in the reporting period primarily stems from a decrease in gross profit, together with an increase in selling and marketing expenses as detailed above.

Financing income and expenses

Net financing expenses in the quarter ended September 30, 2011 amounted to NIS 2.971 million, compared to net financing income of NIS 1.954 million in the corresponding quarter of 2010. Net financing expenses in the first nine months of 2011 came to NIS 4.718 million compared to net financing expenses of NIS 10.377 million in the corresponding period of 2010.

Most of the changes in this item stem from a decrease in financing expenses in respect of exchange rate differences and revaluation of embedded derivatives, which resulted from changes in the Euro-shekel exchange rate in the said periods. The Company has sales contracts denominated in currencies that are not the Company's operating currency. These contracts include embedded derivatives in foreign currency.

Starting from March 2011, the Company began to recognize financing expenses in respect of interest on debentures (Series 3) issued in that month.

Profit/(Loss)

In the reported quarter the Company presents a net profit totaling NIS 307,000 (about 1% of revenues), compared to a net profit of NIS 6.418 million in the corresponding quarter of 2010 (17% of revenues). In the opinion of the Company, the change in net profit in this period compared to the corresponding period stems chiefly from the decrease in gross profit and the increase in financing expenses, as explained above.

In the first nine months of 2011, the Company presents net profit of NIS 6.689 million (6% of revenues), compared to NIS 5.383 million in the corresponding period of 2010 (5% of revenues). In the opinion of the Company, the change in net profit in this period compared to the corresponding period stems chiefly from the decrease in financing expenses , offset by an increase in the selling and marketing expenses, as explained above.

## Analysis of Business Results by Operating Segment

As mentioned above, the main commercial activity of the Company is conducted by means of two business departments, the Products Department and the Systems Department. Details of the results of the different segments appear below.

### Products Segment

The Products Segment reported a profit of NIS 6.657 million in the reporting quarter, compared to a profit of NIS 6.566 million in the corresponding quarter of 2010. The Products Segment reported a profit in the first nine months of 2011 of NIS 20.767 million compared to NIS 18.108 million in the corresponding period of 2010. The growth in the segment's results in the reporting period, in the Company's estimation, primarily stems from the growth in the Company's revenues in the period from this segment, as detailed above, net of a decrease in the gross profit margin in this segment and net of an increase in selling and marketing expenses. The changes in the gross profit margin primarily stem from the effect of production outsourcing activities through a subcontractor which is characterized by an increase in production costs, in return for an increase in production capacity and the ability to meet market demand, and from the effect of fluctuations in the main selling currencies against the shekel.

**Systems Segment**

The Systems Segment reported a profit of NIS 164,000 in the reporting quarter, compared to a profit of NIS 1.231 million in the corresponding quarter of 2010. The Systems Segment reported a profit in the first nine months of 2011 of NIS 1.051 million compared to NIS 5.414 million in the corresponding period of 2010. The decrease in the results of the Systems Segment, in the Company's estimation, stems from the decrease in revenues from this segment during the reported period, as explained above, and from fixed costs required to support the system's operations.

## 3. Liquidity and Sources of Financing

The balance of cash, cash equivalents and marketable securities of the Company, as of September 30, 2011 totaled NIS 50.449 million, compared to NIS 36.242 million as of December 31, 2010. Most of the increase stems from a positive cash flow as a result of financing activity that includes the issuance of debentures (Series 3) in March 2011, net of cash flows used for investment activities, as explained below.

Cash flow from operating activities in the quarter ended September 30, 2011 amounted to a negative cash flow of NIS 1.280 million. The negative cash flow resulted mainly from a decrease in accounts payable and accruals and an increase in trade and income receivable, offset by a decrease in inventory and neutralization of non-cash expenses. Cash flow from operating activities in the first nine months of 2011 amounted to a negative cash flow of NIS 1.574 million. The negative cash flow resulted mainly from a decrease in trade payable and an increase in trade and income receivable, offset by a decrease in inventory and neutralization of non-cash expenses.

Cash flow from investing activities in the quarter ended September 30, 2011 amounted to a negative cash flow of NIS 27.073 million. Cash flow from investing activities in the first nine months of 2011 amounted to a negative cash flow of NIS 50.753 million. The negative cash flow was due mainly to the investment in fixed assets, and chiefly from the purchase of a real estate asset, as explained above (see Chapter A, paragraph 3, above), from the purchase of marketable securities and from the recording of investments in development assets.

Cash flow from financing activities in the quarter ended September 30, 2011 amounted to a negative cash flow of NIS 2.365 million. The negative cash flow stems mainly from the repayment of debentures and long-term loans, offset by the receipt of a long-term loan. Cash flow from financing activities in the first nine months of 2011 amounted to a positive cash flow of NIS 48.968 million. The positive cash flow primarily stems from the issuance of Series 3 debentures.

On September 30, 2011, total credit lines available to the Company for current operations stood at approximately NIS 23.5 million. On September 30, 2011, a total of approximately NIS 23.1 million was utilized from this credit line, mainly for securing the Company's obligations in projects carried out by the Systems Department.
In the report period, a credit facility of NIS 13 million was provided to the Company by Bank Leumi le'Israel Ltd., to finance the purchase of the real estate asset as detailed in Chapter A, paragraph 3 above.

## 4. Qualitative Report Concerning Exposure to Market Risks and Methods of Managing Them

Exposure to Fluctuations in the Consumer Price Index

In March 2011, the Company issued Debentures (Series 3). These Debentures are linked to the Israeli CPI, but not less than a base index of 212.73 (1993 base). As a result of this issuance, the Company's exposure to fluctuations in the CPI increased. Developments and changes in the Israeli economy, including depreciation and inflation, can cause changes in the CPI, affecting the financing income/expenses of the Company.

Risks Related to the Purchase of a Real Estate Asset

As detailed above, the Company purchased a real estate asset in the industrial zone of Hevel Modiin and intends, subject to the adoption of a detailed plan and the performance of detailed planning pursuant to this plan, subject to the business developments of the Company and subject to any approvals required by law, to expand, primarily, the activities of its Systems Division. As a result of this, the Company’s exposure to changes and exceptional developments in the real estate market, and to changes in building inputs and financing costs required to implement the Company’s plan increased.

Except for the aforesaid, since the reporting period for 2010 no additional material changes occurred regarding the Company’s exposure to market risks and the management thereof.

## 5. Consolidated Linkage Bases Report

| | As of September 30, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli Currency | | Foreign Currency | | | | |
| | Unlinked | CPI-Linked | In EURO | In USD | In Other Currencies | Non-Monetary Balances | Total |
| | NIS in Thousands | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 1,012 | - | 7,176 | 5,944 | 10 | - | 14,142 |
| Cash limited in use | 3,262 | - | - | - | - | - | 3,262 |
| Marketable securities | 17,483 | 18,648 | - | 176 | - | - | 36,307 |
| Trade and income receivable | 9,956 | - | 5,631 | 7,152 | - | - | 22,739 |
| Embedded derivatives | - | - | 101 | - | - | - | 101 |
| Accounts receivable | 866 | - | 1 | 265 | 2 | - | 1,134 |
| Inventory | - | - | - | - | - | 19,859 | 19,859 |
| Inventory of work in progress | - | - | - | - | - | 7,089 | 7,089 |
| Long-term deposits | - | - | - | - | - | 353 | 353 |
| Fixed assets | - | - | - | - | - | 40,712 | 40,712 |
| Other assets | - | - | - | - | - | 21,643 | 21,643 |
| Deferred taxes | - | | | | | - | - |
| Total assets | 32,579 | 18,648 | 12,909 | 13,537 | 12 | 89,656 | 167,341 |
| **Liabilities** | | | | | | | |
| Short-term loans and current maturities of long-term loans | - | 92 | 3,971 | 405 | - | - | 4,468 |
| Current maturities of debentures | - | 6,198 | - | | - | - | 6,198 |
| Suppliers and service providers | 5,816 | - | 3,344 | 4,602 | 8 | - | 13,770 |
| Embedded derivatives | - | - | 926 | - | | - | 926 |
| Accounts payable and accruals | 19,431 | - | 3 | 240 | 10 | - | 19,684 |
| Long-term loans from banks and others | - | 227 | 14,740 | 2,126 | - | - | 17,093 |
| “Straight” debentures | - | 60,850 | - | - | - | - | 60,850 |
| Liabilities due to employee benefits, net | - | - | - | - | - | 1,586 | 1,586 |
| Total liabilities | 25,247 | 67,367 | 22,984 | 7,373 | 18 | 1,586 | 124,575 |
| Net assets (liabilities) | **7,332** | **(48,719)** | **(10,075)** | **6,164** | **(6)** | **88,070** | **42,766** |

## 6. Sensitivity Tests on Financial Instruments as of September 30, 2011

The Company conducted, as of the balance sheet date, six sensitivity tests in respect of changes within an upper and lower range of 5% and 10% in market factors.
The market factor tests were based on the model specified.

1) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the dollar exchange rate

| | Profit (Loss) on Change, NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change NIS in Thousands | |
|---|---|---|---|---|---|
| | 10% | 5% | Fair Value | -5% | -10% |
| NIS to $ | 4.083 | 3.898 | 3.712 | 3.526 | 3.341 |
| Cash and cash equivalents | **594** | **297** | **5,944** | **(297)** | **(594)** |
| Marketable securities | **18** | **9** | **176** | **(9)** | **(18)** |
| Trade and income receivable | **715** | **358** | **7,152** | **(358)** | **(715)** |
| Accounts receivable | **27** | **13** | **265** | **(13)** | **(27)** |
| Current maturities of loans | **(41)** | **(20)** | **(405)** | **20** | **41** |
| Trade payable | **(460)** | **(230)** | **(4,602)** | **230** | **460** |
| Accounts payable and accruals | **(12)** | **(6)** | **(115)** | **6** | **12** |
| Long-term loans | **(213)** | **(106)** | **(2,126)** | **106** | **213** |
| Total | **628** | **315** | **6,289** | **(315)** | **(628)** |

2) Table listing changes in the fair value of financial instruments sensitive to fluctuations in the Euro exchange rate

| | Profit (Loss) on Change, NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change, NIS in Thousands | |
|---|---|---|---|---|---|
| | 10% | 5% | Fair Value | -5% | -10% |
| NIS to Euro | 5.548 | 5.296 | 5.044 | 4.792 | 4.539 |
| Cash and cash equivalents | **718** | **359** | **7,176** | **(359)** | **(718)** |
| Trade and income receivable | **563** | **282** | **5,631** | **(282)** | **(563)** |
| Current maturities of loans | **(397)** | **(199)** | **(3,971)** | **199** | **397** |
| Trade payable | **(334)** | **(167)** | **(3,344)** | **167** | **334** |
| Accounts payable and accruals | **0** | **0** | **(3)** | **0** | **0** |
| Long-term loans | **(1,474)** | **(737)** | **(14,740)** | **737** | **1,474** |
| Total | **(924)** | **(462)** | **(9,251)** | **462** | **924** |

3) The following table presents the fair value changes in financial instruments sensitive to fluctuations in the Consumer Price Index

| | Profit (Loss) on Change, NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change, NIS in Thousands | |
|---|---|---|---|---|---|
| CPI in points | 10% 237.90 | 5% 227.08 | Fair Value 216.27 | -5% 205.46 | -10% 194.64 |
| Marketable securities | **1,865** | **932** | **18,648** | **(932)** | **(1,865)** |
| Current maturities of loans | **(9)** | **(5)** | **(92)** | **5** | **9** |
| Current maturities of debentures | **(620)** | **(310)** | **(6,198)** | **310** | **620** |
| Long-term loans | **(23)** | **(11)** | **(227)** | **11** | **23** |
| Debentures (*) | **(6,085)** | **(3,043)** | **(60,850)** | **1,185** | **1,469** |
| Total | **(4,872)** | **(2,437)** | **(48,719)** | **579** | **256** |

(*) Series 3 debentures linked to the CPI 212.73 (1993 base)

4) The following table presents the fair value changes in derivative financial instruments that are sensitive to changes in underlying assets denominated in Euro

| | Profit (Loss) on Change, NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change, NIS in Thousands | |
|---|---|---|---|---|---|
| | 10% increase in the underlying asset | 5% increase in the underlying asset | Fair Value | 5% decline in the underlying asset | 10% decline in the underlying asset |
| Embedded derivatives | **246** | **123** | **101** | **(123)** | **(246)** |
| Liability in respect of embedded derivatives | **1,134** | **562** | **(926)** | **(581)** | **(1,152)** |
| Total | **1,380** | **685** | **(825)** | **(704)** | **(1,398)** |

5) The following table presents the fair value changes in derivative financial instruments that are sensitive to changes in underlying assets denominated in the US Dollar

| | Profit (Loss) on Change, NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change, NIS in Thousands | |
|---|---|---|---|---|---|
| | 10% increase in the underlying asset | 5% increase in the underlying asset | Fair Value | 5% decline in the underlying asset | 10% decline in the underlying asset |
| Liability in respect of hedging transactions | **(298)** | **(149)** | **(125)** | **149** | **298** |

6) The following table presents the fair value changes in financial instruments sensitive to fluctuations in rates of convertible securities

| | Profit (Loss) on Change NIS in Thousands | | NIS in Thousands | Profit (Loss) on Change NIS in Thousands | |
|---|---|---|---|---|---|
| | 10% | 5% | Fair Value | -5% | -10% |
| Local – government | **1,514** | **757** | **15,136** | **(757)** | **(1,514)** |
| Local – corporate | **1,864** | **932** | **18,644** | **(932)** | **(1,864)** |
| Shares | **253** | **126** | **2,527** | **(126)** | **(253)** |
| Total | **3,631** | **1,815** | **36,307** | **(1,815)** | **(3,631)** |

## 7. The balance of the Company's liabilities by repayment dates (Regulation 38e)

Below is a breakdown of the Company's liabilities by repayment dates, as of September 30, 2011:

A. Debentures issued to the public by the reporting corporation and held by the public, except for debentures held by the parent company of the corporation, the controlling shareholder therein, companies controlled by any of the aforesaid or companies controlled by the corporation - based on separate financial statements of the corporation (solo financial statements) (in NIS thousands):

| Period | Principal payments | | | | | Gross interest payments (no tax deduction) |
|---|---|---|---|---|---|---|
| | In NIS linked to the CPI | In Unlinked NIS | Euro | Dollar | Other | |
| First year | 6,198 | - | - | - | - | 4,004 |
| Second year | 17,696 | - | - | - | - | 3,301 |
| Third year | 11,498 | - | - | - | - | 2,274 |
| Fourth year | 11,498 | - | - | - | - | 1,624 |
| Fifth year and thereafter | 22,996 | - | - | - | - | 1,299 |
| Total | **69,886** | **-** | **-** | **-** | **-** | **12,502** |

B. Private debentures and non-bank credit, except for debentures held by the parent company of the corporation, the controlling shareholder therein, companies controlled by any of the aforesaid or companies controlled by the corporation - based on separate financial statements of the corporation (solo financial statements) (in NIS thousands):

| Period | Principal payments | | | | | Gross interest payments (no tax deduction) |
|---|---|---|---|---|---|---|
| | In NIS linked to the CPI | In Unlinked NIS | Euro | Dollar | Other | |
| First year | 92 | - | - | - | - | 27 |
| Second year | 101 | - | - | - | - | 18 |
| Third year | 101 | - | - | - | - | 8 |
| Fourth year | 25 | - | - | - | - | 1 |
| Fifth year and thereafter | - | - | - | - | - | - |
| Total | **319** | **-** | **-** | **-** | **-** | **54** |

C. Credit from Israeli banks - based on the Company's separate financial statements (solo financial statements) (NIS thousands):

| Period | Principal payments | | | | | Gross interest payments (no tax deduction) |
|---|---|---|---|---|---|---|
| | In NIS linked to the CPI | In Unlinked NIS | Euro | Dollar | Other | |
| First year | - | - | 3,971 | 405 | - | 725 |
| Second year | - | - | 4,076 | 405 | - | 582 |
| Third year | - | - | 3,626 | 405 | - | 423 |
| Fourth year | - | - | 1,894 | 405 | - | 314 |
| Fifth year and thereafter | - | - | 5,145 | 911 | - | 1,122 |
| Total | **-** | **-** | **18,712** | **2,531** | **-** | **3,166** |

D. Table summarizing tables A-C, total bank credit, non-bank credit and debentures - based on the Company's separate financial statements (solo financial statements) (NIS thousands):

| **Period** | **Principal payments** | | | | | **Gross interest payments (no tax deduction)** |
|---|---|---|---|---|---|---|
| | **In NIS linked to the CPI** | **In Unlinked NIS** | **Euro** | **Dollar** | **Other** | |
| First year | 6,290 | - | 3,971 | 405 | - | 4,756 |
| Second year | 17,797 | - | 4,076 | 405 | - | 3,901 |
| Third year | 11,599 | - | 3,626 | 405 | - | 2,705 |
| Fourth year | 11,523 | - | 1,894 | 405 | - | 1,939 |
| Fifth year and thereafter | 22,996 | - | 5,145 | 911 | - | 2,421 |
| Total | **70,205** | **-** | **18,712** | **2,531** | **-** | **15,722** |

E. Exposure of off-balance sheet credit - based on the Company's separate financial statements (solo financial statements) (NIS thousands):

| **Period** | **Principal payments** | | | | | **Gross interest payments (no tax deduction)** |
|---|---|---|---|---|---|---|
| | **In NIS linked to the CPI** | **In Unlinked NIS** | **Euro** | **Dollar** | **Other** | |
| First year | - | - | - | - | - | - |
| Second year | - | - | - | - | - | - |
| Third year | - | - | - | - | - | - |
| Fourth year | - | - | - | - | - | - |
| Fifth year and thereafter | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

F. Exposure of the off-balance sheet credit of all the consolidated companies, with the exception of companies that are reporting corporations and with the exception of data of the reporting corporation, which were presented in table E above (NIS thousands):

| **Period** | **Principal payments** | | | | | **Gross interest payments (no tax deduction)** |
|---|---|---|---|---|---|---|
| | **In NIS linked to the CPI** | **In Unlinked NIS** | **Euro** | **Dollar** | **Other** | |
| First year | - | - | - | - | - | - |
| Second year | - | - | - | - | - | - |
| Third year | - | - | - | - | - | - |
| Fourth year | - | - | - | - | - | - |
| Fifth year and thereafter | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

## 8. Disclosure for Debenture Holders

The Corporation's Debentures:

| | | |
|---|---|---|
| (1) | Security | Debentures (Series 2) |
| A | Issue date | August 2006 |
| B | Total par value on issue date | 34,000,000 |
| C | Par value as of the reporting date | 10,760,000 |
| D | Par value according to linkage terms – as of the report date | 12,395,137 |
| E | Accrued interest as of the report date | 74,575 |
| F | Liability value as of the report date | 11,867,768 |
| G | Stock Exchange value | 12,675,000 |
| H | Type of interest, including description | 6.1% annual interest |
| I | Payment dates of outstanding principal | Balance of two equal annual payments beginning on August 25, 2012 |
| J | Future payment dates of interest | On the 25th of February and August in the years 2012-2013 |
| K | Details of linkage basis of interest and principal | Principal and interest linked to the Consumer Price Index at a base rate of no less than 188.1 (July 2006 index according to the 1993 base) |
| L | Are the debentures convertible? | Not convertible |
| M | Corporation's right to perform early redemption | Does not exist |
| N | Has a guarantee been given for payment of the liability in the trust deed? | No |
| O | Is the liability material to the Company? | Yes |
| (2) | The trustee in charge of the debenture series in the trust company; the trustee's contact details | Hermetic Trust (1975) Ltd<br>Dan Avnon and/or Merav Ofer-Oren,<br>113 Hayarkon Street, Tel Aviv 63573,<br>telephone: 03-5274867<br>Fax: 03-5271451, Email:<br>hermetic@hermetic.co.il |

(5+6) As of the end of the quarterly reporting period, the Company was in compliance with all the terms and obligations of the trust deed for Debentures (Series 2), the Company was not found to be in violation of any undertaking or term that was set in the trust deed, which are not of a technical nature, and there were no grounds to call for immediate repayment of the debentures.

(8) The Debentures (Series 2) are not secured by any charge whatsoever.

| (1) | Security | Debentures (Series 3) |
|---|---|---|
| A | Issue date | March 2011 |
| B | Total par value on issue date | 56,442,000 |
| C | Par value as of the reporting date | 56,442,000 |
| D | Par value according to linkage terms – as of the report date | 57,490,271 |
| E | Accrued interest as of the report date | 62,465 |
| F | Liability value as of the report date | 55,180,001 |
| G | Stock Exchange value | 56,894,000 |
| H | Type of interest, including description | 5.65% annual interest |
| I | Payment dates of outstanding principal | Five equal annual payments as of March 23, 2013 |
| J | Future payment dates of interest | Every 23rd of March and September commencing from March 23, 2012 and until March 23, 2017 (inclusive) |
| K | Details of linkage basis of interest and principal | Principal and interest linked to the Consumer Price Index at a base rate of no less than 212.73 (February 2011 index according to the 1993 base) |
| L | Are the debentures convertible? | Not convertible |
| M | Corporation's right to perform early redemption | Does not exist |
| N | Has a guarantee been given for payment of the liability in the trust deed? | No |
| O | Is the liability material to the Company? | Yes |
| (2) | The trustee in charge of the debenture series in the trust company; the trustee's contact details | Reznick, Paz, Nevo Trust Ltd<br>14, Yad Harutzim St, Tel Aviv 67778<br>Tel: 03-6389200; Fax: 03-6393316<br>Email: trust@rpn.co.il |

(5+6) As of the end of the quarterly reporting period, the Company is in compliance with all the terms and obligations of the trust deed for Debentures (Series 3), the Company was not found to be in violation of any undertaking or term that was set in the trust deed, which are not of a technical nature, and there are no grounds for calling for immediate payment of the debentures.

(8) on April 4, 2011, a pledge over a bank account deposit was created at the Registrar of Companies, in the amount of the annual interest on the debentures, to secure the payment of interest pursuant to the terms of the debentures (Series 3). As long as the Company has an outstanding balance of the Debentures (Series 3), the Company will refrain from creating additional charges on its assets, in excess of those that existed on the date of signing the trust deed in connection with the debentures (Series 3), in favor of any third party whatsoever, without the trustee's advance written consent, save with regard to charges on land and/or equipment that will be purchased by the Company subsequent to the date of signing the trust deed, the pledging thereof will serve solely for the purpose of securing the funding to be

given for purchasing the asset that is the object of the charge – and which the Company will be permitted to create without any restrictions in favor of any person or corporation. Subject to the aforesaid, the Company shall be entitled to create, without any limitation, additional charges of any type on its assets, all or part thereof, without this derogating from the Company's ability to undertake towards third parties to refrain from creating additional charges and without derogating from the aforesaid undertakings which the Company made to the banks prior to the date of signing the Debenture trust deed (Series 3).

## 9. Projected cash flows

The Board of Directors determined, following an examination of the four warning signs specified in Regulation 10(b)(14) of the Securities Regulations (Periodic and Immediate Reports), 1970, regarding disclosure of the anticipated cash flow for financing payment of the Company's obligations, that the Company has no liquidity problems and is able to meet its obligations, including the full payment of its liabilities in respect of the issuance of Debentures (Series 2 and 3). An examination as stated is performed by the Board of Directors on a quarterly basis, at the time of approval of the financial statements published by the Company for the quarter in question.

## 10. Details of the Approval Process of the Company's Financial Statements

### 10.1 Preparation of the financial statements

The Company's financial statements were prepared by the Company's CFO. The statements were reviewed by the Company's auditor, who is given full access to all data and information in the Company, including meetings with the Company's employees and managers, as required by him. Subsequent to the auditor's review, the financial statements were submitted to the members of the Financial Statements Review Committee.

### 10.2 Financial Statements Review Committee

The Company's Audit Committee also served as a Balance Sheet Committee for Review of the Financial Statements ("the Committee"). As of the reporting date, the following directors serve on this committee:

| Name | CPA Zvi Livne | CPA Yoel Sela | CPA Moshe Braaz |
|---|---|---|---|
| An independent or an external director | No | External director | External director |
| Chairman of the Committee for Review of the Financial Statements | No | No | Yes |
| Has accounting and financial expertise | Yes | Yes | Yes |
| Did he provide a statement prior to his nomination? | Yes | Yes | Yes |

* For details regarding the education and experience of the members of the Committee for Review of the Financial Statements, see section 4.11 of Chapter B of the periodic report for 2010.

As part of the process of approval of the financial statements as of September 30, 2011, a Committee meeting was held on November 14, 2011. In this meeting the Committee discussed the effectiveness of internal controls over financial reporting and disclosure by the Company, which are the responsibility of the person in charge of reporting and the person in charge of control oversight, and which are supervised by the steering committee, which serves as a top-level supervising entity to ensure full compliance with reporting regulations, in accordance with internal procedures adopted by the Board of Directors on February 2, 2011 in connection with periodic and immediate reports. A comprehensive discussion of material issues took place in order to formulate the Committee's recommendations to the Board of Directors, for the purpose of its approval of the financial statements; later, the Committee approved its recommendations.

The following were invited and attended the Committee meeting on November 14, 2011: members of the Committee (CPAs Zvi Livne, Yoel Sela and Moshe Braaz), the directors Haim Shani, Bareket Shani, and Edna Ramot, Mr Yair Itzkovitch, CFO, Mr Eyal Saban, VP, Mr Nir Weisberger, Company attorney, Mr Gal Amit, from the Company's auditing firm, and Mr. Miguel Elhanati, the Company's internal auditor.

The committee discussed and formulated its recommendations to the Board of Directors regarding the following matters: assessments and estimates made in connection with the financial statements; internal controls related to the financial reporting process; the integrity and appropriateness of the disclosure in the financial statements; the accounting policy adopted and the accounting treatment implemented in material issues; valuations including the underlying assessments and estimates. The draft financial statements and Committee recommendations were submitted to the Board's review two business days before the Board convened to discuss the financial statements, which is a reasonable timeframe, in the Board's estimation, to submit the recommendations to the Board of Directors.

10.3 <u>The Company's Board of Directors</u>

The Company regards the Board of Directors as the entity in charge of overall control of the Company's financial statements. The members of the Company's Board of Directors and their respective duties in the Company are as follows:

1. Mr Haim Shani – Chairman of the Board and Company CEO, and a director with professional qualifications.
2. Ms Bareket Shani – Director with professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and of the Securities Committee of the Company's Board of Directors.
3. Mr Zvi Livneh, CPA – Director with accounting skills, member of the Credit and Investments Committee, member of the Audit Committee and member of the Committee for Review of the Financial Statements.
4. Mr Yoel Sela, CPA – External and independent director with accounting skills, member of the Audit Committee, member of the Committee for Review of the Financial Statements, and member of the Board's Credit and Investments Committee.
5. Mr. Moshe Braaz, CPA – External and independent director with accounting skills, member of the Audit Committee, member of the Committee for Review of the Financial Statements and member of the Securities Committee of the Company's Board of Directors.
6. Mrs Edna Ramot - director with professional skills.

Following the Board of Directors' review of the financial statements, a Board meeting was held for the purpose of presenting and discussing the financial statements. In the meeting on November 17, 2011, Company management reviewed the key data of the financial statements. The Company's auditor attended the meeting and responded to the questions of the Board of Directors, which were addressed to him (together with the Company's CEO and CFO, who responded to questions addressed to them). At the end of the discussion, the financial statements were approved by the Board of Directors by a vote.

| | |
|---|---|
| __________________ | __________________ |
| Zvi Livneh | Haim Shani |
| Director | Chairman and CEO |

Date: November 17, 2011

# UNITRONICS (1989) (R"G) LTD.

# Condensed Consolidated Interim Financial Statements September 30, 2011

## (Unaudited)

**Unitronics (1989) (R"G) Ltd.**

# Condensed Consolidated Interim Financial Statements

**September 30, 2011**

**(unaudited)**

Table of contents

**AMIT, HALFON** C.P.A (ISR)
A member firm of **DFK** international

16 Aba Hillel Silver St. Ramat - Gan 52506 Israel Tel: 03-6123939 Fax: 03-6125030
E-mail: office@ahcpa.co.il

**REVIEW REPORT OF THE AUDITIORS OF UNITRONICS (1989) (R"G) LTD.**

## Introduction

We reviewed the attached financial information of Unitronics (1989) (R"G) Ltd. and its subsidiaries (hereinafter – "the Group") which include the condensed consolidated interim statement of financial position as at September 30, 2011 and the condensed consolidated interim statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the periods of nine and three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim periods in accordance with IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation of financial information for this interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970. Our responsibility is to express a conclusion on the financial information for the interim periods, based on our review.

We did not review the condensed financial information for the interim periods of a consolidated company whose assets included in the consolidation comprise 5% of all the consolidated assets as at September 30, 2011 and whose revenues included in the consolidation comprise 18% and 20% of all consolidated revenues for the periods of nine and three months then ended, respectively. The condensed financial information for the interim periods of that company were reviewed by other auditors whose review report was furnished to us and our conclusions, to the extent that they relate to financial information for that company, are based on the review report of the other auditors.

## Scope of the review

We prepared our review in accordance with Review Standard No. 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods performed by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an audit opinion.

## Conclusion

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information is not prepared, in all significant aspects, in accordance with IAS 34.

In addition to the remarks in the previous paragraph, based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above financial information does not meet, in all significant aspects, the provisions of disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
November 17, 2011

**Unitronics (1989) (R"G) Ltd.**
**Condensed consolidated interim statement of financial position**

| | September 30, 2011 | September 30, 2011 | September 30, 2010 | December 31, 2010 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | | (audited) |
| | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | |
| Current assets | | | | |
| Cash and cash equivalents | 2,804 | 14,142 | 23,585 | 17,456 |
| Restricted cash | 647 | 3,262 | - | - |
| Marketable securities | 7,198 | 36,307 | 18,978 | 18,786 |
| Accounts receivable - | | | | |
| Trade | 4,508 | 22,739 | 14,444 | 14,219 |
| Other | 225 | 1,134 | 1,508 | 1,271 |
| Embedded derivatives | 20 | 101 | 339 | - |
| Inventory | 3,937 | 19,859 | 25,036 | 29,898 |
| Inventory - work in progress | 1,406 | 7,089 | 4,317 | 7,461 |
| | 20,745 | 104,633 | 88,207 | 89,091 |
| Non-current assets | | | | |
| Long-term deposits | 70 | 353 | 351 | 404 |
| Property and equipment, net | 8,072 | 40,712 | 21,399 | 21,819 |
| Intangible assets, net | 4,291 | 21,643 | 15,073 | 15,717 |
| | 12,433 | 62,708 | 36,823 | 37,940 |
| | **33,178** | **167,341** | **125,030** | **127,031** |

| Haim Shani | Tzvi Livne | Yair Itscovich |
|---|---|---|
| C.E.O. and Chairman of the Board of Directors | Director | Chief Financial Officer |

Approved: November 17, 2011.

(1) See note 1C.

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

**Unitronics (1989) (R"G) Ltd.**
**Condensed consolidated interim statement of financial position**

| | September 30, 2011 | September 30, 2011 | September 30, 2010 | December 31, 2010 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | | (audited) |
| | | (in thousands) | | |
| | Convenience translation into Euro (1) | NIS | | |
| Current liabilities | | | | |
| Credit from banks and current maturities of long-term loans | 886 | 4,468 | 4,521 | 4,202 |
| Current maturities of bonds | 1,229 | 6,198 | 5,993 | 6,032 |
| Accounts payable - | | | | |
| Trade | 2,730 | 13,770 | 23,959 | 25,755 |
| Other | 3,902 | 19,684 | 25,869 | 23,648 |
| Embedded derivatives | 184 | 926 | 4,755 | 3,951 |
| | 8,931 | 45,046 | 65,097 | 63,588 |
| Non-current liabilities | | | | |
| Loans from banks and others | 3,389 | 17,093 | 16,333 | 14,526 |
| Bonds | 12,065 | 60,850 | 10,977 | 11,175 |
| Liabilities for benefits to employees, net | 314 | 1,586 | 1,216 | 1,583 |
| | 15,768 | 79,529 | 28,526 | 27,284 |
| Shareholders' equity | | | | |
| Share capital | 70 | 352 | 352 | 352 |
| Share premium | 10,030 | 50,588 | 50,588 | 50,588 |
| Capital reserve from translation of foreign operation | (169) | (854) | (954) | (1,176) |
| Company shares held by the company | (1,317) | (6,643) | (5,992) | (6,239) |
| Accumulated loss | (135) | (677) | (12,587) | (7,366) |
| | 8,479 | 42,766 | 31,407 | 36,159 |
| | **33,178** | **167,341** | **125,030** | **127,031** |

(1) See note 1C.

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

**Unitronics (1989) (R"G) Ltd.**

**Condensed consolidated interim statement of operations**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Revenues | 21,491 | 108,394 | 110,445 | 6,561 | 33,094 | 37,979 | 152,979 |
| Cost of revenues | 15,605 | 78,707 | 78,640 | 4,668 | 23,542 | 27,082 | 108,725 |
| Gross profit | 5,886 | 29,687 | 31,805 | 1,893 | 9,552 | 10,897 | 44,254 |
| Development expenses, net | 378 | 1,909 | 2,367 | 137 | 691 | 811 | 3,194 |
| Selling & marketing expenses | 2,052 | 10,349 | 7,990 | 734 | 3,701 | 3,006 | 11,189 |
| General & administrative expenses | 1,194 | 6,022 | 5,688 | 373 | 1,882 | 2,616 | 7,981 |
| Capital gain | - | - | - | - | - | - | 99 |
| Operating profit | 2,262 | 11,407 | 15,760 | 649 | 3,278 | 4,464 | 21,989 |
| Financing income | 515 | 2,599 | 1,624 | 124 | 624 | 3,720 | 1,884 |
| Financing expenses | 1,452 | 7,317 | 12,001 | 712 | 3,595 | 1,766 | 12,894 |
| Profit for the period | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |
| Profit per 1 ordinary share NIS 0.02 par value (NIS): | | | | | | | |
| Basic Profit per 1 ordinary share | 0.131 | 0.662 | 0.516 | 0.006 | 0.030 | 0.627 | 1.059 |
| Diluted profit per 1 ordinary share | 0.131 | 0.659 | 0.516 | 0.006 | 0.030 | 0.627 | 1.059 |

(1)See note 1C.

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

**Unitronics (1989) (R"G) Ltd.**
**Condensed consolidated interim statement of comprehensive income**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | (in thousands) | | | | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Profit for the period | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |
| Other comprehensive income (loss) | | | | | | | |
| Actuarial loss | - | - | - | - | - | - | (375) |
| Translation of foreign operation | 64 | 322 | (211) | 131 | 663 | (350) | (433) |
| Other comprehensive income (loss) for the period | 64 | 322 | (211) | 131 | 663 | (350) | (808) |
| Comprehensive income for the period | 1,389 | 7,011 | 5,172 | 192 | 970 | 6,068 | 10,171 |

(1) See note 1C.

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

**Unitronics (1989) (R"G) Ltd.**
**Condensed consolidated interim statement of changes in equity**

| | Share capital | Share premium | Capital reserve from translation of foreign operation | Company shares held by the company | Accumulated Loss | Total |
|---|---|---|---|---|---|---|
| | | | **NIS in thousands** | | | |
| Balance at January 1, 2010 (audited) | 352 | 50,576 | (743) | (3,150) | (17,970) | 29,065 |
| Purchase of company shares by the company | - | - | - | (3,089) | - | (3,089) |
| Warrants exercise | (*)- | 12 | - | - | - | 12 |
| Comprehensive income for the year | - | - | (433) | - | 10,604 | 10,171 |
| Balance at December 31, 2010 (audited) | 352 | 50,588 | (1,176) | (6,239) | (7,366) | 36,159 |
| Purchase of company shares by the company | - | - | - | (404) | - | (404) |
| Comprehensive income for the period | - | - | 322 | - | 6,689 | 7,011 |
| Balance at September 30, 2011 (unaudited) | 352 | 50,588 | (854) | (6,643) | (677) | 42,766 |
| Balance at January 1, 2010 (audited) | 352 | 50,576 | (743) | (3,150) | (17,970) | 29,065 |
| Purchase of company shares by the company | - | - | - | (2,842) | - | (2,842) |
| Exercise of options | (*)- | 12 | - | - | - | 12 |
| Comprehensive income for the period | - | - | (211) | - | 5,383 | 5,172 |
| Balance at September 30, 2010 (unaudited) | 352 | 50,588 | (954) | (5,992) | (12,587) | 31,407 |
| Balance at July 1, 2011 (unaudited) | 352 | 50,588 | (1,517) | (6,643) | (984) | 41,796 |
| Comprehensive income for the period | - | - | 663 | - | 307 | 970 |
| Balance at September 30, 2011 (unaudited) | 352 | 50,588 | (854) | (6,643) | (677) | 42,766 |
| Balance at July 1, 2010 (unaudited) | 352 | 50,588 | (604) | (5,610) | (19,005) | 25,721 |
| Purchase of company shares by the company | - | - | - | (382) | - | (382) |
| Comprehensive income for the period | - | - | (350) | - | 6,418 | 6,068 |
| Balance at September 30, 2010 (unaudited) | 352 | 50,588 | (954) | (5,992) | (12,587) | 31,407 |
| | | | **Convenience translation into Euro in thousands (unaudited) (1)** | | | |
| Balance at January 1, 2011 | 70 | 10,030 | (233) | (1,237) | (1,460) | 7,170 |
| Purchase of company shares by the company | - | - | - | (80) | - | (80) |
| Comprehensive income for the period | - | - | 64 | - | 1,325 | 1,389 |
| Balance at September 30, 2011 | 70 | 10,030 | (169) | (1,317) | (135) | 8,479 |

(1) See note 1C.
(*) Less than 1,000 NIS.

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

**Unitronics (1989) (R"G) Ltd.**

**Condensed consolidated interim statement of Cash Flows**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Cash flows - operating activities | | | | | | | |
| Profit for the period | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |
| Adjustments necessary to show the cash flows - operating activities (Appendix A) | (1,638) | (8,263) | 10,224 | (314) | (1,584) | (4,742) | 2,168 |
| Cash flows provided by (used in) operating activities | (313) | (1,574) | 15,607 | (253) | (1,277) | 1,676 | 13,147 |
| Cash flows - investing activities | | | | | | | |
| Purchase of marketable securities, net | (3,670) | (18,512) | (112) | (875) | (4,413) | (2,378) | (16) |
| Purchase of property and equipment | (3,987) | (20,108) | (750) | (3,795) | (19,139) | (212) | (1,608) |
| Sale of property and equipment | - | - | - | - | - | - | 115 |
| Investment in restricted cash | (636) | (3,215) | - | (5) | (25) | - | - |
| Investment in long-term deposits | (11) | (58) | (207) | (1) | (11) | (30) | (260) |
| Repayment of long-term deposits | 4 | 21 | 162 | 2 | 8 | 22 | 167 |
| Investment in intangible assets | (1,761) | (8,881) | (3,504) | (693) | (3,493) | (1,228) | (5,010) |
| Cash flows used in investing activities | (10,061) | (50,753) | (4,411) | (5,367) | (27,073) | (3,826) | (6,612) |
| Cash flows - financing activities | | | | | | | |
| Short-term credit from banks, net | - | - | 112 | - | - | 112 | - |
| Receiving of long-term loans | 973 | 4,907 | 14,552 | 973 | 4,907 | 5,980 | 14,552 |
| Repayment of long-term loans | (649) | (3,271) | (1,654) | (219) | (1,105) | (998) | (2,713) |
| Bonds issue | 10,687 | 53,903 | - | - | - | - | - |
| Repayment of convertible bonds | - | - | (8,600) | - | - | - | (8,600) |
| Repayment of bonds | (1,223) | (6,167) | (5,939) | (1,223) | (6,167) | (5,939) | (5,939) |
| Exercise of warrants | - | - | 11 | - | - | - | 11 |
| Purchase of company shares by the company | (80) | (404) | (2,842) | - | - | (382) | (3,089) |
| Cash flows provided by (used in) financing activities | 9,708 | 48,968 | (4,360) | (469) | (2,365) | (1,227) | (5,778) |
| Translation differences in respect of foreign operation cash balances | 9 | 45 | (79) | 35 | 178 | (130) | (129) |
| Change in cash and cash equivalents for the period | (657) | (3,314) | 6,757 | (6,054) | (30,537) | (3,507) | 628 |
| Cash and cash equivalents at beginning of period | 3,461 | 17,456 | 16,828 | 8,858 | 44,679 | 27,092 | 16,828 |
| Cash and cash equivalents at end of period | 2,804 | 14,142 | 23,585 | 2,804 | 14,142 | 23,585 | 17,456 |

(1) See note 1C.

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

**Unitronics (1989) (R"G) Ltd.**
**Condensed consolidated interim statement of cash flows**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Appendix A - Adjustments necessary to show the cash flows - operating activities | | | | | | | |
| Depreciation and amortization | 962 | 4,850 | 4,982 | 379 | 1,912 | 1,589 | 6,370 |
| Loss (Profit) from marketable securities, net | 196 | 991 | (747) | 147 | 739 | (274) | (651) |
| Increase (decrease) in liabilities for benefits to employees, net | 1 | 3 | 279 | (5) | (25) | 266 | 271 |
| Capital gain | - | - | - | - | - | - | (99) |
| Reevaluation of restricted cash | (9) | (47) | - | (5) | (26) | - | - |
| Reevaluation of warrants | - | - | (99) | - | - | (262) | (99) |
| Reevaluation of long-term loans, bonds and convertible bonds | 529 | 2,666 | 431 | 202 | 1,019 | 640 | (399) |
| Reevaluation of embedded derivatives | (620) | (3,126) | 2,915 | (76) | (382) | (4,246) | 2,450 |
| Increase in accounts receivable - trade | (1,659) | (8,364) | (1,158) | (638) | (3,215) | (2,122) | (1,003) |
| Decrease (increase) in accounts receivable - other | 40 | 201 | (1,116) | 85 | 430 | (28) | (887) |
| Decrease (increase) in inventory - work in progress | 75 | 377 | 3,518 | 46 | 230 | (4,279) | 374 |
| Decrease (increase) in inventory | 2,014 | 10,159 | (13,114) | 929 | 4,685 | (3,789) | (18,080) |
| Increase (decrease) in accounts payable - trade | (2,376) | (11,984) | 13,205 | (293) | (1,480) | 2,198 | 15,001 |
| Increase (decrease) in accounts payable - other | (791) | (3,989) | 1,128 | (1,085) | (5,471) | 5,565 | (1,080) |
| | (1,638) | (8,263) | 10,224 | (314) | (1,584) | (4,742) | 2,168 |
| Appendix B - Non-cash operations | | | | | | | |
| Bonds issue expenses | 6 | 30 | - | - | - | - | - |
| Appendix C - Additional information on cash flows regarding operating activities | | | | | | | |
| Cash paid during the period for: | | | | | | | |
| Interest | 697 | 3,513 | 1,917 | 530 | 2,675 | 955 | 2,065 |
| Taxes on income | 16 | 81 | 81 | 5 | 27 | 27 | 108 |
| Cash received during the period for: | | | | | | | |
| Interest and dividend | 197 | 994 | 427 | 45 | 228 | 51 | 639 |

(1) See note 1C.

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

**Unitronics (1989) (R”G) Ltd.**
**Notes to the Financial Statements**

**Note 1 - General**

A. These financial statements have been prepared in a condensed format as at September 30, 2011, and for the nine and three months periods then ended ("consolidated interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2010 and for the year then ended.

B. 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 1 U.S. dollar | Exchange rate of 1 Euro |
|---|---|---|---|
| | Points (*) | NIS | NIS |
| September 30, 2011 | 216.27 | 3.712 | 5.0437 |
| September 30, 2010 | 210.11 | 3.665 | 4.9873 |
| December 31, 2010 | 211.67 | 3.549 | 4.7379 |
| **Change during the period** | % | % | % |
| Nine months ended September 30, 2011 | 2.17 | 4.59 | 6.45 |
| Nine months ended September 30, 2010 | 1.90 | (2.91) | (8.35) |
| Three months ended September 30, 2011 | - | 8.70 | 2.01 |
| Three months ended September 30, 2010 | 1.23 | (5.42) | 4.83 |
| For the year ended December 31, 2010 | 2.66 | (5.99) | (12.93) |

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

C. Convenience translation in EURO

For the convenience of the reader, the NIS amounts for the last reported period have been translated in EURO by dividing each NIS amount by the representative rate of exchange of the EURO as at September 30, 2011 (EURO 1 = NIS 5.0437).
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. The interim consolidated financial statements are prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods as set forth in IAS 34 – “Financial reporting for interim periods” including the requirements of disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) – 1970.
The significant accounting principles and the methods of calculation which were implemented in the preparation of the interim financial statements are identical to those used in the preparation of the last annual financial statements, apart from those mentioned in clause b below.

B. Disclosure of new IFRS

1. IAS 34 - Financial Reporting for Interim periods
Since 1 January 2011 the Company applies the amendment to IAS 34, Financial Reporting for Interim periods, significant events and transactions, which was published in the framework of the improvements project for 2010. According to the amendment disclosure requirements were added to the interim financial statements relating to significant events and transactions. Furthermore, the requirement to evaluate the material essence of events and transactions was dropped from the minimal disclosure requirements.

The amendment did not have any significant effect on the Group’s disclosures to its consolidated interim financial statements.

**Note 2 - Significant Accounting Policies** (cont'd)

B. Disclosure of new IFRS implemented in the reported period (cont'd)

2. Amendments, standards and interpretations to the existing standards which came into force and are binding for accounting periods starting January 1, 2011, but the first implementation did not have any significant effect on the Group's financial statements:

   a. IFRS 7 - Financial Instruments: Disclosure.
   b. IAS 1 - Presentation of financial statements.
   c. IAS 24 - Related Party Disclosures.

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

In May 2011, the IASB published 4 New Standards: IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure regarding Rights in other Entities (hereinafter: "the New Standards") and IFRS 13 - Measurement of Fair Value and amended 2 existing standards: IAS 27R (amended in 2011) - Separate Financial Statements, and IAS 28R (amended in 2011) Investments in Affiliated Companies and in Joint Ventures.

The New Standards will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier implementation is possible. But if the Company decides to do so, it must adopt the New Standards in their entirety (excluding disclosure requirements in accordance with IFRS 12, which can be adopted separately). The Standards include transitory provisions with certain exemptions at the time of first implementation.

For the implementation date of IFRS 13 see Note 4 below.

The following are the main provisions of the Standards relevant for the Company and their expected effect on the Company:

1. IFRS 10 - Consolidated Financial Statements

IFRS 10 replaces IAS 27 regarding the accounting treatment of consolidated financial statements, and includes the accounting treatment on the consolidation of structured entities which in the past were handled by SIC 12 - consolidation - entities for special purposes.

IFRS 10 does not include changes in consolidation procedures, but changes the definition of control for purpose of consolidation and includes a single model for consolidation purposes. According to IFRS 10, in order for control to exist it requires the existence of power and exposure or the right to variable returns from the investee company. Power is the ability to affect and to direct the operations of the investee company, which significantly affect the return on the investment.

IFRS 10 stipulates that at the time of examining the existence of control, potential voting rights must be taken in account, only if they are real, compared to IAS 27 prior to the amendment, which stipulated that potential voting rights will be taken into account only if they can be exercised immediately and when management's intentions must be ignored as well as the financial ability to exercise these rights.

In addition, IFRS 10 stipulates that an investor may control even if he holds less than 50% of the voting rights in the investee company (effective control), and this contrary to the existing IAS 27 which enabled the choice of two models for consolidation - the effective control model and the legal control model.

In the Company's opinion, IFRS 10 is not expected to have a significant effect on the financial statements.

**Note 2 - Significant Accounting Policies** (cont'd)

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

2. IAS 27R - Separate Financial Statements

IAS 27R replaces IAS 27 and only deals with separate financial statements. The existing directives regarding separate financial statements remain unchanged, in the framework of IAS 27R.

3. IFRS 12 - Disclosure regarding rights in other entities

IFRS 12 sets forth the disclosures requirements regarding the Company's investee entities, including subsidiaries, joint arrangements, affiliated companies, and structured entities. IFRS 12 expands the disclosure requirements relating to the consideration and assumptions that management used in determining the existence of control, joint control or significant influence in investee entities, and also in determining the type of joint arrangements. IFRS 12 also includes disclosure requirements regarding significant investee entities.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

4. IFRS 13 - Measurement of Fair Value

IFRS 13 stipulates assumptions regarding the method of measurement of fair value to the extent that such measurement is required according to the international standards. IFRS 13 defines fair value as the price tat would have been received on the sale of an asset, or the price paid on the transfer of a liability in an orderly transaction between market participants at the time of the measurement.

In addition, IFRS 13 details the characteristics of market participants and stipulates that fair value will be based on the assumptions that market participants would have used. In addition, IFRS 13 stipulates that the measurement of fair value will be based on the assumption that the transaction will be carried out in the main market of the asset or liability, or in the absence of a main market, in the most advantageous market.

IFRS 13 stipulates that the use of data which can be observed in the market must be maximized compared to the use of data which cannot be observed in the market. In addition IFRS 13 sets forth levels of fair value according to the source of the data used in determining the fair value:
Level 1: quoted prices (without adjustments) in an active market of identical assets and liabilities.
Level 2: data which are not quoted prices included in Level 1 which can be observed directly or indirectly.
Level 3: Data which are not based on market information which can be observed (valuation techniques without the use of market data which can be observed).

In addition IFRS 13 sets forth certain disclosure requirements.

The new disclosures, and the measurement of assets and liabilities of IFRS 13 required from now on, only relate to periods starting after the date of implementation - from the financial statements for annual periods starting January 1, 2013 or thereafter. Earlier adoption is possible. These new disclosures will not apply to comparative figures.

The relevant disclosures will be included in the Company's financial statements on the first adoption of the Standard.

In the Company's opinion, IFRS 13 is not expected to have a significant effect on the financial statements.

**Note 2 - Significant Accounting Policies** (cont'd)

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

5. IAS 19 (Amended) – Employee Benefits

On June 2011, the IASB published IAS 19 (Amended) (hereinafter: "the Amendment"). The main amendments which were included in the Standard are:

- Actuarial profits and losses will be recognized only in other comprehensive income and not recorded to the statement of operations.
- The "Strip" method that enabled a postponement of actuarial profits or losses is cancelled.
- The yield on plan’s assets will be recognized in the statement of operations, based on the rate of discounting used to measure the liabilities from benefits to employees, without relating to the actual composition of the investments portfolio.
- The distinction between short-term employee benefits and long-term employee benefits, will be based on the date of expected settlement, and not based on the date on which the employee is entitled to the benefits.
- Cost of past services resulting from changes in the plan will be immediately recognized.

The Standard will be implemented retrospectively as from the financial statements for annual periods starting January 1, 2013 and thereafter. Early implementation is possible.
The Company is examining the possible effect to the Standard, although at this stage it is unable to estimate the effect, if any, on its financial statements.

6. IAS 1 - Presentation of Financial Statements

On June 2011, the IASB published the amendment to International Accounting Standard No. 1 - Presentation of Financial Statements (IAS 1). The amendment relates mainly to the method of presentation of other comprehensive income items in the financial statements (hereinafter: "the Amendment").

According to the Amendment, the method for presenting items of other comprehensive income in the financial statements will be changed, so that other comprehensive income items, which in the future will be transferred to the statement of operations in subsequent periods, will be presented separately in the statement to comprehensive income items which will never be transferred to the statement of operations.

The Amendment does not cancel the possibility existing today to present the statement of operations and the statement of comprehensive income in two separate statements. Should the statement of operations and the statement of comprehensive income be presented as one statement, then the amendment changes the name of the statement from "statement of comprehensive income" to "statement of operations and comprehensive income", but nevertheless companies may use alternative names.

The Amendment will apply to annual periods starting from January 1, 2013 and thereafter and will be implemented retrospectively. Early adoption is possible.

The method of presentation in the Company's financial statements will be adjusted on first adoption of the amendment.

**Note 3 - Events in the reported period**

A. In March 2011 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 1.5 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program was valid until June 30, 2011.

In September 2011 the Board of Directors has approved adoption of a plan to purchase additional ordinary shares of the Company in an amount not to exceed NIS 2 million, replaces the company's previous plan in which the balance of its non-exploited expired. This program is valid until December 31, 2011.

As at September 30, 2011, the Company holds 1,593,897 shares, representing about 13.65% of the issued share capital of the Company, purchased in an amount of NIS 6,643 thousand (as at December 31, 2010, the Company held 1,530,416 shares purchased in an amount of NIS 6,239 thousand representing about 13.1% of the issued share capital of the company).



**Note 3 - Events in the reported period** (cont'd)

B. 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).

C. On June 2011 an administrative appeal was filed against the Company and a customer of the Company (hereinafter: "the Appeal") in connection with the Company's winning of a tender to build an automatic warehouse (hereinafter: "the Project"). In the framework of the Appeal, the appellant requests to be able to view all the documents relating to the tender, in such a way that it will be possible to check the Customer's decision to declare the Company the winner of the tender, and to declare that until the process of viewing the tender documents by it is completed, the tender process should not be completed and the Customer will not be entitled to engage in an agreement with the Company in connection with the Project and/or to issue any order to the Company and/or to implement its decision.

In the Company's management's opinion, at this stage the appeal should not delay the continued progress in the Project.
In the opinion of Company's legal advisers, the appeal was filed after a considerable delay in such a way that this could detrimentally affect its chances.

D. On July 2011 the Company engaged in an agreement for the acquisition of capitalized leasehold rights of a real estate, Intended for the use of the company, with an area of 11 thousand sq. m. in the industrial area of the Modi'in Region – Tirat Yehuda (hereinafter: "the Rights") in consideration for an amount of NIS 17,370 thousand plus VAT, as prescribed by law.
The leasehold rights are registered with the Israel Lands Administration in the name of the seller until January 1, 2057 (hereinafter: "the Lease Period"), and thereafter an additional lease period of 49 years.
As of the date of the approval of the financial statements, the rights in the real estate property have not yet been registered in the Company's name.
In addition, a bank provided the Company with a loan to finance part of the cost of the acquisition; in order to secure this liability, a lien was registered on the real estate rights in favor of the bank.

E. On August 2011 the Board of Directors approved to concentrate the parking solutions activity in a new wholly owned subsidiary of the Company. Regarding transfer of assets within the activity see note 4 - subsequent events.

**Note 4 - Subsequent events**

On October 2011 the company transferred to the subsidiary, Unitronics Parking Solutions Ltd, assets with non significant value in exchange for the allocation of shares in the subsidiary within agreement for concentrating the parking solutions activity.

**Note 5 - Business segments**

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 and determines the operating segments based on these reports.

The CEO examines the segments operating performance on the basis of measuring operating income, this measurement basis is not affected by one time expenses in the operating segments, such as the costs of structural change and an impairment in the value of assets, where the impairment in value results from a single one time event. Interest revenues and expenses are not included in the results in each of the operating segments examined by senior management.

B. The company and its subsidiaries operate in two main business segments.
- Programmable Logic Controllers systems (hereinafter "The products segment").
- System integration projects (hereinafter "The system integration projects segment").

**Note 4 - Business segments** (cont'd)

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| **C. Revenues** | | | | | | | |
| Products | 13,159 | 66,372 | 55,746 | 4,297 | 21,673 | 21,885 | 77,965 |
| System integration projects | 8,271 | 41,717 | 54,385 | 2,239 | 11,295 | 15,972 | 74,598 |
| Other | 61 | 305 | 314 | 25 | 126 | 122 | 416 |
| Total revenues | 21,491 | 108,394 | 110,445 | 6,561 | 33,094 | 37,979 | 152,979 |
| **D. Segment results** | | | | | | | |
| Products | 4,117 | 20,767 | 18,108 | 1,320 | 6,657 | 6,566 | 28,568 |
| System integration projects | 208 | 1,051 | 5,414 | 33 | 164 | 1,231 | 7,787 |
| Other | 12 | 54 | 34 | 15 | 82 | - | 69 |
| Unallocated corporate expenses | (2,075) | (10,465) | (7,796) | (719) | (3,625) | (3,333) | (14,435) |
| Operating profit | 2,262 | 11,407 | 15,760 | 649 | 3,278 | 4,464 | 21,989 |
| Unallocated financing income | 515 | 2,599 | 1,624 | 124 | 624 | 3,720 | 1,884 |
| Unallocated financing expenses | 1,452 | 7,317 | 12,001 | 712 | 3,595 | 1,766 | 12,894 |
| Profit for the period | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |

(1) See note 1C.

# UNITRONICS (1989) (R"G) LTD.

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

# September 30 ,2011

# (Unaudited)

16 Aba Hillel Silver St. Ramat - Gan 52506 Israel Tel: 03-6123939 Fax: 03-6125030
E-mail: office@ahcpa.co.il

**To the shareholders of Unitronics (1989) (R"G) Ltd.**

Re: Special review report on separate interim financial information under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports)- 1970

**Introduction**

We reviewed the separate interim financial information presented under Regulation 38D to the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970 of Unitronics (1989) (R"G) Ltd. (hereinafter – "the Company") as at September 30, 2011 and for the periods of nine and three months then ended. The separate interim financial information is in the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial information for the interim periods, based on our review.

We did not review the separate interim financial information of an affiliated company which the investment in it amount to NIS 486 thousands as at September 30, 2011 and which the company's share of its loss amount to NIS 876 thousands for the period of nine months then ended. The condensed financial information for the interim period of that company were reviewed by other auditors whose review report was furnished to us and our conclusion, to the extent that they relate to financial information for that company, is based on the review report of the other auditors.

**Scope of the review**

We prepared our review in accordance with Review Standard No. 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods prepared by the entity's auditor". The review of the financial information for interim periods comprises clarifications, mainly with the people responsible for financial and accounting matters, and from adopting analytical and other review procedures. A review is more limited in scope to a much larger extent than an audit performed in accordance with generally accepted auditing standards, and therefore does not enable us to be certain that we will know of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an audit opinion.

**Conclusion**

Based on our review, and on the review report of the other auditors, nothing came to our notice which would cause us to think that the above separate interim financial information is not prepared, in all significant aspects, in accordance with regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports) -1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
November 17, 2011

**Unitronics (1989) (R"G) Ltd.**

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

| | September 30, 2011 | September 30, 2011 | September 30 2010 | December 31, 2010 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | | (audited) |
| | | (in thousands) | | |
| | Convenience translation into Euro (1) | NIS | | |
| Current assets | | | | |
| Cash and cash equivalents | 2,491 | 12,563 | 21,122 | 16,468 |
| Restricted cash | 647 | 3,262 | - | - |
| Marketable securities | 7,198 | 36,307 | 18,978 | 18,786 |
| Accounts receivable - | | | | |
| Trade | 3,814 | 19,238 | 11,178 | 11,483 |
| Other | 186 | 936 | 1,344 | 1,101 |
| Accounts receivable - other - subsidiaries | 1,237 | 6,238 | 5,590 | 4,437 |
| Embedded derivatives | 20 | 101 | 339 | - |
| Inventory | 3,665 | 18,485 | 24,550 | 28,298 |
| Inventory - work in progress | 1,390 | 7,013 | 4,317 | 7,461 |
| | 20,648 | 104,143 | 87,418 | 88,034 |
| Non-current assets | | | | |
| Assets less liabilities associated with subsidiaries | 56 | 284 | 647 | 899 |
| Long-term deposits | 70 | 353 | 351 | 404 |
| Property and equipment, net | 8,007 | 40,387 | 21,166 | 21,564 |
| Intangible assets, net | 4,291 | 21,643 | 15,073 | 15,717 |
| | 12,424 | 62,667 | 37,237 | 38,584 |
| | **33,072** | **166,810** | **124,655** | **126,618** |

| haim Shani<br>C.E.O. and Chairman of the Board of Directors | Tzvi Livne<br>Director | Yair Itscovich<br>Chief Financial Officer |
|---|---|---|

Approved: November 17, 2011.

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**

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

| | September 30, 2011 | September 30, 2011 | September 30, 2010 | December 31, 2010 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | | (audited) |
| | | (in thousands) | | |
| | Convenience translation into Euro (1) | NIS | | |
| Current liabilities | | | | |
| Credit from banks and current maturities of long-term loans | 886 | 4,468 | 4,521 | 4,202 |
| Current maturities of bonds | 1,229 | 6,198 | 5,993 | 6,032 |
| Accounts payable - | | | | |
| Trade | 2,708 | 13,660 | 23,815 | 25,690 |
| Other | 3,818 | 19,263 | 25,638 | 23,300 |
| Embedded derivatives | 184 | 926 | 4,755 | 3,951 |
| | 8,825 | 44,515 | 64,722 | 63,175 |
| Non-current liabilities | | | | |
| Loans from banks and others | 3,389 | 17,093 | 16,333 | 14,526 |
| Bonds | 12,065 | 60,850 | 10,977 | 11,175 |
| Liabilities for benefits to employees, net | 314 | 1,586 | 1,216 | 1,583 |
| | 15,768 | 79,529 | 28,526 | 27,284 |
| Shareholders' equity | | | | |
| Share capital | 70 | 352 | 352 | 352 |
| Share premium | 10,030 | 50,588 | 50,588 | 50,588 |
| Capital reserve from translation of foreign operation | (169) | (854) | (954) | (1,176) |
| Company shares held by the company | (1,317) | (6,643) | (5,992) | (6,239) |
| Accumulated loss | (135) | (677) | (12,587) | (7,366) |
| | 8,479 | 42,766 | 31,407 | 36,159 |
| | **33,072** | **166,810** | **124,655** | **126,618** |

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**

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

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | (in thousands) | | | | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Revenues | 17,661 | 89,079 | 94,958 | 5,201 | 26,232 | 31,963 | 131,953 |
| Revenues from subsidiaries | 2,779 | 14,014 | 10,856 | 1,077 | 5,430 | 4,257 | 16,250 |
| Total revenues | 20,440 | 103,093 | 105,814 | 6,278 | 31,662 | 36,220 | 148,203 |
| Cost of revenues | 15,405 | 77,700 | 77,528 | 4,678 | 23,596 | 26,562 | 108,155 |
| Gross profit | 5,035 | 25,393 | 28,286 | 1,600 | 8,066 | 9,658 | 40,048 |
| Development expenses, net | 378 | 1,909 | 2,367 | 137 | 691 | 811 | 3,194 |
| Selling & marketing expenses | 1,169 | 5,889 | 5,067 | 383 | 1,928 | 1,991 | 7,040 |
| General & administrative expenses | 977 | 4,926 | 4,746 | 289 | 1,454 | 2,284 | 6,733 |
| General & administrative expenses to subsidiaries | 93 | 471 | 460 | 40 | 204 | 188 | 613 |
| Capital gain | - | - | - | - | - | - | 99 |
| Operating profit | 2,418 | 12,198 | 15,646 | 751 | 3,789 | 4,384 | 22,567 |
| Financing income | 515 | 2,599 | 1,624 | 124 | 624 | 3,720 | 1,884 |
| Financing expenses | 1,424 | 7,180 | 11,926 | 665 | 3,356 | 1,723 | 12,986 |
| Profit after finance | 1,509 | 7,617 | 5,344 | 210 | 1,057 | 6,381 | 11,465 |
| The Company's share of subsidiaries profit (loss) | (184) | (928) | 39 | (149) | (750) | 37 | (486) |
| Profit for the period attributed to the company's shareholders | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**

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

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | (in thousands) | | | | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Profit for the period attributed to the company's shareholders | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |
| Other comprehensive income (loss) | | | | | | | |
| Actuarial loss | - | - | - | - | - | - | (375) |
| Translation of foreign operation | 64 | 322 | (211) | 131 | 663 | (350) | (433) |
| Other comprehensive income (loss) for the period | 64 | 322 | (211) | 131 | 663 | (350) | (808) |
| Comprehensive income for the period attributed to the company's shareholders | 1,389 | 7,011 | 5,172 | 192 | 970 | 6,068 | 10,171 |

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**
**Cash Flows included in the consolidated Interim financial statements attributed to the company**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Cash flows - operating activities | | | | | | | |
| Profit for the period | 1,325 | 6,689 | 5,383 | 61 | 307 | 6,418 | 10,979 |
| Adjustments necessary to show the cash flows - operating activities (Appendix A) | (1,408) | (7,107) | 11,032 | (163) | (818) | (3,908) | 4,203 |
| Cash flows provided by (used in) operating activities of the company | (83) | (418) | 16,415 | (102) | (511) | 2,510 | 15,182 |
| Cash flows provided by (used in) operating activities from transactions with subsidiaries | (358) | (1,801) | 216 | (92) | (462) | (983) | 369 |
| Cash flows provided by (used in) operating activities | (441) | (2,219) | 16,631 | (194) | (973) | 1,527 | 15,551 |
| Cash flows - investing activities | | | | | | | |
| Purchase of marketable securities, net | (3,670) | (18,512) | (112) | (875) | (4,413) | (2,378) | (16) |
| Purchase of property and equipment | (3,967) | (20,009) | (720) | (3,787) | (19,100) | (213) | (1,533) |
| Sale of property and equipment | - | - | - | - | - | - | 115 |
| Investment in restricted cash | (636) | (3,215) | - | (5) | (25) | - | - |
| Investment in long-term deposits | (11) | (58) | (207) | (1) | (11) | (30) | (260) |
| Repayment of long-term deposits | 4 | 21 | 162 | 2 | 8 | 22 | 167 |
| Investment in intangible assets | (1,761) | (8,881) | (3,504) | (693) | (3,493) | (1,228) | (5,010) |
| Cash flows used in investing activities | (10,041) | (50,654) | (4,381) | (5,359) | (27,034) | (3,827) | (6,537) |
| Cash flows - financing activities | | | | | | | |
| Receiving of long-term loans | 973 | 4,907 | 14,552 | 973 | 4,907 | 5,980 | 14,552 |
| Repayment of long-term loans | (649) | (3,271) | (1,654) | (219) | (1,105) | (998) | (2,713) |
| Repayment of bonds | (1,223) | (6,167) | (5,939) | (1,223) | (6,167) | (5,939) | (5,939) |
| Bonds issue | 10,687 | 53,903 | - | - | - | - | - |
| Repayment of convertible bonds | - | - | (8,600) | - | - | - | (8,600) |
| Purchase of company shares by the company | (80) | (404) | (2,842) | - | - | (382) | (3,089) |
| Exercise of warrants | - | - | 11 | - | - | - | 11 |
| Short-term credit from banks, net | - | - | 112 | - | - | 112 | - |
| Cash flows provided by (used in) financing activities | 9,708 | 48,968 | (4,360) | (469) | (2,365) | (1,227) | (5,778) |
| Change in cash and cash equivalents for the period | (774) | (3,905) | 7,890 | (6,022) | (30,372) | (3,527) | 3,236 |
| Cash and cash equivalents at beginning of period | 3,265 | 16,468 | 13,232 | 8,513 | 42,935 | 24,649 | 13,232 |
| Cash and cash equivalents at end of period | 2,491 | 12,563 | 21,122 | 2,491 | 12,563 | 21,122 | 16,468 |

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**
**Cash Flows included in the consolidated Interim financial statements attributed to the company**

| | For the nine months period ended September 30, | For the nine months period ended September 30, | | For the three months period ended September 30, | For the three months period ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|---|
| | 2011 | 2011 | 2010 | 2011 | 2011 | 2010 | 2010 |
| | (unaudited) | (unaudited) | | (unaudited) | (unaudited) | | (audited) |
| | | | | (in thousands) | | | |
| | Convenience translation into Euro (1) | NIS | | Convenience translation into Euro (1) | NIS | | |
| Appendix A - Adjustments necessary to show the cash flows - operating activities | | | | | | | |
| The Company's share of subsidiaries loss (profit) | 184 | 928 | (39) | 149 | 750 | (37) | 486 |
| Depreciation and amortization | 954 | 4,808 | 4,948 | 375 | 1,895 | 1,577 | 6,321 |
| Loss (profit) from marketable securities, net | 196 | 991 | (747) | 147 | 739 | (274) | (651) |
| Increase (decrease) in liabilities for benefits to employees, net | 1 | 3 | 279 | (5) | (25) | 266 | 271 |
| Capital gain | - | - | - | - | - | - | (99) |
| Reevaluation of restricted cash | (9) | (47) | - | (5) | (26) | - | - |
| Reevaluation of warrants | - | - | (99) | - | - | (262) | (99) |
| Reevaluation of long-term loans, bonds and convertible bonds | 529 | 2,666 | 431 | 202 | 1,019 | 640 | (399) |
| Reevaluation of embedded derivatives | (620) | (3,126) | 2,915 | (76) | (382) | (4,246) | 2,450 |
| Increase in accounts receivable - trade | (1,538) | (7,755) | (99) | (597) | (3,010) | (1,207) | (404) |
| Decrease (increase) in accounts receivable - other | 44 | 222 | (1,008) | 80 | 403 | 94 | (770) |
| Decrease (increase) in inventory | 1,946 | 9,813 | (13,354) | 906 | 4,570 | (3,955) | (17,102) |
| Decrease (decrease) in inventory - work in progress | 89 | 448 | 3,518 | 60 | 301 | (4,279) | 374 |
| Increase (decrease) in accounts payable - trade | (2,385) | (12,030) | 13,161 | (295) | (1,483) | 2,163 | 15,036 |
| Increase (decrease) in accounts payable - other | (799) | (4,028) | 1,126 | (1,104) | (5,569) | 5,612 | (1,211) |
| | (1,408) | (7,107) | 11,032 | (163) | (818) | (3,908) | 4,203 |
| Appendix B - Non-cash operations | | | | | | | |
| Bonds issue expenses | 6 | 30 | - | - | - | - | - |

(1) See note 1C.

**Unitronics (1989) (R"G) Ltd.**

**Additional information**

**Note 1 - General**

A. These separate interim financial information have been prepared in accordance with regulation 38D of the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970 and do not includes all the information required in regulation 9C and the $10^{th}$ addition of the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970 about separate financial information of the company. These separate interim financial information should be read in with the Company's audited annual separate financial information as at December 31, 2010 and for the year then ended, and with the condensed consolidated interim financial statement as at September 30, 2011.

B. Consolidated companies - defined in Note 1D to the consolidated financial statements as at December 31, 2010.

C. Convenience translation in 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 September 30, 2011 (EURO 1 = NIS 5.0437).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

## Chapter D - Quarterly Report on Effectiveness of Internal Control over Financial Reporting and Disclosure

a. **Quarterly report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38c(a) of Securities Law Regulations (Periodic and Immediate Reports), 1970 ("the regulations")**
b. **Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations**
c. **Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations**

**<u>Below is the quarterly report on effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38c(a) of the regulations</u>:**

Management, supervised by the Board of Directors of UNITRONICS (1989) (R"G) Ltd. ("the corporation") is responsible to set and maintain proper internal control over financial reporting and disclosure by the corporation.

For this matter, management consists of:
HAIM SHANI, Company CEO
BAREKET SHANI, Deputy CEO
EYAL SABAN, VP
YAIR ITZKOVICH, CFO

Internal control over financial reporting and disclosure consists of existing controls and procedures at the corporation, designed by the general manager and most senior financial officer, or under their supervision, or by those acting in said capacities, under supervision of the corporation's Board of Directors, which are designed to provide reasonable certainty with respect to reliability of financial reporting and preparation of reports pursuant to statutory provisions, and to ensure that information which the corporation is required to disclose in reports issued pursuant to statutory provisions is collected, processed, summarized and reported on schedule and in the format prescribed by law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the corporation is required to disclose, is collected and submitted to corporate management, including to the general manager and to the most senior financial officer, or to those acting in said capacities, so as to enable decisions to be made at the appropriate time with regard to the required disclosure.

Due to structural limitations, internal control over financial reporting and disclosure is not designed to provide absolute certainty that misrepresentation or omission of information on the reports would be avoided or discovered.

In the annual report on the effectiveness of internal control financial reporting and the disclosure that was attached to the periodic report for the period ended on December 31, 2010 (hereinafter - “the last annual report on internal control”), the board of directors and management assessed the internal control system in the company; based on this assessment, the board of directors and the management concluded that the internal control as mentioned above, as of December 31, 2010, is effective.

Until the reporting date, no event or matter have been brought to the attention of the board of directors and management, which could change the assessment of effectiveness of internal control, as it was included in the annual report on internal control.

As of the reporting date, based on the assessment of effectiveness of internal control in the last annual report on internal control, and based on information brought to the attention of the board of directors and the management as stated above, the internal control is effective;

**Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations:**

I, HAIM SHANI, certify that:

1. I have reviewed the periodic report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the third quarter of 2011 ("the report").

2. To the best of my knowledge, the report is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.

3. To the best of my knowledge, the financial statements and other financial information included in the report properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.

4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
   a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and -
   b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;

5. I, on my own or with others at the corporation:
   a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries there of, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and -
   b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;
   c. No event or matter that occurred during the period between the last reporting date (quarterly or periodic, as the case may be) and this reporting date has been brought to my attention, which could change the conclusion of the board of directors and the management, regarding the effectiveness of internal control over financial reporting and the company's disclosure.

**<u>Certification by CEO pursuant to Regulation 38c(d)(1) of the regulations:</u> (cont'd)**

I, HAIM SHANI, certify that: (cont'd)

The foregoing shall not detract from my statutory responsibility, or that of any other person.

November 17, 2011

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HAIM SHANI, CEO

**Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations**

I, YAIR ITZKOVICH, certify that:

1. I have reviewed the interim financial statements and other financial information included in the report for interim periods report of UNITRONICS (1989) (R"G) Ltd. ("the corporation") for the third quarter of 2011 ("the report" or "the report for interim periods").

2. To the best of my knowledge, the interim financial statements and other financial information included in the report for interim periods is free of any misrepresentation of material fact and is not lacking any representation of material fact required for the representations made there in, under the circumstances in which they were made, to not be misleading in reference to the period covered by the report.

3. To the best of my knowledge, the interim financial statements and other financial information included in the report for interim periods properly reflect, in all material aspects, the financial standing, operating results and cash flows of the corporation as of the dates and for the periods to which the report refers.

4. I have disclosed to the corporation's Independent Auditor, Board of Directors and Audit Committee of the corporation's Board of Directors, based on my most current assessment of the internal control over financial reporting and disclosure:
   a. All significant faults and material weaknesses in specification of operation of internal control over financial reporting and disclosure which may reasonably impact the corporation's capacity to collect, process, summarize or report financial information in a manner which may cast doubt over the reliability of financial reporting and preparation of financial statements pursuant to statutory provisions; and-

   b. Any fraud, whether or not material, involving the General Manager or any of the direct reports there of, or involving any other employees having a significant capacity in internal control over financial reporting and disclosure;

5. I, on my own or with others at the corporation:
   a. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to ensure that material information with regard to the corporation, including subsidiaries there of, as defined in Securities Regulations (Annual financial statements), 2010, is brought to my attention by others at the corporation and subsidiaries, specifically during preparation of the report; and-
   b. Have set controls and procedures and/or verified that controls and procedures have been specified and maintained under my supervision, designed to reasonably ensure the reliability of financial reporting and preparation of the financial statements pursuant to statutory provisions, including pursuant to generally-accepted accounting principles;

**<u>Certification by CFO pursuant to Regulation 38c(d)(2) of the regulations</u> (cont'd)**

I, YAIR ITZKOVICH, certify that: (cont'd)

c. No event or matter that occurred during the period between the last reporting date (quarterly or periodic, as the case may be) and this reporting date has been brought to my attention, which could change the conclusion of the board of directors and the management, regarding the effectiveness of internal control over financial reporting and the company's disclosure.

The foregoing shall not detract from my statutory responsibility, or that of any other person.

November 17, 2011

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YAIR ITZKOVICH, CFO

# Unitronics (1989) (R"G) Ltd.

# Fair Value Valuation of Embedded Derivatives

# Valuation Date: 30/09/2011

3 Golda Meir St., Weizmann Science Park, Ness Ziona 74036
Tel. 972 – 8 – 9369801, Fax. 972 – 8 – 9369800, www.immunities.co.il

## Limitation Conditions

The document was prepared solely for the management of Unitronics lt.d. (Hereinafter: the "**Management**", "**Unitronics**" or the "**Company**") for the purposes stated herein and should not be relied upon for any other purpose. Unless required by law it shall not be provide to any third party without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which the report is disclosed or otherwise made available.

In the course of our analysis, we made use of financial and other information and representations provided to us by the Management or its representatives. We assume such information reliable. The more significant sources of this information are identified in the accompanying report. Our conclusions are dependent on such information being complete and accurate in all material respects; however, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the existing business records of the Company. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Management.

Projections relating to future events are based on assumptions, which may not remain valid for the whole of the relevant period. Particularly, projections are based solely on the information that was available on Valuation Dates, and may differ from projections and/or financial results that were made available later on. Consequently, this information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. We express no opinion as to how closely the actual results will correspond to those projected by the Company.

The valuation is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Therefore, there is no indisputable single value and we normally express our opinion on the value as falling within a likely range. However, as purpose requires the expression of a single value, we have adopted a value at the mid-point of our valuation range.

Whilst we consider our value/range of values to be both reasonable and defensible based on the information available to us, others may place a different value on the business.

Excluding gross negligence and malice, Financial Immunities and its employees or any other party acting on its behalf, shall not be liable for any loss or damage whatsoever that the Company may suffer, directly or indirectly, as a result of Financial Immunities services.

Without derogating from the previously mentioned, in any event whatsoever, Financial Immunities liability shall be limited to the amount of fees payable by the Company to Financial Immunities in respect with providing its services for preparing the Project.

The Company will indemnify Financial Immunities against all claims by third parties that arise out of or in connection with the Project and/or services rendered under this agreement

Finally, the results of our valuation do not constitute a Solvency Opinion or a Fairness Opinion, and should not be relied upon as such. Furthermore, the analysis we perform should not be taken to supplant any procedures that the Company should undertake in connection with the transaction.

Financial Immunities has no personal interest in the Company, and its fees are not contingent on the conclusions of this opinion.

We have not preformed in the past a fair value valuation for the Company.

Sincerely,

Financial Immunities Ltd.

## Contents



3 Golda Meir St., Weizmann Science Park, Ness Ziona 74036
Tel. 972 – 8 – 9369801, Fax. 972 – 8 – 9369800, www.immunities.co.il

Fair Value Valuation of Embedded Derivatives

# 1. Background

Unitronics Company focuses on the design, development, manufacture, marketing, sale and support of mass production line automation products and realization of logistic systems automation projects. The Company signed an agreement with a customer. Under the terms of the agreement, the Company undertook to accomplish a project expected to generate to the Company future cash flows denominated in euro. As of this moment, EUR does not represent the functional currency either for Unitronics or for the customer. Company's experience with the analogous projects indicates that there exists a reasonable probability for deviation of payment terms from the originally scheduled ones.

The table bellow presents the expected payments as reported by the Company:

| Transaction No. | Date of order signing | Inflow in EUR |
|---|---|---|
| SO9024592 | 06/05/2009 | € 10,591,854 |
| SO9024593 | 06/05/2009,07/12/2009 | € 4,497,003 |
| SO9026013 | 29/09/2009,11/12/2009,15/01/2010, 24/03/2010 | € 1,440,190 |
| SO9027063 | 23/12/2009 | € 177,000 |
| SO10027583 | 04/02/2010 | € 137,458 |
| SO9026912 | 17/12/2009,13/01/2010 | € 1,821,520 |
| SO10028957 | 31/05/2010 | € 45,325 |
| SO10029075 | 10/06/2010 | € 100,880 |
| SO10028772 | 16/05/2010 | € 1,726,001 |
| SO10029601 | 28/07/2010 | € 1,158,700 |
| SO10029738 | 12/08/2010 | € 179,575 |
| SO10030086 | 19/09/2010 | € 139,421 |
| SO10030459 | 24/10/2010 | € 48,000 |
| SO10030873 | 28/11/2010 | € 77,649 |
| SO10030874 | 28/11/2010 | € 234,260 |
| SO10031217 | 22/12/2010 | € 21,814 |
| SO10031195 | 21/12/2010 | € 28,093 |
| SO10030475 | 25/10/2010 | € 74,817 |
| SO10031025 | 07/12/2010 | € 41,453 |
| SO10030653 | 08/11/2010 | € 33,000 |
| SO11033018 | 16/03/2011 | € 24,179 |
| SO11033017 | 16/03/2011 | € 32,626 |
| Total | | € 22,630,818 |

The following table reports the expected inflows in ILS as of the date of agreement signing and the valuation date (30/09/2011):

| Transaction No. | Cumulative Actual Amount in EUR as of 30/09/2011 | Total Cumulative Actual Amount in ILS as of 30/09/2011 | 2009 2009 Year | | 2010 Previous Year | | 2011 Current Year | |
|---|---|---|---|---|---|---|---|---|
| | | | Total Expected Amount in ILS | Total Actual Amount in ILS | Total Expected Amount in ILS | Total Actual Amount in ILS | Total Expected Amount in ILS | Total Actual Amount in ILS |
| SO9024592 | € 9,003,076 | ₪46,147,171 | ₪14,578,198 | ₪14,746,628 | ₪29,742,044 | ₪26,656,597 | ₪5,232,519 | ₪4,743,947 |
| SO9024593 | € 4,497,003 | ₪22,980,597 | ₪6,921,328 | ₪6,875,196 | ₪11,677,561 | ₪10,517,110 | ₪6,185,275 | ₪5,588,291 |
| SO9026013 | € 1,296,171 | ₪6,631,183 | ₪1,383,441 | ₪1,395,250 | ₪5,672,560 | ₪5,235,933 | ₪0 | ₪0 |
| SO9027063 | € 177,000 | ₪906,618 | ₪0 | ₪0 | ₪719,626 | ₪683,235 | ₪239,550 | ₪223,383 |
| SO10027583 | € 123,737 | ₪621,075 | ₪0 | ₪0 | ₪582,180 | ₪566,248 | ₪56,274 | ₪54,827 |
| SO9026912 | € 1,301,640 | ₪6,657,687 | ₪0 | ₪0 | ₪7,077,426 | ₪6,657,687 | ₪0 | ₪0 |
| SO10028957 | € 36,260 | ₪174,423 | ₪0 | ₪0 | ₪86,229 | ₪84,613 | ₪86,459 | ₪89,811 |
| SO10029075 | € 60,528 | ₪302,640 | ₪0 | ₪0 | ₪280,669 | ₪302,640 | ₪0 | ₪0 |
| SO10028772 | € 1,380,801 | ₪6,844,850 | ₪0 | ₪0 | ₪4,940,211 | ₪5,139,187 | ₪1,592,680 | ₪1,705,663 |
| SO10029601 | € 1,042,830 | ₪5,256,919 | ₪0 | ₪0 | ₪2,004,774 | ₪2,011,463 | ₪3,156,476 | ₪3,245,456 |
| SO10029738 | € 163,642 | ₪821,962 | ₪0 | ₪0 | ₪773,201 | ₪796,804 | ₪24,718 | ₪25,158 |
| SO10030086 | € 139,421 | ₪684,614 | ₪0 | ₪0 | ₪0 | ₪0 | ₪681,597 | ₪684,614 |
| SO10030459 | € 48,000 | ₪240,000 | ₪0 | ₪0 | ₪0 | ₪0 | ₪242,456 | ₪240,000 |
| SO10030873 | € 69,884 | ₪338,928 | ₪0 | ₪0 | ₪189,002 | ₪182,273 | ₪151,275 | ₪156,655 |
| SO10030874 | € 210,834 | ₪1,022,517 | ₪0 | ₪0 | ₪570,203 | ₪549,902 | ₪456,384 | ₪472,615 |
| SO10031217 | € 0 | ₪0 | ₪0 | ₪0 | ₪0 | ₪0 | ₪0 | ₪0 |
| SO10031195 | € 28,093 | ₪133,000 | ₪0 | ₪0 | ₪0 | ₪0 | ₪132,922 | ₪133,000 |
| SO10030475 | € 59,853 | ₪294,336 | ₪0 | ₪0 | ₪244,980 | ₪237,162 | ₪56,553 | ₪57,174 |
| SO10031025 | € 33,163 | ₪160,480 | ₪0 | ₪0 | ₪0 | ₪0 | ₪160,388 | ₪160,480 |
| SO10030653 | € 29,700 | ₪150,829 | ₪0 | ₪0 | ₪0 | ₪0 | ₪149,171 | ₪150,829 |
| SO11033018 | € 24,179 | ₪120,000 | ₪0 | ₪0 | ₪0 | ₪0 | ₪119,895 | ₪120,000 |
| SO11033017 | € 32,626 | ₪161,923 | ₪0 | ₪0 | ₪0 | ₪0 | ₪161,800 | ₪161,923 |
| | € 19,758,440 | ₪100,651,752 | ₪22,882,967 | ₪23,017,074 | ₪64,560,668 | ₪59,620,853 | ₪18,886,392 | ₪18,013,825 |

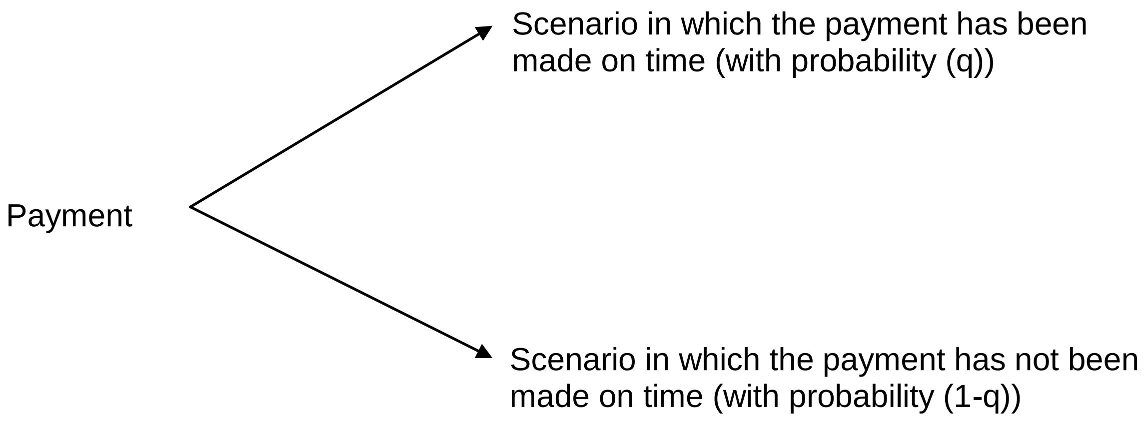
## 2. Methodology

An embedded derivative is a derivative that embedded in buy or sales contracts of products or services. In accounting literature, those contracts are also known as "Host Contracts". In Israel, embedded derivatives are often a part of transactions denominated in a currency, which is not the functional currency of a reporting company and/or of transaction counterpart's company (for example, foreign currency derivatives in such transactions as purchases from suppliers, sales to customers, or real estate rent contracts).

According to IAS 39 – "Financial Instruments: Recognition and Management", embedded derivatives have to be separated from host contracts, and treated as separate derivative financial instruments. In particular, embedded derivatives have to be evaluated with respect to their fair value estimated against corresponding profits and losses.

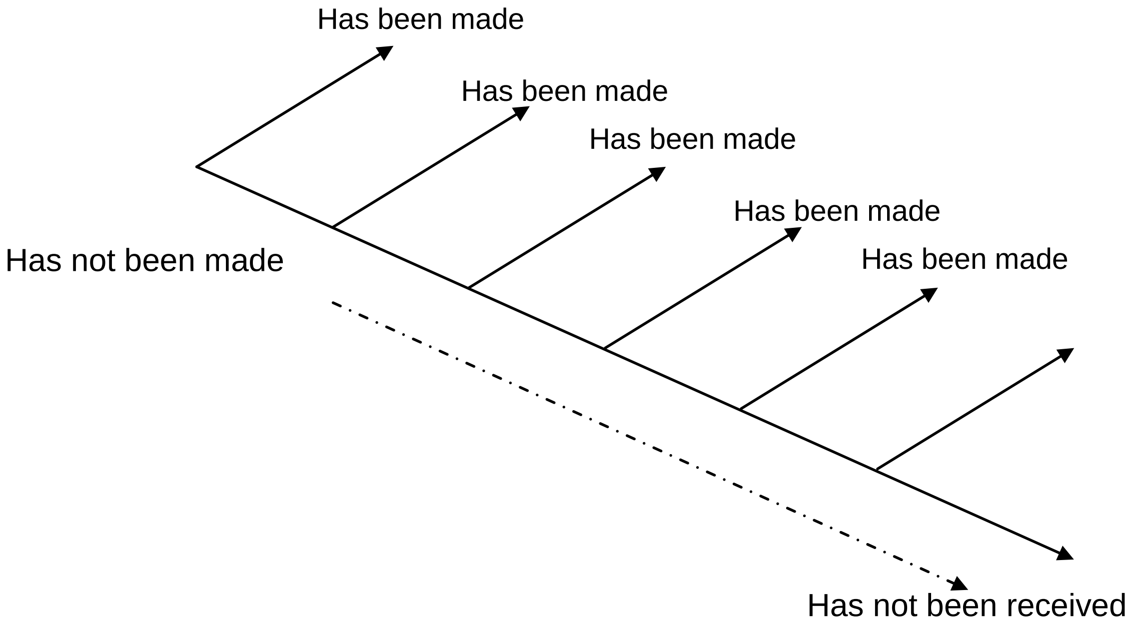
## 3. Calculation Model

We derive our calculation model from the decision making model. Since the exact date of payment is unknown and there is a probability for a delay, we chose to use the decision tree algorithm.




In accordance with the data obtained from the Company, the probability to each of the scenarios to occur is assumed equal (i. e. 50% probability for each of the scenarios).

The following figure illustrates possible implementation of the introduced above model. More specifically, the figure shows that if payment is made at the originally scheduled date, then no delay will be considered. In contrast, if the payment has not been made on time, we will move to the next point (of the model) – possible payment date next to the initially scheduled one - and then reexamine whether or not the payment is made.




## 4. ILS Cash Flow Calculations

**A.** Applying decision tree algorithm, we first compute forward rate, which afterward used for calculations of ILS payment equivalent as of the agreement inception date. The forward rate calculations based on the assumption that probability of not receiving payment in time is equal to 50%. Based on its experience with similar projects, the Company estimates possible delay in payment as of up to three months (with respect to the payment terms set forth in the project's schedule). To examine the probability of delay in the payment, we test a number of possible scenarios with different delay lengths (two weeks, month, and so on up to three months, increasing the lag period in 15 days each time). In order to estimate the forward rates, we used the forward rates as of agreement inception dates for each of the future scenario terms (06/05/2009, 29/09/2009, 07/12/2009, 11/12/2009, 17/12/2009, 23/12/2009, 13/01/2010, 15/01/2010, 04/02/2010, 24/03/2010, 16/05/2010, 31/05/2010, 10/06/2010, 28/07/2010, 12/08/2010, 19/09/2010, 24/10/2010, 25/10/2010, 08/11/2010, 28/11/2010, 07/12/2010, 21/12/2010, 22/12/2010, 16/03/2011). For example: for the payment expected on 31/05/2010 there is a probability of 50% to be made on this date (in accordance with the future rate determined for the corresponding date), and a probability of 50% to be made during the next three months following after the initially scheduled date (according to the Company).

**B.** After we estimated the constant ILS inflow for each payment date, we estimate the forward rate for 30/09/2011 (the valuation date). We compute the forward rate for the valuation date in a similar way we do for the agreement inception date. Since such market parameters as interest rate, exchange rate, and others changed over the period between the agreement inception date and the valuation date, values of forward rates for those two dates are not the same.

**C.** The following table reports payments in ILS for a corresponding agreement inception date:

| Transaction | Date of order signing | Inflow in ILS |
|---|---|---|
| **SO9024592** | 06/05/2009 | ₪58,260,489 |
| **SO9024593** | 06/05/2009,07/12/2009 | ₪24,784,164 |
| **SO9026013** | 29/09/2009,11/12/2009,15/01/2010, 24/03/2010 | ₪7,842,064 |
| **SO9027063** | 23/12/2009 | ₪959,176 |
| **SO10027583** | 04/02/2010 | ₪709,925 |
| **SO9026912** | 17/12/2009,13/01/2010 | ₪9,903,161 |
| **SO10028957** | 31/05/2010 | ₪216,259 |
| **SO10029075** | 10/06/2010 | ₪469,719 |
| **SO10028772** | 16/05/2010 | ₪8,183,009 |
| **SO10029601** | 28/07/2010 | ₪5,736,451 |
| **SO10029738** | 12/08/2010 | ₪875,964 |
| **SO10030086** | 19/09/2010 | ₪681,597 |
| **SO10030459** | 24/10/2010 | ₪242,456 |
| **SO10030873** | 28/11/2010 | ₪378,238 |
| **SO10030874** | 28/11/2010 | ₪1,141,111 |
| **SO10031217** | 22/12/2010 | ₪103,048 |
| **SO10031195** | 21/12/2010 | ₪132,922 |
| **SO10030475** | 25/10/2010 | ₪376,969 |
| **SO10031025** | 07/12/2010 | ₪200,577 |
| **SO10030653** | 08/11/2010 | ₪165,770 |
| **SO11033018** | 16/03/2011 | ₪119,895 |
| **SO11033017** | 16/03/2011 | ₪161,800 |
| **Total** | | **₪121,644,763** |

**D.** The following tables summarize the data used for the forward rate and ILS payment calculations for corresponding agreement inception date.

Date: 06/05/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00015 | 0.00007 | 0.00006 | -0.00035 | -0.00043 | 0.00262 | 0.00763 | 0.01511 | 0.04709 | 0.09596 | 0.1828 | 0.27091 | 0.35537 |
| EUR Depo Rate: | 0.375 | 0.68 | 0.85 | 1.13 | 1.39 | 1.59 | 1.51 | 1.65 | 1.803 | 1.956 | 2.315 | 2.606 | 2.846 |
| ILS Depo Rate: | 0.711 | 0.755 | 0.874 | 1.108 | 1.379 | 1.707 | 1.716 | 1.951 | 2.406 | 2.866 | 3.468 | 3.882 | 4.18 |

| 06/05/2009 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 15/01/2010 | 5.5147 | |
| 01/03/2010 | 5.5181 | |
| 01/04/2010 | 5.5212 | |
| 01/05/2010 | 5.5245 | |
| 01/08/2010 | 5.5376 | Six Months |
| 01/07/2010 | 5.5340 | |
| 01/07/2010 | 5.5244 | Four Months |
| 01/10/2010 | 5.5367 | Six Months |
| 01/11/2010 | 5.5583 | |
| 01/11/2010 | 5.5583 | |
| 01/12/2010 | 5.5654 | |
| 23/12/2010 | 5.5563 | Five Months |
| 23/03/2011 | 5.5953 | |

Date: 29/09/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points | -0.00005 | -0.00033 | -0.00221 | -0.00254 | -0.00383 | -0.00459 | -0.00208 | 0.00372 | 0.03468 | 0.08638 | 0.17453 | 0.27354 | 0.37392 |
| EUR Depo Rat | 0.28 | 0.29 | 0.31 | 0.57 | 0.78 | 1.07 | 1.03 | 1.15 | 1.406 | 1.666 | 2.157 | 2.431 | 2.697 |
| ILS Depo Rate | -0.038 | -0.015 | -0.146 | 0.30 | 0.523 | 0.916 | 0.993 | 1.235 | 1.852 | 2.484 | 3.257 | 3.718 | 4.097 |

| 29/09/2009 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/01/2010 | 5.4864 |
| 31/07/2010 | 5.4894 |
| 30/09/2011 | 5.5246 |

Date: 07/12/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00002 | 0.00011 | -0.00035 | -0.00212 | -0.00323 | -0.00524 | -0.00802 | -0.01053 | -0.00391 | 0.01073 | 0.06152 | 0.12813 | 0.2075 |
| EUR Depo Rate: | 0.32 | 0.25 | 0.42 | 0.45 | 0.60 | 0.92 | 1.10 | 1.19 | 1.482 | 1.777 | 2.226 | 2.445 | 2.683 |
| ILS Depo Rate: | 0.424 | 0.351 | 0.357 | 0.234 | 0.375 | 0.745 | 0.927 | 1.017 | 1.456 | 1.899 | 2.628 | 3.057 | 3.467 |

| 07/12/2009 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 01/03/2010 | 5.6343 | |
| 01/04/2010 | 5.6325 | |
| 01/05/2010 | 5.6313 | |
| 01/07/2010 | 5.6269 | Four Months |
| 01/08/2010 | 5.6180 | Six Months |
| 01/10/2010 | 5.6152 | Six Months |

Date: 11/12/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | -0.00001 | -0.00005 | -0.0012 | -0.00176 | -0.00256 | -0.00334 | -0.00492 | -0.00642 | 0.01018 | 0.04028 | 0.11647 | 0.21267 | 0.31777 |
| EUR Depo Rate: | 0.33 | 0.29 | 0.40 | 0.56 | 0.79 | 1.06 | 1.10 | 1.28 | 1.511 | 1.744 | 2.136 | 2.425 | 2.674 |
| ILS Depo Rate: | 0.27 | 0.245 | 0.149 | 0.383 | 0.613 | 0.953 | 0.995 | 1.18 | 1.657 | 2.139 | 2.879 | 3.431 | 3.869 |

| 11/12/2009 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/03/2010 | 5.5551 |
| 31/07/2010 | 5.5511 |
| 30/09/2011 | 5.5564 |

Date: 17/12/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00 | -0.00002 | -0.00047 | -0.00085 | -0.00138 | -0.00093 | -0.00193 | -0.00327 | 0.01129 | 0.03691 | 0.10283 | 0.1899 | 0.28592 |
| EUR Depo Rate: | 0.305 | 0.22 | 0.33 | 0.46 | 0.76 | 0.53 | 1.18 | 1.32 | 1.49 | 1.66 | 2.042 | 2.347 | 2.605 |
| ILS Depo Rate: | 0.301 | 0.204 | 0.234 | 0.376 | 0.669 | 0.503 | 1.149 | 1.277 | 1.651 | 2.028 | 2.71 | 3.26 | 3.697 |

| 17/12/2009 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 30/05/2010 | 5.4517 | |
| 30/05/2010 | 5.4466 | Five Months |
| 30/07/2010 | 5.4499 | |
| 15/08/2010 | 5.4495 | |
| 03/10/2010 | 5.4342 | Nine Months |
| 19/01/2011 | 5.4439 | Five and a half Months |
| 19/04/2011 | 5.4544 | |

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Date: 23/12/2009.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00001 | 0.00007 | -0.00011 | -0.00074 | -0.00116 | -0.00014 | -0.00172 | -0.00429 | 0.02005 | 0.05685 | 0.14635 | 0.24947 | 0.36269 |
| EUR Depo Rate: | 0.29 | 0.22 | 0.33 | 0.47 | 0.75 | 1.03 | 1.16 | 1.30 | 1.497 | 1.695 | 2.094 | 2.445 | 2.728 |
| ILS Depo Rate: | 0.367 | 0.29 | 0.311 | 0.393 | 0.677 | 1.039 | 1.134 | 1.238 | 1.767 | 2.248 | 3.029 | 3.631 | 4.098 |

| 23/12/2009 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 31/03/2010 | 5.4202 | |
| 31/05/2010 | 5.4055 | Eight Months |

Date: 13/01/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00014 | 0.00024 | 0.00198 | 0.0023 | 0.00329 | 0.0071 | 0.01108 | 0.01546 | 0.03999 | 0.07317 | 0.15718 | 0.26377 | 0.3837 |
| EUR Depo Rate: | 0.30 | 0.40 | 0.47 | 0.495 | 0.575 | 0.85 | 1.10 | 1.20 | 1.441 | 1.694 | 2.10 | 2.414 | 2.676 |
| ILS Depo Rate: | 0.544 | 0.638 | 0.90 | 0.768 | 0.833 | 1.131 | 1.395 | 1.507 | 1.969 | 2.411 | 3.121 | 3.69 | 4.149 |

| 13/01/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 30/05/2010 | 5.3426 | |
| 30/05/2010 | 5.3383 | Five Months |
| 15/08/2010 | 5.3446 | |
| 19/01/2011 | 5.3544 | |
| 19/04/2011 | 5.3647 | |

Date: 15/01/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00006 | 0.00047 | 0.00184 | 0.00265 | 0.00316 | 0.00769 | 0.01055 | 0.01271 | 0.03715 | 0.07004 | 0.14992 | 0.25249 | 0.3645 |
| EUR Depo Rate: | 0.45 | 0.325 | 0.35 | 0.375 | 0.475 | 0.86 | 1.04 | 1.16 | 1.397 | 1.639 | 2.052 | 2.369 | 2.631 |
| ILS Depo Rate: | 0.838 | 0.79 | 0.764 | 0.689 | 0.718 | 1.165 | 1.323 | 1.419 | 1.891 | 2.331 | 3.03 | 3.598 | 4.041 |

| 15/01/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 30/03/2010 | 5.3028 |
| 30/07/2010 | 5.3058 |
| 30/09/2011 | 5.3182 |

Date: 04/02/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | -0.00001 | 0.00007 | 0.00276 | 0.00511 | 0.00766 | 0.01558 | 0.02516 | 0.03607 | 0.05308 | 0.06577 | 0.11818 | 0.19141 | 0.27068 |
| EUR Depo Rate: | 0.29 | 0.305 | 0.395 | 0.445 | 0.485 | 0.825 | 1.10 | 1.19 | 1.388 | 1.589 | 1.958 | 2.27 | 2.505 |
| ILS Depo Rate: | 0.208 | 0.375 | 1.102 | 1.068 | 1.091 | 1.448 | 1.776 | 1.918 | 2.107 | 2.261 | 2.762 | 3.241 | 3.599 |

| 04/02/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 31/03/2010 | 5.1562 | |
| 31/03/2010 | 5.1516 | Thirteen Months |
| 31/05/2010 | 5.1608 | Eight Months |
| 01/06/2010 | 5.1639 | |
| 01/08/2010 | 5.1642 | Nine Months |
| 01/09/2010 | 5.1704 | |

Date: 24/03/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00042 | 0.0009 | 0.00181 | 0.00385 | 0.00635 | 0.0138 | 0.02205 | 0.03203 | 0.04968 | 0.06851 | 0.12498 | 0.19499 | 0.26943 |
| EUR Depo Rate: | 0.28 | 0.235 | 0.365 | 0.405 | 0.455 | 0.82 | 1.03 | 1.18 | 1.319 | 1.459 | 1.818 | 2.133 | 2.413 |
| ILS Depo Rate: | 0.902 | 0.836 | 0.796 | 0.872 | 0.955 | 1.378 | 1.632 | 1.841 | 2.006 | 2.171 | 2.683 | 3.143 | 3.527 |

| 24/03/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/07/2010 | 5.0034 |
| 30/09/2010 | 5.0076 |
| 30/09/2011 | 5.0234 |

Date: 16/05/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00007 | 0.00027 | 0.00107 | 0.00282 | 0.00532 | 0.01496 | 0.02399 | 0.03476 | 0.06839 | 0.11256 | 0.20127 | 0.28795 | 0.37868 |
| EUR Depo Rate: | 0.285 | 0.305 | 0.38 | 0.48 | 0.63 | 0.97 | 1.09 | 1.11 | 1.172 | 1.234 | 1.533 | 1.86 | 2.167 |
| ILS Depo Rate: | 0.554 | 0.571 | 0.655 | 0.843 | 1.092 | 1.623 | 1.791 | 1.879 | 2.172 | 2.463 | 2.991 | 3.421 | 3.804 |

| 16/05/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 15/06/2010 | 4.7106 | |
| 15/09/2010 | 4.7066 | Ten Months |
| 15/10/2010 | 4.7198 | |
| 15/02/2011 | 4.7311 | |
| 03/04/2011 | 4.7366 | |
| 03/07/2011 | 4.7501 | |

Date: 31/05/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | -0.00003 | 0.00029 | 0.00112 | 0.00117 | 0.00501 | 0.00983 | 0.01542 | 0.02346 | 0.05165 | 0.09153 | 0.16863 | 0.25835 | 0.35614 |
| EUR Depo Rate: | 0.30 | 0.31 | 0.475 | 0.47 | 0.63 | 0.915 | 1.025 | 1.16 | 1.235 | 1.311 | 1.582 | 1.842 | 2.093 |
| ILS Depo Rate: | 0.068 | 0.63 | 0.767 | 0.623 | 1.056 | 1.34 | 1.474 | 1.673 | 1.98 | 2.292 | 2.783 | 3.217 | 3.60 |

| 31/05/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/07/2010 | 4.7540 |
| 30/11/2010 | 4.7600 |
| 28/02/2011 | 4.7652 |

Date: 10/06/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | -0.00004 | 0.00018 | 0.00125 | 0.00359 | 0.00468 | 0.01084 | 0.01742 | 0.02537 | 0.05356 | 0.09229 | 0.17258 | 0.25482 | 0.33587 |
| EUR Depo Rate: | 0.295 | 0.29 | 0.415 | 0.47 | 0.625 | 0.935 | 1.08 | 1.20 | 1.231 | 1.262 | 1.538 | 1.832 | 2.104 |
| ILS Depo Rate: | -0.014 | 0.497 | 0.747 | 0.922 | 1.031 | 1.413 | 1.598 | 1.767 | 2.02 | 2.274 | 2.794 | 3.216 | 3.56 |

| 10/06/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 31/07/2010 | 4.6344 | |
| 31/10/2010 | 4.6388 | |
| 31/12/2010 | 4.6369 | Six Months |
| 30/09/2011 | 4.6487 | |

Date: 28/07/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00043 | 0.00092 | 0.00342 | 0.00546 | 0.00597 | 0.01119 | 0.01528 | 0.01915 | 0.03185 | 0.0463 | 0.08169 | 0.14202 | 0.19368 |
| EUR Depo Rate: | 0.465 | 0.435 | 0.55 | 0.67 | 0.775 | 1.015 | 1.26 | 1.495 | 1.467 | 1.44 | 1.679 | 1.928 | 2.171 |
| ILS Depo Rate: | 1.54 | 1.408 | 1.372 | 1.34 | 1.271 | 1.478 | 1.694 | 1.91 | 1.922 | 1.934 | 2.259 | 2.679 | 2.989 |

| 28/07/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/01/2011 | 4.9512 |
| 28/02/2011 | 4.9524 |
| 30/04/2011 | 4.9545 |
| 31/07/2011 | 4.9586 |

Date: 12/08/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00012 | 0.00064 | 0.00238 | 0.00419 | 0.00537 | 0.01119 | 0.01736 | 0.02459 | 0.05063 | 0.08208 | 0.14672 | 0.21328 | 0.2902 |
| EUR Depo Rate: | 0.36 | 0.585 | 0.455 | 0.525 | 0.935 | 1.07 | 1.13 | 1.42 | 1.35 | 1.28 | 1.515 | 1.687 | 1.907 |
| ILS Depo Rate: | 1.276 | 1.274 | 1.036 | 1.031 | 1.387 | 1.543 | 1.626 | 1.952 | 2.068 | 2.147 | 2.544 | 2.804 | 3.119 |

| 12/08/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/08/2010 | 4.8701 |
| 31/10/2010 | 4.8726 |
| 31/01/2011 | 4.8772 |
| 30/04/2011 | 4.8827 |

Date: 19/09/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.0001 | 0.00084 | 0.00226 | 0.00406 | 0.0058 | 0.0101 | 0.00932 | 0.01782 | 0.03683 | 0.06299 | 0.11568 | 0.18465 | 0.26553 |
| EUR Depo Rate: | 0.405 | 0.375 | 0.52 | 0.61 | 0.83 | 1.15 | 1.17 | 1.41 | 1.462 | 1.515 | 1.621 | 1.827 | 2.03 |
| ILS Depo Rate: | 1.197 | 1.167 | 1.093 | 1.112 | 1.322 | 1.586 | 1.446 | 1.802 | 1.996 | 2.193 | 2.444 | 2.807 | 3.152 |

| 19/09/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 30/11/2010 | 4.8737 |
| 31/01/2011 | 4.8759 |

Date: 24/10/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00004 | 0.00031 | 0.00021 | -0.00035 | -0.00118 | -0.00126 | -0.00069 | 0.00099 | 0.01501 | 0.03789 | 0.07913 | 0.13638 | 0.21277 |
| EUR Depo Rate: | 0.405 | 0.725 | 0.775 | 0.815 | 0.94 | 1.18 | 1.36 | 1.51 | 1.567 | 1.623 | 1.736 | 1.92 | 2.11 |
| ILS Depo Rate: | 0.691 | 1.015 | 0.834 | 0.786 | 0.86 | 1.146 | 1.361 | 1.551 | 1.789 | 2.024 | 2.286 | 2.625 | 2.983 |

| 24/10/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 31/12/2010 | 5.0442 | Six Months |

Date: 25/10/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00006 | 0.00045 | 0.00001 | -0.0007 | -0.00118 | -0.00131 | -0.00113 | 0.00052 | 0.01432 | 0.03754 | 0.07736 | 0.13887 | 0.22117 |
| EUR Depo Rate: | 0.405 | 0.615 | 0.785 | 0.825 | 0.955 | 1.15 | 1.35 | 1.5 | 1.569 | 1.638 | 1.775 | 1.914 | 2.106 |
| ILS Depo Rate: | 0.873 | 1.086 | 0.798 | 0.753 | 0.875 | 1.113 | 1.338 | 1.532 | 1.783 | 2.037 | 2.317 | 2.635 | 3.016 |

| 25/10/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 30/01/2011 | 5.0369 |
| 28/02/2011 | 5.0367 |
| 30/04/2011 | 5.0362 |
| 03/07/2011 | 5.0361 |

Date: 08/11/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00011 | 0.00039 | 0.00058 | 0.0002 | 0.00031 | 0.00027 | 0.0035 | 0.00762 | 0.01938 | 0.03703 | 0.06912 | 0.11845 | 0.19014 |
| EUR Depo Rate: | 0.405 | 0.89 | 0.755 | 1.055 | 1.06 | 1.25 | 1.25 | 1.44 | 1.525 | 1.612 | 1.781 | 1.903 | 2.062 |
| ILS Depo Rate: | 0.814 | 1.306 | 0.906 | 1.093 | 1.099 | 1.278 | 1.361 | 1.613 | 1.805 | 2.003 | 2.265 | 2.519 | 2.845 |

| 08/11/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 31/01/2011 | 5.0215 |
| 28/02/2011 | 5.0212 |
| 30/04/2011 | 5.0211 |
| 31/07/2011 | 5.0234 |

Date: 28/11/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00011 | 0.00086 | 0.00159 | 0.00209 | 0.00262 | 0.00616 | 0.01313 | 0.02288 | 0.03885 | 0.05814 | 0.09598 | 0.13954 | 0.20649 |
| EUR Depo Rate: | 0.405 | 0.45 | 0.705 | 0.95 | 1.05 | 1.24 | 1.34 | 1.46 | 1.552 | 1.646 | 1.831 | 2.087 | 2.347 |
| ILS Depo Rate: | 1.217 | 1.263 | 1.112 | 1.216 | 1.283 | 1.512 | 1.723 | 1.957 | 2.114 | 2.273 | 2.522 | 2.841 | 3.234 |

| 28/11/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 30/09/2011 | 4.8713 |

Date: 07/12/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00005 | 0.00009 | 0.00022 | 0.00052 | 0.001 | 0.00397 | 0.0092 | 0.01651 | 0.03661 | 0.06422 | 0.11282 | 0.20423 | 0.25323 |
| EUR Depo Rate: | 0.405 | 0.625 | 0.82 | 0.85 | 0.98 | 1.24 | 1.38 | 1.52 | 1.602 | 1.682 | 1.843 | 2.153 | 2.444 |
| ILS Depo Rate: | 0.8 | 0.728 | 0.884 | 0.926 | 1.078 | 1.424 | 1.657 | 1.891 | 2.138 | 2.382 | 2.661 | 3.254 | 3.538 |

| 07/12/2010 | | |
|---|---|---|
| (Original) Date of Payment | Forward Rate | Remarks/Approx Time Period |
| 07/12/2010 | 4.8273 | Seven Months |
| 15/01/2011 | 4.8327 | |
| 30/01/2011 | 4.8327 | |
| 15/02/2011 | 4.8329 | |
| 30/04/2011 | 4.8344 | |
| 30/07/2011 | 4.8385 | |

Date: 21/12/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.00012 | 0.00089 | 0.00205 | 0.00273 | 0.0029 | 0.00672 | 0.01243 | 0.01943 | 0.03575 | 0.05609 | 0.10248 | 0.17019 | 0.2499 |
| EUR Depo Rate: | 0.405 | 0.7 | 0.78 | 0.9 | 1.02 | 1.235 | 1.38 | 1.37 | 1.53 | 1.688 | 2.004 | 2.304 | 2.557 |
| ILS Depo Rate: | 1.336 | 1.694 | 1.287 | 1.255 | 1.284 | 1.54 | 1.755 | 1.808 | 2.062 | 2.314 | 2.766 | 3.248 | 3.659 |

| 21/12/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 28/02/2011 | 4.7300 |

Date: 22/12/2010.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.0003 | 0.00076 | 0.00217 | 0.00279 | 0.00328 | 0.00758 | 0.01416 | 0.02214 | 0.04081 | 0.06484 | 0.11755 | 0.19416 | 0.27851 |
| EUR Depo Rate: | 0.405 | 0.435 | 0.535 | 0.695 | 0.865 | 1.155 | 1.18 | 1.32 | 1.48 | 1.641 | 1.965 | 2.245 | 2.504 |
| ILS Depo Rate: | 1.198 | 1.288 | 1.085 | 1.055 | 1.16 | 1.496 | 1.598 | 1.811 | 2.085 | 2.361 | 2.834 | 3.314 | 3.725 |

| 22/12/2010 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 28/02/11 | 4.7108 |

Date: 16/03/2011.

| | 1 Day | 1 Week | 1 Month | 2 Month | 3 Month | 6 Month | 9 Month | 1 Year | 18 Month | 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Forward Points: | 0.0008 | 0.00109 | 0.00333 | 0.0061 | 0.00646 | 0.0104 | 0.0104 | 0.00796 | 0.02421 | 0.04812 | 0.10976 | 0.19695 | 0.31323 |
| EUR Depo Rate: | 0.405 | 0.695 | 0.87 | 0.92 | 1.08 | 1.42 | 1.695 | 1.845 | 1.962 | 2.076 | 2.308 | 2.546 | 2.757 |
| ILS Depo Rate: | 1.876 | 1.848 | 1.625 | 1.669 | 1.602 | 1.856 | 1.999 | 2.033 | 2.319 | 2.598 | 3.089 | 3.584 | 4.06 |

| 16/03/2011 | |
|---|---|
| (Original) Date of Payment | Forward Rate |
| 30/04/11 | 4.9590 |

**E.** The following tables present the data used for the forward rate and ILS payment calculations for the valuation date (30/09/2011):

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO9024592** | 06/05/2009 | 23/03/2011 | 30/10/2011 | 5.0425 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO9026013** | 29/09/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 29/09/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 29/09/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 29/09/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 11/12/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 11/12/2009 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 15/01/2010 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 15/01/2010 | 31/03/2011 | 30/10/2011 | 5.0425 |
| **SO9026013** | 24/03/2010 | 31/03/2011 | 30/10/2011 | 5.0425 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10027583** | 04/02/2010 | 31/03/2010 | 30/10/2011 | 5.0425 |
| **SO10027583** | 04/02/2010 | 01/08/2010 | 30/10/2011 | 5.0425 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO9026912** | 17/12/2009 | 03/10/2010 | 31/12/2011 | 5.0493 |
| **SO9026912** | 17/12/2009 | 19/01/2011 | 30/11/2011 | 5.0462 |
| **SO9026912** | 13/01/2010 | 19/01/2011 | 30/10/2011 | 5.0425 |
| **SO9026912** | 17/12/2009 | 19/04/2011 | 31/12/2011 | 5.0493 |
| **SO9026912** | 17/12/2009 | 19/04/2011 | 31/12/2011 | 5.0493 |
| **SO9026912** | 13/01/2010 | 19/04/2011 | 30/10/2011 | 5.0425 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10028957** | 31/05/2010 | 28/02/2011 | 30/10/2011 | 5.0425 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10029075** | 10/06/2010 | 31/12/2010 | 31/12/2011 | 5.0493 |
| **SO10029075** | 10/06/2010 | 31/03/2011 | 30/11/2011 | 5.0462 |

| **30/09/2011** | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10028772** | 16/05/2010 | 03/04/2011 | 30/10/2011 | 5.0425 |
| **SO10028772** | 16/05/2010 | 03/07/2011 | 30/10/2011 | 5.0425 |

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| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10029601** | 28/07/2010 | 31/07/2011 | 30/10/2011 | 5.0425 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10029738** | 12/08/2010 | 30/04/2011 | 30/10/2011 | 5.0425 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10030873** | 28/11/2010 | 31/03/2011 | 30/11/2011 | 5.0462 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10030874** | 28/11/2010 | 31/03/2011 | 30/11/2011 | 5.0462 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10031217** | 22/12/2010 | 28/02/2011 | 30/10/2011 | 5.0425 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10030475** | 25/10/2010 | 30/04/2011 | 30/10/2011 | 5.0425 |
| **SO10030475** | 25/10/2010 | 03/07/2011 | 30/10/2011 | 5.0425 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10031025** | 07/12/2010 | 30/04/2011 | 30/10/2011 | 5.0425 |
| **SO10031025** | 07/12/2010 | 30/07/2011 | 30/10/2011 | 5.0425 |

| 30/09/2011 | | | | |
|---|---|---|---|---|
| Transaction No. | Order Date | (Original) Date of Payment | (Revised) Date | Forward Rate |
| **SO10030653** | 08/11/2010 | 31/07/2011 | 30/10/2011 | 5.0425 |

## 5. Fair Value Calculations

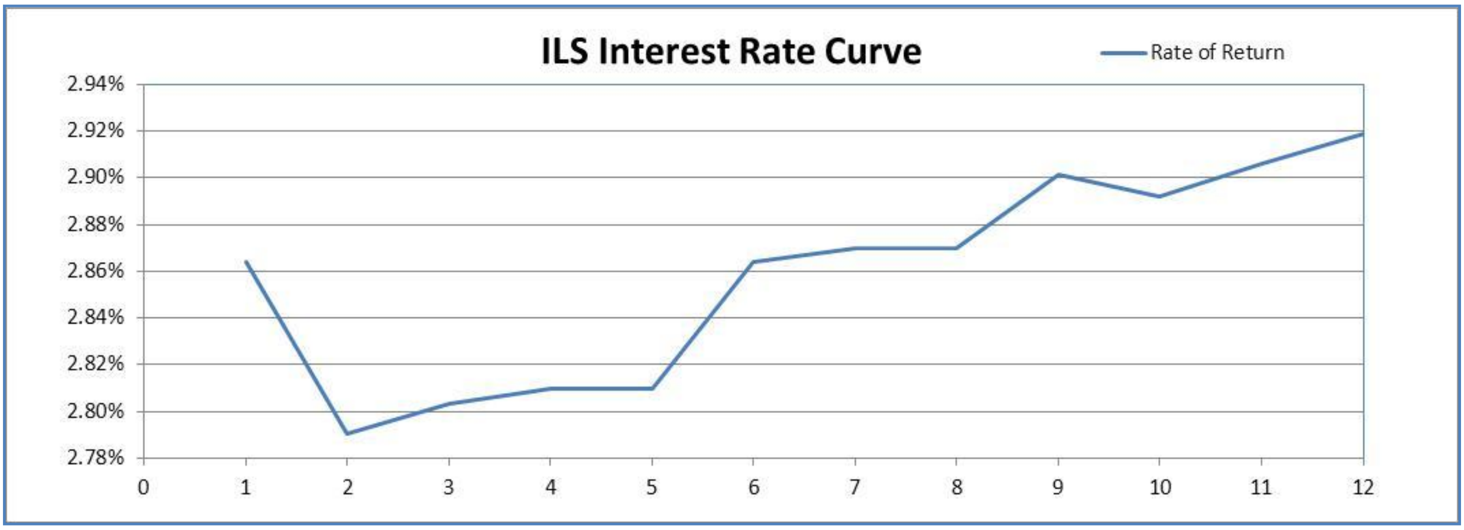
The fair value for 30/09/2011 computed as the difference between multiples of expected payment and forward rate on agreement inception date, and multiples of expected payment and forward rate on the valuation date. Each of the obtained results (profit/loss), discounted by risk free rate estimated for the corresponding period. This value discounted to 30/09/2011 by risk free rate matching to this period.

**EUR/ILS Exchange Rate data:**

| Contract Inception Date | EUR/ILS Exchange Rate |
|---|---|
| 06/05/2009 | 5.5069 |
| 29/09/2009 | 5.4968 |
| 07/12/2009 | 5.6437 |
| 11/12/2009 | 5.5644 |
| 17/12/2009 | 5.4603 |
| 23/12/2009 | 5.4274 |
| 13/01/2010 | 5.3439 |
| 15/01/2010 | 5.305 |
| 04/02/2010 | 5.1542 |
| 24/03/2010 | 4.9991 |
| 16/05/2010 | 4.7132 |
| 31/05/2010 | 4.7564 |
| 10/06/2010 | 4.6363 |
| 28/07/2010 | 4.9471 |
| 12/08/2010 | 4.8735 |
| 19/09/2010 | 4.8749 |
| 24/10/2010 | 5.0606 |
| 25/10/2010 | 5.0465 |
| 08/11/2010 | 5.0291 |
| 28/11/2010 | 4.8745 |
| 07/12/2010 | 4.8392 |
| 21/12/2010 | 4.7342 |
| 22/12/2010 | 4.7147 |
| 16/03/2011 | 4.963 |

**F.** The following table and figure show the risk free rate curve we use to define discount rate in the implemented model.

| | 30/09/2011 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Month | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Rate of Return | 2.86% | 2.79% | 2.80% | 2.81% | 2.81% | 2.86% | 2.87% | 2.87% | 2.90% | 2.89% | 2.91% | 2.92% |



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# 6. Findings

The table below presents the Fair Value as of 30/09/2011:

| Transaction No. | Transaction Volume in EUR | Expected CF in ILS | Transaction Volume Balance in EUR as of 30/09/2011 | Expected CF in ILS Balance as of 30/09/2011 | CF in ILS Balance as of 30/09/2011 | Fair Value as of 30/09/2011 |
|---|---|---|---|---|---|---|
| SO9024592 | € 10,591,854 | ₪58,260,489 | € 1,588,778 | ₪8,707,729 | ₪8,011,401 | - ₪694,707 |
| SO9024593 | € 4,497,003 | ₪24,784,164 | € 0 | ₪0 | ₪0 | ₪0 |
| SO9026013 | € 1,440,190 | ₪7,842,064 | € 144,019 | ₪786,063 | ₪726,215 | - ₪59,709 |
| SO9027063 | € 177,000 | ₪959,176 | € 0 | ₪0 | ₪0 | ₪0 |
| SO10027583 | € 137,458 | ₪709,925 | € 13,722 | ₪71,471 | ₪69,191 | - ₪2,275 |
| SO9026912 | € 1,821,520 | ₪9,903,161 | € 519,880 | ₪2,825,735 | ₪2,624,317 | - ₪200,207 |
| SO10028957 | € 45,325 | ₪216,259 | € 9,065 | ₪43,570 | ₪45,710 | ₪2,135 |
| SO10029075 | € 100,880 | ₪469,719 | € 40,352 | ₪189,049 | ₪203,703 | ₪14,565 |
| SO10028772 | € 1,726,001 | ₪8,183,009 | € 345,200 | ₪1,650,119 | ₪1,740,668 | ₪90,339 |
| SO10029601 | € 1,158,700 | ₪5,736,451 | € 115,870 | ₪575,201 | ₪584,274 | ₪9,051 |
| SO10029738 | € 179,575 | ₪875,964 | € 15,933 | ₪78,044 | ₪80,342 | ₪2,293 |
| SO10030086 | € 139,421 | ₪681,597 | € 0 | ₪0 | ₪0 | ₪0 |
| SO10030459 | € 48,000 | ₪242,456 | € 0 | ₪0 | ₪0 | ₪0 |
| SO10030873 | € 77,649 | ₪378,238 | € 7,765 | ₪37,961 | ₪39,183 | ₪1,217 |
| SO10030874 | € 234,260 | ₪1,141,111 | € 23,426 | ₪114,524 | ₪118,213 | ₪3,672 |
| SO10031217 | € 21,814 | ₪103,048 | € 21,814 | ₪103,048 | ₪109,997 | ₪6,933 |
| SO10031195 | € 28,093 | ₪132,922 | € 0 | ₪0 | ₪0 | ₪0 |
| SO10030475 | € 74,817 | ₪376,969 | € 14,964 | ₪75,436 | ₪75,456 | ₪20 |
| SO10031025 | € 41,453 | ₪200,577 | € 8,291 | ₪40,189 | ₪41,805 | ₪1,613 |
| SO10030653 | € 33,000 | ₪165,770 | € 3,300 | ₪16,598 | ₪16,640 | ₪42 |
| SO11033018 | € 24,179 | ₪119,895 | € 0 | ₪0 | ₪0 | ₪0 |
| SO11033017 | € 32,626 | ₪161,800 | € 0 | ₪0 | ₪0 | ₪0 |
| | € 22,630,818 | ₪121,644,763 | € 2,872,378 | ₪15,314,736 | ₪14,487,115 | - ₪825,018 |

The fair value is the liability in amount of (825,018) ILS.